OLIVUT RESOURCES LTD.

(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2010

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Olivut Resources Ltd.

We have audited the accompanying financial statements of Olivut Resources Ltd., which comprise the balance sheets as at October 31, 2011 and 2010, and the statements of operations and deficit, and 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 Canadian generally accepted accounting principles 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.

Auditors' 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 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 Olivut Resources Ltd. as at October 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes that the Company is in the development stage and will require additional financing to fund the development of its properties.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 9, 2011

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

	2011 $	2010 $
ASSETS		
CURRENT		
Cash and cash equivalents	1,079,727	3,227,058
Amounts receivable	8,798	6,035
Prepaid expenses	47,469	19,319
Current portion of loan receivable (Note 7)	16,822	16,822
	1,152,816	3,269,234
EQUIPMENT (Note 6)	84,915	3,571
LOAN RECEIVABLE (Note 7)	230,415	230,741
	1,468,146	3,503,546
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	302,953	297,883
COMMITMENTS 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
CONTRIBUTED SURPLUS (Note 10(e))	4,591,714	2,151,482
DEFICIT	(15,366,377)	(13,254,675)
	1,165,193	3,205,663
	1,468,146	3,503,546

APPROVED ON BEHALF OF THE BOARD:

Signed “Leni Keough” ____________, Director

Signed “Craig Reith” ____________, 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,

	2011 $	2010 $
Exploration expenses (Notes 5 and 8)	1,527,649	572,941
Administrative and general expenses (Notes 8 and 10(d))	624,297	831,606
Amortization	9,944	1,072
Loss before the under-noted	(2,161,890)	(1,405,619)
Interest income from held for trading financial assets	32,514	32,233
Interest income from loans and receivables	17,674	17,696
NET LOSS FOR THE YEAR	(2,111,702)	(1,355,690)
DEFICIT, beginning of year	(13,254,675)	(11,898,985)
DEFICIT, end of year	(15,366,377)	(13,254,675)
NET LOSS PER SHARE - basic and diluted	($0.07)	($0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING -basic and diluted	31,650,637	31,650,637

See accompanying notes to the financial statements.

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

	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(2,111,702)	(1,355,690)
Adjustments for charges not involving cash:		
Stock-based compensation	71,232	109,589
Amortization	9,944	1,072
	(2,030,526)	(1,245,029)
Changes in non-cash working capital balances:		
(Increase) decrease in amounts receivable	(2,763)	7,393
(Increase) in prepaid expenses	(28,150)	(3,340)
Increase in accounts payable and accrued liabilities	5,070	114,636
Cash flows from operating activities	(2,056,369)	(1,126,340)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(91,288)	-
Loan receivable	326	304
Cash flows from investing activities	(90,962)	304
(Decrease) in cash and cash equivalents	(2,147,331)	(1,126,036)
Cash and cash equivalents, beginning of year	3,227,058	4,353,094
Cash and cash equivalents, end of year	1,079,727	3,227,058
CASH AND CASH EQUIVALENTS ARE COMPOSED OF:		
Cash	1,079,727	1,564,325
Cash equivalents	-	1,662,733
	1,079,727	3,227,058
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Income tax paid	-	-

See accompanying notes to the financial statements.

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.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a development stage company as defined by the Canadian Institute of Chartered Accountants ("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 assets and operations are subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisition, Exploration and Development of Mineral Property Interests:
Costs incurred with respect to a mineral property prior to an acquisition decision being made, including all option payments, are expensed as incurred. Once a decision has been made to acquire a mineral property, 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.

Exploration costs 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.

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. As at October 31, 2011 and 2010, there were no significant asset retirement obligations.

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

Drill rig	- 20% declining balance
Office equipment	- 20% declining balance
Computer equipment	- 30% declining balance

Flow-Through Financing:
The Company has financed a portion of its Canadian exploration activities through the issue of flow-through shares. In accordance with Canadian income tax legislation, when the cost of these exploration expenditures are renounced by the Company their tax deductibility is transferred to the investors. Proceeds received on the issue of such shares are credited to capital stock and the related exploration costs charged to operations. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital and create a future income tax liability.

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 the valuation of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 estimated 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.

Foreign Currency Translation:

The Company's functional and presentation currency is the Canadian dollar. Monetary assets and liabilities of the Company 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 enacted or 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, 2011 and 2010, 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 income or 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. ACCOUNTING CHANGES

Future Accounting Changes:

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. The Company is in the process of evaluating the requirements of the new standard, and expects to adopt the policy on November 1, 2011.

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. These sections are applicable for years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standard, and expects to adopt the policy on November 1, 2011.

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"). Accordingly, management is monitoring and analyzing pronouncements of the International Accounting Standards Board. Based on the analysis of information to date and due to the simplicity of the Company's accounting policies and computer systems and the size of its business, management does not expect any difficulty in completing all necessary changes in accordance with these new standards by the required changeover date.

5. MINERAL PROPERTY AND EXPLORATION AND DEVELOPMENT EXPENDITURES

The Company has a 100% interest in the HOAM Project located in the Mackenzie Region, Northwest Territories, Canada (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 signed an option agreement with Orosur Mining Inc. ("Orosur" or "OMI") (TSXV:OMI) for the Rivera Project to explore certain diamond prospecting and exploration licenses located in northern Uruguay, South America. Olivut is the operator. The Rivera Project is held by Cinco Rios S.A., a wholly owned subsidiary of OMI. The Company has the option to acquire a 51% interest in the Rivera Project by incurring minimum expenditures of $250,000 by August 1, 2010 ($285,527 was incurred by August 1, 2010) and a total of $750,000 by June 30, 2012 ($471,121 was incurred by October 31, 2011). Olivut`s interest may be increased to 80% depending on OMI`s participation in subsequent work programs.

On July 6, 2011 the Company announced that it had signed an option agreement with Latin American Minerals Inc. ("LAT") (TSXV:LAT) and certain of its Paraguayan subsidiaries to explore the Itapoty Diamond Project located in central Paraguay, South America. Olivut may earn a 50% interest in the Itapoty Diamond Project by incurring $250,000 in expenses by July 5, 2012 ($188,309 was incurred by October 31, 2011) and an additional $750,000 by January 5, 2013. Olivut is the Operator.

During the year ended October 31, 2011, the Company incurred $1,527,649 (2010 - $572,941) on exploration and development expenditures. Cumulative exploration and development expenditures made by the Company as at October 31, 2011 total $13,295,342 (at October 31, 2010 - $11,767,693). This cumulative total represents $12,635,912 spent on the HOAM Project (October 31, 2010 - $11,450,752), $471,121 spent on the Rivera Project (October 31, 2010 - $316,941) and $188,309 (October 31, 2010 - $nil) spent on the Itapoty Project.

6. EQUIPMENT

October 31, 2011

	Cost $	Accumulated Amortization $	Net $
Drill rig	91,288	9,129	82,159
Office equipment	11,951	9,899	2,052
Computer equipment	17,316	16,612	704
	120,555	35,640	84,915

October 31, 2010

	Cost $	Accumulated Amortization $	Net $
Office equipment	11,951	9,386	2,565
Computer equipment	17,316	16,310	1,006
	29,267	25,696	3,571

7. LOAN RECEIVABLE

On May 25, 2007, the Company loaned $250,000 to an unrelated corporation that is providing services to the Company. The loan bears 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, 2011, a total of $106,500 (2010 - $29,910) for exploration consulting expenditures, and $9,600 (2010 - $15,600) for administrative and general expenses (other than salary and benefits) 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, 2011 is $Nil (October 31, 2010 - $5,800) relating to the above transactions owing to directors and officers of the Company or persons or companies related to or controlled by them. Amounts owing to the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

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.

See also 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 29% (2010 – 31%) are as follows:

	2011 $	2010 $
Loss before income taxes:	(2,111,702)	(1,355,690)
Expected income tax (benefit) based on statutory rates	(606,300)	(424,700)
Adjustments to benefit resulting from:		
Stock-based compensation	20,500	34,300
Effect of change in tax rates	78,300	432,700
Other	(1,300)	(4,100)
	(508,800)	38,200
Change in valuation allowance	508,800	38,200
Income tax expense (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:

	2011 $	2010 $
Future income tax assets		
Non-capital losses	368,400	341,800
Equipment	6,600	4,200
Share issue costs	-	40,400
Exploration properties	2,610,400	2,090,200
Net future tax asset	2,985,400	2,476,600
Valuation allowance	(2,985,400)	(2,476,600)
	-	-

9. INCOME TAXES (Continued)

c) Tax Loss Carry-Forwards

As at October 31, 2011, the Company has approximately $9,782,000 of Canadian Exploration Expenditures and $659,000 of cumulative foreign resources expenses, which, under certain circumstances, may be utilized to reduce taxable income of future years. Also, as at October 31, 2011, the Company has approximately $1,473,000 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	$ 97,000
2014	79,000
2024	92,000
2025	173,000
2026	265,000
2027	293,000
2028	132,000
2029	122,000
2030	111,000
2031	109,000
	$1,473,000

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, 2009, 2010 and 2011	31,650,637	11,939,856

c) Warrants

Changes in warrants and the balance of warrants outstanding are as follows:

	Shares Issuable Upon Exercise of Warrants #	Estimated Grant Date Fair Value $	Weighted Average Exercise Price $
Balance, October 31, 2010	2,300,000	2,369,000	2.00
Expired, May 14, 2011	(2,300,000)	(2,369,000)	(2.00)
Balance, October 31, 2011	-	-	-

10. CAPITAL STOCK (Continued)

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.

The following is a summary of stock options at October 31, 2011:

Expiry Date	Outstanding Stock Options #	Exercisable Stock Options #	Estimated Grant Date Fair Value $	Exercise Price $
January 17, 2012	2,075,000	2,075,000	1,577,000	1.000
April 13, 2012	75,000	75,000	54,750	1.150
January 18, 2013	125,000	125,000	80,000	0.850
December 9, 2014	640,000	640,000	89,600	0.165
April 19, 2015	35,000	35,000	9,101	0.300
March 10, 2016 (i)	50,000	16,667	73,500	1.700
Total, October 31, 2011	3,000,000	2,966,667	1,883,951	0.823

(i) The 33,333 unvested options as at October 31, 2011 vest 16,667 on March 10, 2012 and 16,666 on September 10, 2012.

The following is a summary of stock option transactions during the year ended October 31, 2011:

	Stock options #	Weighted average exercise price $
Outstanding October, 31, 2009	2,305,000	0.993
Granted	675,000	0.172
Expired	(30,000)	0.740
Outstanding, October 31, 2010	2,950,000	0.808
Granted	50,000	1.700
Outstanding October 31, 2011	3,000,000	0.823

The weighted average remaining contractual life of options as of October 31, 2011 is 0.98 years (October 31, 2010 – 1.93 years). The weighted average exercise price of options exercisable as at October 31, 2011 is $0.81 (October 31, 2010 - $0.92).

10. CAPITAL STOCK (Continued)

d) Stock options (Continued)

The fair values attributed to the options when granted are charged to administrative and general expenses and included in contributed surplus over the period the options vest. An amount of $71,232 was charged to administrative and general expenses during the year ended October 31, 2011 (2010 - $109,589). The fair values of stock options granted during the years ended October 31, 2011 and 2010 have been estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Expected dividend yield	0%	0%
Risk-free interest rate	2.68%	2.5% - 3.1%
Expected volatility	130%	133% - 135%
Expected life	5 years	5 years

e) Contributed Surplus

A summary of changes in contributed surplus during the year ended October 31, 2011 is as follows:

	Amount $
Balance, October 31, 2009	2,041,893
Employee stock based compensation	83,195
Non-employee stock based compensation	26,394
Balance, October 31, 2010	2,151,482
Grant date value attributed to warrants expired unexercised	2,369,000
Employee stock based compensation	13,829
Non-employee stock based compensation	57,403
Balance, October 31, 2011	4,591,714

11. COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

The Company's exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

b) Management Contracts

The Company is party to a management contract. Minimum contract commitments remaining under the agreement are 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.

11. COMMITMENTS AND CONTINGENCIES (Continued)

c) Operating Lease

The Company is committed to an operating lease for equipment rental, which expires on May 2, 2014. Minimum lease payments for successive fiscal years ending October 31 are as follows:

Year	$ Amount
2012	2,880
2013	2,880
2014	1,440
	7,200

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, 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 and if reasonably available. 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 year ended October 31, 2011 and 2010. 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. 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.

13. FINANCIAL RISK FACTORS (Continued)

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, 2011, the Company had a cash and cash equivalents balance of $1,079,727 (October 31, 2010 - $3,227,058) to settle current liabilities of $302,953 (October 31, 2010 - $297,883). 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 dependent 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 meet its ongoing general and administrative costs until the fiscal year end October 31, 2012 and will be soliciting additional financing during the next year to enable the Company to continue exploration on its projects and to consider new opportunities. Management carefully monitors its cash balances and may postpone material exploration expenses so as to protect the Company's working capital if equity markets do not permit additional financing.

Market risk

a) Interest rate risk

The Company has cash and cash equivalents balances and no interest bearing debt at October 31, 2011. The Company's current policy is to invest cash in investment-grade short-term guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company considers interest rate risk to be minimal as investments are short-term, the Company does not carry interest-bearing debt, the loan receivable is at a fixed interest rate and it is expected that future financings, if any, would be secured from equity placements rather than debt obligations.

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 acts as operator of exploration programs in Uruguay and Paraguay. At October 31, 2011 the Company has spent $471,121 on the Rivera Project in Uruguay and has the option to spend an additional $278,879 by December 31, 2011, all in Canadian dollars. At October 31, 2011 the Company has spent $188,309 on the Itapoty Project in Paraguay and has the option to spend an additional $811,691 by January 5, 2013, all in Canadian dollars.

Management believes that the Company will not be subject to any material foreign currency risk related to these options.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Although the Company has no influence on commodity prices, it closely monitors commodity prices to determine appropriate courses of action.

13. FINANCIAL RISK FACTORS (Continued)

Fair Value

The fair value hierarchy consists of the following: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. as derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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 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.

The Company's financial instruments that are carried at fair value consist of cash equivalents that do not have quoted market prices. They have been classified as level 2 within the fair value hierarchy. At October 31, 2011, there are no cash equivalents.

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, if any, would be secured from equity placements rather than debt obligations. Based on cash and cash equivalents held by the Company as at October 31, 2011, a 1% increase or decrease in the interest rate would generate a respective increase or decrease in interest income of approximately $10,000.

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.

There were no changes in the year ended October 31, 2011 that occurred that were attributed to financial risk.