CUERVO RESOURCES INC.
(An Exploration Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

MARCH 31, 2009 AND 2008

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INDEX

EDMUND
CACHIA
& CO.
Chartered Accountants

AUDITORS' REPORT

To the Shareholders' of
Cuervo Resources Inc.
(An Exploration Stage Enterprise):

We have audited the consolidated balance sheets of Cuervo Resources Inc. (the "Company", An Exploration Stage Enterprise) as at March 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(Signed) "*Edmund Cachia & Co. LLP*"
Toronto, July 15, 2009 CHARTERED ACCOUNTANTS
Licensed Public Accountants

61 Berkeley Street, Toronto, Canada M5A 2W5 Tel: (416) 863-0515 Fax: (416) 863-5132

CUERVO RESOURCES INC.
(An Exploration Stage Enterprise)

CONSOLIDATED BALANCE SHEETS
MARCH 31,

	2009	2008
ASSETS		
CURRENT		
Cash and cash equivalents	$ 962,670	$ 2,844,154
Accounts receivable	800,240	719,745
Prepaid expenses	101,725	67,158
	1,864,635	3,631,057
MINING INTERESTS (notes 2 and 4)	465,571	465,571
CAPITAL ASSETS (note 3)	166,114	143,641
	$ 2,496,320	$ 4,240,269
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 98,140	$ 54,346
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5(a))	11,968,724	8,882,260
CONTRIBUTED SURPLUS (note 5(b))	2,183,899	1,071,036
DEFICIT	(11,754,443)	(5,767,373)
	2,398,180	4,185,923
COMMITMENTS (note 4)		
SUBSEQUENT EVENTS (note 11)		
	$ 2,496,320	$ 4,240,269

Approved on behalf of the Board:

"Brian Berner" , Director

"Brian Cloney" , Director

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

FOR THE YEARS ENDED MARCH 31,

	2009	2008
EXPENSES		
Consulting fees	$ 201,091	$ 203,273
Depreciation	20,679	17,284
Exploration	3,408,288	2,226,365
Foreign exchange gain	(147,225)	(75,753)
General, office and investor relations	543,906	404,077
Interest and bank charges	12,857	9,580
Professional fees	460,078	249,247
Rent	98,893	157,810
Telecommunications	36,808	34,457
Stock-option compensation cost	843,822	1,071,036
Vehicle	166,330	71,800
Wages and benefits	415,736	242,843
	6,061,263	4,612,019
Interest and other income	(74,193)	(65,236)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	5,987,070	4,546,783
DEFICIT, BEGINNING OF YEAR	5,767,373	1,220,590
DEFICIT, END OF YEAR	$ 11,754,443	$ 5,767,373
Loss per common share		
Basic and diluted	$ 0.202	$ 0.204
Weighted-average number of common shares outstanding		
Basic and diluted	29,583,832	22,280,111

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

CUERVO RESOURCES INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31,

	2009	2008
CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES:		
Net loss for the year	($ 5,987,070)	($ 4,546,783)
Add items not affecting cash:		
Depreciation	20,679	17,284
Stock-option compensation cost	843,822	1,071,036
Net changes in working capital balances:		
Increase in accounts receivable	(80,495)	(655,496)
Increase in prepaid expenses	(34,567)	(57,281)
Decrease in deferred financing costs	-	136,053
Increase in property pre-acquisition costs	-	215,042
Increase (decrease) in accounts payable and accrued liabilities	43,794	(122,314)
Cash used in operations	(5,193,837)	(3,942,459)
CASH USED IN INVESTING ACTIVITIES:		
Purchase of capital assets	(43,152)	(147,475)
Mineral property expenditures	-	(309,625)
Cash used in investing	(43,152)	(457,100)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Issue of common shares	3,582,500	6,278,995
Share issue cost	(226,995)	(485,215)
Cash provided by financing	3,355,505	5,793,780
(DECREASE) INCREASE IN CASH POSITION	(1,881,484)	1,394,221
CASH POSITION AT BEGINNING OF THE YEAR	2,844,154	1,449,933
CASH POSITION AT END OF THE YEAR	$ 962,670	$ 2,844,154

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

CUERVO RESOURCES INC.
(An Exploration Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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.

CUERVO RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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 March 31, 2009.

CUERVO RESOURCES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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 March 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.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Section 1530 - Comprehensive Income: This standard 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.

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 increase 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, 2008, the Company adopted the following accounting policies as recommended by the CICA handbook:

a) *General Standards of Financial Statement Presentation*
CICA Handbook Section 1400, "General Standards of Financial Statements Presentation", was amended June 2007 to include guidance on an entity's ability to continue as a going concern. The revised standard explicitly requires management to assess and disclose the entity's ability to continue as a going concern. The Company has taken into account all available information about the future as well as other factors and concluded the going concern basis of accounting is appropriate.

b) *Inventories*
CICA Handbook Section 3031, "Inventories", based on International Accounting Standard 2, replaced Section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower cost of and net realizable value", which is different from the previous guidance of the "lower of cost and market". The section also allows the reversal of any write-downs previously recognized. The adoption of this standard has not had an impact on the consolidated financial statements, as the Company does not hold inventories at this time.

FUTURE ACCOUNTING AND REPORTING CHANGES

In February 2008, the CICA published Section 3064, "Goodwill and Intangible Assets". This new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The requirements will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact that this accounting pronouncement will have on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

FUTURE ACCOUNTING AND REPORTING CHANGES (continued)

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.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

3 – CAPITAL ASSETS:

	2009			2008
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Machinery and equipment	$ 92,131	$ 30,436	$ 61,695	$ 74,136
Furniture	15,624	3,601	12,023	5,267
Buildings	95,615	4,016	91,599	62,788
Computer equipment	3,400	2,603	797	1,450
	$ 206,770	$ 40,656	$ 166,114	$ 143,641

4 - MINING INTERESTS AND COMMITMENTS:

The Company, through its wholly-owned Peruvian subsidiary, Minera, has a 100% interest in 55 mining concessions covering over 26,061 hectares in Perú.

Accumulated mineral property costs have been incurred as follows:

	2009	2008
Balance, beginning of the year	$ 465,571	$ 155,946
Costs incurred during the year	-	309,625
Balance, end of the year	$ 465,571	$ 465,571

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

On October 25, 2007 Minera acquired a 100% interest in 14 mineral concessions covering a total of 5,600 ha in Perú. Consideration for the concessions was an all cash transaction totalling $326,909, of which certain pre-acquisition payments were made by the Company in the course of evaluating and identifying the concessions of interest in advance of the purchase agreement.

As at March 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 $7,500 per month for a period of one year ending August 31, 2009.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

5 - SHARE CAPITAL:

a) Common shares:

Authorized:

Unlimited number of common shares

Issued and outstanding:

	2009		2008	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	26,569,750	$ 8,882,260	16,103,000	$ 3,088,480
Issued for cash	3,500,000	3,500,000	5,000,000	2,500,000
Warrant value (i)	-	(287,700)	-	-
Issued for cash on exercise of warrants	110,000	82,500	5,382,475	3,736,857
Issued for cash on exercise of agent's options	-	-	84,275	42,138
Issue costs	-	(208,336)	-	(485,215)
Balance, end of the year	30,179,750	$ 11,968,724	26,569,750	$ 8,882,260

i) 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. 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.

ii) 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 is comprised of one common share and one two-year common share purchase warrant exercisable at $0.75. As the common shares of the Company traded on a recognized stock exchange at a closing price of $1.10 or higher for twenty consecutive trading days (December 3, 2007 to January 4, 2008) the Company may accelerate the expiry date of these warrants to a period that is 30 days after written notice is given by the Company. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

5 - SHARE CAPITAL (continued):

a) Common shares (continued):

iii) On November 22, 2006, the Company completed a private placement of 4,203,000 units at $0.50 per unit for gross proceeds of $2,101,500; each unit is comprised of one common share and one two-year common share purchase warrant exercisable at $0.75. On November 8, 2007, the Company exercised its right to accelerate the expiry date of these warrants to December 10, 2007. The Company was entitled to accelerate the expiry date of the warrants as the common shares of the Company traded on a recognized stock exchange at a closing price of $1.10 or higher for twenty consecutive trading days.

b) Contributed surplus:

A summary of the status of contributed surplus as of March 31, 2009 and 2008, and changes during the years is presented below:

	2009	2008
Balance, beginning of year	$1,071,036	$ -
Stock options granted	843,822	1,071,036
Warrants issued	287,700	-
Issue costs	(18,659)	-
Balance, end of year	$2,183,899	$1,071,036

c) Warrants:

A summary of the status of the warrants as of March 31, 2009 and 2008, and changes during the years are presented below:

	Number of Warrants	
	2009	2008
Balance, beginning of year	4,154,800	4,703,000
Warrants issued on issuance of shares for cash	3,500,000	5,000,000
Warrants issued on exercise of agent's options	-	84,275
Warrants exercised during the year	(110,000)	(5,382,475)
Warrants expired during the year	-	(250,000)
Balance, end of year	7,544,800	4,154,800

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

5 - SHARE CAPITAL (continued):

c) Warrants (continued):

The fair value of warrants issued in 2009 of $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 are as follows:

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

As at March 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)
$0.35	4,044,800	$ 0.35	1.17
$1.50	3,500,000	$ 1.50	1.17
	7,544,800	$ 0.88	

See notes 5a), 5 e) and 11 for additional warrant information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

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:

	2009	2008
Risk-free interest rate	3.20% - 3.56%	3.19% - 3.94%
Expected life	5 years	5 years
Price volatility	100%	55% - 60%
Dividend yield	nil	nil

The fair value compensation recorded for options granted during the year ended March 31, 2009 was $843,822 (2008 - $1,071,036) and has been expensed as stock-option compensation cost. This has resulted in an allocation of $843,822 to contributed surplus (2008 - $1,071,036).

A summary of the status of the Company's stock option plan as of March 31, 2009 and 2008, and changes during the years is presented below:

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of the year	2,090,000	$ 1.21	-	$ -
Exercised during the year	-	-	-	-
Expired or forfeited during the year	(3,000,000)	1.26	(20,000)	1.15
Granted during the year	910,000	1.35	2,110,000	1.21
Balance, end of the year	-	$ -	2,090,000	$ 1.21

As at March 31, 2009 there were no stock options outstanding.

See note 11 for additional stock option information.

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5 - SHARE CAPITAL (continued):

e) Agent's options:

A summary of the status of the agent's options as of March 31, 2009 and 2008 and changes during the years is presented below:

	2009	2008
Balance, beginning of the year	365,725	-
Agent's options issued during the year	210,000	450,000
Agent's options exercised during the year	-	(84,275)
Balance, end of the year	575,725	365,725

As at March 31, 2009 agent's options were outstanding enabling the holders to acquire the stated number of units as follows:

Exercise price	Number of agent's options		Expiry Date
$0.50	365,725	(1)	May 30, 2009
$1.00	210,000	(2)	May 30, 2010
	575,725		

1) Pursuant to the terms of an agency agreement dated May 3, 2007, agent's options to purchase 450,000 units, exercisable over a two-year period at an exercise price of $0.50 per unit, were issued as part of the commission related to the initial public offering. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable into one common share at a price of $0.75 per common share for a two-year period. As the common shares of the Company traded on a recognized stock exchange at a closing price of $1.10 or higher for twenty consecutive trading days (December 3, 2007 to January 4, 2008) the Company may accelerate the expiry date of the warrants to a period that is 30 days after written notice is given by the Company. As at March 31, 2009, the Company has no current plans to accelerate the expiry date on the remaining warrants.

2) During the year, 210,000 agent's options were issued as part of a finders 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:

	March 31, 2009	March 31, 2008
Canada	$ 946,622	$ 2,833,098
Peru	1,549,698	1,407,171
Total assets	$ 2,496,320	$ 4,240,269

The following table allocates net loss by segment:

	Year Ended March 31, 2009	Year Ended March 31, 2008
Canada	$ 2,107,601	$ 1,816,398
Peru	3,879,469	2,730,385
Net Loss	$ 5,987,070	$ 4,546,783

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7- RELATED PARTY TRANSACTIONS:

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

	2009	2008
Consulting fees expense:		
Consulting fees were charged by officers for financial management services	$ 51,336	$ 30,834
Corporate administrative fees were charged by an officer and director	$ 75,000	$ 65,000
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	$ 15,500	$ 18,000
Consulting fees were charged by a company controlled by an individual related to a director of the Company for investor relations services	$ 30,000	$ 28,000
Exploration expense:		
Geologist services were charged by an officer and director	$ 75,000	$ 65,000
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	$ 140,574	$ 93,976
Travel and promotion costs were reimbursed by the Company at cost to companies controlled by individuals related to a director of the Company	$ 9,866	$ -
Rent:		
Office lease and office management fees were charged by a company controlled by a director of the Company	$ 52,500	$ 55,400

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7 - RELATED PARTY TRANSACTIONS (continued):

Accounts payable and accrued liabilities includes $2,467 (2008 - $9,434) owing to a company controlled by a director of the Company as at March 31, 2009 and a company controlled by an individual related to a director of the Company as at March 31, 2009.

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 – INCOME TAXES

(a) The Company's provision for income taxes differ from the amounts computed by applying the basic current tax rate aggregating 33% (2008- 34%) to loss before income taxes, as shown in the following table:

	2009	2008
Statutory rate applied to loss for the year before income taxes	($1,975,733)	($ 1,545,906)
Increase in taxes resulting from:		
Stock-based compensation cost	278,461	364,152
Non-deductible items	134,615	11,552
Loss not tax-benefited	1,562,657	1,170,202
Future income tax recovery	$ -	$ -

(b) The tax effects of temporary differences that give rise to future income tax assets at March 31, 2009 and 2008 are as follows:

	2009	2008
Future tax asset:		
Share issue costs	$ 184,644	$ 163,206
Mining interests	263,466	84,674
Fixed assets	1,262	938
Non-capital losses	675,182	768,803
	1,124,554	1,017,621
Less valuation allowance	(1,124,554)	(1,017,621)
Net asset	$ -	$ -

(c) The Company has non-capital losses of approximately $2,046,005 in Canada which expire through 2029. The benefit of these losses has not been recognized for financial statements purposes.

(d) During the year, the Company paid $ nil (2008- $nil) in respect of income taxes.

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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.

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 year ended March 31, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

10 - FINANCIAL INTRUMENTS 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:

10 - FINANCIAL INTRUMENTS AND FINANCIAL RISK FACTORS (continued):

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 March 31, 2009, the Company had cash and cash equivalents of $962,670 (2008- $2,844,154) to settle accounts payable and accrued liabilities of $98,140 (2008- $54,346). 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 purse its exploration activities and maintain its working capital is dependant on its ability to secure additional equity or other financing.

Interest rate risk

The Corporation has cash balances and no interest-bearing debt. The Corporation's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Corporation 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 and 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.

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

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11 – SUBSEQUENT EVENTS

a) On May 26, 2009, the Company announced that it was accelerating the expiry date of the outstanding common share purchase warrants which were issued pursuant to the Company's Initial Public Offering ("IPO") on May 30, 2007. The exercise price and term of the warrants were subsequently amended as announced on March 5, 2009. The common shares of the Company traded on the Canadian National Stock Exchange ("CNSX") above $0.466 for a period of ten (10) consecutive trading days. Pursuant to CNSX policies, and the amended terms of the warrants, the Company was required to invoke a clause which accelerates the expiry date of the warrants. Holders of the warrants who wished to exercise their Warrants at a price of $CDN0.35 were required to do so on or before July 1, 2009. Failure to exercise the Warrants on or before July 1, 2009 resulted in their expiry. The warrants that were issued to agents in connection with the IPO are not affected by this; those agent warrants expired on May 30, 2009.

b) Subsequent to year end, the Company issued 3,244,000 common shares upon exercise of common share purchase warrants for cash proceeds of $1,135,400.

c) Subsequent to year end, the Company granted 3,000,000 stock options at an exercise price of $0.60 per common share expiring on April 23, 2014, to certain directors, officers and consultants of the Company.

d) Subsequent to the year end, 800,800 warrants expired.

12 – COMPARATIVE FIGURES

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