OLIVUT RESOURCES LTD.

FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012
(expressed in Canadian dollars)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Olivut Resources Ltd.

We have audited the accompanying financial statements of Olivut Resources Ltd., which comprise the statements of financial position as at October 31, 2013 and 2012, and the statements of operations and comprehensive loss, statements of changes in equity 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 11, 2013

OLIVUT RESOURCES LTD.
**STATEMENTS OF FINANCIAL POSITION**
(expressed in Canadian dollars)



| As at: | October 31, 2013 $ | October 31, 2012 $ |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash and cash equivalents (Note 5) | 1,077,430 | 1,295,854 |
| Amounts receivable (Note 6) | 9,523 | 37,356 |
| Current portion of prepaid expenses (Note 7) | 177,231 | 144,295 |
| Current portion of loan receivable (Note 10) | 16,822 | 16,822 |
| **TOTAL CURRENT ASSETS** | 1,281,006 | 1,494,327 |
| **PREPAID EXPENSES** (Note 7) | 224,503 | - |
| **EQUIPMENT** (Note 9) | 54,240 | 67,862 |
| **LOAN RECEIVABLE** (Note 10) | 229,207 | 229,957 |
| **TOTAL ASSETS** | 1,788,956 | 1,792,146 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued liabilities (Note 11) | 98,329 | 226,634 |
| Convertible security (Note 12) | 189,029 | - |
| Securities Purchase Agreement advance (Notes 15(b) and 20) | 52,000 | - |
| **TOTAL CURRENT LIABILITIES** | 339,358 | 226,634 |
| **SHAREHOLDERS' EQUITY** | | |
| **CAPITAL STOCK** (Note 15(b)) | 17,337,413 | 16,733,645 |
| **EQUITY COMPONENT OF CONVERTIBLE SECURITY** (Note 12) | 133,048 | - |
| **EQUITY RESERVES** | | |
| Stock options (Note 16) | 3,415,216 | 1,671,731 |
| **DEFICIT** | (19,436,079) | (16,839,864) |
| **TOTAL SHAREHOLDERS' EQUITY** | 1,449,598 | 1,565,512 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 1,788,956 | 1,792,146 |

**COMMITMENTS AND CONTINGENCIES** (Notes 8,15 and 17)
**GOING CONCERN** (Note 1)

APPROVED ON BEHALF OF THE BOARD:

Signed "Leni Keough", Director        Signed "Craig Reith", Director

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
(expressed in Canadian dollars)
FOR THE YEARS ENDED OCTOBER 31



| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Exploration expenses (Notes 8 and 13) | 450,120 | 1,664,624 |
| Administrative and general expenses (Note 13) | 520,921 | 484,303 |
| Stock-option amortization expense (Notes 13 and 16) | 1,823,485 | 1,452,911 |
| Other amortization | 13,622 | 17,053 |
| Loss before the under-noted | (2,808,148) | (3,618,891) |
| Interest income from financial assets at fair value through profit or loss | 15,472 | 28,239 |
| Interest income from loans and receivables | 17,251 | 17,541 |
| Loss before income taxes | (2,775,425) | (3,573,111) |
| Deferred income tax recovery (Note 14(a)) | 99,210 | 161,880 |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR** | (2,676,215) | (3,411,231) |
| **NET LOSS PER SHARE -** basic and diluted | ($0.08) | ($0.10) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** - basic and diluted | 35,075,490 | 33,499,456 |

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.
**STATEMENTS OF CASH FLOWS**
(expressed in Canadian dollars)
FOR THE YEARS ENDED OCTOBER 31



| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| Net loss for the year | (2,676,215) | (3,411,231) |
| Adjustments for charges not involving cash: | | |
| Deferred income tax recovery | (99,210) | (161,880) |
| Stock-option amortization expense (Notes 13 and 16) | 1,823,485 | 1,452,911 |
| Other amortization | 13,622 | 17,053 |
| | (938,318) | (2,103,147) |
| Changes in non-cash working capital balances: | | |
| Decrease (increase) in amounts receivable | 27,833 | (28,558) |
| Decrease (increase) in prepaid expenses | 3,664 | (96,826) |
| (Decrease) in accounts payable and accrued liabilities | (128,305) | (76,319) |
| **Cash flows used in operating activities** | (1,035,126) | (2,304,850) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Loan receivable | 750 | 458 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issue of convertible security | 300,000 | - |
| Issue of common shares | 657,873 | 2,198,800 |
| Securities Purchase Agreement deposit | 52,000 | - |
| Cost of issue | (39,629) | (51,906) |
| (Increase) in prepaid expense related to cost of issue | (154,292) | - |
| Issue of common shares by exercise of options | - | 373,625 |
| **Cash flows from financing activities** | 815,952 | 2,520,519 |
| (Decrease) increase in cash and cash equivalents | (218,424) | 216,127 |
| Cash and cash equivalents, beginning of year | 1, 295,854 | 1,079,727 |
| Cash and cash equivalents, end of year (Note 5) | 1,077,430 | 1,295,854 |
| **SUPPLEMENTARY CASH FLOW INFORMATION** | | |
| Common shares issued for SPA commitment fees (Note 15(b)) | 200,000 | - |
| Amortization of prepaid expense related to cost of issue | 93,189 | - |
| Accretion of convertible security included in cost of issue | 22,077 | - |

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.
**STATEMENTS OF CHANGES IN EQUITY**
(expressed in Canadian dollars)



| | Shares | Capital Stock | Equity Reserves Stock Options | Equity Component of Convertible Security | Deficit | Total |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| | (Note 15(b)) | (Note 15(b)) | (Note 16) | (Note 12) | | |
| Balance, October 31, 2011 | 31,650,637 | 14,100,756 | 1,861,070 | - | (14,796,633) | 1,165,193 |
| Common shares issued | 772,545 | 849,800 | - | - | - | 849,800 |
| Flow-through shares issued | 1,079,200 | 1,187,120 | - | | - | 1,187,120 |
| Share issue costs | - | (51,906) | - | - | - | (51,906) |
| Options exercised | 425,000 | 647,875 | (274,250) | - | - | 373,625 |
| Options expired | - | - | (1,368,000) | - | 1,368,000 | - |
| Stock-option amortization expense | - | - | 1,452,911 | - | - | 1,452,911 |
| Net loss for the year | - | - | - | - | (3,411,231) | (3,411,231) |
| Balance October 31, 2012 | 33,927,382 | 16,733,645 | 1,671,731 | - | (16,839,864) | 1,565,512 |
| Common shares issued | 1,750,660 | 532,873 | - | - | - | 532,873 |
| Flow-through shares issued | 342,105 | 225,790 | - | - | - | 225,790 |
| Share issue costs | - | (154,895) | - | - | - | (154,895) |
| Equity component of convertible security | - | - | - | 133,048 | - | 133,048 |
| Options expired | - | - | (80,000) | - | 80,000 | - |
| Stock-option amortization expense | - | - | 1,823,485 | - | - | 1,823,485 |
| Net loss for the year | - | - | - | - | (2,676,215) | (2,676,215) |
| Balance October 31, 2013 | 36,020,147 | 17,337,413 | 3,415,216 | 133,048 | (19,436,079) | 1,449,598 |

See accompanying notes to the financial statements.

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Olivut Resources Ltd. (the "Company" or "Olivut") is engaged in the acquisition, exploration and evaluation of mineral properties for the purpose of mining diamonds and other precious and base minerals. The Company's shares are listed on the TSX Venture Exchange ("TSXV"). The head office is located at 27010 Hwy 16, 14 Mountain Park Properties, Jasper East, Alberta. These financial statements were reviewed, approved and authorized for issue by the Board of Directors on December 11, 2013.

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. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the carrying values and classification of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its liabilities in anything other than the ordinary course of operations. Such adjustments could be material.

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 restrictions and political uncertainty.

The Company needs equity capital financing in order to explore and evaluate 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/or to reach profitable levels of operation. There is no assurance that funds will be available on terms acceptable to the Company or at all.

## 2. BASIS OF PRESENTATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Use of Judgements and Estimates

The preparation of financial statements 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 reporting period. 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.

The areas which require management to make significant judgements, estimates and assumptions in determining the reported amounts include, but are not limited to:

#### *(i)* Income Taxes and Recoverability of Potential Deferred Tax Assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

#### *(ii)* Share-Based Payments and Warrants

Management determines the value of share-based payments and warrants using market-based valuation techniques. The fair value of warrants and the market-based and performance-based non-vested share awards are estimated at the date of grant using generally accepted valuation techniques. Assumptions are made and judgement used in applying valuation techniques. These assumptions and judgements include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

#### *(iii)* Contingencies

Refer to Note 17.

#### (iv) Convertible Securities

Refer to Note 12.

### (b) Cash and Cash Equivalents

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Currency Translation

The functional and reporting currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit and loss.

### (d) Acquisition, Exploration, Evaluation and Development of Mineral Property Interests

Exploration and evaluation costs including property acquisition 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.

### (e) Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. The Company does not have any significant provisions as of October 31, 2013 or October 31, 2012.

### (f) Rehabilitation Provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground and/or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is expensed under exploration expenses. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of operations. The Company does not have any material rehabilitation provisions as of October 31, 2013 or October 31, 2012.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Equipment

Equipment is stated at acquisition cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of the consideration given to acquire or construct an asset and includes direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

When parts of an item of equipment have different lives, they are accounted for as separate items (major components) of equipment.

Equipment is amortized over the estimated useful lives of the assets on the declining balance basis using the following annual rates:

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

### (h) Flow-Through Financing

The proceeds from the issuance of common shares with flow-through tax benefits to the shareholders (“flow-through shares”) are segregated as follows: the premium investors pay for the flow-through feature, if any, is recorded as a liability and included in accounts payable and accrued liabilities; the remaining net proceeds are recorded as share capital. Upon renunciation to the investor of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the liability previously recorded in accounts payable is reversed with any difference being recorded as a deferred tax recovery (expense). To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

### (i) Share-Based Payments

Equity-settled share-based payments to directors, employees and consultants are measured at the fair value of the equity instruments at the grant date.

The Company has a share option plan that provides for vesting of rights under the plan in tranches over a period of time. Each tranche is recognized on a graded-vesting basis over the period in which options vest and is recorded as a charge to operations and a credit to equity reserves. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. When options are exercised the consideration received plus the related share-based payments reserve is credited to share capital. The equity reserve relating to options cancelled or forfeited before vesting is credited to operations and after vesting directly to retained earnings (deficit).

Equity-settled share-based payment transactions with parties other than directors, employees and consultants are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Taxation

#### *(i) Current Tax*

Income tax expense, if any, represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### *(ii) Deferred Tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences can be utilized, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

### k) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing earnings (loss) attributable to common shares by the weighted average number of shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options and warrants. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options and warrants with exercise prices below the average market price for the year.

As of October 31, 2013 and 2012 all outstanding options and warrants were excluded from the computation of diluted loss per share because their effect would have been anti-dilutive.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### l) Financial Instruments

Financial instruments are defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following categories at their initial recognition:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; or
- available-for-sale investments.

Financial liabilities are classified into the following categories at their initial recognition:

- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

Financial assets and liabilities are initially measured at fair value, plus, in the case of a financial asset or liability not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the financial asset or liability.

Financial assets are subsequently measured after initial recognition at fair value, except for financial assets classified as held-to-maturity investments or loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at fair value through profit or loss are subsequently measured after recognition at fair value. All other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial assets are derecognized when:

- the contractual rights to the cash flows from the financial asset expire;
- the contractual rights to the cash flows from the financial asset are retained, but a contractual obligation to pay the cash flows to another party without material delay is assumed by the Company; or
- when the Company transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligations are discharged, cancelled, or expire.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of all financial assets is reduced by any impairment loss, with the exception of financial assets classified as loans and receivables, where the carrying amount is reduced through the use of an allowance account. When these assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in the statement of operations.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### l) Financial Instruments (Continued)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### m) Compound Financial Instruments (Convertible Security)

Compound financial instruments issued by the Company comprise convertible securities that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

## 4. ACCOUNTING CHANGES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after November 1, 2012. The following have not yet been adopted and are being evaluated to determine their impact on the Company. Updates not applicable or not consequential to the Company have been excluded. The Company has not yet determined the potential impacts of the following on its financial statements.

IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”) was amended by the IASB in December 2011 to amend the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013.

## 4. ACCOUNTING CHANGES (Continued)

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier adoption is permitted.

IFRS 13 – Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

## 5. CASH AND CASH EQUIVALENTS

| | **October 31, 2013** $ | **October 31, 2012** $ |
|---|---|---|
| Cash in account at a Canadian chartered bank | 550,402 | 787,568 |
| Cash in Guaranteed Investment Certificates issued by a Canadian chartered bank | 527,028 | 508,286 |
| | 1,077,430 | 1,295,854 |

## 6. AMOUNTS RECEIVABLE

| | **October 31, 2013** **$** | **October 31, 2012** $ |
|---|---|---|
| GST input tax credit | 9,523 | 37,356 |

## 7. PREPAID EXPENSES

| | October 31, 2013 $ | October 31, 2012 $ |
|---|---|---|
| Current portion of prepaid expenses: | | |
| Insurance premiums | 18,760 | 18,375 |
| Financing costs (Note 15(b)) | 158,471 | 121,870 |
| Deposit on future conference | - | 4,050 |
| | 177,231 | 144,295 |
| Long term portion of prepaid expenses: | | |
| Financing costs (Note 15(b)) | 224,503 | - |

The prepaid financing costs are charged to share issue costs over the term of the SPA (Note 12) on a straight-line basis.

## 8. MINERAL PROPERTY AND EXPLORATION EXPENDITURES

The Company has a 100% interest in the HOAM Project located in the Mackenzie Region, Northwest Territories, Canada (the "HOAM Project"). This interest is subject to a 1.5% Net Smelter Return royalty ("NSR"), 50% of which is held by a director and officer of the Company.

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. Pursuant to subsequent exploration activities, Olivut determined that additional expenditures on these properties were not justified and terminated the option agreement effective September 6, 2013. As a result, the Company has no further interest in these properties, but remains responsible for any environmental or other liabilities arising from work performed by the Company. The Company believes there are no such liabilities outstanding.

In May 2009, the Company signed an option agreement with Orosur Mining Inc. ("OMI") (TSXV:OMI) to explore certain properties located in northern Uruguay, South America (the "Rivera Project"). Pursuant to subsequent exploration activities, Olivut determined that additional expenditures on these diamond prospecting and exploration licenses were not justified and on June 17, 2012, pursuant to the terms of the option agreement, the Company terminated the option. As a result, the Company has no further interest in these properties, but remains responsible for any environmental or other liabilities arising from work performed by the Company. The Company believes there are no such liabilities outstanding.

During the year ended October 31, 2013, the Company incurred $450,120 (2012 - $1,664,624) on exploration expenditures. Cumulative exploration expenditures made by the Company as at October 31, 2013 total $15,410,086 (at October 31, 2012 - $14,959,966). This cumulative total represents $14,460,998 spent on the HOAM Project (October 31, 2012 - $14,105,908), $423,654 (October 31, 2012 - $332,179) spent on the Itapoty Diamond Project and $525,434 spent on the Rivera Project (October 31, 2012 - $521,879).

## 9. EQUIPMENT

| | October 31, 2013 | | | October 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Cost $ | Accumulated Amortization $ | Net $ | Cost $ | Accumulated Amortization $ | Net $ |
| Drill rig | 91,288 | 38,706 | 52,582 | 91,288 | 25,561 | 65,727 |
| Office equipment | 11,951 | 10,638 | 1,313 | 11,951 | 10,309 | 1,642 |
| Computer equipment | 17,316 | 16,971 | 345 | 17,316 | 16,823 | 493 |
| | 120,555 | 66,315 | 54,240 | 120,555 | 52,693 | 67,862 |

## 10. 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.

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | October, 31, 2013 $ | October 31, 2012 $ |
|---|---|---|
| Corporate payables and accrued liabilities (Note 13) | 72,012 | 128,961 |
| Exploration expense payables | 26,317 | 97,673 |
| | 98,329 | 226,634 |

## 12. CONVERTIBLE SECURITY

On March 12, 2013, the Company entered into a Securities Purchase Agreement (the “SPA”) to raise up to $18 million over approximately the following 36 months in a tranched placement of securities to the Canadian Special Opportunity Fund, L.P., a fund managed by The Lind Partners, a New York-based asset management firm (together “Lind”).

On March 13, 2013, the initial investment by Lind of $500,000 consisted of (i) a $300,000 callable, convertible security that may be converted into 689,655 units (each a “Unit”) (the first 500,000 Units issued shall be comprised of one common share and one warrant as further described below, and the remaining Units issued shall be exercisable for one common share) and (ii) $200,000 to purchase common shares.

The convertible security has a term of 36 months with a 0% interest rate and is unsecured and subordinated. Lind has the right to call the security at any time commencing upon the earlier of (i) September 13, 2013 or (ii) the date on which the Company terminates the SPA. The convertible security may be converted into Units any time.

Each warrant that may be issued entitles the holder to purchase one common share at $0.5957 per share until March 13, 2016; half of the warrants vest immediately and half vest upon the earlier of March 13, 2014 or immediately upon termination of the SPA by the Company.

## 12. CONVERTIBLE SECURITY (Continued)

In accordance with IFRS, the convertible security has been bifurcated into a liability component and an equity component. The equity component represents the value of the conversion feature and is the difference between the fair value of the liability component and the proceeds received of $300,000. Management has estimated the value of the liability component of the convertible security using the effective interest rate method and using an interest rate of 20%.

The rate used in determining the appropriate value of the liability component of the convertible security and to appropriately apply the effective interest rate method to the convertible security is subject to significant management estimation.

| | |
|---|---|
| Convertible security upon issuance | $300,000 |
| Bifurcated as follows: | |
| Equity component | $133,048 |
| Fair value of liability component, upon issuance March 13, 2013 | $166,952 |
| Accretion to October 31, 2013 | 22,077 |
| Liability component of convertible security at October 31, 2013 | $189,029 |

## 13. RELATED PARTY TRANSACTIONS

The remuneration of directors and key management personnel during the period was as follows:

| | Years ended October 31 | |
|---|---|---|
| | 2013 | 2012 |
| | $ | $ |
| Salaries | 223,603 | 236,175 |
| Short term benefits | 46,500 | 52,000 |
| Stock-option amortization expense | 1,644,968 | 1,292,473 |
| Total remuneration | 1,915,071 | 1,580,648 |

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

No bonuses were paid in the years ended October 31, 2013 or 2012. Independent non-executive directors are not remunerated other than the benefits received, if any, from the granting of stock options.

In addition to salaries and benefits, during the year ended October 31, 2013, a total of $18,500 (2012 - $149,000) for exploration consulting expenditures, and $9,600 (2012 - $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.

In connection with the December 22, 2011 private placement (see note 15(b)), 100,000 common shares with flow-through tax benefits were sold to certain officers of the Company.

In connection with the December 12, 2012 private placement (see note 15(b)), 25,000 common shares with flow-through tax benefits were sold to an officer and director of the Company.

## 13. RELATED PARTY TRANSACTIONS (Continued)

Amounts included in accounts payable and accrued liabilities owed to directors and officers of the Company or persons or companies related to or controlled by them are as follows:

| | Amounts owed to related parties, as at | |
|---|---|---|
| | October 31, 2013 | October 31, 2012 |
| | $ | $ |
| Officers and directors | 29,015 | 74,664 |
| Other related parties | - | 53,603 |

These amounts are unsecured and non-interest bearing with no fixed terms of repayment.

## 14. 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 25% (2012 – 27%) are as follows:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | (2,775,425) | (3,573,111) |
| Expected income tax (benefit) based on statutory rates | (694,000) | (965,000) |
| Adjustments to benefit resulting from: | | |
| Stock-based compensation | 456,000 | 417,100 |
| Share issue costs | - | (17,300) |
| Flow-through renunciation | (21,210) | (161,880) |
| Effect of change in tax rates | - | 117,200 |
| Other | 44,000 | 242,800 |
| Change in benefit of tax assets not recognized | 116,000 | 205,200 |
| Income tax expense (recovery) | (99,210) | (161,880) |

The 2013 statutory tax rate of 25% differs from the 2012 statutory tax rate of 27% because of the reduction in both the Canadian federal and provincial substantively enacted tax rates.

### b) Deferred Tax Balances

The temporary differences that give rise to deferred income tax assets that have not been recognized at October 31 are as follows:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Non-capital losses | 1,436,000 | 1,474,000 |
| Equipment | 57,000 | 44,000 |
| Share issue costs | 155,000 | 41,000 |
| Exploration properties | 11,734,000 | 11,204,000 |
| Total | 13,382,000 | 12,763,000 |

## 14. INCOME TAXES (Continued)

### c) Tax Loss Carry-Forwards

As at October 31, 2013, the Company had approximately $10,784,000 of Canadian Exploration Expenditures and $949,000 of cumulative foreign resources expenses, which, under certain circumstances, may be utilized to reduce taxable income of future years. Also, as at October 31, 2013, the Company had approximately $1,436,000 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 |
|---|---|
| 2024 | $ 92,000 |
| 2025 | 173,000 |
| 2026 | 265,000 |
| 2027 | 293,000 |
| 2028 | 132,000 |
| 2029 | 121,000 |
| 2030 | 111,000 |
| 2031 | 110,000 |
| 2032 | 20,000 |
| 2033 | 119,000 |
| | $1,436,000 |

In addition, as at October 31, 2013, the Company had approximately $307,000 of federal input tax credit, which, under certain circumstances, may be utilized to reduce federal income taxes in future years.

## 15. CAPITAL STOCK

The capital stock is as follows:

### a) Authorized

Unlimited number of common shares without par value

## 15. CAPITAL STOCK (Continued)

### b) Issued

36,020,147 common shares

A summary of changes during the year ended October 31, 2013 is as follows:

| | Common Shares # | Amount $ |
|---|---|---|
| Balance, October 31, 2011 | 31,650,637 | 14,100,756 |
| Private placement of common shares | 1,851,745 | 2,198,800 |
| Share issue costs | - | (51,906) |
| Premium for flow-through tax benefits | - | (161,880) |
| Options exercised | 425,000 | 647,875 |
| Balance, October 31, 2012 | 33,927,382 | 16,733,645 |
| Private placement of common shares | 342,105 | 325,000 |
| Share issue costs | - | (154,895) |
| Premium for flow-through tax benefits | - | (99,210) |
| SPA commitment fee | 505,944 | 200,000 |
| SPA tranches | 1,244,716 | 332,873 |
| Balance, October 31, 2013 | 36,020,147 | 17,337,413 |

On December 22, 2011, the Company issued a total of 1,851,745 common shares through a non-brokered private placement for aggregate gross proceeds of $2,198,800. The private placement comprised placements of (i) 1,079,200 common shares with flow-through tax benefits to the shareholders for proceeds of $1,349,000 at a price of $1.25 per share and (ii) 772,545 common shares for proceeds of $849,800 at a price of $1.10 per common share.

On December 12, 2012, the Company issued a total of 342,105 common shares through a non-brokered private placement for aggregate gross proceeds of $325,000. The private placement comprised the issue of 342,105 common shares with flow-through tax benefits to the shareholders at a price of $0.95 per share.

On March 12, 2013, the Company entered into the SPA which, in addition to the convertible security described in Note 12, provides that over approximately 36 months following the initial investment made on March 13, 2013 Lind will invest up to $17,700,000 in a tranched placement of common shares. The initial cash advance of $200,000 on March 13, 2013 is intended to be followed by an additional $200,000 approximately every month over the following 35 months. Tranches may be increased to a maximum of $500,000 upon mutual agreement between the Company and Lind and may be less than $200,000 after the initial cash advance if any single tranche exceeds 0.55% of the Company's market capitalization (the "Market Capitalization Test").

The number of common shares of the company to be issued for each tranche will be calculated based on a price per common share equal to 92.5% of the Daily Volume Weighted Average Price ("VWAP") per common share on the TSXV for the 5 days chosen by Lind out of the 20 trading days preceding such issuance date (the "Purchase Price"), provided such price will not be less than the higher of (i) the closing price per common share or (ii) the volume-weighted average price per common share, on the TSXV on the trading day immediately preceding the relevant cash advance date, in either case, less the maximum permitted discount under TSXV regulations (the "Set Floor Price"). The share issuance date for each tranche is 28 days after the funds are received. .

## 15. CAPITAL STOCK (Continued)

### b) Issued (Continued)

Should the Purchase Price be below the Set Floor Price, Lind may elect to not take shares and have the tranche amount previously advanced repaid without penalty. The Company may elect to offset the repayment against the next tranche.

If the market price is below $0.325 for two consecutive days Lind may postpone subsequent advances by up to two months.

The SPA includes explicit no shorting provisions. Lind, its affiliates, associates and insiders will not: sell Olivut shares that it does not hold in its inventory and that it does not own outright; pre-sell shares that it expects to receive or has contracted to receive, where such shares have not yet been issued and delivered to it; borrow shares to be sold; or borrow shares to cover a short position, The SPA also includes a floor price which enables Olivut to refuse to issue stock below $0.40 and the option for Olivut to terminate the SPA at any time, subject to compliance with the terms of the SPA.

As part of the financing, Lind received a commitment fee of $200,000 which was paid by issuing Lind 505,944 common shares of the Company.

During the year ended October 31, 2013 the following tranche share issuances have been made to Lind under the terms of the SPA:

| Date | Amount<br>$ | Price per share<br>$ | Shares<br># |
|---|---|---|---|
| May 10, 2013 | 200,000 | 0.2807 | 712,504 |
| June 11, 2013 | 68,373 (1) | 0.2700 | 253,233 |
| July 11, 2013 | 64,500 (1) | 0.2312 | 278,979 |
| | 332,873 | | 1,244,716 |

Note 1. The tranche amounts were limited by the Market Capitalization Test.

In addition to these tranche financings settled with common share issuances, on July 15, 2013 the Company received $52,000 as an advance pursuant to that month's SPA tranche financing. No common shares have been issued in respect of this tranche by October 31, 2013 (note 20).

With respect to all share issuances under the terms of the SPA, copies of the qualifying base shelf prospectus dated March 11, 2013, the prospectus supplement dated March 12, 2013 and the Pricing Supplement dated May 10, 2013 are available on SEDAR. These documents, as well as any documents incorporated therein by reference may be obtained on request without charge from Olivut, at its offices located at 27010 Highway 16, 14 Mountain Park Properties, Jasper East, Alberta, or by faxing a written request to (780) 866-3713, by mail to P.O. Box 6690 Hinton, Alberta T7V 1X8 or by accessing the disclosure documents available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

## 16. EQUITY RESERVES

| **Stock options** | Number of Options # | Weighted Average Exercise Price $ | Estimated Grant Date Fair Value of Options $ |
|---|---|---|---|
| October 31, 2011 | 3,000,000 | 0.823 | 1,861,070 |
| Granted/expensed | 2,495,000 | 1.400 | 1,452,911 |
| Exercised | (425,000) | 0.853 | (274,250) |
| Expired | (1,800,000) | 1.000 | (1,368,000) |
| October 31, 2012 | 3,270,000 | 1.158 | 1,671,731 |
| Expired | (125,000) | 0.850 | (80,000) |
| Stock-option amortization expense | - | - | 1,823,485 |
| October 31, 2013 | 3,145,000 | 1.171 | 3,415,216 |

The Company’s Stock Option Plan (the “Plan”) provides for the granting of stock options to independent directors (who receive no other compensation from the Company), officers, employees and consultants of the Company. Stock options are granted for a term not to exceed ten years at exercise prices not less than the closing sale price of the Company’s shares on the TSXV 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 outstanding at October 31, 2013:

| Expiry Date | Outstanding Stock Options # | Exercisable Stock Options # | Estimated Grant Date Fair Value $ | Exercise Price $ |
|---|---|---|---|---|
| December 9, 2014 | 565,000 | 565,000 | 79,100 | 0.165 |
| April 19, 2015 | 35,000 | 35,000 | 9,100 | 0.300 |
| March 10, 2016 | 50,000 | 50,000 | 73,500 | 1.700 |
| June 27, 2022 (i) | 2,495,000 | 1,663,333 | 3,368,250 | 1.400 |
| Total, October 31, 2013 | 3,145,000 | 2,313,333 | 3,529,950 | 1.171 |

(i) The 831,667 unvested options as at October 31, 2013 vest on December 27, 2013.

## 16. EQUITY RESERVES (Continued)

The estimated grant date fair value is calculated using the Black-Scholes option pricing model. Options granted in the year ended October 31, 2012 were valued using the following assumptions:

| | |
|---|---|
| Expected dividend yield | 0% |
| Risk-free interest rate | 1.82% |
| Expected volatility | 130% |
| Expected life | 10 years |

The fair value attributed to the options when granted is charged to stock-option amortization expense and added to equity reserves over the period the options vest. $1,823,485 was charged to stock-option amortization expense during the year ended October 31, 2013 (2012 - $1,452,911).

The weighted average remaining contractual life of options as of October 31, 2013 is 7.1 years (October 31, 2012 – 7.8 years). The weighted average exercise price of options exercisable as at October 31, 2013 is $1.09 (October 31, 2012 - $0.38).

## 17. COMMITMENTS AND CONTINGENCIES

### a) Environmental Contingencies

The Company's exploration activities are subject to various 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 a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

### c) Flow-Through Shares

Pursuant to the issuance of 342,105 flow-through shares on December 12, 2012, the Company has renounced $325,000 of qualified exploration expenditures with an effective date of December 31, 2012.

The Company is required to expend this amount on qualified exploration expenditures by December 31, 2013. As of October 31, 2013 the Company has expended $311,260 of this amount on qualified exploration expenditures. The amount remaining to be expended is $13,740.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that may become payable by the subscribers as a result of the Company not meeting this expenditure commitment.

### d) Operating Lease

The Company is committed to an operating lease for equipment rental, which expires on May 2, 2014. Minimum lease payments for the fiscal year ending October 31, 2014 is $1,440.

## 18. 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 exploration properties. The capital of the Company consists of the convertible security, capital stock and equity reserves. The Board of Directors does not establish quantitative return on capital criteria for the Company's management, but rather relies on the expertise of 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 years ended October 31, 2013 or 2012. The Company is not subject to externally imposed capital requirements.

## 19. FINANCIAL RISK FACTORS

There were no changes in the years ended October 31, 2013 or 2012 that occurred that were attributed to financial risk. The Company's financial risk exposures and the impact on the Company's financial instruments are summarized below:

### a) Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and a loan receivable. The Company has no significant credit risk arising from operations. Cash and cash equivalents consist of bank deposits with a Canadian chartered bank and guaranteed investment certificates issued by a Canadian chartered bank. The loan receivable as described in Note 10 is secured by all assets of the borrower. Management believes that the credit risk with respect to these financial instruments is remote.

### b) 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, 2013, the Company had a cash and cash equivalents balance of $1,077,430 to settle accounts payable and accrued liabilities of $98,329, the callable convertible security of $300,000 (Note 12), the possible repayment of the SPA deposit of $52,000 (Note 15(b)) and the commitment to fund the remaining balance of the qualified exploration expenses of $13,740 (Note 17(c)). All of the Company's financial liabilities have contractual maturities of less than one year. 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 and the proceeds of the SPA described in Note 15(b) 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 administrative and general costs until the fiscal year end October 31, 2014 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.

## 19. FINANCIAL RISK FACTORS (Continued)

### c) Market Risk

**(i)** ***Interest Rate Risk***

The Company's current policy is to invest its cash and cash equivalents balances 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 loan receivable is at a fixed interest rate, the convertible security bears a 0% interest rate and it is expected that future financings, if any, would be secured from equity placements rather than debt obligations.

***(ii) 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.

***(ii) Foreign Currency Risk (Continued)***

As discussed in Note 8, the Company acted as operator of an exploration project in Paraguay. At October 31, 2013, the Company has spent $423,654 on this project. The option agreement relating to this project was terminated by the Company effective September 6, 2013. Management believes that the Company will not be subject to any material foreign currency risk related to this option.

***(iii) 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.

### d) 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, the liability component of the convertible security and the liability related to shares to be issued pursuant to the SPA are classified as other financial liabilities, which are measured at amortized cost.

The carrying amounts for amounts receivable, accounts payable and accrued liabilities and the liability related to shares to be issued pursuant to the SPA on the statements of financial position 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.

Management has estimated the value of the liability component of the convertible security using the effective interest rate method and using an interest rate of 20%. It is not possible to determine if this portion of the convertible security is at fair value as there is no comparable market value for such convertible security.

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.

## 19. FINANCIAL RISK FACTORS (Continued)

### e) Sensitivity to Financial Risks

The Company considers interest rate risk to be minimal as investments are short-term; the loan receivable (Note 10) 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, 2013, a 1% increase or decrease in the interest rate would generate a respective increase or decrease in interest income of approximately $11,000 annually.

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.

## 20. SUBSEQUENT EVENTS

On November 12, 2013, Olivut elected to reduce the SPA funding to avoid unnecessary dilution at the then current stock prices on the TSXV of approximately $0.16. No securities were issued to repay a $52,000 tranche financing advanced on July 15, 2013. Instead these advanced funds were used to offset additional funding for the same amount requested on each of August 13, September 12, October 12 and November 12, 2013. The share issuance date for the most recent tranche is anticipated to be December 13, 2013.