



DIOS
EXPLORATION

**DIOS EXPLORATION INC.
INTERIM MANAGEMENT REPORT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006**

COMPANY PROFIL AND MISSION

Dios Exploration Inc. (the “Company” or “Dios”) is looking for diamondiferous kimberlites in the Superior Craton through glacial dispersal trains delineation. Dios is a major player in diamond exploration in Quebec.

Dios has a unique marketing agreement with Diarough N.V. (“Diarough”)¹ under which Diarough will buy rough diamonds from Dios’ share of diamond production. Dios will keep 100 % of the rough diamond sale profits. Diarough will market the diamonds and return 50 % of the marketing profits back to the Company.

SUMMARY OF ACTIVITIES DURING THIRD QUARTER

- Exploration expenses totaling \$137,162. See result details in “**Summary of exploration activities**”.
- Positive picking assay results received in April on Pontax property.
- Beginning of summer exploration program on Chibouki property.
- Uranium potential on Hotish property.
- Glacial studies on 33 Carats property.
- Closing of private placement totalling \$400,000 in April 2006

RESULTS OF OPERATION

Summary of exploration activities

During the second quarter ended June 30, 2006, the Company incurred exploration expenses totaling \$ 137,162 and claims renewal costs and new mining claims totalling \$55,611 (\$7,840 on Hotish Property, \$29,771 on 33 Carats extension Property, \$3,840 on Pontax Property and \$14,160 on Chibouki Property).

¹Diarough has some 20,000 employees worldwide through its cutting and marketing facilities and owns the Matane Diamond Cutting Facility in Quebec.

Work performed	Exploration expenses analyses				Total
	Chibouki property	Pontax property	33 Carats property	Hotish property	
	\$	\$	\$	\$	\$
Geology	45,501	450	15,405	-	61,356
Sampling and analyses	-	39,169	(7,493)	-	31,676
Transportation and lodging	2,024	-	(450)	706	2,280
Office expenses	6,648	-	-	-	6,648
Drilling	4,344	-	733	-	5,077
Geophysic	30,125	-	-	-	30,125
	88,642	39,619	8,195	706	137,162

During the quarter, the Company received a grant of \$105,191 relative with exploration engaged in 2003. This subsidy had not been recorded at the time since its amount was dubious. This amount was entered in reduction of the exploration expenses.

Geological information presented herein was summarized by Marie-José Girard, M.Sc., Geo (President) and Harold Desbiens, M.Sc., Geo (geologist of the Company) , qualified persons under National Instrument 43-101. Marie-José Girard is a director of the Canadian Center for Diamond Valorization.

Chibouki Property

Chibouki project is composed of two main blocks (Mistissini and Sauvage Lake) totalling 1,098 mining cells for 593 sq. km. These are respectively located about 20-60 kilometers northeast and 40 kilometers north of Chibougamau, Quebec. Both blocks have very good access and host numerous bush roads. Canadian Helicopter has a permanent base in Chibougamau. It is also located in the southern part of the favourable Mistissini-Lemoyne Structure that hosts several kimberlites and alkaline intrusions several hundreds of kilometers further north, including the Ashton-Soquem Renards diamondiferous cluster.

Processing of till yielded numerous high interest kimberlite indicator minerals (KIMs) including high-chromium & low-calcium G10 pyropes within the diamond field, G9 pyropes, diamond-inclusion and harzburgitic chromites, micro-ilmenites, omphacites, Cr-diopsides, and Mg-olivines. So far, 351 heavy mineral samples were collected (25 still being processed) on the Mistissini block and another 60 heavy mineral samples were also collected on the Sauvage Lake block. Numerous KIMs were identified and their distribution seems to be centered into 4 main areas:

- 1- A north-northeast G10s and Chromites with some Ilmenites-Cpx train is located in an area W-SW of Frances Lake (NE 32G/16, SE 32J/01, SW 32I/04);
- 2- A north-south G9s-Ilmenites- Omphacites-Mg Olivines train is located further east, in the vicinities of the Carbonneau -des Canots Lakes (N-NE 32I/04);
- 3- A north-south G9s-Ilmenites train located NW of the File-Axe Lake (N 32I/05);
- 4- A north-northeast G9s-Chromite-Cpx train is located north of the Sauvage Lake (NW 32J/01).

Elsewhere, background till, fluvioglacial material as well as up-ice esker samples do not show any indicators.

In June 2006, a 100 meter-spaced helicopter magnetic survey was done over an area located north of the File-Axe Lake. Some prospecting works were done on the Mistissini block preceding next month drilling.

Pontax Property

The Pontax property (1369 claims totalling 729 sq. kilometres) is held in partnership between Sirios Resources Inc. ("Sirios")(TSX V : SOI) and the Company on a 50-50 basis. It is located in James Bay, Quebec, 350 kilometres north of Matagami along the paved road going to Radisson. It is also approximately 75 km to the southwest of the ELEONORE gold discovery of Virginia Gold Mines Inc and adjacent to the northeast to an important De Beers property.

The Pontax project is centered on an Archean sedimentary basin (Auclair Fm dominated by biotite and sillimanite paragneiss) that is intruded by the Kapiwak granodioritic pluton. The sediment-dominated assemblage also included the Chambois and the Pontax greenstone belts (mafic volcanics, felsic volcanics and volcanoclastics). Alterations such as silicification, biotitization (10-20%), sericitization, tourmalinitization and pyritization (3-15%) are common. Several N-S Mistassini diabase dykes are present. The eastern portion (along and south of the Pontax River) is dominated by extensive swamps.

The 146 till samples collected in 2005 outlined several gold trains and yielded some quality kimberlite indicator minerals as G10, microilmeneite, kosmochlor (CPX) and forsterite. A geological mapping survey was undertaken in June and a follow-up till program (about 40-50 samples) is planned at the beginning of July.

Following the exploration results obtained on the Pontax property, Sirios announced its intent to increase its interest to 100% in a significant part of the property for gold exploration whereas Dios wishes to pursue diamond exploration on part of the property. Consequently, Dios officially notified Sirios on April 3, 2006 that it intent to transfer back part of the property for a book value of \$70,211 and a 1% NSR that can be bought back for \$1,000,000. Dios wishes to keep its 50% interest in 299 claims of the original 917 claim property. Sirios will issue to Dios 206,500 Common Shares at \$0.34 (accepted by the TSX-V on July 4, 2006). The shares thus will be issued and registered in the next quarter.

33 Carats

33 Carats project is composed of three blocks (East, South and West/Rivière de Feu blocks) totaling over 1,700 mining cells for 892 sq. km. These are strategically located about 340 kilometres northeast of Chibougamau, Quebec. The project is located along the favourable Mistissini-Lemoyne Structure that hosts several kimberlites and alkaline intrusions, is adjacent to the Ashton-Soquem's property that hosts the Renards diamondiferous cluster and to the Majescor-Forest Gate Portage property that host a diamond-bearing kimberlitic sill. These blocks are easily accessible by float-plane or helicopter (Eastmain River, Fire & Marcia Lakes) due to the moderate tree cover. Dios Bohier camp is located on the South block, 20 km south of the East block and 40-50 km east of the West/Rivière de feu.

The region is located near the southern limit of the Superior craton. The northern portion of the region is composed of Archean Opinaca undifferentiated grey gneiss, Barou River- Cadieux Lake-Misasque River-LaSalle Lake- Antons River granitic massifs, as well as the Upper Eastmain River and the Trieste Lake volcano-sedimentary belts. The southern portion of the region is composed of Archean Epervanche Complex (granitic-tonalitic gneiss) and Proterozoic Otish meta-sedimentary basin. The Eastmain volcano-sedimentary belt is located along the same fold structure. Available glacial striaes indicate a late N230 transport for the West-Rivière de Feu area. A more precise (and minor) N330 glacial transport is also known.

33 Carats West block is characterized by relatively low counts typical of the Superior with outstanding G10s associated with Cr-enstatite, ilmenites and olivine in basal till in a complex local glacial environment (hummocky terranes and a NE esker). 33 Carats East block is characterized by one good straight KIMs train (very good G10- Cr-enstatite-ilmenite-forsterite) in simple glacial environment (confirmed by diabase pebbles as marker indicating short transport), again low counts typical of Superior terranes. 33 Carats South block is characterized by a more lherzolitic component than the previous two. The glacial environment is not simple, due to the presence of a few eskers and their associated outwash. On the Rivière de Feu block, the 2004 till sampling yielded KIMs (kimberlite indicator minerals) including G10 -G9 pyropes, Low-Chromium Megacryst (LCM), diamond-inclusion chromite (DIC), omphacite, cr-diopside, micro-ilmenites and forsterites. They appear clustered along a 2-3km wide NE corridor centered on the Fuel Cache lake. Final result from 33 Carats Extension 2005 till program was received and several quality indicator minerals such as G9, G10, G12, microilmenites, chromites, kosmochlors, omphacites and forsterites were found. Picking of 33 Carats 2005 till program was received and final probe results should be available next semester. Review of all available data and new exploration model produced new targets that will be investigated by prospecting, till sampling, ground geophysics and drilling in 2006.

Hotish Property

During the quarter, Vaaldiam Resources Ltd. (“Vaaldiam”) informed the Company that it will not proceed with further exploration on the Hotish Property. Vaaldiam informed also the Company that expenditures incurred from April 2005 to April 2006 on Hotish property is about \$450,000.

The Company’ Hotish property has uranium potential: The Hotish property of the Company is a large mining property covering the western edge unconformity contact of the Otish Sedimentary Basin. The area is well-known for its uranium potential. The Otish Mountains were recently the focus of intense activity by mining giant Cameco Corporation, the world's largest uranium producer, whose claims border the Company's Hotish property to the east. The Hotish property is also directly adjacent to the north to the Beaver Lake property a mineralized uranium occurrence reported.

The Hotish property is wholly-owned by the Company without any encumbrances. Also, it now includes a large claim block covering the extent of the unconformity contact, directly adjacent to the STRATECO Property, where a high grade uranium intercept of 9.5 metres grading 1.54% U₃O₈ was drilled recently along with four other holes in the uranium-bearing structure discovered in 1984 by Uranerz Exploration and Mining, before uranium prices tumbled in the mid-eighties. This Uranerz hole returned a 16-metre intercept grading 0.95% U₃O₈ per tonne (19 lbs per ton) at a vertical depth of 220 metres.

The sharp increase in U3O8 prices as well as the world demand for uranium as an energy alternative certainly enhances the uranium potential of the Hotish property covering a large part of the Proterozoic unconformity contact over an Archean age basement, a classical geological context known worldwide for major uranium deposits. The Company intends to pursue the uranium exploration on that property with an eventual partner.

Summary of planned exploration programs

PROPERTIES	PLANNED WORK	BUDGET \$	FOLLOWING STEPS
CHIBOUKI	Drilling, prospecting & till sampling	\$360,000	Analysis for indicator minerals, more drilling
33 CARATS	Micro-probe, ground geophysics, drilling, prospecting & till sampling	\$580,000	Analysis for indicator minerals, more drilling
PONTAX	Analysis for indicator minerals	\$ 55,000	Airborne geophysics and/or more till sampling

Summary of financial activities

Working capital increased by \$ 351,838 during the second quarter of 2006, from \$ 677,343 as at March 31st, 2006 to \$ 1,029,181 as at June 30th, 2006. Working capital as at June 30th 2005 was \$ 957,065. The increase is mainly due to the conclusion during the quarter of two private placements totalling \$400,000 with the reception of a subsidy relating to the exploration expenses engaged in 2003 (see "**Summary of exploration activities**").

Unrestricted cash (cash and term deposits less bank overdraft) totaled \$ 558,454 as at June 30, 2006 compared to \$ 447,681 as at December 31, 2005.

An amount of \$68,341 from restricted funds for exploration has been incurred during the first quarter compared to \$ 89,359 during the previous quarter. The restricted funds were proceeds of flow-through financing totaling \$157,700 at the end of last year. See "**Summary of exploration activities**" for details of the exploration expenses incurred during the quarter. At as June 30, 2006, all the reserved sums connected to the flow-through financing of last December were committed.

Net loss for the quarter and semester ended June 30th 2006 totals \$ 50,022 and \$ 91,639 respectively, compared to \$ 47,833 and \$ 52,457 for the quarter and semester ended June 30 2005, respectively. The increase in loss is due to the decrease in management fees (\$ 0 versus \$ 22,504 for the semester ended June 30, 2005) and the accounting for stock based compensation expenses of \$40,500 at the end of June 30, 2006.

Income mostly came in 2005 from the management of exploration expenses regarding the option agreement with DeBeers on the 33 Carats property. De Beers withdrew from the option agreement during the second quarter 2005. The Company now gains interests on term deposits.

Details of administrative expenses

Description	Quarter ended June 30th		Semester ended June 30th	
	2006	2005	2006	2005
	\$	\$	\$	\$
Stock based compensation	40,500	-	40,500	-
Publicity and public relations	5,807	27,717	9,425	56,409
Professional fees	4,676	14,488	28,471	17,383
Shareholders information	4,792	6,419	11,573	9,152
Registration fees	3,361	2,470	5,013	4,311
Office expenses	1,990	4,137	2,667	4,378
Insurances, taxes and permits	1,165	9,128	11,855	9,267
Banking fees and interests	244	602	406	10,295
	62,535	64,961	109,910	111,195

During the the first 2006 semester, one notes mainly:

- Decrease in public relations expenses: The agreement with Renmark was cancelled on July 31, 2005. Grant on mining promotions costs of \$6,336 received in April 2006.
- Accounting of \$40,500 stock based compensation at the end of June 2006.
- No management fee income in 2006.

SUMMARY OF QUARTERLY RESULTS

(000\$ except loss/share)	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income	9	4	12	5	5	29	29	28
Net loss	50	42	332	58	48	4	88	118
Net loss per share	0.003	0.003	0.025	0.002	0.003	0.0003	0.007	0.01

The variations of quarterly losses are explained as follows:

- 2006-Q2** Accounting for stock based compensation expenses of \$ 40,500. Grant on mining promotions costs of \$6,336 received in April 2006.
- 2006-Q1** No management fees. Stable general and administrative expenses.
- 2005-Q4** Write off of the Scholfield property for a total amount of \$ 485,939 including \$ 123,769 in deferred exploration expenses.
- 2005-Q3** Future income tax expense of \$ 37,308.
- 2005-Q2** No management fees on 33 Carats property (DeBeers' option terminated) and a \$ 5,800 gain on sale of fixed asset.
- 2005-Q1** Accounting of management fees on 33 Carats property of \$ 22,504.
- 2004-Q4** Write-off of mining property (\$ 28,279) and deferred exploration expenses (\$ 38,776).
- 2004-Q3** Accounting for stock based compensation expenses of \$ 121,600 and management fees of \$ 22,151.

CASH FLOW SITUATION

The Company is considered to be in the exploration stage, thus it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring sufficient financing, there is no guarantee of obtaining any future financing.

The Company considers the cash on hand sufficient for the known obligations. As at June 30, 2006, the Company did not have any debt or any financial commitments in the upcoming quarters.

FINANCING

On April 4, 2006, the Company closed a \$200,000 non-brokered private placement with a venture capital fund. The Company issued 606,061 common shares at \$0.33 per share and 606,061 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.40 per share until April 4, 2007 and at \$0.45 during the next 12 months.

On April 18, 2006, the Company closed a private placement by convertible debenture bonds of \$200,000 with a workers venture fund with 571,429 warrants. One warrant entitles its holder thereof to subscribe for one common share at \$0.45 per share until October 18, 2007. An interest rate of 12% payable in shares and a conversion price of \$0.35 up to April 18, 2008 and of \$0.385 thereafter until the maturity date April 18, 2009, was agreed upon for the debenture. At the expiration date, April 18, 2009, the debenture will be reimbursed in Company common shares.

On April 7, 2006 the Company granted 270,000 options at a subscription price of \$0.33 until April 7, 2011 to its officers and directors.

At the date of this report:

- 14,766,968 Common Shares are issued and outstanding.
- A \$200,000 12% interest debenture with a maturity date of April 18, 2009 as described above.
- 1,655,000 options are granted and can be exercised at prices between \$ 0.30 and \$ 0.37 from 2007 to 2011. Each option entitles its holder thereof to subscribe for one Common Share of the Company.
- 2,556,979 warrants were issued, entitling their holders thereof to subscribe for the same amount of Common Shares of the Company at prices between \$ 0.25 and \$ 0.70 with expiry dates ranging from May 2006 to April 2008. Each warrant entitles its holder thereof to subscribe for one Common Share of the Company.

Variations in share capital as at July 26, 2006 are the following:

Description	Number of shares	Price \$	Amount \$
As at December 31, 2005	14,160,907		5,367,264
Options exercised	-		-
Private placements	606,061	0.33	200,000
Exercised warrants	-		-
As at July 26, 2006	14,766,968		5,567,264

Options

Variations in outstanding options as at July 26, 2006 is the following :

Date	Number of options	Average exercise price \$
As at December 31, 2005	1,385,000	0.35
Issued	270,000	0.33
Exercised	-	-
Expired	-	-
As at July 26, 2006	1,655,000	0.34

Options granted and exercisable as at July 26, 2006

Beneficiaries	Number of options	Price (\$)	Expiry date
Directors and Officers	420,000	0.30	January 11, 2007
Directors and Officers	325,000	0.36	February 6, 2008
Directors and Officers	640,000	0.37	September 7, 2009
Directors and Officers	270,000	0.33	April 7, 2011

The fair value of these options was estimated using the Black Scholes stock option evaluation model with the following assumptions: estimated weighted average duration of 3 to 5 years for these options, risk free interest rate of 3.5% to 4.5%, forecast volatility of 57% to 65% and no forecast dividend.

Warrants

Variations in outstanding warrants since the beginning of year is as follows:

Date	Number of warrants	Average exercise price (\$)
As at December 31, 2005	1,858,212	0.61
Issued	1,177,490	0.42
Exercised	-	-
Expired	(478,723)	0.65
As at July 26, 2006	2,556,979	0.50

Warrants characteristics as at July 26, 2006 are the following:

Number	Exercise price	Expiry date
430,850	0.65 \$	July 2006
606,239	0.70 \$	December 2006
342,400	0.25-0.30 \$	December 2007
606,061	0.40-0.45 \$	April 2008
571,429	0.45\$	October 2007
<hr/> 2,556,979		

RELATED PARTY TRANSACTIONS

The Company is related to another company, Sirius Resources Inc. (“Sirios”), because of certain common officers. Related party transactions are limited to common deferred exploration and development expenses and common administrative expenses. These transactions were concluded in the normal course of operations and were measured at the exchange amount that is the amount established and accepted by the parties. As at June 30, 2006 the Company had a receivable of \$ 16,659 from Sirios.

FINANCIAL INSTRUMENTS

The fair value of the Company’s financial instruments approximates the carrying value. The current bank’s accounts, accounts receivable and accounts payable are non-interest bearing. A portion of cash is held in an interest bearing of 3 % with no restrictions.

OTHER INFORMATION

This discussion and analysis of the financial position and results of operation as at July 26, 2006 should be read in conjunction with the unaudited interim financial statements for the quarter ended June 30, 2006 and the audited financial statements for the year ended December 31, 2005. The unaudited interim financial statements for the semester ended June 30, 2006 were not reviewed by external auditors. Additional information of the Company can be obtained at the website www.sedar.com under SEDAR filings.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's interim financial statements are the responsibility of the company's management, and have been approved by the Board of directors. The interim financial statements were prepared by the company’s management in accordance with generally accepted Canadian accounting principles. The interim financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the interim financial statements are presented fairly in all material respects.

(signed) Marie-José Girard, President

(signed) Dominique Doucet, Treasurer

Montreal, July 26, 2006