

CUERVO RESOURCES INC.
(An Exploration Stage Enterprise)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in Canadian dollars, unless otherwise stated)

THREE AND NINE MONTHS ENDED DECEMBER 31, 2009

CUERVO RESOURCES INC.
(An Exploration Stage Enterprise)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in Canadian dollars)

THREE AND NINE MONTHS ENDED DECEMBER 31, 2009

Responsibility for Unaudited Consolidated Interim Financial Statements

The accompanying unaudited consolidated interim financial statements for CUERVO RESOURCES INC. have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied. The most significant of these accounting principles have been set out in the March 31, 2009 audited financial statements. These unaudited consolidated interim financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of these unaudited consolidated interim financial statements, management is satisfied that these unaudited consolidated interim financial statements have been fairly presented.

Disclosure Required Under National Instrument 51-102 – Continuous Disclosure Obligations – Part 4.3(3)(a)

These unaudited consolidated interim financial statements have not been audited, reviewed or verified by the Company's independent external auditors or any other independent accounting firm.

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CUERVO RESOURCES INC.
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CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2009	March 31, 2009 (Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 773,837	\$ 962,670
Accounts receivable	787,299	800,240
Prepaid expenses	74,517	101,725
	1,635,653	1,864,635
MINING INTERESTS (notes 2 and 4)	465,571	465,571
CAPITAL ASSETS (note 3)	153,947	166,114
	\$ 2,255,171	\$ 2,496,320
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 73,689	\$ 98,140
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5(a))	13,197,752	11,968,724
CONTRIBUTED SURPLUS (note 5(b))	3,592,241	2,183,899
DEFICIT	(14,608,511)	(11,754,443)
	2,181,482	2,398,180
COMMITMENTS (note 4)	\$ 2,255,171	\$ 2,496,320
	\$ 2,255,171	\$ 2,496,320

The accompanying notes are an integral part of these consolidated financial statements.

CUERVO RESOURCES INC.
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CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
(Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
EXPENSES				
Consulting fees	\$ 53,653	\$ 50,384	\$ 159,252	\$ 154,707
Depreciation	3,975	5,621	12,166	15,797
Exploration	71,127	764,428	658,680	2,633,020
Foreign exchange loss/(gain)	36,106	(67,684)	138,869	(3,248)
General, office and investor relations	44,853	178,152	234,237	350,904
Interest and bank charges	1,130	2,901	4,817	10,205
Professional fees	50,027	111,679	201,250	377,495
Rent	37,215	29,784	116,080	63,856
Telecommunications	4,968	6,855	20,376	25,094
Stock-option compensation cost	49,995	-	1,151,970	843,822
Vehicle	791	47,846	30,738	155,012
Wages and benefits	38,259	60,738	128,888	330,803
	<u>392,099</u>	<u>1,190,704</u>	<u>2,857,323</u>	<u>4,957,467</u>
Interest and other income	<u>(336)</u>	<u>(17,023)</u>	<u>(3,255)</u>	<u>(64,599)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	391,763	1,173,681	2,854,068	4,892,868
DEFICIT, BEGINNING OF PERIOD	<u>14,216,748</u>	<u>9,486,560</u>	<u>11,754,443</u>	<u>5,767,373</u>
DEFICIT, END OF PERIOD	<u>\$ 14,608,511</u>	<u>\$ 10,660,241</u>	<u>\$ 14,608,511</u>	<u>\$ 10,660,241</u>
Loss per common share				
Basic and diluted	<u>\$ 0.012</u>	<u>\$ 0.039</u>	<u>\$ 0.090</u>	<u>\$ 0.166</u>
Weighted-average number of common shares outstanding				
Basic and diluted	<u>33,464,791</u>	<u>30,179,750</u>	<u>31,848,687</u>	<u>29,388,805</u>

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CUERVO RESOURCES INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Net loss for the period	(\$ 391,763)	(\$ 1,173,681)	(\$ 2,854,068)	(\$ 4,892,868)
Add items not affecting cash:				
Depreciation	3,975	5,621	12,166	15,797
Stock-option compensation cost	49,995	-	1,151,970	843,822
Net changes in working capital balances:				
Decrease (increase) in accounts receivable	17,312	(136,218)	12,940	18,657
(Increase) decrease in prepaid expenses	(20,384)	31,787	27,208	(106,018)
Increase (decrease) in accounts payable and accrued liabilities	25,363	60,016	(24,449)	46,801
	<u>(315,502)</u>	<u>(1,212,475)</u>	<u>(1,674,233)</u>	<u>(4,073,809)</u>
Cash used in operations				
CASH USED IN INVESTING ACTIVITIES:				
Purchase of capital assets	<u>-</u>	<u>(31,854)</u>	<u>-</u>	<u>(38,033)</u>
Cash used in investing	<u>-</u>	<u>(31,854)</u>	<u>-</u>	<u>(38,033)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:				
Issue of common shares	350,000	-	1,485,400	3,582,500
Share issue cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>(226,995)</u>
Cash provided by financing	<u>350,000</u>	<u>-</u>	<u>1,485,400</u>	<u>3,355,505</u>
INCREASE (DECREASE) IN CASH POSITION	34,498	(1,244,329)	(188,833)	(756,337)
CASH POSITION AT BEGINNING OF THE PERIOD	<u>739,339</u>	<u>3,332,146</u>	<u>962,670</u>	<u>2,844,154</u>
CASH POSITION AT END OF THE PERIOD	<u>\$ 773,837</u>	<u>\$ 2,087,817</u>	<u>\$ 773,837</u>	<u>\$ 2,087,817</u>

The accompanying notes are an integral part of these consolidated financial statements.

CUERVO RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2009

1 - NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS:

Cuervo Resources Inc. (the “Company”) was incorporated on February 11, 2005 under the Business Corporations Act (Ontario). The Company is in the business of acquiring, exploring for and developing mineral properties in Perú. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenue and is considered to be in the exploration stage. The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company’s exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

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

2 - SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Minera Cuervo S.A.C. (“Minera”), which is incorporated in Perú (see note 4). All intercompany transactions have been eliminated.

ESTIMATES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Precise determination of amounts of some assets and liabilities is dependent on future events. This requires that management make estimates in the preparation of financial statements. Significant estimates and assumptions include those related to the recoverability of mining interests, valuation of stock-based compensation cost, benefits of future income tax assets, and estimated useful lives of capital assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

MINING INTERESTS AND EXPLORATION

The Company has adopted the recommendation issued by the CICA EIC 126 and expenses exploration expenditures as incurred. Costs attributable to property acquisitions are capitalized while exploration expenditures on the property can only be capitalized once mineral reserves have been established. Once a mineral reserve has been established, all development costs will be capitalized. These costs together with the costs of mining interests will be charged to operations on a unit-of-production method based on estimated recoverable reserves. If the mining interests are abandoned, or when impairment in value has been determined, the capitalized costs will be charged to operations.

The Company reviews its exploration properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

CASH AND CASH EQUIVALENTS

Cash and short-term investments with a remaining maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. The Company places its cash and cash investments with institutions of high credit worthiness.

CAPITAL ASSETS

Capital assets are stated at cost. Depreciation is provided on the diminishing balance basis at the following annual rates:

Buildings	3%
Furniture and Fixtures.....	10%
Computer equipment.....	45%
Machinery and equipment.....	20%

Depreciation is recorded at half the annual rate in the year of acquisition.

INCOME TAXES

Future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis generally using the enacted income tax rates at each balance sheet date. Future income tax assets also arise from unused loss carry forwards and other deductions. The amount of the future income tax asset recognized is limited to the amount that is more likely than not to be realized. The estimated realizable amount is reviewed annually and adjusted, if necessary, by use of a valuation allowance.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets including mining interests, property and equipment, and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management believes there has been no impairment of the Company's long-lived assets as at December 31, 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCING COSTS

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. Deferred financing costs are charged against the related capital stock or charged to operations if the shares are not issued.

LOSS PER SHARE

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares.

STOCK-BASED COMPENSATION

The Company has a stock option plan, which is described in note 5(d). The Company accounts for stock-based compensation using the fair-value method. Under the fair value method, stock-based payments are measured at the fair value of equity instruments and are amortized over the vesting period. The offset to the recorded cost is contributed surplus in shareholders' equity. In the event the stock options are exercised, the applicable amount of contributed surplus is transferred to share capital. However, if the options are not exercised, the allocated amount remains in contributed surplus.

SHARE CAPITAL

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash.

Costs incurred to issue common shares are deducted from share capital.

REVENUE RECOGNITION

Interest income is recognized on an accrual basis as it is earned.

ASSET RETIREMENT OBLIGATION

The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonably estimated. The asset retirement costs are capitalized to the assets carrying value and amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2009, the Company has not incurred or committed any asset retirement obligations related to its exploration properties.

PROPERTY PRE-ACQUISITION COSTS

The Company capitalizes pre-acquisition costs relating to the evaluation of potential mineral property acquisitions. However, if the Company determines that a specific property acquisition should not be concluded, the costs associated with the specific property are charged to operations in the current period.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

TRANSLATION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at approximate exchange rates prevailing at the transaction date. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting gains and losses are included in loss for the year.

FINANCIAL ASSETS AND LIABILITIES

Assets or liabilities held-for-trading -

Financial instruments classified as assets or liabilities held for trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period which the change occurs.

Held-to-maturity investments, loans and receivables and other financial liabilities -

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortized costs using the effective interest method. Interest income or expenses is included in net income (loss) over the expected life of the instrument.

Available-for-sale -

Financial instruments classified as available for sale are recorded at fair value at each balance sheet date and any change in fair value is recognized in other comprehensive income in the period in which these changes occur. Securities classified as available for sale and with no quoted market price in an active market are carried at cost. Available-for-sale securities are written down to fair value (impairment recognized in income) when it is necessary to reflect an other-than-temporary impairment. Upon de-recognition, any accrued gains or losses in accumulated other comprehensive income are then recognized in net income (loss).

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Company designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts 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.

Effective April 1, 2007, the Company adopted the following accounting policies as recommended by the CICA handbook:

Section 3855 - Financial Instruments - Recognition and Measurement: Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at amortized cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Comprehensive Income - Section 1530 introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

The Company's accumulated comprehensive income balance as at December 31, 2009 is \$Nil (2008 - \$Nil) and for the period then ended. The Company's comprehensive loss is equal to its net loss for the period ended December 31, 2009.

Capital Disclosures – Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 9 to these consolidated financial statements.

Financial instruments – Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 10 to these consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2009, the Company adopted the following accounting policy as recommended by the CICA handbook:

Goodwill and Intangible Assets

CICA Handbook Section 3064, "General Standards of Financial Statements Presentation" establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard has not had an impact on the consolidated financial statements, as the Company does not have any goodwill or intangible assets at this time.

FUTURE ACCOUNTING AND REPORTING CHANGES

Business combinations, consolidated financial statements and non-controlling interest -

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). 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.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

FUTURE ACCOUNTING AND REPORTING CHANGES (continued)

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) of the CICA confirmed the mandatory International Financial Reporting Standards (IFRS) changeover date for Canadian profit-oriented publicly accountable entities (PAEs). This means that PAEs will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

Canadian GAAP will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by the AcSB and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. The International Accounting Standards Board has and will likely have projects underway that should result in new pronouncements affecting IFRS. This Canadian convergence initiative is very much in its infancy as of the date of these financial statements. Therefore, it is premature to assess the impact of the Canadian initiative, if any, on the Company.

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3 – CAPITAL ASSETS:

	December 31, 2009			March 31, 2009
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Machinery and equipment	\$ 92,131	\$ 39,154	\$ 52,977	\$ 61,695
Furniture	15,624	4,605	11,019	12,023
Buildings	95,615	6,192	89,423	91,599
Computer equipment	3,400	2,872	528	797
	<u>\$ 206,770</u>	<u>\$ 52,823</u>	<u>\$ 153,947</u>	<u>\$ 166,114</u>

4 - MINING INTERESTS AND COMMITMENTS:

The Company, through its wholly-owned Peruvian subsidiary, Minera, has a 100% interest in 58 mining concessions covering over 28,000 hectares in Perú.

Accumulated mineral property costs have been incurred as follows:

	Nine months ended	Year ended
	December 31, 2009	March 31, 2009
Balance, beginning of the period	\$ 465,571	\$ 465,571
Costs incurred during the period	-	-
Balance, end of the period	<u>\$ 465,571</u>	<u>\$ 465,571</u>

Tax and concession payments amount to approximately US\$80,000 per annum.

As at December 31, 2009 the Company had the following commitments:

- i) The Company entered into an office lease and office management contract with a company controlled by a director of the Company. Lease payments total \$4,000 per month and the lease is on a month to month basis.
- ii) The Company entered into annual leases that are renewable in annual terms for office space in Perú. Cash payments total US \$6,250 per month

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5 - SHARE CAPITAL:

a) Common shares:

Authorized:

Unlimited number of common shares

Issued and outstanding:

	Nine months ended December 31, 2009		Year ended March 31, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of the period	30,179,750	\$ 11,968,724	26,569,750	\$ 8,882,260
Private placement	1,000,000	350,000	3,500,000	3,500,000
Finder's fee (i)	70,000	24,500	-	-
Warrant value (i) (ii)	-	(239,600)	-	(287,700)
Warrant value of finder's fee(i)	-	(16,772)	-	-
Issued for cash on exercise of warrants (iii)	3,244,000	1,135,400	110,000	82,500
Issue costs - non-cash	-	(24,500)	-	-
Issue costs - cash	-	-	-	(208,336)
	<u>34,493,750</u>	<u>\$ 13,197,752</u>	<u>30,179,750</u>	<u>\$ 11,968,724</u>

i) On December 17, 2009, the Company closed a \$350,000 non-brokered private placement equity financing. The Company issued 1.0 million units, at a price of \$0.35 per unit, for gross proceeds of \$350,000 (the "Financing"). Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.55 for a period of 18 months from the closing of the financing. If the closing price of the Cuervo common shares is equal to or greater than \$1.10 for a period of 10 consecutive trading days any time after December 17, 2009, the Company may accelerate the expiry date of the warrants. The Company paid a finder's fee equal to 7% units (70,000 units). A value of \$239,600 has been allocated to the warrants (notes 5(b) and 5(c)) and \$110,400 to the common shares. A value of \$16,772 has been allocated to the warrants issued as part of the finder's fee.

ii) On May 30, 2008, the Company closed a \$3.5 million non-brokered private placement equity financing. The Company issued 3.5 million units, at a price of \$1.00 per unit, for gross proceeds of \$3.5 million (the "Financing"). Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of \$1.50 for a period of 24 months from the closing of the financing. If the closing price of the Cuervo common shares is equal to or greater than \$2.25 for a period of 10 consecutive trading days any time after November 30, 2009 the Company may accelerate the expiry date of the warrants. The Company paid a finder's fee equal to 6% cash (\$210,000) and 6% unit purchase options (210,000 unit purchase options; see note 5(e)) in regard to the financing. A value of \$287,700 has been allocated to the warrants (notes 5(b) and 5(c)) and \$3,212,300 to the common shares.

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5 - SHARE CAPITAL (continued):

a) Common shares (continued):

iii) On May 30, 2007, the Company completed an initial public offering comprised of 5,000,000 units at \$0.50 per unit for gross proceeds of \$2,500,000; each unit was comprised of one common share and one two-year common share purchase warrant exercisable at \$0.75. On March 5, 2009, the Company announced that it had received approval to amend certain terms of these warrants. In particular, the exercise price of the warrants was reduced from \$0.75 to \$0.35 and the term of the warrants was extended by twelve months from May 30, 2009 to May 30, 2010. Pursuant to the policies of the Canadian National Stock Exchange the amended warrants were also subject to an additional acceleration clause which provides that if the common shares of Cuervo trade at greater than \$0.466 for 10 consecutive trading days then the Company would be required to trigger an acceleration of the expiry date of the warrants to a date which is 37 days following such 10 day period. On May 26, 2009 the Company announced that it was accelerating the expiry date of these warrants to July 1, 2009. As a result, 3,244,000 warrants were exercised during the period for gross proceeds of \$1,135,400 (see note 5(c)).

b) Contributed surplus:

A summary of the status of contributed surplus as of December 31, 2009 and March 31, 2009, and changes during the periods is presented below:

	<u>Nine months ended</u> <u>December 31, 2009</u>	<u>Year ended</u> <u>March 31, 2009</u>
Balance, beginning of period	\$2,183,899	\$1,071,036
Stock options granted	1,151,970	843,822
Warrants issued in private placements	239,600	287,700
Warrants issued as finder's fees	16,772	-
Issue costs	-	(18,659)
	<u> </u>	<u> </u>
Balance, end of period	<u>\$3,592,241</u>	<u>\$2,183,899</u>

c) Warrants:

A summary of the status of the warrants as of December 31, 2009 and March 31, 2009 and changes during the periods are presented below:

	<u>Number of Warrants</u>	
	<u>Nine months ended</u> <u>December 31, 2009</u>	<u>Year ended</u> <u>March 31, 2009</u>
Balance, beginning of period	7,544,800	4,154,800
Warrants issued in private placements	1,000,000	3,500,000
Warrants issued on finders fees	70,000	-
Warrants exercised during the period	(3,244,000)	(110,000)
Warrants expired during the period	(800,800)	-
	<u> </u>	<u> </u>
Balance, end of period	<u>4,570,000</u>	<u>7,544,800</u>

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5 - SHARE CAPITAL (continued):

c) Warrants (continued):

The fair value of warrants issued during the nine months ended December 31, 2009 of \$Nil (2008 - \$287,700) has been estimated using the Black-Scholes option pricing model and this value has been disclosed as a component of contributed surplus. The assumptions used for the valuation of warrants were consistent with the assumptions used in the valuation of stock options and are as follows:

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.33%	2.77%
Expected life	1.5 years	1.5 years
Estimated volatility in the market price of the common shares	225%	30%
Dividend yield	nil	nil

As at December 31, 2009, the following warrants were outstanding. The warrants entitle the holder to purchase the stated number of common shares at the exercise price on or before the expiry date:

Exercise Price	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life (years)
\$1.50	3,500,000	\$ 1.50	0.42
\$0.35	<u>1,070,000</u>	<u>\$ 0.35</u>	1.44
	<u><u>4,570,000</u></u>	<u><u>\$ 1.23</u></u>	

See notes 5 a) and 5 e) for additional warrant information.

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5 - SHARE CAPITAL (continued):

d) Stock-option plan:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options, to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The options are non-transferable.

The Company determines the fair value of the stock options using the Black-Scholes option pricing model. The fair value of each option was estimated on the date of grant with the following assumptions at the measurement date:

	Nine Months Ended December 31, 2009	Year Ended March 31, 2009
Risk-free interest rate	1.93% - 2.68%	3.20% - 3.56%
Expected life	5 years	5 years
Price volatility	215% - 229%	100%
Dividend yield	nil	nil

The fair value compensation recorded for options granted during the nine months ended December 31, 2009 was \$1,151,970 (year ended March 31, 2009 - \$843,822) and has been expensed as stock-option compensation cost. This has resulted in an allocation of \$1,151,970 to contributed surplus (year-ended March 31, 2009 - \$843,822).

A summary of the status of the Company's Plan as of December 31, 2009 and March 31, 2009, and changes during the periods is presented below:

	Nine Months ended December 31, 2009		Year ended March 31, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of the period	-	\$ -	2,090,000	\$ 1.21
Exercised during the period	-	-	-	-
Expired or forfeited during the period	(105,000)	-	(3,000,000)	1.26
Granted during the period	3,525,000	0.60	910,000	1.35
Balance, end of the year	<u>3,420,000</u>	<u>\$ 0.60</u>	<u>-</u>	<u>\$ -</u>

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5 - SHARE CAPITAL (continued):

e) Agent's options:

A summary of the status of the agent's options as of December 31, 2009 and March 31, 2009 and changes during the periods is presented below:

	Nine Months Ended <u>December 31, 2009</u>	Year Ended <u>March 31, 2009</u>
Balance, beginning of the period	575,725	365,725
Agent's options issued during the period	-	210,000
Agent's options expired during the period	<u>(365,725)</u>	<u>-</u>
Balance, end of the period	<u><u>210,000</u></u>	<u><u>575,725</u></u>

As at December 30, 2009 agent's options were outstanding enabling the holders to acquire the stated number of units as follows:

<u>Exercise price</u>	<u>Number of agent's options</u>	<u>Expiry Date</u>
\$1.00	<u>210,000</u> ⁽¹⁾	May 30, 2010

- 1) During the year ended March 31, 2009, 210,000 agent's options were issued as part of a finder's fee relating to the non-brokered private placement for \$3,500,000 completed on May 30, 2008. Each agent option is exercisable at \$1.00 and expires on May 30, 2010. Each agent option consists of one common share and one common share purchase warrant. Each warrant is exercisable at \$1.50 on or before May 30, 2010.

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6 - SEGMENTED INFORMATION:

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Segmented geographic information is as follows:

The following table allocates total assets by segment:

	<u>December 31, 2009</u>	<u>March 31, 2009</u>
Canada	\$ 1,402,828	\$ 946,622
Peru	<u>852,343</u>	<u>1,549,698</u>
Total assets	<u>\$ 2,255,171</u>	<u>\$ 2,496,320</u>

The following table allocates net loss by segment:

	<u>Nine Months Ended December 31, 2009</u>	<u>Nine Months Ended December 31, 2008</u>
Canada	\$ 1,753,344	\$ 1,568,519
Peru	<u>1,100,724</u>	<u>3,324,349</u>
Net loss for the period	<u>\$ 2,854,068</u>	<u>\$ 4,892,868</u>

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7- RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the consolidated financial statements during the nine months ended December 31, 2009 and 2008:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Consulting fees expense:				
Corporate administrative fees were charged by an officer and director	\$ 22,500	\$ 18,750	\$ 56,250	\$ 56,250
Consulting fees were charged by officers for financial management services	\$ 14,334	\$ 14,334	\$ 43,002	\$ 37,002
Corporate administrative fees were charged by a company controlled by an individual related to a director of the Company at the time of the transaction	\$ -	\$ 4,500	\$ -	\$ 15,500
Consulting fees were charged by a company controlled by an individual related to a director of the Company for investor relations services	\$ 10,500	\$ 7,500	\$ 28,500	\$ 22,500
Exploration expense:				
Geologist services were charged by an officer and director	\$ 22,500	\$ 18,750	\$ 56,250	\$ 56,250
General, office, and investor relations expense:				
Travel and promotion costs were reimbursed by the Company at cost to directors and officers and companies controlled by a director of the Company	\$ 9,730	\$ 23,855	\$ 45,898	\$ 75,392
Travel and promotion costs were reimbursed by the Company at cost to companies controlled by individuals related to a director of the Company	\$ 2,047	\$ -	\$ 3,142	\$ 10,246
Rent:				
Office lease and office management fees were charged by a company controlled by a director of the Company	\$ 12,000	\$ 15,000	\$ 38,500	\$ 37,500

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7 - RELATED PARTY TRANSACTIONS (continued):

Accounts payable and accrued liabilities includes \$nil (March 31, 2009 - \$2,467) owing to a company controlled by a director of the Company as at December 31, 2009 and a company controlled by an individual related to a director of the Company as at December 31, 2009.

In September 2009, the Company entered into a consulting agreement with an officer and director of the Company and a company controlled by the officer and director whereby the officer and director and the company controlled by the officer and director will be entitled to a success-oriented fee equal to 2.5% of the gross transaction value of certain potential corporate-finance transactions provided that the gross transaction value is more than \$25,000,000 and provided further that no fee shall be paid on any gross transaction value in excess of \$120,000,000. The Company also amended the existing agreement with an officer and director of the Company whereby the officer and director is entitled to a success-oriented fee of 0.5% on terms similar to those described above.

See note 4 for additional related party information.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8 - CAPITAL MANAGEMENT:

The Company's objectives in managing capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue investments and new projects of merit; and to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions.

The Company considers its capital to include components of shareholders' equity.

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

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

There were no changes in the Company's approach to capital management during the period ended September 30, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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9 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS:

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

The Company's 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 cash and cash equivalents and sundry receivables. The Company has no material concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to sundry receivables is remote. Management does not believe the receivables are impaired. Cash and cash equivalents consists of bank deposits and short-term investments which are with a Canadian Chartered Bank, from which management believes the risk of loss is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had cash and cash equivalents of \$773,837 (March 31, 2009- \$962,670) to settle accounts payable and accrued liabilities of \$73,689 (March 31, 2009- \$98,140). All of the Company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms. The ability of the Company to continue to pursue its exploration activities and maintain its working capital is dependant on its ability to secure additional equity or other financing.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars, Peruvian New Soles, and US dollars. The Company funds major operations and exploration in Peru. The Company maintains US dollar and Peruvian New Soles bank accounts in Peru. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Equity price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

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9 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued):

Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

As at December 31, 2009, the carrying value amounts of the Company's financial instruments approximates their fair value unless otherwise stated.

10 – COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect the prior period's net losses.