

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)

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

Nine Months Ended December 31<sup>st</sup>, 2011

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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, 2011 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.

<b>INDEX</b>	<b>PAGE</b>
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY	3
CONSOLIDATED INTERIM STATEMENTS OF LOSS, COMPREHENSIVE LOSS, AND DEFICIT	4
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS	5
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS	6 – 18

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

CONSOLIDATED BALANCE SHEETS

	Dec 31, 2011	Sept. 30, 2011	Jun 30, 2011	Mar. 31, 2011	Apr. 1 2010
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and cash equivalents	4,258,266	4,369,719	127,503	201,223	444,732
Accounts receivable	35,531	65,440	-	7,810	9,844
Prepaid expenses	33,691	7,051	3,846	7,373	109,346
	4,327,489	4,442,210	131,350	216,406	563,922
MINING INTERESTS (notes 2 and 4)	416,779	416,779	416,779	416,779	465,571
CAPITAL ASSETS (note 3)	104,432	118,393	115,814	117,552	149,727
	4,848,699	4,977,381	663,943	750,737	1,179,220
<b>LIABILITIES</b>					
<b>CURRENT</b>					
Accounts payable and accrued liabilities	7,804	14,399	215,983	114,396	59,057
<b>LONG TERM</b>					
Promissory Notes (note 5)	5,250,000	5,250,000	0	0	0
	5,257,804	5,264,399	215,983	114,396	59,057
<b>SHAREHOLDERS' EQUITY</b>					
SHARE CAPITAL (note 6A)	14,138,849	13,733,849	13,733,849	13,733,849	13,319,941
CONTRIBUTED SURPLUS (note 6B)	3,558,459	3,525,959	3,485,959	3,485,959	3,287,367
DEFICIT	(18,106,413)	(17,546,825)	(16,771,848)	(16,583,467)	(15,487,145)
	(409,104)	(287,017)	447,960	636,341	1,120,163
	4,848,699	4,977,381	663,943	750,737	1,179,220

Nature of Operations and Going Concern Considerations (note 1)

Commitments (note 11)

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

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Common Stock		Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount			
<b>March 31, 2010 Balance</b>	34,493,750	\$13,319,941	\$3,287,367	\$(15,487,145)	<b>\$1,120,163</b>
Private Placement - issued for cash	1,750,000	\$612,500			\$612,500
Private Placement - finders fee	91,000	\$31,850			\$31,850
Value assigned to private placement warrants		\$(188,776)	\$188,776		\$0
Value assigned to private finder's fee warrants		\$(9,816)	\$9,816		\$0
Non-cash cost of share issuances		\$(31,850)			\$(31,850)
Net Loss				\$(357,644)	\$(357,644)
June 30, 2010 Balance	36,334,750	\$13,733,849	\$3,485,959	\$(15,844,789)	\$1,375,019
Net Loss				\$(336,020)	\$(336,020)
December 31, 2010 Balance	36,334,750	\$13,733,849	\$3,485,959	\$(16,180,809)	\$1,038,999
Net Loss				\$(223,553)	\$(223,553)
December 31, 2010 Balance	36,334,750	\$13,733,849	\$3,485,959	\$(16,404,362)	\$815,446
Net Loss				\$(179,106)	\$(179,106)
<b>March 31, 2011 Balance</b>	36,334,750	\$13,733,849	\$3,485,959	\$(16,583,468)	<b>\$636,340</b>
Net Loss				\$(188,380)	\$(188,380)
June 30, 2011 Balance	36,334,750	\$13,733,849	\$3,485,959	\$(16,771,848)	\$447,960
Fair Value of Stock Options			\$40,000		\$40,000
Net Loss				\$(774,977)	\$(774,977)
September 30, 2011 Balance	36,334,750	\$13,733,849	\$3,525,959	\$(17,546,825)	\$(287,017)
Private Placement - issued for cash	1,350,000	\$405,000			\$405,000
Fair Value of Stock Options			\$32,500		\$32,500
Net Loss				\$(559,587)	\$(559,587)
December 31, 2011 Balance	37,684,750	\$14,138,849	\$3,558,459	\$(18,106,412)	\$(409,104)

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	Three months ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Consulting fees	67,500	57,000	345,000	172,668
Depreciation	13,961	24,764	17,437	24,880
Exploration (Note 2)	222,170	55,746	414,864	194,997
Foreign exchange loss/(gain)	7,650	189,840	22,730	39,613
General, office and investor relations	71,906	56,148	166,149	150,264
Vehicle	0	5,846	0	17,357
Interest and bank charges	1,458	980	3,929	2,827
Professional fees	49,844	12,632	257,388	152,556
Rent	6,750	9,188	19,500	25,451
Telecommunications	6,649	14,658	19,296	33,719
Fair Value of Stock Options	-	-	-	-
Wages and benefits	92,573	38,877	203,708	104,730
	<u>540,461</u>	<u>465,679</u>	<u>1,470,004</u>	<u>919,059</u>
Fair Value of Stock Options	32,500	-	72,500	-
Interest and other income	<u>(13,374)</u>	<u>(782)</u>	<u>(19,559)</u>	<u>(1,843)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	559,587	464,897	1,522,944	917,217
DEFICIT, BEGINNING OF THE PERIOD	<u>17,546,825</u>	<u>15,939,465</u>	<u>16,583,468</u>	<u>15,487,145</u>
DEFICIT, END OF THE PERIOD	<u><u>18,106,412</u></u>	<u><u>16,404,362</u></u>	<u><u>18,106,412</u></u>	<u><u>16,404,362</u></u>
Loss per common share				
Basic and diluted	\$ 0.015	\$ 0.013	\$ 0.041	\$ 0.025
Weighted-average number of common shares outstanding	37,019,750	36,334,750	36,794,750	36,334,750
Basic and diluted				

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CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended		Nine months ended	
	December 31		December 31	
	2011	2010	2011	2010
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>				
Net loss for the period	(559,587)	(464,897)	(1,522,944)	(917,217)
Add items not affecting cash:				
Depreciation	13,961	20,482	17,437	27,058
Stock-option compensation cost	32,500	-	72,500	-
Net changes in working capital balances:				
(Increase) decrease in accounts receivable	29,909	(11,037)	(28,178)	11,821
(Increase) decrease in prepaid expenses	(26,640)	17,061	(26,318)	77,897
Gain (Loss) in Currency Exchange	-	241,344		(23,641)
Increase (Decrease) in accounts payable and accrued liabilities	<u>(6,595)</u>	<u>5,831</u>	<u>(106,137)</u>	<u>(46,225)</u>
Cash used in operations	(516,453)	(202,878)	(1,593,640)	(870,307)
<b>CASH USED IN INVESTING ACTIVITIES:</b>				
Purchase of capital assets	-	-	(4,316)	-
Cash used in investing	-	-	-	-
<b>CASH PROVIDED BY (USED IN ) FINANCING ACTIVITIES:</b>				
Issue of common shares	405,000	-	405,000	612,500
Issue of Promissory Note	-	-	5,250,000	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>INCREASE IN CASH POSITION</b>	<b>(111,453)</b>	<b>(202,878)</b>	<b>4,057,043</b>	<b>(257,807)</b>
<b>CASH POSITION AT BEGINNING OF THE PERIOD</b>	<u><b>4,369,719</b></u>	<u><b>389,803</b></u>	<u><b>201,223</b></u>	<u><b>444,733</b></u>
<b>CASH POSITION AT END OF THE PERIOD</b>	<u><u><b>4,258,266</b></u></u>	<u><u><b>186,925</b></u></u>	<u><u><b>4,258,266</b></u></u>	<u><u><b>186,925</b></u></u>

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Nine Months Ended December 31<sup>st</sup>, 2011

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.

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.

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. Realization values may be substantially different from carrying values as shown and these financial statements and do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

As at December 31, 2011, the Company had not yet achieved profitable operations, had accumulated losses of \$18,106,413 since inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company’s ability to continue as a going concern. The Company will require additional financing in order to conduct exploration programs, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. If the going concern assumption was not used then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these financial statements.

2 - SIGNIFICANT ACCOUNTING POLICIES:

STATEMENT OF COMPLIANCE

These interim financial statements have been prepared in accordance with IAS 34, International Financial Reporting (“IAS 34”) and its interpretations adopted by the International Accounting Standards Board (“IASB”). The provisions of IFRS-1, “First Time Adoption of with International Financial Reporting Standards”, have been applied.

These unaudited condensed consolidated interim financial statements have been prepared on the basis of IFRS standards that are expected to be available for adoption by the Company on March 31<sup>st</sup> 2012, the first full annual reporting date under IFRS.

The effect of the transition to IFRS on the reported financial position, income and cash flow of the Company is outlined in Note 12.

The management of Cuervo Resources Inc. prepared these unaudited financial statements. They were then reviewed by the Audit Committee of the Board of Directors. These unaudited interim financial statements were approved and issued by the Board of Directors on October 18<sup>th</sup>, 2011.

CUERVO RESOURCES INC.  
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CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

#### PRINCIPLES OF CONSOLIDATION

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

On April 3, 2009, the Company acquired 100% of the outstanding common shares of La Gran Posada. As consideration for this acquisition the Company paid cash of US \$18,000. The transaction has been accounted for on a “continuity of interests” basis. The results of operations for periods prior to the acquisition of La Gran Posada are presented as those of the Company.

#### 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 and receivables, valuation of stock-based compensation cost and warrants, 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.

#### MINING INTERESTS AND EXPLORATION

The Company 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 applies for early recover of Impuesto General A Las Ventas (“IGV”) on certain exploration expenditures it incurs in Peru. IGV is a value added tax charged at a rate of 19% on all goods and services. The IGV expenditures are partially refundable if recovery is applied for early. Based on management’s best estimate the portion refundable is included in accounts receivable and the amount not refundable to the Company is expensed to exploration or capitalised to mining interests if the Company has established mineral reserves in accordance with the Company’s accounting policy.

In addition, any amount not refunded to the Company can be used to offset amounts due to the Peruvian Revenue Service by the Company resulting from IGV charged to clients on future sales. Moreover, if the Company recovers amounts that have been deferred, the amount received will be applied to reduce mining interests or taken as a credit against current exploration expenses depending on the prior treatment.

The aggregate recoverable against IGV collected on potential future revenues earned by the Peruvian subsidiaries is \$1,086,870 as at December 31, 2011 (March 30, 2011- \$974,997).

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 change in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

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.

#### 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 over the useful lives of the capital assets 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 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. As at December 31, 2011, management believes there has been no impairment of the Company's long-lived assets.

#### 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

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

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. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

#### STOCK-BASED COMPENSATION

The Company has a stock option plan, which is described in note 6(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.

#### WARRANTS

Warrants issued as part of a private placement unit are valued using the Black-Scholes model. The proceeds from the issue of units is allocated between share capital and contributed surplus on a pro-rata basis based on the relative fair values. The related charge is allocated to the appropriate expense or asset category when issued for services or to equity when issued for cash.

Upon the exercise of warrants, the amount relating to the award is transferred from contributed surplus to share capital and the proceeds received are credited to share capital.

#### 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, 2011, 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.

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

#### TRANSLATION OF FOREIGN CURRENCIES

The Company uses the temporal method of foreign currency translation in accounting for its integrated foreign operations. Under this method foreign currency denominated monetary assets and liabilities 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.

#### COMPREHENSIVE INCOME

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to translating financial statements of self-sustaining foreign operations. As at December 31, 2011 and 2010, the Company has no items that represent comprehensive income, and therefore, has not included a schedule of comprehensive income in these consolidated financial statements.

#### ASSESSING GOING CONCERN

Management is required to assess the Company's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on the Company's ability to continue as a going concern, these uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Because of management's assessment, the Company has prepared the consolidated financial statements on a going concern basis.

#### FINANCIAL INSTRUMENTS

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are held for trading are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income; financial liabilities that are not held for trading are recorded at amortized cost using the effective interest rate method and recognized in net income.

The Company has made the following designations of its financial instruments: cash and cash equivalents as held-for-trading; accounts receivable are loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

Handbook Section 3862, Financial Instruments – Disclosures, was amended in June 2009. It establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

Financial instruments classified as level 1 – quoted prices in active markets include cash and cash equivalents.

3 – CAPITAL ASSETS:

	December 31, 2011			March 31, 2011
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Machinery and equipment	66,551	56,923	9,628	23,313
Furniture	17,624	12,783	4,841	8,295
Buildings	95,615	10,968	84,647	85,702
Computer equipment	5,716	4,400	1,316	242
	185,506	81,074	104,432	117,552

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 December 31, 2011	Year ended March 31, 2011
Balance, beginning of the period	416,779	465,571
Costs incurred during the period	-	(48,792)
Balance, end of the period	416,779	416,779

Under Peruvian law, the concessions acquired from the government remain in good standing as long as the annual registration payments (\$3.00 per hectare) are received by June of each year. One grace year is added in the event of a delinquent payment.

In addition, concession holders must reach an annual production of a least US\$100 per hectare in gross sales within six years from January 1<sup>st</sup> of the year following the date the title was granted. If there is no production on the claim within that period, the concession holder must pay a penalty of US \$6 per hectare under the general regime, of US \$1 for small scale miners, and US \$0.50 for artisan miners, during the 7<sup>th</sup> through the 11<sup>th</sup> years following the granting of the concession. From the 12<sup>th</sup> year onwards the penalty is equal to US \$20 per hectare under the general regime, US \$5 per hectare for small scale miners and US \$3 for artisan miners. The concession holder is exempt from the penalty if exploration expenditures incurred during the previous year were ten times the amount of the applicable penalty.

Failure to pay the licence fees or the penalty for two consecutive years will result in the forfeiture of the concession. The fees applicable to the Company’s mineral concessions have been paid through the year ended March 31, 2010. Tax and concession payments amount to approximately US\$83,000 per annum.

5 – PROMISSORY NOTES

On July 28, 2011 the Company signed an investment agreement with Strike Resources Limited (ASX:SRK; “Strike”), under which Strike will provide two-stage financing of up to \$CDN 15 million to Cuervo to fund advanced exploration work on the Company’s iron ore exploration project in the Cusco area of southern Perú (“the Cerro Coopane

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(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

concessions”). Strike itself is also an important explorer for iron ore in southern Perú through its interest in Apurímac Ferrum S.A.C. (“AF”). The companies believe that a cooperative exploration effort between Cuervo and Strike will be strategic to the development of the iron ore resource potential of Perú.

Under the agreement Strike will provide \$CDN 5.25 million in the form of a non-cash interest-bearing three-year secured promissory note to fund an initial 15-month exploration program. At Strike’s election, a further \$CDN 9.75 million of non-cash interest-bearing secured funding may be advanced to fund the remaining 21 months of the expected three-year exploration program. Security for the financing is provided by a pledge of the shares held by Cuervo in its Peruvian subsidiary and a mortgage over the Cerro Ccopane concessions. In addition Cuervo has agreed to certain customary negative covenants in favour of Strike that are typical of transactions of this type.

As interest consideration for the provision of funding by Strike, Cuervo will issue to Strike two warrants, each with an initial term of three years commencing at the closing of the financing, to purchase Cuervo common shares: the first warrant entitles the holder thereof to purchase 17,500,000 common shares at \$CDN 0.30 per share; and the second warrant entitles the holder thereof to purchase 17,727,273 common shares at \$CDN 0.55 per share. The second warrant will be cancelled if Strike elects not to advance a total of \$CDN 15 million. The term of the warrants may be extended if there are delays in the exploration program.

Under the agreement, proceeds from the exercise of warrants will be applied against amounts owing under the promissory note(s). Automatic exercise of warrants and retirement of outstanding amounts under the promissory note(s) will occur if Cuervo common shares trade for 20 consecutive days above \$CDN 1.00 (volume-weighted average price), with a minimum 20-day trading volume of 1.5 million shares, or if Cuervo files a National Instrument 43-101-compliant Mineral Resource Estimate (CIM definition “Inferred Mineral Resources” category) of iron ore that is at least 700 million tonnes with an average grade of 40% Fe or greater. Upon the full exercise of both warrants Strike would own approximately 49% of Cuervo’s outstanding common shares and approximately 46% on a fully diluted basis. As part of the financing, Cuervo has provided Strike with certain pre-emptive rights on future share issuances during the term of the investment agreement.

6 – SHARE CAPITAL:

a) Common Shares: Authorized: Unlimited number of common shares

Issued and outstanding:	Nine months ended December 31, 2011		Year ended March 31, 2011	
	# Shares	\$ Amount	# Shares	\$ Amount
Balance, beginning of the period	36,334,750	13,733,849	34,493,750	13,319,941
Issued for cash - private placement	1,350,000	405,000	1,750,000	612,500
- exercise of warrant (iii)	-	-	-	-
Issued for finder's fee on private placement (i)	-	-	91,000	31,850
Fair value assigned to warrants issued on private placement (i) (ii)	-	-	-	(188,776)
Fair value assigned to finder's fee warrants (i)	-	-	-	(9,816)
Non-cash cost of share issuances	-	-	-	(31,850)
Cash cost of share issuance	-	-	-	-
Balance, end of the year	<u>37,684,750</u>	<u>14,138,849</u>	<u>36,334,750</u>	<u>13,733,849</u>

On May 26, 2010, the Company closed a non-brokered private placement equity financing. The Company issued 1,750,000 units at a price of \$0.35 per unit for gross proceeds of \$612,500 (the “Financing”). Each unit consists of one common share and one warrant entitling the holder to purchase one common share at a price of \$0.55 for a period of 18

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

months. If the closing price of the Company's common shares is equal to or greater than \$1.10 for a period of 10 consecutive trading days any time after six months after the closing of the Financing, the Company may, upon notice, accelerate the expiry date of the warrants to the 31st day following such notice. The Company paid a finder's fee of 91,000 units in regard to the Financing.

On October 18<sup>th</sup>, 2011 the Company executed a non-brokered private placement of 1,350,000 units at 30 cents each. The proceeds of \$405,000 will continue to fund the Company's iron ore exploration projects and general working capital requirements. Each Unit consists of one Cuervo common share and one half warrant, each one whole warrant a full warrant entitling the holder to purchase one Cuervo common share at a price of \$CDN 0.45 for a period of 24 months after the closing of the Financing.

**b) Contributed Surplus:**

A summary of the status of contributed surplus as of December 31, 2011 and March 31, 2011, and changes during the periods is presented below:

	Nine months ended December 31, 2011	Year ended March 31, 2011
Balance, beginning of the period	3,485,959	3,287,367
Fair value of stock options	72,500	-
Fair value of warrants issued in private placement	-	188,776
Fair value of warrants issued as finder's fees	-	9,816
Balance, end of period	3,558,459	3,485,959

**c) Warrants:**

A summary of the status of the warrants as of December 31, 2011 and March 31, 2011 and changes during the periods is presented below:

	<u>Number of Warrants</u>	
	Nine months ended December 31, 2011	Year ended March 31, 2011
Balance, beginning of the period	2,911,000	4,570,000
Warrants issued in private placement	35,902,273	1,750,000
Warrants issued as finder's fees	-	91,000
Warrants exercised during the period	-	-
Warrants expired during the period	(1,070,000)	(3,500,000)
Balance, end of period	37,743,273	2,911,000

The fair value of warrants issued during the nine months ended December 31, 2011 has been assigned as nil. Please see note 5. For the year ended March 31, 2011, a value of \$198,592 had 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:

	Nine months ended December 31, 2011	Year ended March 31, 2011
Risk-free interest rate	-	1.44%
Expected life	-	1.5 years
Estimated volatility in the market price of the common shares	-	131.85%
Dividend yield	-	nil

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

As at December 31, 2011, 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)
0.55	1,841,000	0.55	1.17
0.30	17,500,000	0.30	2.83
0.55	17,727,273	0.55	2.83
0.45	675,000	0.45	1.90
	37,743,273	0.43	

See notes 6 a) for additional warrant information.

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:

	Six months ended December 31, 2011	Year ended March 31, 2011
Risk-free interest rate	1% to 2%	n/a
Expected life	5	n/a
Estimated volatility in the market price of the common shares	75% to 100%	n/a
Dividend yield	nil	n/a

The fair value compensation recorded for options granted and vested during the nine months ended December 31, 2011 was \$72,500 and has been expensed to net loss and comprehensive loss as stock-option compensation cost. This has resulted in an allocation of \$72,500 to contributed surplus.

A summary of the status of the Company’s Plan as of December 31, 2011 and March 30, 2011, and changes during the periods is presented below:

	Nine months ended December 31, 2011		Year ended March 31, 2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of the period	3,220,000	0.60	3,420,000	0.60
Expired or cancelled during the period	(200,000)	-	(200,000)	
Granted during the period	725,000	.32	0	
Balance, end of the period	3,745,000	0.546	3,220,000	\$ 0.60

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

7 – SEGMENTED INFORMATION:

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

Total Assets	<u>December 31, 2011</u>	<u>March 31, 2011</u>
Canada	4,264,458	191,489
Peru	584,241	559,248
Total	<u>4,848,699</u>	<u>750,737</u>
Capital Assets	<u>December 31, 2011</u>	<u>March 31, 2011</u>
Canada	1,368	1,304
Peru	103,064	116,248
Total	<u>104,432</u>	<u>117,552</u>

8 - RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the consolidated financial statements during the three months ended December 31, 2011 and 2010:

	<u>3 months ended Dec 31, 2011</u>	<u>3 months ended Dec 31, 2010</u>	<u>9 months ended Dec 31, 2011</u>	<u>9 months ended Dec 31, 2010</u>
<b>Consulting fees expense:</b>				
Corporate administrative fees were charged by an officer and director	30,000	30,000	90,000	70,000
Consulting fees were charged by officers for financial management services	15,000	-	30,000	28,668
Consulting fees were charged by a company controlled by an individual related to a director of the Company for investor relations services	22,500	10,500	67,500	31,500
<b>Exploration expense:</b>				
Geologist services were charged by an officer and director	37,500	-	112,500	20,000
<b>General, office, and investor relations expense:</b>				
Travel and promotion costs were reimbursed by the Company at cost to directors and officers and companies controlled by a director of the Company	9,229	-	29,673	29,806
<b>Rent expense:</b>				
Office lease and office management fees were charged by a company controlled by a director of the Company	15,750	-	43,500	24,000

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

As at December 31 accounts payable and accrued liabilities includes no value owing to a company controlled by a director of the Company or a company controlled by an individual related to a director of the Company.

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.

9 - 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 which is comprised of capital stock, contributed surplus, and deficit, which as at December 31, 2011 aggregated \$ minus 409,104 (March 31, 2011, \$636,341). Under certain conditions, the promissory note described in note 5 will become 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.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

10 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS:

A. Fair value of financial instruments

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

The 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.

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

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

Credit Risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations.

In respect to accounts receivable, the Company is not exposed to significant credit risk as its receivables are due from governmental agencies. However, the Company is exposed to credit risk with regards to the government agencies denying the Company claims filed.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all the amounts are held with a Canadian Chartered bank in Peru and Canada. Management believes that the credit risk and the risk of loss with respect to cash and cash equivalents are remote because cash and cash equivalents are placed with a major bank with strong investment-grade ratings by a primary ratings agency.

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, 2011, the Company had cash and cash equivalents of \$4,258,266 to settle accounts payable and accrued liabilities of \$7,804 (March 31, 2011 - \$201,222 and \$59,057 respectively). 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. During the three months ended December 31, 2011, the Company recorded a non-cash loss of \$7,650 which reflects the volatility in the current exchange market of the Peruvian New Soles and the US dollar against the Canadian dollar and due to the variances in the balance sheet from year to year. The effect of a 10% increase or decrease in foreign exchange rates on translation of investments in foreign monetary assets will cause the foreign exchange loss to increase or decrease by approximately \$900,000. The analysis assumes all other variables remain constant.

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.

CUERVO RESOURCES INC.  
(An Exploration Stage Enterprise)  
CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited - Expressed in Canadian dollars, unless otherwise stated)  
Nine Months Ended December 31<sup>st</sup>, 2011

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, 2011, the carrying value amounts of the Company's financial instruments approximates their fair value unless otherwise stated.

11 - COMMITMENTS:

As at December 31, 2011 the Company had the following commitments:

- i) On July 1, 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.
- ii) In order to maintain its Peruvian mining concessions in good standing the Company is required to make tax and concession payments of approximately US\$83,000 per annum. (See note 4).

12 - ADOPTION OF IFRS

These interim unaudited statements are issued by the Company in accordance with IFRS as issued by IASB. The policies described in the Significant Accounting Policies section have been applied in preparing the unaudited interim statements dated December 31<sup>th</sup> 2011, the statements dated June 30<sup>th</sup> 2011, the statements for March 31<sup>st</sup>, 2011 and the statements for April 1<sup>st</sup>, 2010, the Company's date of transition.

IFRS has been applied to the statement of financial position at the transition date, with any adjustments to the assets and liabilities as stated under Canadian GAAP taken into retained earnings. The effect of the elections and the exemptions applied by the Company are nil. Details of the relevant elections and exemptions are:

Estimates: The Company's estimates as at April 1<sup>st</sup>, 2010 under IFRS are consistent with its Canadian GAAP estimates as at the same date.

Expenditures on exploration and evaluation: The Company expenses all exploration and evaluation costs.

Property and Equipment: The Company has elected to use cost in accordance with IFRS at the date of transition.

**Adjustments and Reconciliations**

As at the date of transition, April 1, 2010, there were no adjustments or reconciling items between GAAP and IFRS. In all subsequent periods, there are no adjustments or reconciling items between GAAP and IFRS.