

# **DIOS EXPLORATION INC.**

## **Annual financial statements**

**DECEMBER 31, 2015 and 2014**

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# Raymond Chabot Grant Thornton

## Independent Auditor's Report

To the Shareholders of  
Dios Exploration Inc.

**Raymond Chabot Grant Thornton LLP**

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We have audited the accompanying financial statements of Dios Exploration Inc., which comprise the statements of financial position as at December 31, 2015 and 2014 and the statements of comprehensive loss, the statements of changes in equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dios Exploration Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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*Raymond Chalot Grant Thornton L.L.P.*

Val-d'Or  
March 22, 2016

**DIOS EXPLORATION INC.**  
**Statements of Financial Position**

(in Canadian dollars)

|  | Notes | As at December 31,<br>2015 | As at December 31,<br>2014 |
|--|-------|----------------------------|----------------------------|
|  |       | \$                         | \$                         |
| <b>ASSETS</b>                          |       |                            |                            |
| <b>Current</b>                         |       |                            |                            |
| Cash                                   |       | 306,448                    | 241,706                    |
| Listed shares                          |       | 62,806                     | 93,022                     |
| Goods and services tax receivable      |       | 2,874                      | 1,682                      |
| Tax credits receivable                 |       | 142,643                    | 99,816                     |
|  |       | <u>514,771</u>             | <u>436,226</u>             |
| <b>Non-current</b>                     |       |                            |                            |
| Exploration and evaluation assets      | 6     | <u>3,505,008</u>           | <u>4,794,103</u>           |
| <b>Total assets</b>                    |       | <u><u>4,019,779</u></u>    | <u><u>5,230,329</u></u>    |
| <b>LIABILITIES</b>                     |       |                            |                            |
| <b>Current</b>                         |       |                            |                            |
| Trade and other payables               |       | 68,353                     | 3,626                      |
| Advances of an officer, 1.99% to 4.20% | 14.1  | 69,485                     | -                          |
| Other liabilities                      |       | 6,225                      | 7,286                      |
| <b>Total liabilities</b>               |       | <u>144,063</u>             | <u>10,912</u>              |
| <b>EQUITY</b>                          |       |                            |                            |
| Share capital                          | 7.1   | 18,142,608                 | 17,819,612                 |
| Contributed surplus                    |       | 2,682,744                  | 2,549,239                  |
| Deficit                                |       | <u>(16,949,636)</u>        | <u>(15,149,434)</u>        |
| <b>Total equity</b>                    |       | <u>3,875,716</u>           | <u>5,219,417</u>           |
| <b>Total liabilities and equity</b>    |       | <u><u>4,019,779</u></u>    | <u><u>5,230,329</u></u>    |

The accompanying notes are an integral part of the financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on March 22, 2016.

*(signed) Marie-José Girard*

Marie-José Girard  
 Director

*(signed) René Lacroix*

René Lacroix  
 Director

**DIOS EXPLORATION INC.**  
**Statements of Comprehensive Loss**

(in Canadian dollars)

|  | Notes | Year ended<br>December 31, |             |
|--|-------|----------------------------|-------------|
|  |       | 2015                       | 2014        |
|  |       | \$                         | \$          |
| <b>EXPENSES</b>  |       |                            |             |
| Employee benefits expense                              | 8.1   | 114,331                    | 54,319      |
| Professional fees                                      |       | 23,920                     | 27,492      |
| Trustees, registration fees and shareholders relations |       | 21,910                     | 25,621      |
| Insurances, taxes and permits                          |       | 8,716                      | 9,260       |
| Publicity, travel and promotion                        |       | 3,671                      | 5,205       |
| Office expenses  |       | 3,542                      | 6,466       |
| Bank charges   |       | 745                        | 1,659       |
| Write-off of exploration and evaluation assets         | 6     | 1,592,238                  | 4,965,441   |
| <b>OPERATING LOSS</b>                                  |       | <b>1,769,073</b>           | 5,095,463   |
| <b>OTHER REVENUES AND EXPENSES</b>                     |       |                            |             |
| Finance income   | 10    | 1,278                      | 48,632      |
| Finance costs  | 10    | (16,612)                   | -           |
|  |       | (15,334)                   | 48,632      |
| <b>LOSS BEFORE INCOME TAXES</b>                        |       | <b>(1,784,407)</b>         | (5,046,831) |
| Deferred income tax                                    | 12    | 7,286                      | 45,000      |
| <b>NET LOSS FOR THE YEAR</b>                           |       | <b>(1,777,121)</b>         | (5,001,831) |
| <b>NET LOSS PER SHARE - basic and diluted</b>          | 11    | <b>(0.04)</b>              | (0.12)      |

The accompanying notes are an integral part of the financial statements.

**DIOS EXPLORATION INC.**  
**Statements of Changes in Equity**

(in Canadian dollars)

|   | Notes | Share Capital    |                  | Contributed | Deficit   | Total Equity |             |
|---|-------|------------------|------------------|-------------|-----------|--------------|-------------|
|   |       | Number of shares | Number of shares | Surplus     |           |              |             |
|   |       | issued           | to be issued     | \$          | \$        | \$           | \$          |
| Balance at January 1 <sup>st</sup> , 2014             |       | 40,070,961       | -                | 17,775,898  | 2,532,728 | (10,147,603) | 10,161,023  |
| Net loss and total comprehensive loss                 |       | -                | -                | -           | -         | (5,001,831)  | (5,001,831) |
| Share-based payments                                  | 8.2   | -                | -                | -           | 16,511    | -            | 16,511      |
| Shares to be issued by flow-through private placement | 7.1   | -                | 728,575          | 43,714      | -         | -            | 43,714      |
| Balance at December 31, 2014                          |       | 40,070,961       | 728,575          | 17,819,612  | 2,549,239 | (15,149,434) | 5,219,417   |
| Balance at January 1 <sup>st</sup> , 2015             |       | 40,070,961       | 728,575          | 17,819,612  | 2,549,239 | (15,149,434) | 5,219,417   |
| Net loss and total comprehensive loss                 |       | -                | -                | -           | -         | (1,777,121)  | (1,777,121) |
| Share-based payments                                  | 8.2   | -                | -                | -           | 83,476    | -            | 83,476      |
| Share issuance costs                                  |       | -                | -                | -           | -         | (23,081)     | (23,081)    |
| Issuance of units placements and flow-through shares  | 7.1   | 6,146,432        | (728,575)        | 322,996     | 50,029    | -            | 373,025     |
| Balance at December 31, 2015                          |       | 46,217,393       | -                | 18,142,608  | 2,682,744 | (16,949,636) | 3,875,716   |

The accompanying notes are an integral part of the financial statements.

# DIOS EXPLORATION INC.

## Statements of Cash Flows

(in Canadian dollars)

|  | Notes | Year ended       |                 |
|--|-------|------------------|-----------------|
|  |       | December 31,     |                 |
|  |       | 2015             | 2014            |
|  |       | \$               | \$              |
| <b>OPERATING ACTIVITIES</b>                    |       |                  |                 |
| Net loss                                       |       | (1,777,121)      | (5,001,831)     |
| Adjustments                                    |       |                  |                 |
| Shares-based payments                          |       | 83,476           | 16,511          |
| Change in fair value of listed shares          |       | 15,198           | (45,966)        |
| Write-off of exploration and evaluation assets |       | 1,592,238        | 4,965,441       |
| Deferred income tax                            |       | (7,286)          | (45,000)        |
| Changes in working capital items               |       | 63,535           | 39,078          |
| Cash flows from operating activities           |       | <u>(29,960)</u>  | <u>(71,767)</u> |
| <b>INVESTING ACTIVITIES</b>                    |       |                  |                 |
| Disposal of listed shares                      |       | 15,018           | 9,512           |
| Addition to exploration and evaluation assets  |       | (437,512)        | (407,932)       |
| Tax credits received                           |       | 91,542           | 344,419         |
| Cash flows from investing activities           |       | <u>(330,952)</u> | <u>(54,001)</u> |
| <b>FINANCING ACTIVITIES</b>                    |       |                  |                 |
| Advances of an officer                         |       | 69,485           | -               |
| Issuance of units placements and shares        |       | 379,250          | 51,000          |
| Share issuance costs                           |       | (23,081)         | -               |
| Cash flows from financing activities           |       | <u>425,654</u>   | <u>51,000</u>   |
| <b>Net change in cash</b>                      |       | <b>64,742</b>    | <b>(74,768)</b> |
| <b>Cash, beginning of year</b>                 |       | <b>241,706</b>   | <b>316,474</b>  |
| <b>Cash, end of year</b>                       |       | <b>306,448</b>   | <b>241,706</b>  |
| <b>Additional informations</b>                 |       |                  |                 |
| Interest received (operating activities)       |       | 1,278            | 2,666           |
| Interest paid (operating activities)           |       | 1,414            | -               |
| Additional information - cash flows Note 13    |       |                  |                 |

The accompanying notes are an integral part of the financial statements.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **1. NATURE OF OPERATIONS**

Dios Exploration Inc. (the "Company") is a mining exploration and evaluation company with activities in Canada.

#### **2. GOING CONCERN ASSUMPTION**

The financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not yet generated income or cash flows from its operations. As at December 31, 2015, the Company has a cumulated deficit of \$16,949,636 (\$15,149,434 as at December 31, 2014). These material uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. Management does not consider these adjustments, which could be significant, because it believes in the assumption of going concern.

#### **3. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS**

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS").

The Company is incorporated under the *Canada Business Corporation Act*. The address of the Company's registered office is 4076, Kensington Avenue, Montreal, Quebec, Canada. The Company's shares are listed on the TSX Venture Exchange, under the symbol "DOS".

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Overall considerations**

The significant accounting policies and measurement bases that have been applied in the preparation of these financial statements are summarized below.

##### **4.2 Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

##### **4.3 Financial instruments**

###### **Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are subsequently measured as described below.



# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.3 Financial instruments (continued)**

###### **Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss

All financial assets, except for those at fair value through profit or loss, are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include: significant financial difficulties of the issuer or counterparty; breach of contract, such as a failure to pay interest or principal; or increasing the probability of bankruptcy or other financial reorganization of the borrower.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within Finance costs or Finance income, if applicable.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash is classified into this category of financial instruments.

###### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. The Company's listed shares are classified into this category of financial instruments.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair value of financial assets in this category are determined by reference to active market transactions.

###### **Classification and subsequent measurement of financial liabilities**

The Company's financial liabilities include trade and other payables and advances of an officer.

Financial liabilities are measured subsequently at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss within Finance costs, if applicable.

##### **4.4 Basic and diluted loss per share**

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted loss per share is calculated by adjusting loss attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares which include options and warrants. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, at the date of issue of the potential ordinary shares.

##### **4.5 Tax credits receivable**

The Company is entitled to a refundable tax credit on qualified exploration expenses incurred and the refundable tax credit on duties for losses under the *Mining Tax Act*. These tax credits are recognized as a reduction of the exploration and evaluation expenses incurred based on estimates made by management. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Company will comply with the conditions associated to them.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.6 Exploration and evaluation expenditures and exploration and evaluation assets**

Exploration and evaluation expenditures are costs incurred in the course of initial search of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake exploration and evaluation activities has been obtained, all costs of acquiring mineral rights, expenses related to the exploration and evaluation of mining properties, less refundable tax credits and credits on duties related to these expenses, are capitalized as exploration and evaluation assets. Expenses related to exploration and evaluation include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the exploration and evaluation phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts (see Note 4.7), the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment (See Note 4.7) and any impairment loss is recognized in profit or loss before reclassification.

To date, neither the technical feasibility nor the commercial viability of extracting a mineral resource has been demonstrated.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

##### *Disposal of interest in connection with option agreement*

On the disposal of interest in connection with the option agreement, the Company does not recognize expenses related to the exploration and evaluation performed on the property by the acquirer. In addition, the cash consideration received directly from the acquirer is credited against the costs previously capitalized to the property, and the surplus is recognized as a gain on the disposal of exploration and evaluation assets in profit or loss.

##### **4.7 Impairment of exploration and evaluation assets**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

Impairment reviews for exploration and evaluation assets are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances apply:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resources are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.7 Impairment of exploration and evaluation assets (continued)**

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

##### **4.8 Provisions and contingent liabilities**

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. As at December 31, 2015 and 2014, there was no provision recorded in the statement of financial position.

##### **4.9 Income taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive loss or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

However, since the Company is in exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprised only of deferred tax.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.9 Income taxes (continued)**

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

##### **4.10 Equity**

###### **Share capital**

Share capital represents the amount received on the issue of shares. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs or the fair value of warrants previously recorded as contributed surplus. In addition, if shares were issued as consideration for the acquisition of a mineral property or some other form of non-monetary assets, they are measured at their fair value according to the quoted price on the day of the conclusion of the agreement.

###### **Units placements**

Proceeds from units placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

###### **Flow-through placements**

Issuance of flow-through shares represents in substance an issue of ordinary shares and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital and other liabilities using the residual method. Proceeds are first allocated to shares according to the quoted price of shares at the time of issuance and the residual proceeds, if any, are allocated to other liabilities. The liability component recorded initially on the issuance of shares is reversed on renouncement of the right to tax deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in reduction of deferred income tax expense. A deferred tax liability is also recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax basis.

###### **Other elements of equity**

Accumulated other comprehensive loss includes unrealized gains and losses on available-for-sale financial assets net of relevant income taxes. Contributed surplus includes charges related to share options and warrants not exercised. When share options and warrants are exercised, the related compensation cost is transferred to share capital.

Deficit includes all current and prior period retained profits or losses and issuances costs of equity instruments, net of any underlying income tax benefit from these issuance costs.

##### **4.11 Equity-settled share-based payments**

The Company operates equity-settled share-based payment plans for its eligible directors, employees and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except equity-settled share-based payments to brokers) are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to contributed surplus, in equity. Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus, in equity.

# DIOS EXPLORATION INC.

## Notes to Financial Statements

### December 31, 2015 and 2014

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(in Canadian dollars)

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.11 Equity-settled share-based payments (continued)

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

##### 4.12 Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the President and the Board of Directors. The Company has determined that there was only one operating segment being the sector of exploration and evaluation of mineral resources.

##### 4.13 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's financial statements.

##### **IFRS 9 *Financial instruments***

In July 2014, the International Accounting Standards Board (IASB) aims to replace IAS 39 *Financial Instruments: Recognition and Measurements* in its entirety with IFRS 9. IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet assessed the impact of this new standard on its financial statements.

#### 5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from judgments, estimates and assumptions made by management and will seldom equal to the estimated results. Information on judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is presented below.

##### **Significant management judgements**

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

##### **Recognition of deferred income tax assets and measurement of income tax expense**

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period (see Note 4.9).

##### **Going concern**

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year and to fund planned and contractual exploration programs, involves judgments based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2015 and 2014**

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(in Canadian dollars)

#### **5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

##### **Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

##### **Impairment of exploration and evaluation assets**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases (see Note 4.7).

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit, of which the asset belongs, must be determined.

In assessing impairment, the Company must make some estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expenses will be recover from either future exploitation or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

Refer to Note 6 for the analysis of impairment of exploration and evaluation assets.

For the year ended December 31, 2015, the Company wrote off its properties 14 Karats, Shadow and LeCaron. The write-off of exploration and evaluation assets recognized in profit or loss amounts to \$1,592,238 (\$4,965,441 as at December 31, 2014). No reversal of impairment losses has been recognized for the reporting periods.

##### **Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model (see Note 8.2).

##### **Tax credits receivable**

The calculation of the Company's refundable tax credit on qualified exploration expenditure incurred and refundable tax credit involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Difference arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit and refundable tax credit, exploration and evaluation assets, and income tax expense in future periods. See Note 4.5 for more information.

**DIOS EXPLORATION INC.**  
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**6. EXPLORATION AND EVALUATION ASSETS**

**2015**

MINING RIGHTS

|               | January 1 <sup>st</sup> , 2015 | Additions | Write-off | December 31, 2015 |
|---------------|--------------------------------|-----------|-----------|-------------------|
|               | \$                             | \$        | \$        | \$                |
| QUEBEC        |                                |           |           |                   |
| 33 Carats (a) | 677,547                        | 4,096     | -         | 681,643           |
| Autish (b)    | 1,150                          | 663       | -         | 1,813             |
| Shadow (d)    | 90,500                         | 1,408     | (91,908)  | -                 |
| LeCaron (e)   | 233,900                        | 896       | (234,795) | 1                 |
| AU33 west (f) | 94,102                         | 6,144     | -         | 100,246           |
| Shipsaw (g)   | -                              | 276       | -         | 276               |
| 14 Karats (h) | 112,683                        | 512       | (113,194) | 1                 |
| Solo-K2 (i)   | 14,956                         | 4,594     | -         | 19,550            |
|               | 1,224,838                      | 18,589    | (439,897) | 803,530           |

EXPLORATION AND EVALUATION EXPENSES

|                   | January 1 <sup>st</sup> , 2015 | Additions      | Write-off          | Tax credits      | December 31, 2015 |
|-------------------|--------------------------------|----------------|--------------------|------------------|-------------------|
|                   | \$                             | \$             | \$                 | \$               | \$                |
| QUEBEC            |                                |                |                    |                  |                   |
| 33 Carats (a)     | 2,152,831                      | 32,590         | -                  | (10,453)         | 2,174,968         |
| Shadow (d)        | 321,919                        | 1,356          | (322,844)          | (431)            | -                 |
| LeCaron (e)       | 495,586                        | -              | (495,586)          | -                | -                 |
| AU33 west (f)     | 213,361                        | 364,595        | -                  | (116,943)        | 461,013           |
| 14 Karats (h)     | 333,140                        | -              | (333,140)          | -                | -                 |
| Solo-K2 (i)       | 52,428                         | 20,382         | (771)              | (6,542)          | 65,497            |
|                   | 3,569,265                      | 418,923        | (1,152,341)        | (134,369)        | 2,701,478         |
| <b>TOTAL 2015</b> | <b>4,794,103</b>               | <b>437,512</b> | <b>(1,592,238)</b> | <b>(134,369)</b> | <b>3,505,008</b>  |

**2014**

MINING RIGHTS

|               | January 1 <sup>st</sup> , 2014 | Additions | Disposal  | December 31, 2014 |
|---------------|--------------------------------|-----------|-----------|-------------------|
|               | \$                             | \$        | \$        | \$                |
| QUEBEC        |                                |           |           |                   |
| 33 Carats (a) | 663,577                        | 13,970    | -         | 677,547           |
| Autish (b)    | 343,647                        | 1,150     | (343,647) | 1,150             |
| Pontax (c)    | 12,500                         | -         | (12,500)  | -                 |
| Shadow (d)    | 88,722                         | 1,778     | -         | 90,500            |
| LeCaron (e)   | 231,868                        | 2,032     | -         | 233,900           |
| AU33 west (f) | 73,681                         | 20,421    | -         | 94,102            |
| Shipsaw (g)   | 216,172                        | 1,039     | (217,211) | -                 |
| 14 Karats (h) | 110,270                        | 2,413     | -         | 112,683           |
| Solo-K2 (i)   | 10,638                         | 4,318     | -         | 14,956            |
|               | 1,751,075                      | 47,121    | (573,358) | 1,224,838         |

EXPLORATION AND EVALUATION EXPENSES

|                   | January 1 <sup>st</sup> , 2014 | Additions      | Disposal           | Tax credits     | December 31, 2014 |
|-------------------|--------------------------------|----------------|--------------------|-----------------|-------------------|
|                   | \$                             | \$             | \$                 | \$              | \$                |
| QUEBEC            |                                |                |                    |                 |                   |
| 33 Carats (a)     | 2,110,480                      | 57,800         | -                  | (15,449)        | 2,152,831         |
| Autish (b)        | 3,487,922                      | -              | (3,487,922)        | -               | -                 |
| Pontax (c)        | 3,417                          | -              | (3,417)            | -               | -                 |
| Shadow (d)        | 312,555                        | 12,689         | -                  | (3,325)         | 321,919           |
| LeCaron (e)       | 494,157                        | 1,936          | -                  | (507)           | 495,586           |
| AU33 west (f)     | 98,416                         | 155,765        | -                  | (40,820)        | 213,361           |
| Shipsaw (g)       | 896,449                        | 4,295          | (900,744)          | -               | -                 |
| 14 Karats (h)     | 333,140                        | -              | -                  | -               | 333,140           |
| Solo-K2 (i)       | 40,799                         | 15,759         | -                  | (4,130)         | 52,428            |
|                   | 7,777,335                      | 248,244        | (4,392,083)        | (64,231)        | 3,569,265         |
| <b>TOTAL 2014</b> | <b>9,528,410</b>               | <b>295,365</b> | <b>(4,965,441)</b> | <b>(64,231)</b> | <b>4,794,103</b>  |

# DIOS EXPLORATION INC.

## Notes to Financial Statements

### December 31, 2015 and 2014

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(in Canadian dollars)

#### 6. EXPLORATION AND EVALUATION ASSETS (continued)

All write-off charges are included within *Write-off of exploration and evaluation* assets in profit or loss. During the year, management wrote-off properties and deferred exploration expenses for the properties Shadow, LeCaron and 14 Karats (Autish, Pontax and Shipshaw as at December 31, 2014) for the following reasons: Abandonment of mining claims, negative results obtained after exploration work and / or lack of exploration work over the last three years.

##### (a) 33 Carats

The 33 Carats property is located along the Eastmain River in the Otish Mountains area, Quebec, and consists of five blocks of 225 mineral claims covering 117 square km. The 33 Carats southern block (33A08) consists of 137 mineral claims covering 72 square km.

One part of the property (certain mineral claims located in the eastern and western blocks) is subject to a 1% gross overriding royalty, half of which can be repurchased for \$1 million.

##### (b) Autish

The Autish (33P09-10-15-16) property is located near the lakes Magyar, Pepeshquasati et Mantouchiche in the Otish Mountains area, Quebec, and consists of two blocks of 35 mineral claims covering 19 square km.

Following a review of the evaluation of this property, the Company decided, during the second quarter of 2014, to write-off the portion known previously as Hotish property (\$343,647 for mining rights and \$3,487,922 for exploration and evaluation expenses, for a total amount of \$3,831,569 expensed during the year ended December 31, 2014).

##### (c) Pontax

This property (32N15-33C02) consists of 48 mineral claims covering 45 square km and is located in the James Bay area, 350 km north of Matagami along the road to Radisson.

Following a review of the evaluation of this property, the Company decided to write-off this property (\$12,500 for mining rights and \$3,417 for exploration and evaluation expenses, for a total amount of \$15,917 expensed during the year ended December 31, 2014).

##### (d) Shadow

This property (33C08-33B05) is located near the Eastmain river, at 10-25 km north of Hydro electric complex of Eastmain-1 in the James Bay area in Quebec. It consists of 115 mineral claims covering 61 square km.

Following a review of the evaluation of this property, the Company decided to write-off this property (\$91,908 for mining rights and \$322,844 for exploration and evaluation expenses, for a total amount of \$414,752 expensed during the year).

##### (e) LeCaron

This property (33B05) is located near the Eastmain river, at 10-25 km north of Hydro electric complex of Eastmain-1 in the James Bay area in Quebec. It consists of 82 mineral claims covering 44 square km.

A part of the property (10 mining claims) will be subject to a 2% royalty on production and a royalty of one dollar per ton of diamond. Half of each of these royalties can be redeemed for a million dollars each.

Following a review of the evaluation of this property, the Company decided to write-off this property (\$234,795 for mining rights and \$495,586 for exploration and evaluation expenses, for a total amount of \$730,381 expensed during the year).

##### (f) AU33 west

This property (33C01-33B04) is located near the Eastmain river, west of Hydro electric complex of Eastmain-1 in the James Bay area in Quebec. It consists of 286 mineral claims covering 150 square km.



# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

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#### **6. EXPLORATION AND EVALUATION ASSETS (continued)**

##### **(g) Shipshaw**

This property (22D06-11) consists of 23 mineral claims covering 12 square km located in Saguenay, Quebec. The Company holds a royalty of 1% of the potential production on 3 mineral claims.

Following a review of the evaluation of this property, the Company decided, during the second quarter of 2014, to write-off this property (\$217,211 for mining rights and \$900,744 for exploration and evaluation expenses, for a total amount of \$1,117,955 expensed during the year ended December 31, 2014).

##### **(h) 14 Karats**

This property (23D14-15) of 49 minerals claims covers close to 26 square km at 50-75 km north-east of the Eastmain Gold mine or at 30-50 km east of the Stornoway diamond project (Qc).

Following a review of the evaluation of this property, the Company decided to write-off this property (\$113,194 for mining rights and \$333,140 for exploration and evaluation expenses, for a total amount of \$446,334 expensed during the year).

##### **(i) Solo-K2**

This property (33C04-05) of 76 minerals claims covers close to 47 square km in James Bay (Qc) at about 50 km west of the relay road km 381 along the road to Radisson.

#### **7. EQUITY**

##### **7.1 Share capital**

The share capital of the Company consists only of ordinary shares created in unlimited number, without par value. All shares are equally admissible to receive dividends and the repayment of capital, and represent one vote each at the shareholders' meeting of the Company.

On December 31, 2014, the Company closed a non-brokered flow-through private placement for an aggregate proceeds of \$51,000 consisting of the issuance of 728,575 flow-through shares at a price of \$0.07 per share (issued in February 2015). An amount of \$43,714 was allocated to share capital and \$7,286 was attributed to other liabilities in the statement of financial position.

On January 6, 2015, the Company closed a non-brokered flow-through private placement for an aggregate proceeds of \$29,050 consisting of the issuance of 415,000 flow-through shares at a price of \$0.07 per share. An amount of \$22,825 was allocated to share capital and \$6,225 was attributed to other liabilities in the statement of financial position.

On December 3, 2015, the Company closed a non-brokered private placement for an aggregate proceeds of \$350,200 consisting of the issuance of 5,002,857 units at a price of \$0.07. Each unit is composed of one ordinary share and one half warrant. In total, 5,002,857 ordinary shares and 2,501,428 warrants were issued. Each warrant entitles its holder to purchase one ordinary share of the Company at \$0.10 for a 24-month period after closing of the private placement. An amount of \$300,171 was allocated to share capital and \$50,029 was attributed to warrants.

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**7.2 Warrants**

Outstanding warrants entitle their holders to subscribe to an equivalent number of ordinary shares, as follows :

|                       | 2015                  |                                    |
|-----------------------|-----------------------|------------------------------------|
|                       | Number of<br>warrants | Weighted average<br>exercise price |
| Balance, at beginning | -                     | -                                  |
| Granted               | 2,501,428             | \$0.10                             |
| Balance, at the end   | <u>2,501,428</u>      | <u>\$0.10</u>                      |

The number of warrants outstanding exercisable in exchange for an equivalent number of ordinary shares is as follows:

| Expiry date   | Number           | Exercise price |
|---------------|------------------|----------------|
| Dec. 02, 2017 | <u>2,501,428</u> | <u>\$0.10</u>  |

**8. EMPLOYEE REMUNERATION**

**8.1 Employee benefits expense**

|   | Year<br>ended on December 31, |                |
|---|-------------------------------|----------------|
|   | 2015                          | 2014           |
|   | \$                            | \$             |
| Salaries and benefits   | 170,574                       | 194,963        |
| Fees paid to employees  | 26,650                        | 29,825         |
| Share-based payments  | 83,476                        | 16,511         |
|   | <u>280,700</u>                | <u>241,299</u> |
| Less: salaries capitalized in exploration and evaluation assets | (166,369)                     | (186,980)      |
| Employee benefits expense                                       | <u>114,331</u>                | <u>54,319</u>  |

**8.2 Share-based payments**

The Company has adopted share-based payment plans under which members of the Board of Directors may award options for ordinary shares to directors, employees and consultants. The maximum number of shares issuable under the plans is 6,600,000. The maximum number of common shares which may be reserved for issuance to any one option may not exceed 5% of the common shares outstanding at the date of grant.

The exercise price of each option is determined by the Board of Directors and cannot be less than the market value of the ordinary shares on the day prior to the award, and the term of the options cannot exceed five years. The options vesting period is 18 month, at a rate of 15% per quarter, at the exception of 10%, which may be exercised from the date of the grant. For the options granted to relation consultants, the options vest in stages over a period of 12 months after the grant, at the rate of 25 % per quarter.

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
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**8. EMPLOYEE REMUNERATION (continued)**

**8.2 Share-based payments (continued)**

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash. The Company's share options are as follows for the reporting periods presented:

|                            | 2015              |                                 | 2014              |                                 |
|----------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                            | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
|                            |                   | \$                              |                   | \$                              |
| Outstanding at January 1st | 4,800,000         | 0.22                            | 4,220,000         | 0.23                            |
| Granted                    | 980,000           | 0.10                            | 1,250,000         | 0.15                            |
| Expired                    | (670,000)         | 0.34                            | (670,000)         | 0.15                            |
| Outstanding at December 31 | 5,110,000         | 0.18                            | 4,800,000         | 0.22                            |
| Exercisable at December 31 | 4,000,000         | 0.20                            | 3,675,000         | 0.24                            |

The table below summarizes the information related to outstanding share options as at December 31, 2015 and 2014 :

| Range of exercise price | 2015              |   | 2014              |   |
|-------------------------|-------------------|---|-------------------|---|
|                         | Number of options | Weighted average remaining contractual life (years) | Number of options | Weighted average remaining contractual life (years) |
| \$                      |                   |   |                   |   |
| 0.10 to 0.29            | 4,190,000         | 2.92  | 3,210,000         | 3.42  |
| 0.30 to 0.50            | 920,000           | 0.33  | 1,590,000         | 0.85  |
|                         | 5,110,000         |   | 4,800,000         |   |

On October 2, 2014, the Company granted 1,250,000 options exercisable at \$0.15 to officers, directors and employees of the Company under its incentive stock option plan. The options have a term of five years and can be exercised gradually over a period of eighteen months.

On July 17, 2015, the Company granted 980,000 options exercisable at \$0.10 to officers, directors and employees of the Company under its incentive stock option plan. The options have a term of five years and can be exercised gradually over a period of eighteen months.

The weighted fair value of the granted options of \$0.04 per option granted (\$0.06 for the year ended December 31, 2014) was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

|   | 2015    | 2014    |
|---|---------|---------|
| Average share price at date of grant    | \$0.05  | \$0.09  |
| Expected dividends yield                | 0%      | 0%      |
| Expected weighted volatility            | 127%    | 116%    |
| Risk-free interest average rate         | 0.50%   | 1.25%   |
| Expected average life                   | 5 years | 5 years |
| Average exercise price at date of grant | \$0.10  | \$0.15  |

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of five years. No special features inherent to the options granted were incorporated into measurement of fair value.

An amount of \$83,476 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) was included in profit or loss for the reporting period ended December 31, 2015 (\$16,511 for the reporting period ended December 31, 2014) and credited to contributed surplus.

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
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**9. FAIR VALUE MEASUREMENT**

**9.1 Fair value measurement of financial instruments**

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the assets or liabilities.

The fair value of listed shares was determined according to the quoted price at the reporting date.

Listed shares measured at fair value in the statement of financial position as at December 31, 2015 and 2014, are classified in Level 1.

**10. FINANCE COSTS AND FINANCE INCOME**

Finance costs may be analyzed as follows for the reporting periods presented:

|   | Year<br>ended on December 31, |          |
|---|-------------------------------|----------|
|   | 2015                          | 2014     |
|   | \$                            | \$       |
| Change in fair value of listed shares                                       | 15,198                        | -        |
| Net change in fair value of bank obligations reclassified in profit or loss | 1,414                         | -        |
|   | <u>16,612</u>                 | <u>-</u> |

Finance income may be analyzed as follows for the reporting periods presented:

|  | Year<br>ended on December 31, |               |
|--|-------------------------------|---------------|
|  | 2015                          | 2014          |
|  | \$                            | \$            |
| Change in fair value of listed shares          | -                             | 45,966        |
| Interest income from cash and cash equivalents | 1,278                         | 2,666         |
|  | <u>1,278</u>                  | <u>48,632</u> |

**11. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, dilutive potential ordinary shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 7.2 and 8.2.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator, i.e. no adjustment to the net loss was necessary in 2015 and 2014.

|  | Year<br>ended on December 31, |               |
|--|-------------------------------|---------------|
|  | 2015                          | 2014          |
| Net loss   | \$(1,777,121)                 | \$(5,001,831) |
| Weighted average number of shares in circulation | 41,592,632                    | 40,070,961    |
| Basic and diluted loss per share                 | \$(0.04)                      | \$(0.12)      |

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
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(in Canadian dollars)

**12. INCOME TAXES**

**Relationship between expected tax expense and accounting profit or loss**

The relationship between the expected tax expense based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the statement of comprehensive income can be reconciled as follows:

|  | 2015           | 2014            |
|--|----------------|-----------------|
|  | \$             | \$              |
| Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.9 % | (480,005)      | (1,357,598)     |
| Adjustments for the following items:   |                |                 |
| Share-based payments   | 22,455         | 4,441           |
| Issuance of flow-through shares  | 13,719         | 24,210          |
| Recovery of liabilities related to flow-through shares   | (7,286)        | (45,000)        |
| Non-capital losses expired   | 43,660         | 31,250          |
| Other non-deductible expenses  | 2,315          | (6,036)         |
| Temporary difference unrecognized  | 397,856        | 1,303,733       |
| Total deferred tax expense (income)  | <u>(7,286)</u> | <u>(45,000)</u> |

**Major components of tax expense (income)**

The major components of tax expense (income) are outlined below:

|  | 2015           | 2014            |
|--|----------------|-----------------|
|  | \$             | \$              |
| Deferred tax expense (income)                          |                |                 |
| Origination and reversal of temporary differences      | (411,575)      | (1,327,943)     |
| Issuance of flow-through shares                        | 13,719         | 24,210          |
| Recovery of liabilities related to flow-through shares | (7,286)        | (45,000)        |
| Temporary difference unrecognized                      | 397,856        | 1,303,733       |
| Total deferred tax expense (income)                    | <u>(7,286)</u> | <u>(45,000)</u> |

**Deferred tax assets and liabilities and variation of recognized amounts during the period**

The following differences between the carrying amounts and tax bases from timing differences, unused tax losses and unused tax credits give rise to the following recognized deferred income tax assets and liabilities, and the following unrecognized timing differences, unused tax losses and unused tax credits:

|   | Balance as at<br>January 1 <sup>st</sup> ,<br>2015 | Recognized<br>in profit or loss | Balance as at<br>December 31,<br>2015 |
|---|--|---------------------------------|---------------------------------------|
|   | \$   | \$                              | \$                                    |
| Recognized amount   |  |                                 |                                       |
| Exploration and evaluation assets   | 6,659  | 6,914                           | 13,573                                |
| Tax credits for resources   | (6,659)  | (6,914)                         | (13,573)                              |
| Recognized deferred income tax assets and liabilities                       | -  | -                               | -                                     |
| Recovery of liabilities related to flow-through shares                      |  | 7,286                           |                                       |
| Change in deferred income tax according the statement of comprehensive loss |  | <u>7,286</u>                    |                                       |

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**12. INCOME TAXES (continued)**

**Deferred tax assets and liabilities and variation of recognized amounts during the period (continued)**

|   | Balance as at<br>January 1 <sup>st</sup> ,<br>2014<br>\$ | Recognized<br>in profit or loss<br>\$ | Balance as at<br>December 31,<br>2014<br>\$ |
|---|--|---------------------------------------|---|
| Recognized amount   |  |                                       |   |
| Exploration and evaluation assets   | 33,440   | (26,781)                              | 6,659                                       |
| Tax credits for resources   | (33,440)   | 26,781                                | (6,659)                                     |
| Recognized deferred income tax assets and liabilities                       | -  | -                                     | -   |
| Recovery of liabilities related to flow-through shares                      |  | 45,000                                |   |
| Change in deferred income tax according the statement of comprehensive loss |  | 45,000                                |   |

|   | December 31, 2015 |                   | December 31, 2014 |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Federal<br>\$     | Provincial<br>\$  | Federal<br>\$     | Provincial<br>\$  |
| Deductible temporary differences and unused tax losses not recognized |                   |                   |                   |                   |
| Listed shares   | 53,673            | 53,673            | 103,236           | 103,236           |
| Exploration and evaluation assets                                     | 8,567,232         | 9,325,232         | 7,025,859         | 7,783,858         |
| Non-capital losses  | 2,436,136         | 2,392,708         | 2,504,659         | 2,449,108         |
| Capital losses  | 74,378            | 74,378            | 17,216            | 17,216            |
| Share Issuance costs  | 18,465            | 18,465            | 2,181             | 2,181             |
|   | <u>11,149,884</u> | <u>11,864,456</u> | <u>9,653,151</u>  | <u>10,355,599</u> |

The Company has non-capital losses which are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded in the statement of financial position, that can be carried over the following years:

|      | Federal<br>\$    | Provincial<br>\$ |
|------|------------------|------------------|
| 2026 | 154,704          | 134,285          |
| 2027 | 223,465          | 216,912          |
| 2028 | 360,430          | 355,498          |
| 2029 | 310,138          | 307,026          |
| 2030 | 451,164          | 446,565          |
| 2031 | 409,826          | 408,612          |
| 2032 | 167,704          | 166,572          |
| 2033 | 146,574          | 146,218          |
| 2034 | 112,641          | 112,307          |
| 2035 | 99,490           | 98,713           |
|      | <u>2,436,136</u> | <u>2,392,708</u> |

Accumulated capital losses of \$148,755 (\$34,432 in 2014) are available to be applied against future taxable capital gains. These losses may be carried forward indefinitely.

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**13. ADDITIONAL INFORMATION – CASH FLOWS**

The changes in working capital items are detailed as follows:

|                                   | Year<br>ended December 31, |               |
|-----------------------------------|----------------------------|---------------|
|                                   | 2015                       | 2014          |
|                                   | \$                         | \$            |
| Goods and services tax receivable | (1,192)                    | 36,031        |
| Trade and other payables          | 64,727                     | 3,047         |
|                                   | <u>63,535</u>              | <u>39,078</u> |

Non-cash balance sheet transactions are detailed as follows :

|  | Year<br>ended December 31, |        |
|--|----------------------------|--------|
|  | 2015                       | 2014   |
|  | \$                         | \$     |
| Tax credits receivable applied against exploration and evaluation assets | 134,369                    | 64,231 |

**14. RELATED PARTY TRANSACTIONS**

The Company's related parties include a related company and key management as described below. Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

**14.1 Transactions with key management personnel**

Key management personnel of the Company are the president, the chief financial officer, the vice president exploration and members of the Board of Directors. Key management personnel remuneration includes the following expenses:

|                                    | Year<br>ended December 31, |                |
|------------------------------------|----------------------------|----------------|
|                                    | 2015                       | 2014           |
|                                    | \$                         | \$             |
| Short-term employee benefits       |                            |                |
| Salaries and benefits              | 122,500                    | 147,000        |
| Professional fees                  | 26,650                     | 29,825         |
| Social security costs              | 11,483                     | 12,131         |
| Total short-term employee benefits | <u>160,633</u>             | <u>188,956</u> |
| Share-based payments               | 70,798                     | 13,935         |
| Total compensation                 | <u>231,431</u>             | <u>202,891</u> |

As at December 31, 2015, the advances of an officer amounts to \$69,485 including accrued interest. These advances bear interest at different rates between 1.99% and 4.20%, the rates paid by such officer with banks.

**14.2 Transactions with a related company**

During the year ended December 31, 2014, a company controlled by a director charged fees amounting to \$11,654 recorded in exploration and evaluation assets (none for the year ended as at December 31, 2015).

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## Notes to Financial Statements

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#### 15. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are :

1. To ensure the Company's ability to continue as a going concern;
2. To increase the value of the assets of the business; and
3. To provide an adequate return to shareholders.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally imposed capital requirements except when the Company issues flow-through shares for which an amount should be used for exploration work. See all the details in Notes 7.1 and 17.

The Company finances its exploration and evaluation activities principally by raising additional capital either through private placements or public offerings. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve.

#### 16. FINANCIAL INSTRUMENT RISKS

The Company is exposed to various risks in relation to financial instruments. The main types of risks the Company is exposed to are market risk, credit risk and liquidity risk.

The Company manages risks by working closely with the Board of Directors. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets.

The most significant financial risks to which the Company is exposed are described below.

##### 16.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. At December 31, 2015, the Company is exposed to one type of market risk, other price risk sensitivity.

##### Other price risk sensitivity

The Company is exposed to fluctuations in the market prices of its listed shares. The fair value of the listed shares represents the maximum exposure to price risk.

If the quoted stock price for these listed shares had changed by  $\pm 1\%$  as at December 31, 2015 and 2014, other comprehensive loss and equity would have changed by \$628 (\$930 in 2014).

##### 16.2 Credit risk

Credit risk is the risk that another party to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

|      | As at December 31,<br>2015 | As at December 31,<br>2014 |
|------|----------------------------|----------------------------|
| Cash | \$<br>306,448              | \$<br>241,706              |

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.



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**16. FINANCIAL INSTRUMENT RISKS (continued)**

**16.3 Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

During the year, the Company has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through last years private and flow-through financings and advances of an officer.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

|  | December 31,   |              |
|--|----------------|--------------|
|  | 2015           | 2014         |
|  | \$             | \$           |
| Within six months                      |                |              |
| Trade and other payables               | 68,353         | 3,626        |
| Advances of an officer, 1.99% to 4.20% | 70,608         | -            |
|  | <u>138,961</u> | <u>3,626</u> |

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash and tax credits receivable. Company's cash exceed the current cash outflow requirements.

**17. CONTINGENCIES AND COMMITMENTS**

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is engaged in realizing mining exploration work.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements;
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

During the reporting period, the Company received \$29,050 (\$51,000 for 2014) following flow-through placements for which the Company renounced tax deductions on December 31, 2015. The management is required to fulfill its obligations in the period of one year from the date of renouncement.

The balance on flow-through financing not spent represents \$29,050 at December 31, 2015, amount that must be spent before December 31, 2016. The Company has to dedicate these funds to the exploration of Canadian mining properties exploration. As at December 31, 2014, the balance on flow-through financing not spent represented \$51,000, amount that was spent before December 31, 2015.