

## QUARTERLY REPORT PERIOD ENDED 30 JUNE 2012

### 1. QUARTERLY HIGHLIGHTS

#### Corporate

- 2012 Share Purchase Plan offer activated following quarter end;
- Goldcorp provided with Cerro del Gallo 43-101 FS documentation.

#### Mexico

#### **Cerro del Gallo Gold/Silver/Copper development project, Guanajuato, Mexico**

- **1<sup>st</sup> stage Heap Leach definitive Feasibility Study** findings released (May 2012):

##### **Operating FS Outcomes**

- |  |                               |
|--|-------------------------------|
| ○ Life of Mine (LOM)                               | <b>7.2 years</b>              |
| ○ Average annual gold equivalent production        | <b>94.6 k oz</b>              |
| ○ Cash operating cost (co-product basis)           | <b>US\$516 per oz (Au eq)</b> |
| ○ Pre-production capital costs (excl mining fleet) | <b>US\$136M</b>               |

##### **Financial FS Outcomes** (@US\$1341/oz Gold, US\$25.58/oz Silver & US\$7,582/t Copper)

- |                                       |                 |
|---------------------------------------|-----------------|
| ○ Undiscounted Net Cash Flow          | <b>US\$280M</b> |
| ○ Net Present Value @ 6%              | <b>US\$181M</b> |
| (incl. capital payback and royalties) |                 |

- **2<sup>nd</sup> stage CIL/Heap Leach expansion:**
  - The Preliminary Assessment (April 2011) outlined a 2<sup>nd</sup> stage Carbon-in-Leach ("CIL")/Heap Leach mill expansion option, with the potential to extend LOM to 14 years approx.
  - The expansion is to be subject to a separate Feasibility Study in year 3 of mining.

Notes: - These highlights for the Cerro del Gallo Project should be read in conjunction with Section 3 of this report.

- The 2011 2<sup>nd</sup> stage Preliminary Assessment is referenced here for comprehension of the projects potential dimensions. A definitive Feasibility Study on Stage 2 will be undertaken in year 3 of mining.
- The 2011 2<sup>nd</sup> Stage Preliminary Assessment is preliminary in nature. The 2011 Preliminary Assessment on Stage 2 assumed processing of in-pit M&I resources (not mineral reserves) and did not reflect copper-related values. Resources that are not mineral reserves do not have demonstrated economic viability and there is no certainty that the 2<sup>nd</sup> stage Preliminary assessment will be realised. Global operating and capital cost benchmarks may also have altered since the 2011 Preliminary Assessment was reported. The 2011 2<sup>nd</sup> stage Preliminary Assessment Technical Report was filed on SEDAR.

#### **Namiquipa silver/lead/zinc exploration project, Chihuahua, Mexico**

- Assays for the final 16 holes of the 1<sup>st</sup> stage campaign were reported (June 2012), with results including:
  - 7 holes yielding silver intercepts greater than 200 g/t Ag, and including:
    - **3.66m @ 738g/t AgEq (NAM-085) from 122.34m**
    - **8.8m @ 268g/t AgEq (NAM-084) from 145.12m**
- Maiden resource evaluation is the next target in 2012.

### **Espiritu Santo** gold/silver exploration project, Jalisco, Mexico

- Following quarter end, the Company reported (July 2012) initial surface exploration had identified **17** major quartz breccia veins (strike lengths up to 1km+ and typical widths of 3-8+ meters) within the 5,800 ha project area, with 7.92g/t Au and 372g/t Ag rock chip sample highlight, among multiple +1g/t Au - +50g/t Ag samples.
- Initial drilling to occur in 2H2012.

## **2. CORPORATE**

The Company initiated the 2012 Share Purchase Plan offer, post end of the period. The Share Purchase Plan is intended to provide the Company with a modest amount of additional funding during the second half of 2012 when the Company intends to finalise participation/ funding terms for the Cerro del Gallo 1st Stage Heap Leach project.

Goldcorp Inc, as minority (32%) JV partner in the Cerro del Gallo gold/silver/copper project was also provided with the Cerro del Gallo 43-101 Feasibility Study documentation, post end of the period.

Cash at Bank at 30 June 2012 was \$4.4M.

## **3. MEXICO**



## **Cerro del Gallo** (Cerro Resources 68%: Goldcorp 32%)

Completion of the definitive feasibility study was achieved during the quarter and subsequent publication of the National Instrument 43-101 Technical Report (Canadian regulatory requirement to publish the Technical Report on which the feasibility is based) was completed on July 6, 2012.

### **Stage 1 Heap Leach Feasibility Study highlights:**

#### **Operating FS Outcomes**

Life of Mine (LOM)	7.2 years
Average annual gold equivalent production <sup>1</sup>	94.6 k oz
Cash operating cost <sup>1, 2</sup>	US\$516 per oz (Au eq)
Pre-production capital costs:	
Plant & Infrastructure Costs and Owners Costs	US\$136M
Mining fleet cost <sup>3</sup>	US\$18.8M

#### **Financial FS Outcomes**

**(At metal pricing of US\$1,341/oz Au, US\$25.58/oz Ag and US\$7,582/t Cu)**

(Assumes owner operated mining fleet and includes sustaining capital) <sup>3</sup>	
Undiscounted Net Cash Flow <sup>4</sup> (after capex, pre-tax)	US\$280M
Net Present Value @ 6% <sup>4</sup> (after capex, pre-tax)	US\$181M
Pre-tax IRR <sup>4</sup>	30.5%
Pre-production Capital Payback Period <sup>3,4</sup>	2.7 years

The feasibility study was limited to the Stage 1 Heap Leach referred to above. Stage 2 of the development was the subject of a study (see announcement of the Company dated April 12, 2011 – “the 2011 Study”) to a level of Preliminary Assessment and it was not updated at this time.

### **First Stage Heap Leach – Feasibility Study detailed findings**

The FS for the First Stage Heap Leach prepared under the direction of Sedgman Limited (“Sedgman”), Perth, Australia, with inputs from other independent international consultants, built upon the “2011 Study” and confirms the financial and technical viability of constructing and operating a 4.5 Mtpa open-pit, heap leach gold/silver mine at Cerro del Gallo.

The FS primarily addressed changes to processing and relied on the Proven and Probable reserves determined in the 2011 Study, which were updated in the FS to include copper values. These are now referred to as the 2012 Proven and Probable Reserves in the FS. Mining costs in the FS were adjusted to account for higher fuel costs and capital and operating costs were factored with appropriate values to bring the costs up to date. The production schedule from the previously defined pit designs was updated to include copper values.

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1. The gold equivalent ounces are calculated using the 3 year historic gold, silver and copper prices US\$1,341/oz, US\$25.58/oz and US\$7,582/t respectively for gold:silver price ratio of 52.4 and a gold:copper price ratio of 0.177. That is, 52.4 oz of silver is equal in value to 1 ounce of gold and 0.177 tonnes of copper is equal in value to 1 ounce of gold.
  2. Cash operating costs represent the costs for mining, processing, metal transport and refining and administration and do not include capital costs or royalties (4%) which are deducted from revenues for economic modelling purposes.
  3. The decision to mine by owner-operated fleet or to contract mine has not been finalised. Potential to reduce capital costs and improve the capital payback period and IRR could exist in this regard.
  4. Using 3 year average metal prices of US\$1,341 Au/oz, US\$25.58 Ag/oz and US\$7,582 Cu/tonne and based on net payable ounces of silver and gold and payable tonnes of copper.

The development of the Cerro del Gallo project for gold and silver production requires the processing of three different material types: weathered, oxidized, and sulphide (fresh).

The 2011 Study determined that to fully develop the project for gold and silver recovery, heap leaching should be used for the weathered and oxidized material and CIL for the sulphide (fresh) material. The 7.2 year approximate First Stage Heap Leach mine life will see the heap leach processing of the weathered and oxidized material – which forms the relatively higher-grade gold/silver part of the much larger gold/silver/copper resource at Cerro del Gallo.

## Mineral Reserves

The 2011 Study Proven and Probable reserves have been updated to include copper. The 2012 Proven and Probable reserves of 32.2Mt for the First Stage Heap Leach project are shown in the table below, and this forms the basis for the DFS.

### First Stage Heap Leach FS - Proven and Probable Reserves

Category	Total						
	K Tonnes	g Au/t	K Ozs Au	g Ag/t	K Ozs Ag	Cu %	Kt Cu
FS Proven	28,248	0.71	643	15.05	13,664	0.08	22.8
FS Probable	3,971	0.54	69	13.20	1,685	0.07	2.8
<b>FS Proven and Probable<sup>5</sup></b>	<b>32,219</b>	<b>0.69</b>	<b>712</b>	<b>14.82</b>	<b>15,349</b>	<b>0.08</b>	<b>25.6</b>

## Key Data

The following tables set out aggregated summaries of key FS data – presented on an average life-of-mine or total life-of-mine basis for the First Stage Heap Leach.

### First Stage Heap Leach FS – Operational Data

Mining	
Ore Mined	32.2Mt
Waste Mined	29.4Mt
Gold Grade	0.69 g/t
Silver Grade	14.8 g/t

The waste mined includes 9Mt of mineralised fresh rock material which is potential feed for the Second Stage CIL/Heap Leach development. This would have an economic benefit for the Second Stage CIL/Heap Leach and will be evaluated in the second stage FS.

5. Proven and Probable reserves are reported using gold equivalent cut-off grades of 0.21 and 0.29 g/t for weathered and partially oxidized material respectively. Cut-off grades were applied to gold equivalent grades which include both gold:silver price and recovery ratios.

## First Stage Heap Leach FS – Additional Operational Data

<b>Milling</b>	
<b>Annual Throughput</b>	4.5Mt
<b>Overall Gold Recovery</b>	68.5%
<b>Overall Silver Recovery</b>	50.1%
<b>Overall Copper Recovery</b>	31.8%
<b>Maximum gold equivalent production, k oz per annum</b> <sup>6</sup>	99.1 (Yr 3)
<b>Average gold equivalent production, k oz per annum</b> <sup>6</sup>	94.6
<b>Average gold production, k oz per annum</b>	67.9
<b>Average silver production, k oz per annum</b>	1,072
<b>Average copper production, t per annum</b>	1,113
<b>Base Life of Mine Stage 1</b>	7.2 years

The average metal recoveries are based on column leach test work on diamond drill core composite samples, crushed by high pressure grinding rolls (HPGR) and leached for 115 days.

## First Stage Heap Leach FS – Annual total metal production

<b>Year</b>	<b>Gold (k oz)</b>	<b>Silver (k oz)</b>	<b>Copper (t)</b>	<b>Gold (k oz Eq)<sup>6</sup></b>
1	47.7	525	267	59.2
2	76.5	970	682	98.9
3	74.0	1,016	1,018	99.1
4	60.2	1,080	1,128	87.2
5	58.7	1,096	1,223	86.5
6	64.6	1,189	1,349	94.9
7	69.5	1,144	1,380	99.1
8	36.3	677	943	54.6
<b>Total</b>	<b>487.5</b>	<b>7,697</b>	<b>7,990</b>	<b>679.5</b>

The annual metal production is based on the mining study for the First Stage Heap Leach completed by Mine Development Associates (MDA) in May 2011 and updated for this current FS. The above metal production is the total metal production prior to shipment to a refinery for gold and a smelter for copper and silver concentrate treatment. Payable metal percentages are included in the financial analysis. For gold and silver as doré, it is 99.75% and 99%, respectively. For copper and silver as SART concentrate shipped, 73% of the metal value is payable. Transport, treatment and refining costs have also been included.

<sup>6</sup> The gold equivalent ounces are calculated using the 3 year historic gold, silver and copper prices US\$1,341/oz, US\$25.58/oz and US\$7,582/t respectively for gold:silver price ratio of 52.4 and a gold:copper price ratio of 0.177. That is, 52.4 oz of silver is equal in value to 1 ounce of gold and 0.177 tonnes of copper is equal in value to 1 ounce of gold.

### First Stage Heap Leach FS – Cash Operating Costs

Cash Operating Cost	US\$/t Average (ore tonne)	US\$/oz Au Eq Average <sup>7</sup>
Mining	3.2	152
Processing	6.63	314
Metal Transport & Refining	0.30	14
G & A	0.76	36
<b>TOTAL</b>	<b>10.89</b>	<b>516</b>

Capital costs for the First Stage Heap Leach have been classified as Pre-production Capital Costs, which includes Plant and Infrastructure Costs, Owners Costs and Mining Fleet, and Sustaining Capital as outlined in the following three tables.

### First Stage Heap Leach FS – Pre-production Capital Costs

Capital Costs	Cost (000's US\$)
<b>Plant and Infrastructure Costs</b>	
Crushing	25,609
Agglomeration	4,970
Heap Leach Pad & Ponds	21,413
SART Circuit	12,524
Adsorption	2,620
Elution & Gold Room	2,275
Reagents	3,991
Services & Infrastructure	27,035
<b>Subtotal</b>	<b>100,437</b>
Contingency	9,242
<b>Total Plant Costs (Inclusive of EPCM)</b>	<b>109,679</b>
<b>Owners Costs</b>	
High Voltage Power Supply	4,725
Mobile Equipment	962
Pre-Production Labour	2,187
Regulatory, Land, Insurance etc	4,013
Insurance & Operating Spares	1,742
Working Capital (3 months)	11,447
<b>Subtotal</b>	<b>25,076</b>
Contingency	1,254
<b>Total Owners Costs</b>	<b>26,330</b>
<b>Project Cost First Stage 4.5Mtpa Heap Leach</b>	<b>136,009</b>

7. The gold equivalent ounces are calculated using the 3 year historic gold, silver and copper prices US\$1,341/oz, US\$25.58/oz and US\$7,582/t respectively for gold:silver price ratio of 52.4 and a gold:copper price ratio of 0.177. That is, 52.4 oz of silver is equal in value to 1 ounce of gold and 0.177 tonnes of copper is equal in value to 1 ounce of gold.

No final decision has been taken as to whether to mine by an owner operated fleet or to contract mine. The capital requirements of providing a fleet will reduce and operating expenses are likely to increase if contract mining is adopted. Tender documents to invite mining contractors working in Mexico to bid on mining at Cerro del Gallo have been drafted and will be issued in the coming months. Following that and based upon financing, a decision will be made. An estimate of the additional capital costs for the required mining equipment to commence mining for the First Stage Heap Leach component has been completed by MDA.

### First Stage Heap Leach FS – Pre-production Mining Fleet Costs

	<b>Cost US\$,000</b>
Primary Mining Equipment	9,898
Support Equipment	4,729
Blasting	236
Mine Maintenance	542
Other Mine Capital	3,385
<b>Total Year 1 Mining Capital</b>	<b>18,790</b>

### First Stage Heap Leach FS – Sustaining Capital

	<b>Cost US\$,000</b>
Mining Capital	12,533
Leach Pad Expansion	10,000
Stacking Equipment etc	4,900
Other	1,500
<b>Total</b>	<b>28,933</b>

Sustaining capital is reflective of amounts in addition to the pre-production capital and mining fleet costs, which are incurred over the life of mine and have been allowed for in economic modelling.

### First Stage Heap Leach FS – Key Economic Indicators

<b>Financial</b>	
<b>Net Smelter Return Royalty</b>	4%
<b>Undiscounted Net Cash Flow (\$USm)<sup>8</sup></b>	280
<b>Net Present Value @ 6% (\$USm)<sup>8</sup></b>	181
<b>Pre-production Capital Payback Period (includes mining fleet)<sup>8</sup></b>	2.7 Yrs
<b>Pre-tax IRR<sup>8</sup></b>	30.5%

Economic modelling provides for mining by an owner-operated mining fleet and metal pricing of US\$1,341 Au/oz, US\$25.58 Ag/oz and US\$7,582 Cu/tonne.

<sup>8</sup> Using 3 year average metal prices of US\$1,341 Au/oz, US\$25.58 Ag/oz and US\$7,582 Cu/tonne and based on net payable ounces of silver and gold and payable tonnes of copper.



## Second Stage CIL/Heap Leach

The Second Stage CIL/Heap Leach project relates to the addition of a CIL processing facility to run in parallel with heap leach processing on the additional resource of the higher grade gold/silver rich part of the Cerro del Gallo project, expected to commence in Year 5 and extending mine life to approximately 14 years. The Second Stage CIL/Heap Leach project will be the subject of a separate Feasibility Study, which will require detailed engineering and cost estimation for the CIL processing plant and site investigation work for the tailings storage facility plus design for the expanded open pit mine. This work is to be completed during Year 3 of the heap leach operations. A preliminary assessment in respect of the Second Stage CIL/Heap Leach component was announced in April 2011 with the 2011 Study (see news release of the Company dated April 12, 2011).

## Next Steps

The Company has advanced discussions on potential avenues to fund the construction of the mine and will seek to finance with as little as possible equity dilution of shareholders. A decision on financing cannot occur until the Company's joint venture partner (Goldcorp) has made a determination as to whether it will participate in the next phase of development and construction of the Cerro del Gallo mine.

## **Namiquipa** (Cerro Resources 100%)

Phase 1 drilling of the Princesa Vein system was completed during the quarter. Final 16 assay results included:

- drilling identified a broad zone of confluence between the principal Princesa and America vein systems;
- 11 out of the 16 holes yielded silver intercepts greater than 100 g/t Ag;
- 7 holes yielded silver intercepts greater than 200 g/t Ag, including
  - 3.66m@738g/t AgEq (NAM-085) from 122.34m (654g/t Ag, 0.62% Pb and 2.43% Zn),
  - 8.8m@268g/t AgEq (NAM-084) from 145.12m (255g/t Ag, 0.19% Pb and 0.32% Zn), including 0.25m@2,397 AgEq from 145.12m (2,340g/t Ag, 1%Pb and 1% Zn), and
  - 4m@383g/t AgEq (NAM-078) from 148m (363g/t Ag, 0.6%Pb and 0.2% Zn).

Stage 1 drilling, comprising 86 holes, has delineated a major silver-driven system of largely contiguous mineralised veins (Ag-Pb-Zn) encompassing 1km lateral strike, and extending from 150m below surface to 500 meters, down-dip.

The drill results from this extensive system will now be incorporated into a detailed geological-geophysical-geochemical model; for purposes of maiden resource estimation, during 2H2012.

Drill density is sufficient to support an Inferred category resource. Geologic review and interpretation of the drill data is progressing to support a resource study later this year.

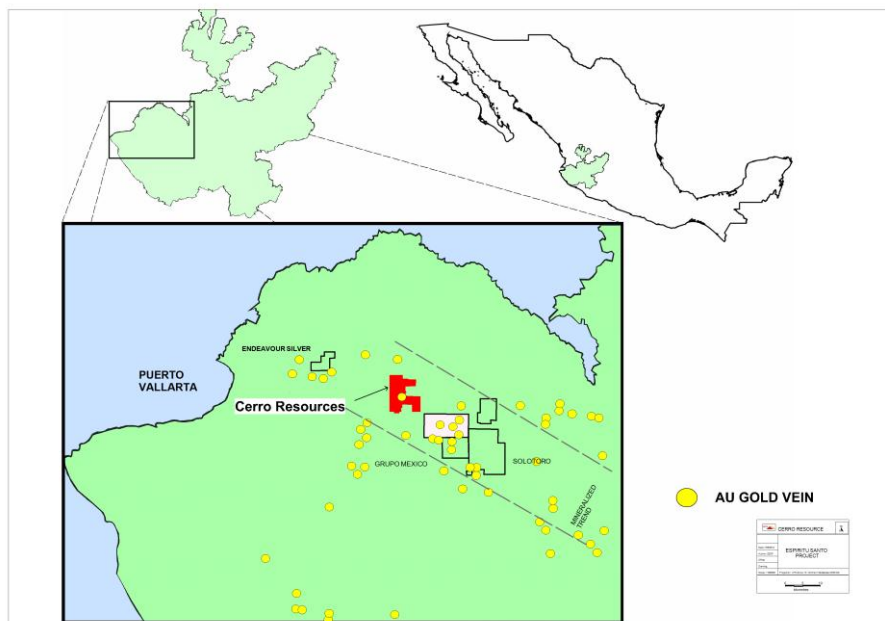


Surface exploration is continuing with geochemical sampling and IP surveying designed to trace the mineralisation to the north. Preliminary results are in keeping with the interpreted structural regime; final results should be available in the third quarter.

Based on the surface results and the outcome of the geologic review Phase 2 drilling will concentrate on upgrading the resource to Indicated status and developing Inferred Resources on the other vein systems.

### **Espiritu Santo** (Cerro Resources 100%)

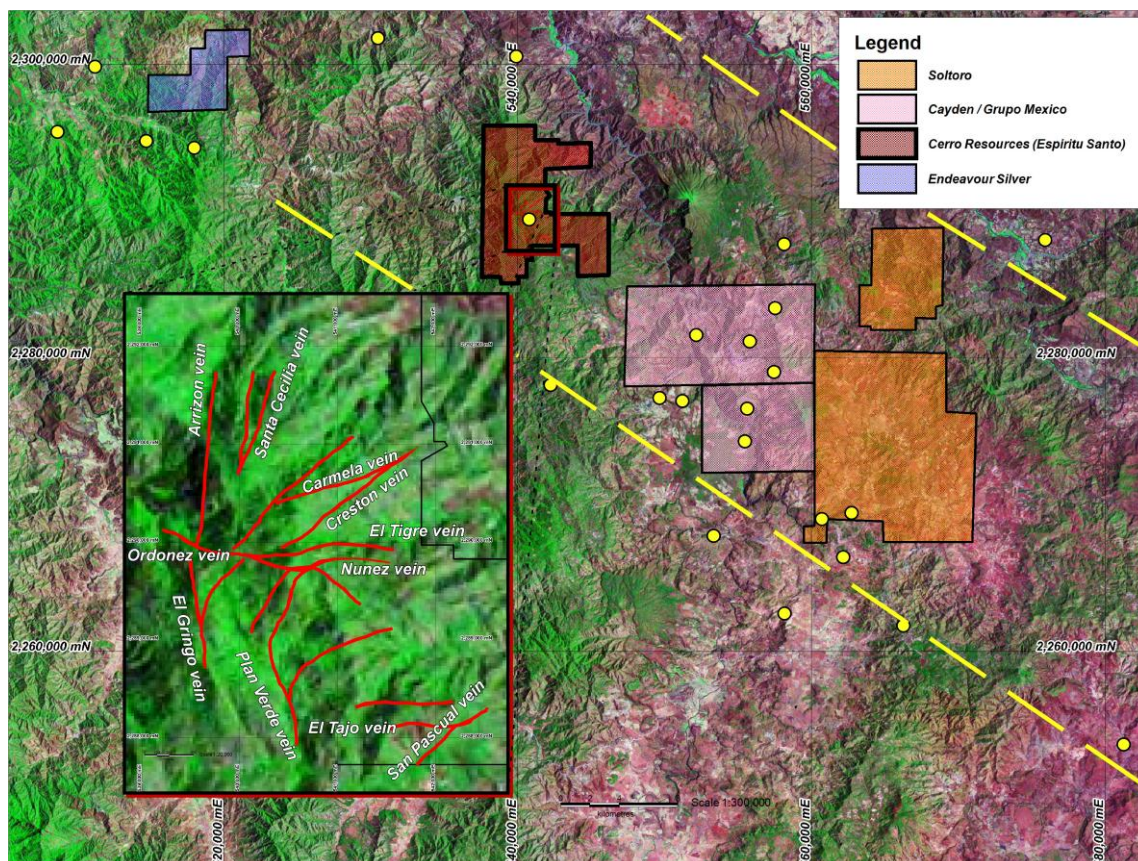
Espiritu Santo is located 130 km west of Guadalajara and 50 km east of Puerto Vallarta in Jalisco State. The project lies within a north-west corridor defined by numerous, predominantly gold/silver, mineralised occurrences (Figure 1).



**Figure 1: Espiritu Santo Project Location**

Several drill projects within this prolific zone are currently being actively explored, including Endeavour Silver Corporation's San Sebastian development project to the north west and Soltoro Limited's El Rayo Project to the south east (Figure 2).

Cerro Resources' concessions cover an area of 5,800 hectares, within the Mascota-Navidad Mining District, and are surrounded by two old mining sub-districts of San Sebastian del Oeste (20km north west) and Navidad. Espiritu Santo is positioned in the northern part of the Navidad section.



**Figure 2: Location of Espiritu Santo within Major NW Gold Trend  
(not all Espiritu Santo Project veins presented in this schematic)**

Veins within the project have strike lengths up to +1km with trends varying from N-S, E-W, NE and lesser NW. Widths of these multiple pulse, brecciated veins are 3 to +8 meters with wider zones of intense quartz stockwork veining near the intersections with other major veins. Current focus is on dilation zones along nearly E-W to NE trending structures that appear to have formed as flexure structures extending from the prominent N-S veins (Arrizon and Gringo structures).

The following table contains highlights from the rock chip sample program undertaken during the quarter. Gold values range from less than detection to a high of 7.92 g/t Au, silver values range from less than detection to a high of 372 g/t Ag. Other anomalous elements include copper (high of 8,970 ppm Cu), lead (high of 20,700 ppm Pb) and zinc (high of 5,660 ppm Zn).

As indicated in the following table silver is clearly associated with the known mineralised systems. In addition, copper, lead and zinc also define these zones in both the rock chip samples and in the soil geochemistry program currently in progress. Results from these surveys are also highlighting undocumented zones to be drill tested.

### Highlights of Espiritu Santo Surface Sampling

<b>SAMPLE</b>	<b>EAST WGS84</b>	<b>NORTH WGS84</b>	<b>Au g/t</b>	<b>Ag g/t</b>	<b>VEIN</b>	<b>SYSTEM</b>
ES-0071	539577	2291248	0.85	10	Arrizon	N-S
ES-0167	539561	2291205	0.5	20	Arrizon	N-S
ES-1062	539502	2290537	0.02	2	Arrizon	N-S
ES-1064	539520	2290673	2.35	5	Arrizon	N-S
ES-1065	539521	2290894	1.94	11	Arrizon	N-S
ES-1066	539548	2291159	0.17	14	Arrizon	N-S
ES-0179	540596	2290326	1.26	8	Carmela	NE-SW
ES-0183	540902	2290587	2.4	22	Carmela	NE-SW
ES-0184	540902	2290587	1.77	24	Carmela	NE-SW
ES-0187	540934	2290614	1.2	5	Carmela	NE-SW
ES-1052	540220	2290252	0.98	27	Carmela	NE-SW
ES-0001	539570	2289108	0.04	1	El Gringo	N-S
ES-0002	539570	2289108	0.04	13	El Gringo	N-S
ES-0003	539570	2289108	1.53	372	El Gringo	N-S
ES-0004	539570	2289108	0.58	15	El Gringo	N-S
ES-0005	539570	2289108	1.44	14	El Gringo	N-S
ES-0009	539567	2289121	2.13	66	El Gringo	N-S
ES-0017	539564	2289203	0.7	8	El Gringo	N-S
ES-0018	539564	2289203	0.45	5	El Gringo	N-S
ES-0027	539563	2289286	0.29	6	El Gringo	N-S
ES-0028	539563	2289286	0.18	7	El Gringo	N-S
ES-0029	539563	2289286	0.34	13	El Gringo	N-S
ES-0033	539541	2289362	0.15	10	El Gringo	N-S
ES-0034	539543	2289364	0.01	1	El Gringo	N-S
ES-1039	539575	2289097	0.46	10	El Gringo	N-S
ES-1050	539583	2289057	3.14	88	El Gringo	N-S
ES-1051	539585	2289043	0.7	28	El Gringo	N-S
ES-0093	540259	2289224	0.67	3	El Puma	NE-SW
ES-0094	540267	2289233	0.69	2	El Puma	NE-SW
ES-0171	540594	2289443	0.05	1	El Puma	NE-SW
ES-0188	541947	2288307	0.62	44	El Tajo	E-W
ES-0132	540744	2289877	2.97	124	El Tigre	E-W
ES-0134	540741	2289878	0.09	12	El Tigre	E-W
ES-0138	540693	2289855	4.06	79	El Tigre	E-W
ES-0126	540442	2291138	0.92	35	Lourdes	NE-SW
ES-0129	540453	2291183	0.59	13	Lourdes	NE-SW
ES-0131	540460	2291159	1.02	75	Lourdes	NE-SW
ES-0141	540545	2290102	1.92	46	Nuñez	E-W
ES-0142	540545	2290102	0.05	13	Nuñez	E-W
ES-0144	540555	2290103	1.69	17	Nuñez	E-W
ES-0145	540421	2290080	2.27	7	Nuñez	E-W
ES-1017	540541	2290104	1.71	14	Nuñez	E-W
ES-1034	540360	2290072	0.45	7	Nuñez	E-W
ES-1036	540425	2290081	0.5	13	Nuñez	E-W
ES-0147	539916	2290205	7.92	25	Patás	NE-SW

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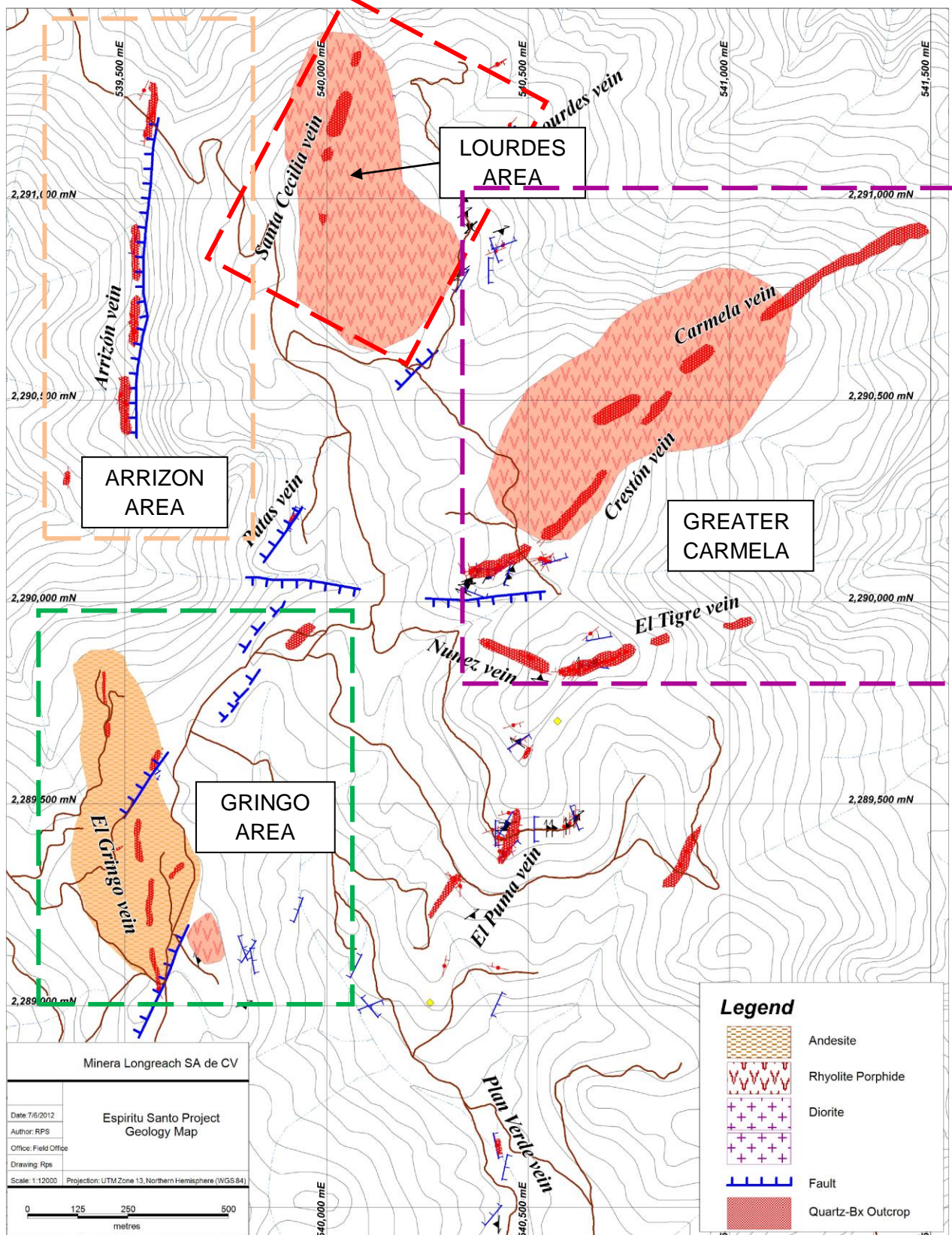
**N.A Mailing:** 1111 St Charles Street West, West Tower, Suite 101, Longueuil, Quebec, J4K 5G4 **Tel:** 1-514-544-2696



<b>SAMPLE</b>	<b>EAST WGS84</b>	<b>NORTH WGS84</b>	<b>Au g/t</b>	<b>Ag g/t</b>	<b>VEIN</b>	<b>SYSTEM</b>
ES-0148	539916	2290205	0.17	2	<i>Patas</i>	NE-SW
ES-1012	539569	2289596	2.49	23	<i>Patas</i>	NE-SW
ES-0051	539933	2289907	0.49	2	<i>Patas</i>	NE-SW
ES-1003	539411	2293429	0.01	1	<i>Piedra Cargada</i>	E-W
ES-1010	539381	2293430	0.01	1	<i>Piedra Cargada</i>	E-W
ES-1013	539402	2293481	0.48	14	<i>Piedra Cargada</i>	E-W
ES-1014	539402	2293509	0.09	6	<i>Piedra Cargada</i>	E-W
ES-0110	540459	2288584	0.9	47	<i>Plan Verde</i>	N-S
ES-0119	540426	2288646	0.68	13	<i>Plan Verde</i>	N-S
ES-0175	540425	2288653	0.84	38	<i>Plan Verde</i>	N-S
ES-0176	540425	2288653	0.15	6	<i>Plan Verde</i>	N-S
ES-1025	541505	2287668	2.43	68	<i>San Pascual</i>	NE-SW
ES-1027	541505	2287668	6.38	56	<i>San Pascual</i>	NE-SW
ES-1029	541505	2287668	3.92	106	<i>San Pascual</i>	NE-SW
ES-0153	540037	2291229	0.07	92	<i>Santa Cecilia</i>	N-S
ES-0158	540033	2291210	0.61	18	<i>Santa Cecilia</i>	N-S
ES-0162	540024	2291188	0.54	3	<i>Santa Cecilia</i>	N-S
ES-0163	540023	2291187	1.2	9	<i>Santa Cecilia</i>	N-S
ES-0164	540023	2291186	0.6	13	<i>Santa Cecilia</i>	N-S

Exploration and drill target definition is focusing on El Gringo, Lourdes veins and the Greater Carmela area, the later which includes the Carmela, Creston, Nuñez and El Tigre veins (Figure 3). The Greater Carmella area is an apparent dilation zone currently defined by an area measuring approximately 1.5km by 1.5km consisting of multiple mineralised veins. Additional exploration surface work is continuing in San Pascual and Patas veins. In addition, an active program is currently underway to locate new veins and extend the known veins. Following completion of the above work and subject to weather events drilling is anticipated 2H2012.

Unless otherwise stated rock chip samples are collected at 1m sample lengths. Samples are transported to ALS Chemex in Guadalajara, Mexico for sample preparation. Following sample preparation samples are shipped to ALS Laboratory in Vancouver, Canada and analyzed for 34 elements including a 30g fire assay with AA finish for gold. Silver is analyzed using a four acid "near total" digestion method.



**Figure 3 Central Espiritu Santo Principle Quartz Vein Targets**

## 4. AUSTRALIA

### **Mt Philp**

No further geological work was undertaken during the quarter. Application has been made to convert the holding to a Mineral Development Licence.

For further information, please contact:

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### **About Cerro Resources**

Cerro Resources is a precious and base metals exploration and development company. The Company is currently focused on Mexico where it is developing the Cerro del Gallo gold/silver project in the central state of Guanajuato, Mexico, actively exploring the Namiquipa silver project in northern Mexico, and commencing exploration on the Espiritu Santo gold/silver project in Jalisco. It also maintains an active focus on the Mt Isa, Queensland, region where it holds 100% of the Mt Philp haematite project as well as a continued interest in the Kalman molybdenum, rhenium, and copper project.

Additional information about the Company is available on the Company's website at [www.cerroresources.com](http://www.cerroresources.com) and on SEDAR.

### **Competent Person/Qualified Person**

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr John Skeet (as it relates to process related material), who is a Fellow of the Australasian Institute of Mining and Metallurgy; and Mr Bill Fleshman (as it relates to Cerro del Gallo, Namiquipa, and Espiritu Santo Projects), who is a Fellow of the Australasian Institute of Mining. Mr Skeet is the Chief Operating Officer of Cerro Resources NL and Mr Fleshman is a consultant to Cerro Resources NL. They have sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and "qualified persons" as this term is defined in Canadian National Instrument 43-101 ("NI 43-101"). Mr Skeet and Mr Fleshman consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

### **Forward-Looking Information**

This quarterly report contains "forward-looking information" under Canadian securities law. Any statement that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words such as "expect", "anticipate", "believe", "plans", "estimate", "scheduling", "projected" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking information. Forward-looking information relates to, among other things: the results of exploration programs, the interpretation of such results, the potential of the projects, the planned continuation of a drilling program, the accuracy of mineral resource and mineral reserve estimates, the ability of the Company to finance its operations and capital expenditures, future financial and operating performance including estimates of the Company's revenues and capital expenditures and estimated production.

Forward-looking information is subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, risks relating to: fluctuating commodity prices; calculation of resources, reserves and mineralisation and precious and base metal recovery; interpretations and assumptions of mineral resource and mineral reserve estimates; exploration and development programs; feasibility and engineering reports; permits and licences; title to properties; recent market events and conditions; economic factors affecting the Company; timing, estimated amount, capital and operating expenditures and economic returns of future production; operations and political conditions; environmental risks; and risks and hazards of mining operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking information. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, described or intended. The Company's forward-looking information is based on the assumptions, beliefs, expectations and opinions of management as of the date of this quarterly report, and other than as required by applicable securities laws, the Company does not assume any obligation to update forward-looking statements and information if circumstances or management's assumptions, beliefs, expectations or opinions should change, or changes occur in any other events affecting such statements or information. For the reasons set forth above, investors should not place undue reliance on forward-looking information.

***Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.***



# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

CERRO RESOURCES NL

ABN

72 006 381 684

Quarter ended ("current quarter")

30 JUNE 2012

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (12 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	<2,689>	<12,716>
	(b) development	-	-
	(c) production	-	-
	(d) administration	<411>	<1,872>
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	59	526
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>		<b>&lt;3,041&gt;</b>	<b>&lt;14,062&gt;</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	<33>	<351>
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	29	75
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (Business combination costs with San Anton Resource Corporation Inc. and Namiquipa Project Acquisition)	-	-
<b>Net investing cash flows</b>		<b>&lt;4&gt;</b>	<b>&lt;276&gt;</b>
1.13	Total operating and investing cash flows (carried forward)	<b>&lt;3,045&gt;</b>	<b>&lt;14,338&gt;</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	<3, 045>	<14,338>
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	60
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (share issue costs)	-	-
	<b>Net financing cash flows</b>	-	60
	<b>Net increase (decrease) in cash held</b>	<3,045>	<14,278>
1.20	Cash at beginning of quarter/year to date	7,534	18,739
1.21	Exchange rate adjustments to item 1.20	<28>	
1.22	<b>Cash at end of quarter</b>	4,461	4,461

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	162
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 - Includes payment of \$26,202 to MIS Corporate Pty Ltd, a company associated with NA Seckold for provision of investor relation services. The balance, being \$135,593, represents directors fees paid to executive and non-executive directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

-

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,900
4.2 Development	-
4.3 Production	-
4.4 Administration	500
<b>Total</b>	<b>2,400</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	240	869
5.2 Deposits at call	4,203	6,647
5.3 Bank overdraft	-	-
5.4 Other (provide details) – Security Deposits	18	18
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,461</b>	<b>7,534</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	748,768,606	748,768,606		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> (each exercisable to convert to 1 fully paid share)	4,175,000 4,175,000 1,250,000 4,250,000 2,000,000 2,000,000 10,000,000 10,000,000 5,000,000 1,500,000 5,250,000	NIL NIL NIL NIL NIL NIL NIL NIL NIL NIL NIL	<u>Exercise Price</u> 15c 20c 12c 32c 15c 20c 17.32c 20c 27c 20c 17c	<u>Expiry Date</u> 11 September 2012 11 September 2013 8 September 2014 13 May 2013 3 December 2013 3 December 2014 3 December 2015 3 December 2015 25 February 2013 14 November 2014 31 December 2014
7.8 Issued during quarter			<u>Exercise Price</u>	<u>Expiry Date</u>
7.9 Exercised during quarter		NIL	<u>Exercise Price</u>	<u>Expiry Date</u>

+ See chapter 19 for defined terms.

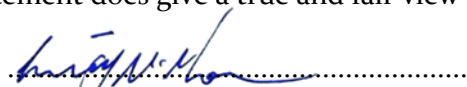
7.10	Expired during quarter	125,000	NIL	<u>Exercise Price</u> 60c	<u>Expiry Date</u> 4 June 2012
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:

  
(Company secretary)

Date: 31 July 2012

Print name: Craig J McPherson

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.