Cuervo Resources Inc.
(An Exploration Stage Company)

Consolidated Financial Statements

For the Years Ended March 31, 2011 and 2010

Collins Barrow
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Cuervo Resources Inc. (An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Cuervo Resources Inc. which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes the material uncertainties that may cast significant doubt about Cuervo Resources Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements of Cuervo Resources Inc. for the year ended March 31, 2010, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on July 15, 2010.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
July 25, 2011
Toronto, Ontario

Cuervo Resources Inc.
(An Exploration Stage Company)
Consolidated Balance Sheets
As at March 31, 2011 and 2010

	2011	2010
Assets		
Current		
Cash and cash equivalents	$ **201,223**	$ 444,732
Amounts receivable	**7,810**	9,844
Prepaid expenses	**7,373**	109,346
	216,406	563,922
Capital assets (Note 3)	**117,552**	149,727
Mining interests (Note 4)	**416,779**	465,571
	$ **750,737**	$ 1,179,220
Liabilities		
Current		
Accounts payable and accrued liabilities	$ **114,396**	$ 59,057
Shareholders' Equity		
Share capital (Note 5)	**13,733,849**	13,319,941
Contributed surplus (Note 5(b))	**3,485,959**	3,287,367
Deficit	**(16,583,467)**	(15,487,145)
	636,341	1,120,163
	$ **750,737**	$ 1,179,220

Nature and operations and going concern considerations (Note 1)

Commitments (Note 4)

Subsequent events (Note 11)

Approved by the Board **"Brian Berner"** Director **(Signed)** **"Brian Cloney"** Director **(Signed)**

Cuervo Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
Years Ended March 31, 2011 and 2010

	2011	2010
Expenses		
Bank charges	**$ 7,900**	$ 5,918
Consulting fees	**189,931**	233,808
Depreciation	**25,646**	16,386
Exploration	**1,046,461**	1,635,623
Foreign exchange loss (gain)	**(546,954)**	162,878
General, office and investor relations	**182,179**	250,114
Professional fees	**189,867**	102,610
Rent	**70,944**	135,555
Stock-option compensation cost	**-**	969,285
Telecommunications	**27,472**	24,604
Vehicle	**36,163**	43,462
Wages and benefits	**125,189**	156,058
	1,354,798	3,736,301
Loss before the undernoted items and income taxes	**(1,354,798)**	(3,736,301)
Gain on disposal of mining interests (Note 4)	**247,243**	-
Gain on disposal of capital assets	**11,233**	-
Interest income	**-**	3,599
	258,476	3,599
Net loss and comprehensive loss	**(1,096,322)**	(3,732,702)
Deficit, beginning of year	**(15,487,145)**	(11,754,443)
Deficit, end of year	**$ (16,583,467)**	$ (15,487,145)
Loss per share		
Basic and diluted	**$ (0.030)**	$ (0.114)
Weighted average number of common shares outstanding		
Basic and diluted	**36,056,577**	32,912,413

See accompanying notes

Cuervo Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	2011	2010
Cash provided by (used in)		
Operations		
Net loss	**$ (1,096,322)**	$ (3,732,702)
Items not affecting cash		
Depreciation	**25,646**	16,386
Stock-option compensation cost	**-**	969,285
Gain on disposal of mining interests	**(247,243)**	-
Gain on disposal of capital assets	**(11,233)**	-
	(1,329,152)	(2,747,031)
Net changes in non-cash working capital		
Decrease in amounts receivable	**2,034**	790,396
Decrease (increase) in prepaid expenses	**101,973**	(7,621)
Increase (decrease) in accounts payable and accrued liabilities	**55,339**	(39,082)
	(1,169,806)	(2,003,338)
Investing		
Disposal of capital assets	**17,762**	-
Disposal of mining interests	**296,035**	-
	313,797	-
Financing		
Issuance of units	**612,500**	1,485,400
Net change in cash	**(243,509)**	(517,938)
Cash, beginning of year	**444,732**	962,670
Cash, end of year	**$ 201,223**	$ 444,732

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 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 March 31, 2011, the Company had not yet achieved profitable operations, had accumulated deficit of $16,583,467 (2010 - $15,487,145) 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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Use of 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 are only capitalized once mineral reserves have been established. Once a mineral reserve has been established, all subsequent 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 recovery of Impuesto General A Las Vuentas (“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, when and 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 amount against IGV collected on potential future revenues earned by the Peruvian subsidiaries is $974,998 as at March 31, 2011 (2010 - $965,623).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining Interests and Exploration (Cont'd)

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.

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.

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.

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%

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 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, 2011.

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. 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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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, 2011, the Company has not incurred or committed any asset retirement obligations related to its exploration properties.

Translation of Foreign Currencies

The Company's functional currency is the Canadian dollar. The accounts of its subsidiary, which are integrated operations, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities resulting from foreign currency transactions are translated in Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the rates of exchange prevailing on the dates such items are recognized in the statement of operations, except for amortization which is translated at the same rate as the assets to which they relate. Gains and losses on translation of monetary assets and liabilities are included in the statement of operations.

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 March 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Company has made the following designations of its financial instruments: cash and cash equivalents as held-for-trading 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 measured at fair value. 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.

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

International Financial Reporting Standards

In February 2008, the CICA announced that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company is required to apply all of those IFRS standards which are effective for the fiscal year ending March 31, 2012 and apply them to its opening April 1, 2010 balance sheet.

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2011	Net 2010
Machinery and equipment	$ 67,657	$ 44,344	$ 23,313	$ 49,948
Furniture and fixtures	15,624	7,329	8,295	10,673
Buildings	95,615	9,913	85,702	88,667
Computer equipment	3,400	3,158	242	439
	$ 182,296	$ 64,744	$ 117,552	$ 149,727

4. MINING INTERESTS AND COMMITMENTS

The Company, through its wholly-owned Peruvian subsidiary, Minera Cuervo S.A.C., has a 100% interest in 54 (2010 - 57) mining concessions covering over 26,000 (2010 - 27,864) hectares in Perú.

Accumulated mineral property costs have been incurred as follows:

		2011		2010
Balance, beginning of the year	**$**	**465,571**	$	465,571
Costs incurred during the year		**-**		-
Disposal during the year		**(48,792)**		-
Balance, end of the year	**$**	**416,779**	$	465,571

During the year, the Company sold three mining concessions for cash proceeds of US$300,000 and recorded a gain on sale of $247,243.

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 1st 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 7th through the 11th years following the granting of the concession. From the 12th 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, 2011.

Tax and concession payments per annum are approximately as follows:

	Amount (US$)
2012	86,400
2013	97,800
2014	128,400
2015	149,400
2016	230,600

As at March 31, 2011, the Company's only significant commitment was with respect to its ongoing funding of its mineral concessions in Perú.

5. SHARE CAPITAL

a) Common shares

Authorized
unlimited common shares

Issued and outstanding

	Number of Shares	Amount
Balance at March 31, 2009	**30,179,750**	**$ 11,968,724**
Issued for cash		
Issued for cash	1,000,000	350,000
exercise of warrants	3,244,000	1,135,400
Issued for finder's fee on private placement	70,000	24,500
Fair value assigned to warrants issued on private placement	-	(125,405)
Fair value assigned to finder's fee warrants	-	(8,778)
Non-cash cost of share issuances	-	(24,500)
Balance at March 31, 2010	**34,493,750**	**$ 13,319,941**
Issued for cash		
Issued for cash	1,750,000	612,500
Issued for finder's fee on private placement	91,000	31,850
Fair value assigned to warrants issued on private placement	-	(188,776)
Fair value assigned to finder's fee warrants	-	(9,816)
Non-cash cost of share issuances	-	(31,850)
Balance at March 31, 2011	**36,334,750**	**$ 13,733,849**

i) On May 26, 2010, the Company closed a $612,500 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 common share purchase warrant entitling the holder to purchase one common share at a price of $0.55 for a period of 18 months from the closing of the financing. If the closing price of the 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 accelerate the expiry date of the warrants. The Company paid a finder's fee equal to 91,000 units. A value of $188,776 has been allocated to the warrants (notes 5(b) and 5(c)) and $423,724 to the common shares. A value of $9,816 has been allocated to the warrants issued as part of the finder's fee (notes 5(b) and 5(c)).

5. SHARE CAPITAL (Cont'd)

b) Contributed surplus

A summary of the status of contributed surplus as of March 31, 2011 and 2010, and changes during the years is presented below:

	2011	2010
Balance, beginning of the year	**$ 3,287,367**	$ 2,183,899
Fair value of stock options	**-**	969,285
Fair value of warrants issued in private placement	**188,776**	125,405
Fair value of warrants issued as finder's fees	**9,816**	8,778
Balance, end of year	**$ 3,485,959**	$ 3,287,367

c) Warrants

A summary of the status of the warrants as of March 31, 2011 and 2010 and changes during the years are presented below:

	Number of Warrants	
	2011	2010
Balance, beginning of the year	**4,570,000**	7,544,800
Warrants issued in private placement	**1,750,000**	1,000,000
Warrants issued as finder's fees	**91,000**	70,000
Warrants exercised during the year	**-**	(3,244,000)
Warrants expired during the year	**(3,500,000)**	(800,800)
Balance, end of year	**2,911,000**	4,570,000

The fair value of warrants issued during the year ended March 31, 2011 of $198,592 (2010 - $134,183) 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 are as follows:

	2011	2010
Risk-free interest rate	**1.44%**	1.33%
Expected life	**1.5 years**	1.5 years
Estimated volatility in the market price of the common shares	**131.85%**	155.51%
Dividend yield	**Nil**	Nil

5. SHARE CAPITAL (Cont'd)

c) Warrants (Cont'd)

As at March 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	1,070,000	$ 0.55	0.21
$ 0.55	1,841,000	$ 0.55	0.66
	2,911,000	**$ 0.55**	

See notes 5 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, vest immediately 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:

	2010
Risk-free interest rate	1.9.%-2.68%
Expected life	5 years
Price volatility	130%-133%
Dividend yield	Nil

There were no options granted during the year ended March 31, 2011.

The fair value compensation recorded for options granted and vested during the year ended March 31, 2010 was $969,285 and had been expensed to net loss and comprehensive loss as stock-option compensation cost, with a corresponding allocation of $969,285 to contributed surplus.

The grant date weighted average fair value of the options issued was $0.27.

5. **SHARE CAPITAL** (Cont'd)

d) Stock-option plan (Cont'd)

A summary of the status of the Company's Plan as of March 31, 2011 and 2010, and changes during the years is presented below:

	2011		2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of the year	**3,420,000**	**$0.60**	-	$ -
Expired/cancelled	**(200,000)**	**$0.60**	(105,000)	$0.60
Granted	**-**	**$ -**	3,525,000	$0.60
Ending balance	**3,220,000**	**$0.60**	3,420,000	$0.60

The Company had the following stock options outstanding at March 31, 2011:

Number of Options	**Exercisable**	**Exercise Price**	**Expiry Date**
2,695,000	2,695,000	$ 0.60	April 23, 2014
375,000	375,000	$ 0.60	September 17, 2014
150,000	150,000	$ 0.60	December 20, 2014
3,220,000	**3,220,000**		

e) Agents' options

A summary of the status of the agents' options as of March 31, 2011 and 2010 and changes during the years is presented below:

	2011	2010
Balance, beginning of the year	**210,000**	575,725
Agents' options expired during the year	**(210,000)**	(365,725)
Balance, end of year	**-**	210,000

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:

Assets by geographical segment:

		2011		2010
Canada	$	191,489	$	481,227
Perú		559,248		697,993
Total assets	$	750,737	$	1,179,220

Location of capital assets:

		2011		2010
Canada	$	1,304	$	1,767
Perú		116,248		147,960
Total assets	$	117,552	$	149,727

All the mining interests are located in Perú.

7. RELATED PARTY TRANSACTIONS

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

		2011		2010
Consulting fees expense				
Corporate administrative fees were charged by an officer and director	**$**	**60,000**	$	63,750
Consulting fees were charged by an officer for financial management services at the time of the transaction	**$**	**28,668**	$	57,336
Consulting fees were charged by a company controlled by an individual related to a director of the Company for investor relations services	**$**	**42,000**	$	39,000
Exploration expense				
Geologist services were charged by an officer and director	**$**	**60,000**	$	63,750
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	**$**	**47,210**	$	71,223
Travel and promotion costs were reimbursed by the Company at cost to companies controlled by individuals related to a director of the Company	**$**	**-**	$	3,034
Rent and general, office and investor relations				
Office lease and office management fees were charged by a company controlled by a director of the Company	**$**	**48,000**	$	50,500

Accounts payable and accrued liabilities includes $12,000 (March 31, 2010 - $719) owing to a company controlled by a director of the Company as at March 31, 2011 and a company controlled by an individual related to a director of the Company as at March 31, 2011.

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.

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 29.5% (2010 - 33%) to loss before income taxes, as shown in the following table:

	2011	2010
Loss before income taxes	**$ (1,096,322)**	$ (3,732,702)
Statutory rate	**29.5 %**	33.0 %
Expected income tax recovery	**$ (323,430)**	$ (1,231,792)
Effect on income taxes of unrecognized future income tax assets relating to deductible temporary differences on:		
Adjustment in non-capital losses not set up in prior years	**(1,924,090)**	-
Change in valuation allowance	**1,850,608**	861,593
Change in future tax rates and other	**378,713**	-
Stock-based compensation cost	**-**	319,864
Non-deductible expenses	**18,199**	50,335
Income tax expense	**$ -**	$ -

(b) The tax effects of temporary differences that give rise to future income tax assets at March 31, 2011 and 2010 are as follows:

	2011	2010
Future tax asset		
Share issue costs	**$ 50,175**	$ 128,180
Mining interests	**248,132**	307,734
Non-capital losses	**2,906,686**	918,471
	3,204,993	1,354,385
Less: Valuation allowance	**(3,204,993)**	(1,354,385)
	$ -	$ -

8. INCOME TAXES (Cont'd)

(c) The Company has non-capital losses of approximately $3,489,035 in Canada which expire through 2031 and $6,782,510 in Peru which potentially expire through 2014. Starting from year 2011, the Company has the option to either carry forward 100% of non-capital losses in Peru for 4 years or carry forward 50% of non-capital losses indefinitely. The benefit of these losses has not been recognized for financial statements purposes.

As at March 31, 2011, the Company has non-capital losses of $10,271,545 expiring as follows:

	Canada	Peru
2011	$ -	$ 1,648,733
2012	-	4,669,985
2013	-	76,550
2014	-	387,242
2026	112,639	-
2027	366,126	-
2028	711,384	-
2029	859,577	-
2030	755,557	-
2031	683,752	-
	$ 3,489,035	$ 6,782,510

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 March 31, 2011 aggregated $636,341 (2010 - $1,120,163).

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.

9. CAPITAL MANAGEMENT (Cont'd)

There were no changes in the Company's approach to capital management during the year ended March 31, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

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

Credit Risk

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

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 March 31, 2011, the Company had cash and cash equivalents of $201,223 (2010 - $444,732) to settle accounts payable and accrued liabilities of $114,369 (2010 - $59,057). 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.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Cont'd)

Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and the term deposit entered into by the Company bear interest at a fixed rate thus exposing it to the risk of changes in fair value arising from interest rate fluctuations. The cash and term deposit are invested in high grade, highly liquid instruments and as such the Company manages its exposure to potential interest rate fluctuations to short term. A one percentage (1%) fluctuation in the interest rate would affect the profitability of the Company by an immaterial amount.

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 year ended March 31, 2011, the Company recorded a non-cash gain of $546,954 (2010 - loss of $162,878) 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 $841,000 (2010 - $883,000). The analysis assumes all other variables remain constant.

11. SUBSEQUENT EVENTS

Subsequent to the year end, the Company signed an investment agreement, in escrow, with Strike Resources Limited (ASX:SRK; "Strike"), under which Strike will provide two-stage financing of up to $15 million to Cuervo to fund advanced exploration work on the Company's iron ore exploration project in Perú. Pursuant to the agreement, Strike will acquire two warrants: (a) one warrant (the "Phase One Warrant") entitling the holder thereof to acquire 17,500,000 common shares of Cuervo ("Common Shares") at an exercise price of $0.30 per share during the three-year period from the date of issuance, subject to adjustments; and (b) one warrant (together with the Phase One Warrant, the "Warrants") entitling the holder thereof to acquire 17,727,273 Common Shares at an exercise price of $0.55 during the three-year period from the date of issuance, subject to adjustments. The agreements, and related documents, will be released from escrow and closing will occur upon completion of preliminary steps related to the registration of Peruvian security contemplated by the investment agreement.

The Warrants will be issued to Strike as interest consideration for Strike providing Cuervo with a secured three-year loan in the principal amount of $5,250,000 and, subject to certain conditions and adjustments, and in Strike's discretion, an additional secured loan in the principal amount equal to $9,750,000.

When issued, Strike will own all of the Cuervo Warrants. Upon exercise by Strike of each of the Warrants in full, Strike would own an aggregate of 35,227,273 Common Shares, representing approximately 49% of the outstanding Common Shares and approximately 46% on a fully diluted basis.

11. SUBSEQUENT EVENTS (Cont'd)

The agreement, and related documents, will be released from escrow and closing will occur upon completion of preliminary steps related to the registration of the Peruvian security.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.