OLIVUT RESOURCES LTD.

(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2009 AND 2008

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Olivut Resources Ltd.
(A Development Stage Company)

We have audited the balance sheets of Olivut Resources Ltd. (a Development Stage Company) as at October 31, 2009 and 2008 and the statements of operations and deficit 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 financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
November 25, 2009
Except for note 14
which is at December 9, 2009

OLIVUT RESOURCES LTD.
(A Development Stage Company)
BALANCE SHEETS
AS AT OCTOBER 31,

	2009 $	2008 $
ASSETS		
CURRENT		
Cash and cash equivalents	4,353,094	6,010,365
Amounts receivable	13,428	102,545
Prepaid expense	15,979	-
Current portion of loan receivable (Note 7)	16,822	16,822
	4,399,323	6,129,732
REFUNDABLE DEPOSITS (Note 5)	-	249,452
EQUIPMENT (Note 6)	4,643	6,060
LOAN RECEIVABLE (Note 7)	231,045	231,328
	4,635,011	6,616,572
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	183,247	298,948
COMMITMENT AND CONTINGENCIES (Notes 5 and 11)		
GOING CONCERN (Note 2)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 10(a) and 10(b))	11,939,856	11,939,856
WARRANTS (Note 10(c))	2,369,000	2,300,000
CONTRIBUTED SURPLUS (Note 10(e))	2,041,893	1,932,474
DEFICIT	(11,898,985)	(9,854,706)
	4,451,764	6,317,624
	4,635,011	6,616,572

APPROVED ON BEHALF OF THE BOARD:

Signed ______________________________, Director

Signed ______________________________, Director

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.
(A Development Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED OCTOBER 31,

	2009 $	2008 $
Exploration expenses (Notes 5 and 8)	1,496,203	2,431,521
Administrative and general expenses (Note 8)	707,561	1,235,275
Amortization	1,417	1,881
(Loss) before the under-noted	(2,205,181)	(3,668,677)
Interest income from held for trading financial assets	141,233	315,895
Interest income from loans and receivables	19,669	18,419
NET (LOSS) FOR THE YEAR	(2,044,279)	(3,334,363)
DEFICIT, beginning of year	(9,854,706)	(6,520,343)
DEFICIT, end of year	(11,898,985)	(9,854,706)
NET (LOSS) PER SHARE - Basic and Diluted	($0.06)	($0.11)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – basic and diluted	31,650,637	31,597,708

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31,

	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(2,044,279)	(3,334,363)
Adjustments for charges not involving cash:		
Stock-based compensation	109,419	554,888
Value attributed to extension of warrants	69,000	-
Amortization	1,417	1,881
	(1,864,443)	(2,777,594)
Changes in non-cash working capital balances:		
Decrease in amounts receivable	89,117	75,521
(Increase) in prepaid expense	(15,979)	-
Decrease in refundable deposits	249,452	-
(Decrease) in accounts payable and accrued liabilities	(115,701)	(246,208)
Cash flows from operating activities	(1,657,554)	(2,948,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of options	-	8,002
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan receivable	283	265
(Decrease) in cash and cash equivalents	(1,657,271)	(2,940,014)
Cash and cash equivalents, beginning of year	6,010,365	8,950,379
Cash and cash equivalents, end of year	4,353,094	6,010,365
CASH AND CASH EQUIVALENTS ARE COMPOSED OF:		
Cash	611,707	108,855
Cash equivalents	3,741,387	5,901,510
	4,353,094	6,010,365
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Income tax paid	-	-

1. BASIS OF PRESENTATION

The accompanying financial statements of Olivut Resources Ltd. (the "Company" or "Olivut") have been prepared by, and are the responsibility of the Company's management. Effective November 1, 2008, the Company amalgamated with its wholly-owned subsidiary Olivut Investments Ltd. Comparative amounts for periods prior to November 1, 2008 were consolidated.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a development stage company as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11 and currently is engaged in the acquisition, exploration and development of properties for the purpose of mining precious and base minerals.

The Company is in the process of exploring properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current or future exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation and confirmation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to obtain financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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, native land claims and non-compliance with regulatory and environmental requirements. The Company's properties that are located outside of Canada are subject to the risk of foreign investment, including but not limited to taxes and royalties, exploration, renegotiation of contracts and currency exchange fluctuations and controls.

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

The Company has a need for equity capital and financing in order to explore and develop its properties and for working capital requirements. Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. There is no assurance that these funds will be available on terms acceptable to the Company or at all.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with GAAP and their basis of application is consistent with that of the previous year except as described in Note 4. Outlined below are those policies considered particularly significant.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and balances with banks and guaranteed investment certificates issued by Canadian chartered banks, with original maturities of three months or less.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisition, Exploration and Development of Mineral Property Interests:

Once a decision has been made to acquire a property interest, all significant payments and obligations to make payments, including interest and accretion expenses related to any obligations to make payments, are capitalized and recorded as mineral property interests on the balance sheet. Prior to an acquisition decision being made, all option payments are expensed as incurred.

Development costs are expensed until it has been established that a mineral deposit is commercially viable and a mine development decision has been made by the Company. Thereafter, the Company capitalizes expenditures subsequently incurred to develop the mine, prior to the start of mining operations as at October 31, 2009 and 2008.

Exploration costs are expensed as incurred.

Asset Retirement Obligations:

The Company records a liability for the estimated future costs associated with legal obligations relating to the reclamation of its mineral property interests. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase in the carrying value of the related long-lived asset and amortized over its useful life. Management is not aware of any asset retirement obligations.

Equipment and Amortization:

Equipment is stated at acquisition cost. Amortization is provided at the following rates:

Office Equipment	- 20% declining balance
Computer Equipment	- 30% declining balance

Flow-Through Financing:

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to operations.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

Use of Estimates:

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to asset retirement obligations, stock-based compensation, warrants, contingencies and income tax accounts. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Actual results could differ from those reported. Management believes that the estimates are reasonable.

Stock-Based Compensation:

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

Continued…

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities of the Company's operations denominated in currencies other than the Canadian dollar are translated into Canadian dollars at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at average rates throughout the reporting period, with the exception of depreciation, depletion and amortization which is translated at historical exchange rates. Gains and losses on translation of foreign currencies are included in operations.

Income Taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Loss Per Share:

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at October 31, 2009 and 2008, all outstanding options and warrants were considered anti-dilutive and were therefore excluded from the diluted loss per share calculation.

Financial Instruments:

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive loss.

Comprehensive Loss:

Comprehensive loss, composed of net loss and other comprehensive loss, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive loss ("OCL") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive loss are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss ("AOCL") which is presented as a new category in shareholders' equity. The Company does not currently have any OCL or AOCL and as a result comprehensive loss is equal to net loss and no statement of OCL has been presented.

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4. ADOPTION OF NEW ACCOUNTING POLICIES

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC is applicable to fiscal periods ending on or after January 12, 2009. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at October 31, 2009.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at October 31, 2009.

Future Accounting Changes

The CICA issued the following new accounting standards. The Company is in the process of evaluating the requirements of these three new standards.

i. Business Combinations

CICA Handbook Section 1582 “Business Combinations” replaces Section 1581 “Business Combinations” and provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

ii. Consolidations and Non-Controlling Interests

CICA Handbook Sections 1601 “Consolidations” and 1602 “Non-Controlling Interests” together replace Section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides the Canadian equivalent to International Accounting Standard 27 “Consolidated and Separate Financial Statements” for non-controlling interests. This section is applicable for years beginning on or after January 1, 2011.

iii. International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for all publicly accountable companies must converge with IFRS for financial years beginning on or after January 1, 2011. Since the Company’s year–end is October 31, it must develop a changeover plan in preparation for conversion from GAAP to IFRS beginning November 1, 2011 (the “changeover date”). The Company currently does not have a changeover plan. However, management considers the risk of not meeting the changeover date to be minimal, due to the simplicity of the Company’s accounting policies and computer systems and the size of its business. Management is currently in the process of developing a changeover plan.

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5. MINERAL PROPERTY AND EXPLORATION AND DEVELOPMENT EXPENDITURES

The Company has a 100% interest in 22 mineral claims and 52 prospecting permits in the Mackenzie Region, Northwest Territories (the "HOAM Project"). The interests in exploration properties are subject to a 1.5% Net Smelter Return royalty ("NSR"), 50% of which is held by a director and officer of the Company.

In May, 2009 the Company announced it had signed an option agreement (the "Uruguay Project") with Uruguay Mineral Exploration Inc. ("Uruguay Minerals" or "UME" – TSX-V:UME and LSE: UGY) whereby Olivut will act as operator for an exploration program of certain diamond prospecting and exploration licenses (the "Properties") located in northern Uruguay, South America. These Properties are held by Cinco Rios S.A., a wholly owned subsidiary of UME. The Company has the option to acquire a 51% interest in the Properties by incurring minimum expenditures of $250,000 by June 1, 2010 and a total of $750,000 by December 31, 2011. Olivut`s interest may be increased to 80% depending on UME`s participation in subsequent work programs.

Refundable deposits totalling $249,452 with the Federal Government of Canada were required for the prospecting permits in the HOAM project. These deposits have been refunded in full during 2009.

During the year ended October 31, 2009, the Company incurred $1,496,203 (2008 - $2,431,521) on exploration and development expenditures. Cumulative exploration and development expenditures made by the Company as at October 31, 2009 total $11,194,752 (2008 - $9,698,549). This cumulative total represents $11,182,851 spent on the HOAM Project (2008 - $9,698,549) and $11,901 spent on the Uruguay Project (2008 - $nil).

6. EQUIPMENT

	Cost $	Accumulated Amortization $	Net October 31, 2009 $	Net October 31, 2008 $
Office Equipment	11,951	8,745	3,206	4,008
Computer Equipment	17,316	15,879	1,437	2,052
	29,267	24,624	4,643	6,060

7. LOAN RECEIVABLE

On May 25, 2007, the Company loaned $250,000 to an unrelated corporation providing services to the Company. The loan carries interest at 7% per annum and is secured by a general security agreement covering all assets of the borrower. Repayment terms include monthly payments of interest and principal of $1,500 with the balance due May 25, 2017.

8. RELATED PARTY TRANSACTIONS

During the year ended October 31, 2009, a total of $129,386 (2008 - $249,805) for exploration expenses and $9,600 (2008 - $9,600) for administrative and general expenses included in the statement of operations were accrued or paid to directors and officers of the Company or persons or companies related to or controlled by them. The directors and officers of the Company or persons or companies related to or controlled by them were also reimbursed at cost for expenses incurred on behalf of the Company. Included in accounts payable and accrued liabilities at October 31, 2009 is $nil (October 31, 2008 - $18,600) relating to the above transactions owing to directors and officers of the Company or persons or companies related to or controlled by them.

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8. RELATED PARTY TRANSACTIONS (Continued)

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Amounts owing to the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

See Note 5.

9. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 33% (2008 – 34%) are as follows:

	2009 $	2008 $
(Loss) before taxes:	(2,044,279)	(3,334,363)
Expected income tax (benefit) based on statutory rate	(674,600)	(1,133,700)
Adjustments to benefit resulting from:		
Stock-based compensation	29,400	188,700
Expiring non-capital losses	8,100	9,900
Effect of change in tax rate	81,800	324,500
Other	(77,200)	23,600
	(632,500)	(587,000)
Change in valuation allowance	632,500	587,000
Income tax (recovery)	-	-

b) Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities at October 31 are as follows:

	2009 $	2008 $
Future income tax assets		
Non-capital losses	364,600	339,400
Equipment	4,500	4,100
Share issue costs	94,500	175,900
Exploration properties	2,051,200	1,362,900
Net future tax asset	2,514,800	1,882,300
Valuation allowance	(2,514,800)	(1,882,300)
	-	-

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9. INCOME TAXES (Continued)

c) Tax Loss Carry-Forwards

As at October 31, 2009, the Company has approximately $7,073,000 of Canadian Exploration Expenditures, which, under certain circumstances, may be utilized to reduce taxable income of future years. Also as at October 31, 2009, the Company has approximately $1,257,000 of non-capital losses in Canada, which, under certain circumstances, may be utilized to reduce taxable income in future years. These non-capital losses expire as follows:

Year of Expiry	Amount
2013	$ 101,000
2014	79,000
2024	92,000
2025	173,000
2026	265,000
2027	293,000
2028	132,000
2029	122,000
	$1,257,000

10. CAPITAL STOCK

The capital stock is as follows:

a) Authorized

Unlimited number of common shares

b) Issued

31,650,637 common shares

A summary of changes in common shares is as follows:

	Common Shares #	Amount $
Balance, October 31, 2007	31,588,317	11,931,854
Exercise of stock options	62,320	8,002
Balance, October 31, 2008 and October 31, 2009	31,650,637	11,939,856

As of October 31, 2009, a total of 444,602 common shares are held in escrow. These common shares will be released from escrow on January 9, 2010.

Continued…

10. CAPITAL STOCK (Continued)

c) Warrants

A summary of changes in warrants and the balance outstanding is as follows:

	Shares Issuable Upon Exercise of Warrants #	Estimated Grant Date Fair Value $	Weighted Average Exercise Price $
Balance, October 31, 2007	2,902,000	2,597,840	1.90
Expired, January 10, 2008	(280,000)	(66,000)	1.00
Expired, May 14, 2008	(322,000)	(231,840)	2.00
Balance, October 31, 2008	2,300,000	2,300,000	2.00
Fair value attributed to extension of warrants to May 14, 2011	-	69,000	-
Balance, October 31, 2009	2,300,000	2,369,000	2.00

On March 17, 2009, the Company announced the extension of the expiry date of 2,300,000 warrants with an original expiry date of May 14, 2009 to May 14, 2011. The fair value attributed to the extension of the warrants is included in administrative and general expenses on the statements of operations and has been estimated using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Risk-free interest rate	1.00%
Expected volatility	132%
Expected life	2 years

d) Stock options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Stock options are granted for a term not to exceed five years at exercise prices not less than the closing sale price on the TSX Venture Exchange on the trading day immediately preceding the date the options are granted, and are not transferable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued shares.

Continued…

10. CAPITAL STOCK (Continued)

d) Stock options (Continued)

The following is a summary of stock options outstanding at October 31, 2009:

Expiry Date	Stock Options #	Exercisable Stock Options #	Estimated Grant Date Fair Value $	Exercise Price $
January 17, 2012 (i)	2,075,000	1,758,333	1,591,539	1.0000
April 13, 2012	75,000	75,000	71,783	1.1500
January 18, 2013 (ii)	125,000	41,667	66,315	0.8500
March 6, 2013 (iii)	30,000	20,000	15,833	0.7400
Total outstanding, October 31, 2009	2,305,000	1,895,000	1,745,470	

(i) The 316,667 unvested options as at October 31, 2009 vest on January 17, 2010.
(ii) Of the 83,333 unvested options as at October 31, 2009, 41,667 vest on January 18, 2010 and 41,666 vest on January 18, 2011.
(iii) The 10,000 unvested options as at October 31, 2009 vest on March 6, 2010.

The following is a summary of stock options transactions:

	Stock options #	Weighted average exercise price $
Outstanding, October 31, 2007	2,372,320	0.98
Granted	155,000	0.83
Exercised	(62,320)	0.13
Options forfeited	(160,000)	1.03
Total outstanding, October 31, 2008 and 2009	2,305,000	0.99

The weighted average grant-date fair value of options granted during the year ended October 31, 2009 is $nil (2008 - $0.63). The weighted average remaining contractual life of options as of October 31, 2009 is 2.29 years (2008-3.29 years). The weighted average exercise price of options currently exercisable as at October 31, 2009 is $1.00 (2008-$1.01).

The fair values attributed to the options when granted are charged to general and administrative expenses or exploration expenses and included in contributed surplus over the period the options vest. An amount of $101,252 was charged to general and administrative expense and $8,167 was charged to exploration expenses for the year ended October 31, 2009 (2008 - $554,888 and $nil respectively). The fair values of stock options granted during the year ended October 31, 2008 have been estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Risk-free interest rate	3.4%
Expected volatility	100%
Expected life	5 years

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10. CAPITAL STOCK (Continued)

e) Contributed Surplus

A summary of changes in contributed surplus is as follows:

	Amount $
Balance, October 31, 2007	1,079,746
Employee stock based compensation	425,020
Non-employee stock based compensation	129,868
Value of warrants expired	297,840
Balance, October 31, 2008	1,932,474
Employee stock based compensation	86,208
Non-employee stock based compensation	23,211
Balance, October 31, 2009	2,041,893

11. COMMITMENT AND CONTINGENCIES

a) Environmental Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, the future amounts of which cannot yet be determined or estimated.

b) Management Contracts

The Company is party to a management contract. Minimum contract commitments remaining under the agreement were approximately $660,000, including $220,000 due within one year. Upon the occurrence of certain events such as a change in control, the contract requires payment of up to $1,000,000. As the likelihood of these events taking place is not determinable, the contingent payment has not been reflected in these financial statements.

c) Operating Lease

The Company is committed to an operating lease for equipment rental, which expires on April 1, 2011. Minimum lease payments for successive fiscal years ending October 31 are as follows:

Year	$ Amount
2010	5,256
2011	2,190
	7,446

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12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital of the Company consists of capital stock, warrants, stock options and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage. Accordingly the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for its administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended October 31, 2009 and 2008. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL RISK FACTORS

The Company's financial risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to amounts receivable and a loan receivable. The Company has no significant credit risk arising from operations. Financial instruments included in amounts receivable consist primarily of goods and services tax due from the Federal Government of Canada. The loan receivable is described in Note 7 and is secured by all assets of the borrower. Management believes that the credit risk with respect to these financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash to meet liabilities when due. As at October 31, 2009, the Company had a cash and cash equivalents balance of $4,353,094 (2008 - $6,010,365) to settle current liabilities of $183,247 (2008 - $298,948). All of the Company's financial liabilities have contractual maturities of less than one year and are subject to normal trade terms. The Company's ability to continue operations and fund its business is dependant on management's ability to secure additional financing. It is anticipated that the Company will continue to rely on equity financing to meet its ongoing working capital requirements. On the basis of the Company's current cash position, management of the Company believes that it has sufficient funds to complete a 2010 exploration program, pay its ongoing administrative expenses and to meet its existing liabilities until the next fiscal year end, October 31, 2010. In the current global economic and liquidity environment, management expects to carefully monitor its cash balances over the course of the next 12 to 24 months and may postpone material exploration expenses if the equity markets for diamond exploration companies does not improve, so as to protect the Company's working capital.

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13. FINANCIAL RISK FACTORS (Continued)

Market risk

a) Interest rate risk

The Company has cash and cash equivalents balances and no interest bearing debt at October 31, 2009. The Company's current policy is to invest cash in investment-grade short-term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its bank. The Company considers interest rate risk to be minimal as investments are short-term, the Company does not carry interest bearing debt and it is expected that future financings will be secured from equity placements.

b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes that the foreign exchange risk from currency conversions is negligible.

As discussed in Note 5, the Company will act as operator of an exploration program in Uruguay. The Company has the option to spend $250,000 by June 1, 2010 and $750,000 by December 31, 2011, all in Canadian dollars. Management believes that the Company will not be subject to any material foreign currency risk related to this option.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The current global economic and liquidity environment has had an adverse impact on the wholesale and retail diamond market. If such conditions are protracted they may have a significant negative impact on the economic viability of future diamond developments.

Fair Value

The Company has designated its cash equivalents as held-for-trading, measured at fair value. Amounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying amounts for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited terms of these instruments. The fair value of the loan receivable approximates carrying value as the interest rate approximates the current rate for similar instruments. There were no changes in the year ended October 31, 2009 that occurred that were attributed to financial risks.

Sensitivity to Financial Risks

The Company considers interest rate risk to be minimal as investments are short-term, the loan receivable (Note 7) has a fixed interest rate of 7% and the Company does not carry interest bearing debt. It is expected that future financings will be secured from equity placements. Based on cash equivalents held by the Company as at October 31, 2009, a 1% increase or decrease in the interest rate would generate a respective increase or decrease in interest income of approximately $37,000.

The Company does not hold any balances in foreign currencies to give rise to foreign exchange risk.

Price risk is remote since the Company is not a producing entity.

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14. SUBSEQUENT EVENTS

On December 9, 2009 the Company granted certain directors, officers and consultants options to purchase up to 640,000 common shares at an exercise price of $0.165 per share. These options have been granted pursuant to the Company's Stock Option Plan, as described in Note 10(d) and shall expire on December 9, 2014.