

**DIOS EXPLORATION INC.**  
**Financial Statements**  
**December 31, 2008 and 2007**



# Raymond Chabot Grant Thornton

## Auditors' Report

To the Shareholders of  
Exploration Dios Inc.

**Raymond Chabot Grant Thornton LLP**

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We have audited the balance sheets of Exploration Dios Inc. as at December 31, 2008 and 2007 and the statements of earnings and comprehensive loss, deficit, deferred exploration expenses and cash flows for the years then ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Raymond Chabot Grant Thornton LLP* <sup>1</sup>

Val-d'Or, March 4, 2009

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<sup>1</sup> Comptable agréé auditeur permis N° 15970

**DIOS EXPLORATION INC.**  
**Balance Sheets**

	<b>As of December 31, 2008</b>	<b>As of December 31, 2007</b>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	165,142	48,842
Term deposits (note 5)	2,013,633	7,201,722
Listed shares held for trading	10,552	63,315
Taxes receivable and other	462,962	164,963
Exploration tax credit receivable	2,331,278	1,027,024
Account receivable from a mining company, 1% interest per month (without interest in 2007) (note 10)	125,645	90,543
	<b>5,109,212</b>	8,596,409
Mineral properties (Note 6)	1,076,826	910,551
Deferred exploration expenses (Note 6)	6,743,832	4,423,904
	<b>12,929,870</b>	13,930,864
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	108,225	653,408
Future income taxes (note 9)	809,260	530,868
	<b>917,485</b>	1,184,276
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 7)	16,146,451	16,146,451
Contributed surplus (Note 8)	1,668,464	1,257,299
Deficit	(5,802,530)	(4,657,162)
	<b>12,012,385</b>	12,746,588
	<b>12,929,870</b>	13,930,864

Going concern assumption (Note 1)

The accompanying notes are an integral part of the financial statements

On behalf of the Board of Directors,

\_\_\_\_\_  
Marie-José Girard  
Director

\_\_\_\_\_  
Dominique Doucet  
Director

**DIOS EXPLORATION INC.**  
**Earnings and comprehensive loss**  
**Years ended December 31**

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>ADMINISTRATIVE EXPENSES</b>		
Stock-based compensation	411,165	365,335
Publicity and promotion	149,038	41,343
Professional fees	96,670	108,503
Trustees and registration fees	54,538	50,103
Salaries and employee benefits	25,039	22,420
Office expenses	24,211	14,935
Insurance, taxes and permits	14,550	31,486
Travelling and promotion	9,864	13,107
Rent	2,250	6,750
Interest on convertible debenture	-	5,985
Bank charges	918	1,072
	<b>788,243</b>	661,039
<b>OTHER REVENUES AND EXPENSES</b>		
Interest and others	200,823	273,220
Write-off of mineral properties	(92)	-
Write-off of deferred exploration expenses	(226,702)	-
Change in fair value of listed shares held for trading	(52,762)	(61,807)
	<b>(78,733)</b>	211,413
<b>LOSS BEFORE INCOME TAXES</b>	<b>(866,976)</b>	(449,626)
Future income taxes (Note 9)	<b>(278,392)</b>	120,849
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(1,145,368)</b>	(328,777)
<b>BASIC AND DILUTED NET LOSS PER SHARE</b>	<b>(0.03)</b>	(0.01)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>34,333,839</b>	30,099,130

The accompanying notes are an integral part of the financial statements

## DIOS EXPLORATION INC.

### Deficit

Years ended December 31

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	<u>2008</u>	<u>2007</u>
	\$	\$
Deficit, beginning of year	(4,657,162)	(2,569,753)
Net loss	(1,145,368)	(328,777)
Share issue expenses	-	(1,758,632)
Deficit, end of year	<u>(5,802,530)</u>	<u>(4,657,162)</u>

The accompanying notes are an integral part of the financial statements

## DIOS EXPLORATION INC.

### Deferred Exploration Expenses

Years ended December 31

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>BALANCE, BEGINNING OF YEAR</b>	<u>4,423,904</u>	<u>2,678,176</u>
Add:		
Transport and lodging	2,175,530	566,689
Diamond drilling	1,540,507	818,753
Geology and labour	626,323	233,791
Geophysics	228,976	595,964
Sampling and analysis	82,150	511,376
Others	71,245	24,514
Total deferred expenses of the year	<u>4,724,731</u>	<u>2,751,087</u>
Write-off of deferred exploration expenses	(226,702)	-
Exploration tax credits	<u>(2,178,101)</u>	<u>(1,005,359)</u>
<b>NET DEFERRED EXPENSES OF THE YEAR</b>	<u>2,319,928</u>	<u>1,745,728</u>
<b>BALANCE, END OF YEAR</b>	<u><u>6,743,832</u></u>	<u><u>4,423,904</u></u>

The accompanying notes are an integral part of the financial statements

# DIOS EXPLORATION INC.

## Cash Flows

Years ended December 31

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,145,368)	(328,777)
Non-cash items adjustments:		
Stock-based compensation	411,165	365,335
Interest on convertible debenture	-	5,985
Accrued interests on term deposits	(13,633)	(215,922)
Change in fair value of listed shares held for trading	52,763	61,807
Write-off of mineral properties	92	-
Write-off of deferred exploration expenses	226,702	-
Future income taxes	278,392	(120,849)
Changes in working capital items	(358,225)	(154,389)
Cash flows used in operating activities	<u>(548,112)</u>	<u>(386,810)</u>
<b>INVESTING ACTIVITIES</b>		
Term deposits redeemed (purchase)	5,201,722	(6,985,800)
Exploration funds	-	1,064,416
Mineral properties	(166,367)	(280,674)
Deferred exploration expenses	(5,244,789)	(2,096,189)
Exploration tax credits	873,846	271,194
Cash flows used in investing activities	<u>664,412</u>	<u>(8,027,053)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of shares	-	9,018,485
Share issue expenses	-	(815,406)
Cash flows from financing activities	<u>-</u>	<u>8,203,079</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>116,300</b>	<b>(210,784)</b>
<b>CASH, BEGINNING OF YEAR</b>	<u>48,842</u>	<u>259,626</u>
<b>CASH, END OF YEAR</b>	<u><u>165,142</u></u>	<u><u>48,842</u></u>

Additional disclosures of non-cash item of cash-flows (Note 4)

The accompanying notes are an integral part of the financial statements

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

**December 31, 2008 and 2007**

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### **1. GOVERNING STATUTES, NATURE OF OPERATIONS AND GOING CONCERN**

Dios Exploration Inc. (the "Company"), incorporated under the Canada Business Corporations Act, is an exploration Company with activities in Canada.

The Company is in the process of exploring its mining property interests and has not yet determined whether its mining property interests contain mineral deposits that are economically recoverable.

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

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis on 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 did not generate income and cash flows from its operations until now. As at December 31, 2008, the Company has a deficit of \$5,802,530. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependant upon its ability to raise additional financing to further explore its mineral properties. The current conditions of the capital market are unfavourable for raising additional equity financing and 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. Management assesses its need for financing and its alternatives in strategic changes, including potential changes to its mineral properties agreements, its exploration programs and its discretionary expenses.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the balance sheet classification have not been adjusted as would be required if the going concern assumption were not appropriate.

### **2. ACCOUNTING POLICIES CHANGES**

#### **Recent standards adopted**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company applied the recommendations of the following new accounting standards issued by the CICA:

The CICA issued Section 1535, "Capital Disclosures". This section effective for the years beginning on or after October 1, 2007 establishes standards for disclosing information about an entity's capital and management of its capital. The information provided by an entity should focus in particular on its objectives, policies and processes for managing capital, and disclose whether the entity has complied with imposed capital requirements and the consequences of non-compliance (Note 12). The adoption of this new standard had no impact on the Company's financial results.

The CICA published new sections 3862 "Financial Instruments - Disclosure" and 3863 "Financial Instruments - Presentation", which establish standards for the presentation and disclosure of financial instruments and non-financial derivatives. These new standards were effective for fiscal years beginning on or after October 1, 2007. They replace section 3861 "Financial Instruments - Disclosure and Presentation". The adoption of these new standards had no impact on the Company's financial results.

In June 2007, the CICA modified Section 1400, "General Standards of Financial Statements Presentation", in order to require that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet data. These new requirements are effective for fiscal years beginning on or after January 1, 2008. The new requirements only address disclosures and the adoption of the new standard had no impact on the Company's financial results.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

### **December 31, 2008 and 2007**

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#### **2. ACCOUNTING POLICIES CHANGES (continued)**

##### **Future accounting standards**

##### **Convergence with International Financial Reporting Standards**

In February 2008, Canada's Accounting Standards Board ('AcSB') confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ('IFRS'). The Company will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize assessment of accounting policies with reference to IFRS and plan convergence to be ready for the changeover planned in 2011.

#### **3. ACCOUNTING POLICIES**

##### *Accounting Estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include the recoverability of mineral properties and deferred exploration expenses, future income taxes and stock-based compensation. Actual results may differ from those estimates.

##### *Basis of presentation*

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

##### *Mineral properties and deferred exploration expenses*

Acquisition cost and exploration expenses relating to a non-producing property are deferred until the mineral property is brought into production or abandoned. If commercial production is achieved, the capitalized costs are amortized over the estimated useful life of the project. Upon abandonment or if the costs to date are determined to be unrecoverable, the accumulated costs are charged to earnings. The exploration tax credits and mining duties credits are applied against the deferred exploration expenses.

Management assesses recoverability of amounts recorded for mineral properties and deferred exploration expenses by considering whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties for proceeds in excess of their carrying value.

##### *Basic or diluted net loss per common shares*

Basic net loss per share is calculated over the weighted average number of shares outstanding during the year. The diluted net loss per share, which is calculated using the treasury method, is equal to the basic loss per share due to the anti-dilution effect of stock options and share purchase warrants described in Note 7.

##### *Capital Stock*

Capital stock issued for non-monetary consideration is recorded at the fair market value on the date the shares were issued, or the date the agreement to issue the shares was entered into, as determined by the Board of Directors of the Company, based on the trading price of the shares. Costs incurred on the issue of share capital are accounted for in the statement of deficit.

##### *Capital Stock – Flow-Through Shares*

Under the recommendations of the Emerging Issues committee (EIC 146), future income tax liabilities resulting from the renunciation of qualified mineral expenditures by the Company has to be recorded when the Company renounces to expenses in favour of investors.

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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**3. ACCOUNTING POLICIES (continued)**

*Warrants*

Proceeds from unit placements are allocated between shares and warrants issued using the residual method to determine the fair value of warrants issued. Proceeds are first allocated to shares according to their market value at the time of issuance and any residual in the proceeds is allocated to warrants.

*Stock-based compensation plan*

The Company has a stock option plan as described in Note 7. The compensation expense is accounted for in the statement of earnings or in the deferred exploration expenses using the fair value-based method as determined by the Black-Scholes evaluation model. Compensation expense is recognized over the vesting period of the stock options and the counterpart is credited to contributed surplus. Any consideration paid on exercise of stock options as well as the corresponding remuneration expense accounted under the contributed surplus are credited to capital stock.

*Income taxes*

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to difference between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

*Mining rights tax credit and tax credit for mining exploration companies*

The Company is entitled to refundable mining rights tax credit on mining exploration charges incurred in Québec. This tax credit has been applied against the charges incurred.

The Company is also entitled to the refundable tax credit for mining exploration companies on qualified exploration expenditures incurred. This tax credit has been applied against the charges incurred.

The exploration tax credits are recorded provided that the Company is reasonably certain that these credits will be received.

*Financial Instruments*

*Financial Assets and Liabilities*

Initially, all the financial assets and liabilities are evaluated and recognized at fair value, at the exception of the assets and liabilities arising from certain operations with related parties. The transaction costs are accounted in expenses when they are encountered.

Subsequently, the financial assets and liabilities are evaluated and recognized as follows:

*Held-for-trading financial assets:*

Held-for-trading financial assets are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest, realized and unrealized gains or losses, and are presented under section *Interest and others* and *Change in value of listed shares held for trading*. Cash, term deposits and listed shares are classified as held-for-trading assets.

Term deposits are designated as held for trading because the Company envisages repurchasing them, entirely or partly, before their maturing date.

# DIOS EXPLORATION INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 3. ACCOUNTING POLICIES (continued)

#### Loans and receivables:

Loans and receivables are evaluated at amortized cost using the effective interest method, less any impairment. The calculated interest using the effective interest method are presented in the earning statement under *Interest and others*. The accounts receivable from a mining company are classified as loans and receivables.

#### Other financial liabilities:

Other financial liabilities are evaluated at amortized cost using the effective interest method. The calculated interests using the effective interest method are presented in the earning statement under *Interests and others*. Accounts payable and accrued liabilities are classified as other financial liabilities.

### 4. ADDITIONAL DISCLOSURES OF NON-CASH ITEMS OF CASH FLOWS

	2008	2007
	\$	\$
Tax credits receivables credited to deferred exploration expense:	2,178,100	807,564
Accounts payable and accrued liabilities related to deferred exploration expense:	101,257	621,316
Balck-Scholes value of stock options exercised and credited to capital stock	-	18,150
Issuance of shares for acquisition of a mineral property	-	25,000
Issuance of common shares following the conversion of the debenture	-	218,115
Fair value of Broker's Units accounted for as share issue expenses	-	603,189
Future income taxes accounted for in share issue expense (a)	-	340,037

(a) These future income taxes are the result of the exploration expenses that the Company renounced in favor of investors

### 5. TERM DEPOSITS

	2008	2007
	\$	\$
Term deposits	2,013,633	7,201,722

In 2008, term deposits for which the nominal value is \$2,000,000 bears interest at rates of 2.95% to 3.50% (4.2% to 4.35% in 2007) and will mature in October and November 2009 (between April and June 2008 in 2007).

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES

#### MINERAL PROPERTIES

	As at December 31 2006	Addition	As at December 31 2007	Addition	Write-off	As at December 31 2008
	\$	\$	\$	\$	\$	\$
QUÉBEC						
33 Carats (a)	359,362	65,295	424,657	29,801	-	454,458
Hotish (b)	119,465	61,584	181,049	10,216	-	191,265
Pontax (c)	43,679	-	43,679	10,300	-	53,979
Chibouki (d)	82,279	5,150	87,429	6,950	-	94,379
Laverlochère	92	-	92	-	(92)	-
Opinaca-Nord (e)	-	60,090	60,090	33,050	-	93,140
Upinor (f)	-	26,385	26,385	23,690	-	50,075
U2 et U3 (g)	-	30,590	30,590	22,690	-	53,280
Pam et Ugo (h)	-	56,580	56,580	15,985	-	72,565
Lac Chabran (i)	-	-	-	13,685	-	13,685
	<u>604,877</u>	<u>305,674</u>	<u>910,551</u>	<u>166,367</u>	<u>(92)</u>	<u>1,076,826</u>

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)**

**DEFERRED EXPLORATION EXPENSES**

	As at December 31			As at December 31	
	2007	Addition	Tax credits	Write-off	2008
<b>QUÉBEC</b>	\$	\$	\$	\$	\$
33 Carats (a)	1,036,490	<b>554,391</b>	<b>(255,491)</b>	-	<b>1,335,390</b>
Hotish (b)	1,670,985	<b>2,117,194</b>	<b>(976,007)</b>	-	<b>2,812,172</b>
Pontax (c)	543,273	<b>674,480</b>	<b>(311,033)</b>	-	<b>906,720</b>
Chibouki (d)	904,326	<b>306,102</b>	<b>(141,141)</b>	<b>(213,938)</b>	<b>855,349</b>
Opinaca-Nord (e)	218,518	<b>195,247</b>	<b>(89,956)</b>	-	<b>323,809</b>
Upinor (f)	50,312	<b>718,613</b>	<b>(331,289)</b>	-	<b>437,636</b>
U2 et U3 (g)	-	<b>54,689</b>	<b>(25,266)</b>	<b>(12,764)</b>	<b>16,659</b>
Pam et Ugo (h)	-	<b>78,895</b>	<b>(36,374)</b>	-	<b>42,521</b>
Lac Chabran (i)	-	<b>25,119</b>	<b>(11,543)</b>	-	<b>13,576</b>
	<b>4,423,904</b>	<b>4,724,730</b>	<b>(2,178,100)</b>	<b>(226,702)</b>	<b>6,743,832</b>

	As at December 31			As at December 31
	2006			2007
	\$	\$	\$	\$
33 Carats (a)	929,767	209,283	(102,560)	1,036,490
Hotish (b)	1,234,585	693,869	(257,469)	1,670,985
Pontax (c)	70,226	726,875	(253,828)	543,273
Chibouki (d)	443,598	707,927	(247,199)	904,326
Opinaca-Nord (e)	-	335,824	(117,306)	218,518
Upinor (f)	-	77,309	(26,997)	50,312
	<b>2,678,176</b>	<b>2,751,087</b>	<b>(1,005,359)</b>	<b>4,423,904</b>

**(a) 33 Carats**

The 33 Carats property is located along the Eastmain River in the Otish Mountains area, Quebec covers 400 square km in five blocks.

Part of the property (approximately one half) is subject to a 1% gross overriding royalty, half of which can be repurchased for \$1 million.

**(b) Hotish**

The Hotish property is located near the lakes Magyar, Pepeshquasati et Mantouchiche in the Otish Mountains area, Quebec, and consists of two blocks covering 700 square km.

**(c) Pontax**

During the spring of 2005, the Company acquired, in a partnership with Sirios Resources Inc. ("Sirios"), the Pontax property. This property covers close to 500 square km in the James Bay area (PQ) 350 km north of Matagami along the road to Radisson.

Under the agreement with Sirios, each company holds a 50% interest, and the acquisition and exploration expenses are to be equally shared according to the agreement between both companies.

Depending on the future results, if the project should focus specifically on diamond exploration, the Company will then have the option to repurchase Sirios's carrying interest, by reimbursing in cash or shares its acquisition and exploration costs and Sirios will keep a 1% *gross overriding royalty* that can be repurchased for \$1 million. However, if it turns out as a gold or base metals project, Sirios will then have the option to repurchase the Company's carrying interest by reimbursing the acquisition and exploration costs and the Company will hold a 1% NSR that can be repurchased for \$1 million.

# DIOS EXPLORATION INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

#### (d) Chibouki

The Chibouki project is composed of two main blocks and covers 350 square km. The diamantiferous project owned at 100% by the Company is located near the town of Chibougamau, Quebec. These blocks are respectively located approximately 50 km northeast and 40 km north of Chibougamau, Quebec. There is a 1% *gross overriding royalty*, which can be repurchased for \$1 million.

#### (e) Opinaca-Nord

This property covers close to 300 square km in the James Bay area (PQ), 400 km north of Matagami.

On May 15, 2007, the Company signed an agreement with Sirius, whereby the Company was granted the right to earn a 50 % interest in this property.

The Company can earn its 50 % interest in the property over a five-year period by spending a total of \$1,250,000 in exploration expenses and a payment of \$125,000 in cash or common shares.

In 2007, the Company has issued 33,333 common shares in payment of the first \$25,000 instalment and this year an amount of \$25,000 has been paid to Sirius .

#### (f) Upinor

The Company jointly acquired with Sirius, the Upinor property covering close to 451 square km and is located 50 km south of the Trans-Taïga road. Under the agreement with Sirius, each company holds a 50% interest and the acquisition and exploration expenses are to be equally shared. The Company manages this project.

#### (g) U2 et U3

These properties cover close to 215 square km in the James Bay area (PQ) 30 km south of the Trans-Taïga road and of the La Grande-3 hydro-electrical reservoir.

#### (h) Pam et Ugo

These properties cover close to 255 square km in the James Bay area (PQ) approximately 10 to 40 km east of the Opinana nord property.

#### (i) Lac Chabran

This property cover close to 71 square km in the James Bay area (PQ) approximately 10 to 40 km east of the Opinana nord property.

### 7. CAPITAL STOCK

#### AUTHORIZED

Unlimited number of common shares without par value, voting, participating, dividend as declared by the Board of Directors.

#### ISSUED AND FULLY PAID

	Capital stock	
	Shares	\$
Balance at December 31, 2006	17,506,966	6,367,064
Flow-through private placements	1,557,500	467,250
Private placements	12,900,366	8,474,790
Acquisition of a mineral property	33,333	25,000
Exercise of warrants	1,581,793	539,632
Exercise of stock options	121,500	54,600
Conversion of the debenture	632,381	218,115
Balance at December 31, 2007	34,333,839	16,146,451
<b>Balance at December 31, 2008</b>	<b>34,333,839</b>	<b>16,146,451</b>

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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**7. CAPITAL STOCK (continued)**

No common share have been issued in 2008.

**Stock option plan**

The Company has established a stock option plan (“the plan”) whereby the Board of Directors may from time to time grant options to purchase common shares to employees, officers, directors and consultants, for such terms and at such exercise prices as may be determined by the Board.

The plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance under the stock option plan is equal to 6,600,000 and that the maximum number of common shares which may be reserved for issuance to any one optionee may not exceed 5% of the common shares outstanding at the date of grant. These options may be exercised for a period of 5 years after the grant date. The options granted vest in stages over a period of 18 months after the grant date, at the 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 a consultant, it vests in stages over a period of 12 months after the grant, at the rate of 25 % per quarter.

The option’s exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

On February 12, 2008, the Company granted to employees, directors and officers a total of 980,000 stock options at a price of \$0.31 per share until February 12, 2013 which is equal to the market price as at this date. A compensation expense of \$113,190 was accounted for during the year.

On January 29, 2007, the Company granted to employees, directors and officers a total of 450,000 stock options at a price of \$0.50 per share until January 29, 2012. A compensation expense of \$76,725 was accounted for during the year.

On March 8 2007, the Company granted to employees, directors and officers a total of 1,000,000 stock options at a price of \$0.75 per share until March 8, 2012. A compensation expense in the amount of \$258,500 was accounted for during the year.

On October 29, 2007, the Company granted to employees a total of 50,000 stock options at a price of \$0.38 per share until October 29, 2012. A compensation expense in the amount of \$950 was accounted for during the year.

On November 1<sup>st</sup>, 2007, the Company granted to a consultant a total of 100,000 stock options at a price of \$0.40 per share until November 1<sup>st</sup> 2008. No compensation expense was accounted for during the year.

A total of \$393,165 (\$365,335 in 2007) has been accounted in expenses for during the year as stock-based compensation to employees.

Variations in stock option plan is as follow :

Date	Options	Weighted average exercise price \$
Outstanding as of December 31, 2006 of which 1,493,000 are exercisable	1,655,000	0.35
Granted	1,600,000	0.65
Expired	(298,500)	0.30
Exercised	(121,500)	0.30
Outstanding as at December 31, 2007 of which 2,037,500 are exercisable	2,835,000	0.52
Granted	980,000	0.31
Expired	(425,000)	0.37
<b>Outstanding as at December 31, 2008 of which 2,934,000 are exercisable</b>	<b>3,390,000</b>	<b>0.48</b>

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**7. CAPITAL STOCK (continued)**

**Stock option plan (continued)**

The outstanding options are as follows as at December 31, 2008:

Beneficiaries	Number of shares		Weighted average	Expiration date
	Outstanding	Exercisable	Exercise Price (\$)	
Directors and employees	640,000	640,000	0.37	September 7, 2009
Directors and employees	270,000	270,000	0.33	April 7, 2011
Directors and employees	450,000	450,000	0.50	January 29, 2012
Directors and employees	1,000,000	1,000,000	0.75	March 8, 2012
Employees	50,000	35,000	0.38	October 29, 2012
Directors and employees	980,000	539,000	0.31	February 12, 2013
	<b>3,390,000</b>	<b>2,934,000</b>	<b>0.48</b>	

The fair value of these options was estimated using the Black-Scholes stock option evaluation model with the following weighted average assumptions:

	2008	2007
Forecast dividend	0%	0%
Forecast volatility	81%	74%
Risk free interest rate	3.6%	3.98%
Estimated weighted average duration	5 years	5 years

The weighted average fair value of stock options granted in 2008 is \$0.21 (\$0.40 in 2007).

**Warrants**

During the year, no warrants have been issued by the Company, no warrant have been exercised and a total of 568,750 warrants expired (exercise price of \$0.38).

During the previous year, the Company issued 1,777,600 share purchase warrants in private placements at an exercise price of \$0.60 if exercise within 12 months or \$0.80 if exercised within 24 months and 4,672,583 share purchase warrants at an exercise price of \$1.00 if exercised within 12 months or \$1.15 if exercise within 24 months. Also, a total of 1,518,094 share purchase warrants at exercise prices varying from \$0.30 to \$0.45 expired. A total of 1,452,243 share purchase warrants have been exercised at exercise prices varying from \$0.29 to \$0.40. During the previous year, no amount from the gross proceeds of the private placements have been allocated to the warrants issued.

The outstanding warrants to purchase common shares are as follows as at December 31, 2008:

Expiration Date	Warrants		Exercise Price (\$)
	2008	2007	
December 2007/2008	-	568,750	0.35/0.38
March 2008/2009	1,777,600	1,777,600	0.60/0.80
March 2008/2009	3,333,333	3,333,333	1.00/1.15
May 2008/2009	1,339,250	1,339,250	1.00/1.15
<b>Balance at end</b>	<b>6,450,183</b>	<b>7,018,933</b>	

**Brokers' units options**

During the year, no brokers' units option have been issued by the Company and no option have been exercised nor expired.

During the previous year, the Company issued, as broker's compensation, in private placements, 355,520 units purchasable at a price of \$0.45 until March 15, 2009. Each unit is comprised of one common share and half a warrant. Each warrant is exercisable at a price of \$0.60 if exercised before March 15, 2008 and at a price of \$0.80 if exercised before March 15, 2009.

**DIOS EXPLORATION INC.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**7. CAPITAL STOCK (continued)**

*Brokers' units options (continued)*

During the previous year, the Company issued, as broker's compensation, in private placements, 666,666 units purchasable at a price of \$0.75 until March 30, 2009. Each unit is comprised of one common share and half a warrant. Each warrant is exercisable at a price of \$1.00 if exercised before March 30, 2008 and at a price of \$1.15 if exercised before March 30, 2009.

During the previous year, the Company issued, as broker's compensation, in private placements, 267,850 units purchasable at a price of \$0.70 until May 2, 2009. Each unit is comprised of one common share and half a warrant. Each warrant is exercisable at a price of \$1.00 if exercised before May 2, 2008 and at a price of \$1.15 if exercised before May 2, 2009.

A summary of the status as at December 31, 2008 and 2007 and the changes during the years ending on those dates is presented below:

	<u>Brokers' units</u>	<u>Carrying value</u>	<u>Weighted average exercise price</u>
		\$	\$
Outstanding and exercisable as at December 31,2006	-	-	-
Granted	1,290,036	603,189.00	0.66
Outstanding and exercisable as at December 31,2007	1,290,036	603,189.00	0.66
Outstanding and exercisable as at December 31,2008	<u>1,290,036</u>	<u>603,189.00</u>	<u>0.66</u>

The fair value of each option granted was estimated on the grant date using the Black-Scholes and the binomial option pricing model with the following weighted average assumptions for the awards granted during the year.

<b>Binomial</b>	<u>2007</u>
Weighted average expected volatility	<b>96%</b>
Risk-free interest rate	<b>4.19%</b>
<b>Black-Scholes</b>	
Risk-free interest rate	<b>4.16%</b>
Weighted average expected volatility	<b>96%</b>
Weighted average expected life	<b>2 years</b>
Expected dividends	<b>0%</b>

**8. CONTRIBUTED SURPLUS**

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance, beginning of year	<b>1,257,299</b>	306,925
Options granted	<b>411,165</b>	365,335
Options exercised	-	(18,150)
Share issue expenses - Brokers' compensation	-	603,189
Balance, end of year	<u><b>1,668,464</b></u>	<u>1,257,299</u>

# DIOS EXPLORATION INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 9. INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

	2008	2007
	\$	\$
Loss before income taxes	<u>(866,976)</u>	<u>(449,626)</u>
Income taxes at the combined federal and provincial statutory rate of 30.09% (32.02% en 2007)	(260,873)	(143,970)
Stock-based compensation	123,719	116,980
Unrealized loss on investments	20,275	19,791
Income taxes related to flow-through shares	-	(340,037)
Deductible share issue expenses	(62,405)	(68,356)
Change in tax rates	(16,732)	
Valuation allowance	196,016	75,555
Mining rights (12%)	278,392	219,188
Income taxes	<u>278,392</u>	<u>(120,849)</u>

As at December 31, 2008 and 2007, significant components of the Company's future income tax assets and liabilities are as follows:

	2008	2007
	\$	\$
Future income tax assets		
Held for trading investments	(25,250)	-
Share issue expenses deductible	(143,402)	(197,717)
Operating losses carried forward	<u>(340,965)</u>	<u>(266,826)</u>
	(509,617)	(464,543)
Future income tax liabilities		
Mineral properties and deferred exploration expenses	<u>296,594</u>	21,831
	(213,023)	(442,712)
Valuation allowance	<u>213,023</u>	442,712
	-	-
Mining rights	<u>809,260</u>	530,868
	<u>809,260</u>	<u>530,868</u>

The Company has no tax losses to use for which a future income tax asset would not have been accounted. The Company has the following tax losses available to reduce future years' income for tax purposes.

The fiscal losses will expire within the following years:

	2008
	\$
2009	140,653
2010	104,557
2014	120,354
2015	168,013
2026	154,704
2027	223,465
2028	360,430
	<u>1,272,176</u>

### 10. RELATED PARTY TRANSACTIONS

The Company is related to another company since they have certain directors in common.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

**December 31, 2008 and 2007**

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### **10. RELATED PARTY TRANSACTIONS (continued)**

During the year, not in the normal course of operations, the Company has paid an amount of \$25,000 to this company in cash related to the Opinaca-Nord option (33,333 common shares issued last year for the same property to this company for a value of \$25,000.)

As at December 31, 2008, there is a balance of \$125,645 (\$90,543 as at December 31, 2007) receivable from this company. This receivable bears a monthly interest of 1% (none in 2007).

Also, during the year, in the normal course of activities, a company with a common director invoiced the Company \$38,820 (\$32,513 in 2007) for professional fees.

These transactions were measured at the exchange amount that is the amount established and accepted by the parties.

### **11. FINANCIAL INSTRUMENTS**

#### **Objectives and politics concerning financial risks management**

The Company is exposed to different financial risks resulting from both its operations and investing activities. The management of the financial risks is done by the management of the Company.

The Company does not conclude agreements for financial instruments including financial derivatives for speculation purpose.

#### **Financial risks**

The principal financial risks to which the Company is exposed as well as its politic concerning the management of the financial risks are detailed as follow:

##### **Interest rate risk**

The term deposits and the account receivable from a mining company are at fixed rates and therefore expose the Company to risk of fair value variation due to interest rate variation. The other financial assets and liabilities of the Company does not represent interest risk because they are conclude without interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

##### **Liquidity risk**

The management objective is to maintain sufficient cash to ensure that the Company has at its disposal sufficient sources of financing such as private financing. The Company also establishes budget and liquidity forecasts to ensure that it has to its disposal sufficient funds to meet its financial obligations. Obtaining additional funds make it possible to the Company to continue its operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

##### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash, term deposits and account receivable from a mining company. The Company reduces its credit risk by maintaining its cash and term deposits in financial instruments guaranteed by and held with a Canadian chartered bank. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on accounts receivable.

##### **Market risk related to listed shares**

The listed shares held by the Company are exclusively shares from venture issuers acting in the mineral exploration area.

##### **Fair value of listed shares**

The fair value of investments is equivalent to the market value based on the current bid price.

##### **Interest rate sensitivity analysis**

Assuming that the Company will keep the financial assets and financial liabilities held as at December 31, 2008 until their maturity of settlement, without taking any measures to change the interest rate risk, an immediate and sustained 1% variation in the market interest rates for all maturities would make a variation in the Company's net loss for the year and its equity by \$20,000 respectively.

# **DIOS EXPLORATION INC.**

## **Notes to Financial Statements**

**December 31, 2008 and 2007**

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### **12. CAPITAL DISCLOSURES**

The Company's objectives in managing capital is to safeguard its ability to continue its operations as well as its acquisition and exploration programs. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mining properties to improve its financial performance and flexibility.

The Company's capital is composed of shareholders' equity. To effectively manage the Company's capital requirements, the Company has in place a rigorous planning and budgeting process to help determine the funds required to endure the Company has appropriate liquidity to meet its operating and growth objectives. The Company is not subjected to any externally imposed capital requirements.

As at December 31, 2008, the Shareholders' Equity totals \$12,012,385 (\$12,746,588 as at December 31, 2007).