

**CERRO GRANDE MINING CORPORATION**

**Report to Shareholders  
for the  
Third Quarter Ending  
June 30, 2017  
(These statements have not been audited)**

**Listed on the Canadian Securities Exchange  
Symbol: CEG  
and  
The OTCQB International  
Symbol: CEGMF**

**The Company's auditors have not reviewed these condensed interim consolidated  
financial statements for the nine month period ended June 30, 2016.**

**Management's responsibility for financial reporting**

Under National instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The condensed interim unaudited consolidated financial statements and other information in this report were prepared by the management of **Cerro Grande Mining Corporation**, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Management is responsible for the preparation of the condensed interim consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management has included amounts in the Company's condensed interim consolidated financial statements based on estimates, judgments and policies that it believes reasonable under the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

"Stephen W. Houghton"  
Chief Executive Officer

"Peter W. Hogg"  
Chief Financial Officer

August 30, 2017

(Expressed in thousands of U.S. dollars, except per share amounts)

|   | June 30,<br>2017 | September 30,<br>2016 |
|---|------------------|-----------------------|
|   | \$               | \$                    |
| <b>Current assets</b>                             |                  |                       |
| Cash and cash equivalents                         | 28               | 118                   |
| Accounts receivable (Note 3)                      | 28               | 379                   |
| Recoverable taxes                                 | 7                | 13                    |
| Inventory (Note 4)                                | -                | 707                   |
|   | <b>63</b>        | <b>1,217</b>          |
| <b>Non-current assets</b>                         |                  |                       |
| Receivable from a related party                   | 884              | 852                   |
| Fixed assets, plant and equipment (Note 5)        | 1,377            | 7,385                 |
|   | <b>2,261</b>     | <b>8,237</b>          |
| <b>Total assets</b>                               | <b>2,324</b>     | <b>9,454</b>          |
| <b>Current liabilities</b>                        |                  |                       |
| Trade and other payables (Note 6)                 | 435              | 4,241                 |
| Due to related parties (Note 11)                  | 2,420            | 7,072                 |
| Current portion of long-term debt (Note 7)        | 302              | 156                   |
|   | <b>3,157</b>     | <b>11,469</b>         |
| <b>Non-Current liabilities</b>                    |                  |                       |
| Long-term debt (Note 7)                           | 679              | 740                   |
| Reclamation and remediation                       | -                | 1,806                 |
|   | <b>679</b>       | <b>2,546</b>          |
| <b>Total liabilities</b>                          | <b>3,836</b>     | <b>14,015</b>         |
| <b>Shareholders' equity</b>                       |                  |                       |
| Share capital (Note 8)                            | 89,781           | 87,119                |
| Warrants (Note 9)                                 | 379              | 379                   |
| Contributed surplus                               | 8,266            | 8,129                 |
| Convertible unsecured debenture                   | 65               | 65                    |
| Deficit   | (100,003)        | (100,253)             |
| <b>Total shareholders' equity</b>                 | <b>(1,512)</b>   | <b>(4,561)</b>        |
| <b>Total liabilities and shareholders' equity</b> | <b>2,324</b>     | <b>9,454</b>          |

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman Stephen W. Houghton Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements

(Expressed in thousands of U.S. dollars, except per share amounts)

|   | <b>Three months ended</b> |                       | <b>Nine months ended</b> |                       |
|---|---------------------------|-----------------------|--------------------------|-----------------------|
|   | <b>Jun 30,</b>            | <b>Jun 30,</b>        | <b>Jun 30,</b>           | <b>Jun 30,</b>        |
|   | <b>2017</b>               | <b>2016</b>           | <b>2017</b>              | <b>2016</b>           |
|   | <b>\$</b>                 | <b>\$</b>             | <b>\$</b>                | <b>\$</b>             |
| <b>Revenue</b>  |                           |                       |                          |                       |
| Sales   | 572                       | 1,472                 | 3,236                    | 5,825                 |
|   | <u>572</u>                | <u>1,472</u>          | <u>3,236</u>             | <u>5,825</u>          |
| <b>Expenses</b>   |                           |                       |                          |                       |
| Operating costs   | 1,578                     | 2,611                 | 6,527                    | 8,157                 |
| Reclamation and remediation   | 2                         | 5                     | 16                       | 16                    |
| General, sales and administrative   | 353                       | 508                   | 953                      | 1,698                 |
| Foreign exchange  | 25                        | 36                    | (96)                     | 15                    |
| Interest  | 35                        | 52                    | 215                      | 172                   |
| Other (income) and expenses (net)   | (80)                      | (111)                 | 23                       | (253)                 |
| Exploration costs   | 75                        | -                     | 75                       | -                     |
|   | <u>1,988</u>              | <u>3,101</u>          | <u>7,713</u>             | <u>9,805</u>          |
| <b>Loss before income taxes and other item</b>                              | <b>(1,416)</b>            | <b>(1,629)</b>        | <b>(4,477)</b>           | <b>(3,980)</b>        |
| Income tax  | -                         | -                     | -                        | -                     |
| Other - Gain on bankruptcy (Note 12)  | 4,727                     | -                     | 4,727                    | -                     |
| <b>Net Income (loss) and net comprehensive income (loss) for the period</b> | <b><u>3,311</u></b>       | <b><u>(1,629)</u></b> | <b><u>250</u></b>        | <b><u>(3,980)</u></b> |
| <b>Basic and diluted income (loss) per share</b>                            | <b><u>0.01</u></b>        | <b><u>(0.01)</u></b>  | <b><u>0.00</u></b>       | <b><u>(0.01)</u></b>  |

The accompanying notes form an integral part of these condensed interim consolidated financial statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

|                                 | Share capital<br>(Note 9 (b)) | Warrants<br>(Note 10) | Contributed<br>surplus | Convertible<br>unsecured<br>debentures | Deficit   | Total equity |
|---------------------------------|-------------------------------|-----------------------|------------------------|--|-----------|--------------|
| Balance - October 1, 2015       | 83,653                        | 379                   | 8,042                  | 65                                     | (93,317)  | (1,178)      |
| Private placements              | 3,466                         | -                     | -                      | -                                      | -         | 3,466        |
| Net loss                        | -                             | -                     | -                      | -                                      | (3,980)   | (3,980)      |
| Balance - June 30, 2016         | 87,119                        | 379                   | 8,042                  | 65                                     | (97,297)  | (1,692)      |
| Balance - October 1, 2016       | 87,119                        | 379                   | 8,129                  | 65                                     | (100,253) | (4,561)      |
| Convertible unsecured debenture | 2,662                         | -                     | 137                    | -                                      | -         | 2,799        |
| Net income                      | -                             | -                     | -                      | -                                      | 250       | 250          |
| Balance - June 30, 2017         | 89,781                        | 379                   | 8,266                  | 65                                     | (100,003) | (1,512)      |

The accompanying notes form an integral part of these condensed interim consolidated financial statements

## Cerro Grande Mining Corporation

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended June 30, 2017 and 2016

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

|  | Three months ended |                  | Nine months ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 30,<br>2017   | June 30,<br>2016 | June 30,<br>2017  | June 30,<br>2016 |
|  | \$                 | \$               | \$                | \$               |
| <b>Net income (loss) for the period</b>                        | 3,311              | (1,629)          | 250               | (3,980)          |
| <b>Non-Cash items:</b>   |                    |                  |                   |                  |
| Amortization and depreciation                                  | 625                | 508              | 1,903             | 1,701            |
| Gain on bankruptcy   | (4,727)            | -                | (4,727)           | -                |
| Accretion of interest on long-term debt                        | 65                 | 40               | 185               | 145              |
| Foreign exchange gain  | 25                 | 36               | (96)              | 15               |
|  | <u>(701)</u>       | <u>(1,045)</u>   | <u>(2,485)</u>    | <u>(2,119)</u>   |
| Change in non-cash working capital relating to operations      | 454                | 590              | 1,029             | 578              |
| <b>Net cash used by operating activities</b>                   | <u>(247)</u>       | <u>(455)</u>     | <u>(1,456)</u>    | <u>(1,541)</u>   |
| <b>Investing activities</b>                                    |                    |                  |                   |                  |
| Additions to mining properties, plant and equipment            | 10                 | 145              | 128               | 604              |
| <b>Net cash provided/(used) in investing activities</b>        | <u>10</u>          | <u>145</u>       | <u>128</u>        | <u>604</u>       |
| <b>Financing activities</b>                                    |                    |                  |                   |                  |
| Due to related parties   | 271                | 302              | 1,418             | 946              |
| Repayment of long term debt                                    | (43)               | (17)             | (99)              | (34)             |
|  | <u>228</u>         | <u>285</u>       | <u>1,319</u>      | <u>912</u>       |
| <b>Decrease in cash and cash equivalents during the period</b> | <u>(9)</u>         | <u>(25)</u>      | <u>(9)</u>        | <u>(25)</u>      |
| <b>Cash and cash equivalents - Beginning of period</b>         | 37                 | 62               | 37                | 62               |
| <b>Cash and cash equivalents - End of period</b>               | <u>28</u>          | <u>37</u>        | <u>28</u>         | <u>37</u>        |

The accompanying notes form an integral part of these condensed interim consolidated financial statements

# **Cerro Grande Mining Corporation**

## **Notes to the Consolidated Financial Statements**

### **For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

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#### **1. Nature of the Company and Going concern assumption**

Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries is a mining, exploration and development company which produces gold, silver and copper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Canadian Securities Exchange (“CSE”) trading under the symbol “CEG” and on the OTCQB trading under the symbol CEGMF. The Company is domiciled in Canada and the address of its records office is 1 King Street West, Suite 4009 Toronto Ontario M5H 1A1, Canada. The registered office is Royal Bank Plaza, South Tower, 200 Bay Street Suite 3800, Toronto, ON M5J 2Z4, Canada.

The company’s significant subsidiary, Compañía Minera Pimentón (Pimentón) was placed into bankruptcy. See also Note 12. The other subsidiaries of CEG, including Compañía Minera Til Til, Compañía Minera Catedral, Compañía Minera Tordillo, Compañía Minera Bandurrias and Compañía Minera Cal Norte are not affected by the bankruptcy of Compañía Minera Pimenton.

These consolidated financial statements have been prepared on a “going concern” basis which contemplates 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 business. As at June 30, 2017, the Company has a negative working capital of \$3,094 (September 30, 2016 – negative \$10,252).

While the Company had operations generating revenue it continues to be reliant on financing from related parties to finance its operations and working capital. The availability of sources of additional financing if required in the future cannot be assured at this time and accordingly, these material uncertainties cast significant doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that would be necessary should the Company be unable to continue as a going concern and those adjustments may be material. See also Note 12.

#### **2. Basis of presentation**

##### *a. Statements of compliance*

These unaudited condensed interim consolidated financial statements are expressed in thousands of US dollars and have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Standards Board (“IASB”) including IAS34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2016 which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company’s consolidated financial statements for the year ended September 30, 2016 except as described below.

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses.

All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Director on August 30, 2017.

b. *Use of estimates and judgments*

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to future cash flow estimates for asset impairments/reversals, any asset retirement obligation, estimation of useful lives of mining properties, plant and equipment, stock-based compensation and the provision for income taxes and composition of future income tax assets and liabilities. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Mineral resources and reserves estimates are used in the calculation of impairment estimation, amortization and forecasting the timing and payment of close down, restoration costs and clean-up costs.

**3. Receivables**

|                                       | <b>June 30,<br/>2017</b> | <b>September 30,<br/>2016</b> |
|---------------------------------------|--------------------------|-------------------------------|
|                                       | <b>\$</b>                | <b>\$</b>                     |
| Accounts receivable from customers    | -                        | 2                             |
| Advances and other sundry receivables | 28                       | 377                           |
| <b>Total receivables</b>              | <b>28</b>                | <b>379</b>                    |

**4. Inventory**

**June 30,                      September 30,**



**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

|                                | <u>2017</u> | <u>2016</u> |
|--------------------------------|-------------|-------------|
|                                | \$          | \$          |
| Ore and concentrate stockpiles | -           | 328         |
| Materials and supplies         | -           | 379         |
|                                | <u>-</u>    | <u>707</u>  |

**5. Mining property, plant and equipment**

| Cost                            | Mining property |                     |             |          | Total        |
|---------------------------------|-----------------|---------------------|-------------|----------|--------------|
|                                 | Building        | Plant & equipment * | development | Others   |              |
|                                 | \$              | \$                  | \$          | \$       | \$           |
| Balance - October 1, 2016       | 5,769           | 13,909              | 21,396      | 658      | 41,732       |
| Additions                       | 4               | 6                   | -           | 118      | 128          |
| Sales/Disposals                 | -               | (46)                | -           | -        | (46)         |
| Bankruptcy adjustment (Note 12) | (3,897)         | (13,869)            | (21,392)    | (776)    | (39,934)     |
| <b>Balance - June 30, 2017</b>  | <b>1,876</b>    | <b>-</b>            | <b>4</b>    | <b>-</b> | <b>1,880</b> |

| Accumulated depreciation                  | Mining property |                   |             |          | Total        |
|---|-----------------|-------------------|-------------|----------|--------------|
|   | Building        | Plant & equipment | development | Others   |              |
|   | \$              | \$                | \$          | \$       | \$           |
| Balance - October 1, 2016                 | 3,565           | 12,132            | 18,395      | 255      | 34,347       |
| Depreciation and amortization expenses    | 173             | 743               | 821         | 166      | 1,903        |
| Bankruptcy adjustment (Note 12)           | (3,235)         | (12,875)          | (19,216)    | (421)    | (35,747)     |
| <b>Balance - June 30, 2017</b>            | <b>503</b>      | <b>-</b>          | <b>-</b>    | <b>-</b> | <b>503</b>   |
| <b>Net book value as at June 30, 2017</b> | <b>1,373</b>    | <b>-</b>          | <b>4</b>    | <b>-</b> | <b>1,377</b> |

| Cost | Mining property |                     |             |        | Total |
|------|-----------------|---------------------|-------------|--------|-------|
|      | Building        | Plant & equipment * | development | Others |       |
|      | \$              | \$                  | \$          | \$     | \$    |

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

|                                |              |               |               |            |               |
|--------------------------------|--------------|---------------|---------------|------------|---------------|
| Balance - October 1, 2015      | 5,769        | 13,855        | 20,370        | 658        | 40,652        |
| Additions                      | -            | 54            | 447           | 103        | 604           |
| <b>Balance - June 30, 2016</b> | <b>5,769</b> | <b>13,909</b> | <b>20,817</b> | <b>761</b> | <b>41,256</b> |

| <b>Accumulated depreciation</b>           | <b>Building</b> | <b>Plant &amp; equipment</b> | <b>Mining property</b> |               | <b>Total</b>  |
|---|-----------------|------------------------------|------------------------|---------------|---------------|
|   |                 |                              | <b>development</b>     | <b>Others</b> |               |
|   | <b>\$</b>       | <b>\$</b>                    | <b>\$</b>              | <b>\$</b>     | <b>\$</b>     |
| Balance - October 1, 2015                 | 3,325           | 10,946                       | 17,418                 | 235           | 31,924        |
| Depreciation and amortization expenses    | 196             | 904                          | 601                    | -             | 1,701         |
| <b>Balance - June 30, 2016</b>            | <b>3,521</b>    | <b>11,850</b>                | <b>18,019</b>          | <b>235</b>    | <b>33,625</b> |
| <b>Net book value as at June 30, 2016</b> | <b>2,248</b>    | <b>2,059</b>                 | <b>2,798</b>           | <b>526</b>    | <b>7,631</b>  |

Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the year ended September 30, 2015 the Company recorded an impairment charge of \$6,556 related to the Pimenton project, primarily as a result of the decrease in the grade and future gold and copper prices. The recoverable amount was calculated using the value-in-use method, which is the expected present value of future cash flows from the asset, using a pre-tax discounted rate of 7.9%. The remaining \$181 impairment charge relates to the Til Til project and represents a full write down of the mining properties. At June 30, 2017 all mining assets were written off due to the bankruptcy of the mining subsidiary. See Note 12.

**6. Trade and other payables**

|  | <b>June 30,<br/>2017</b> | <b>September 30,<br/>2016</b> |
|--|--------------------------|-------------------------------|
|  | <b>\$</b>                | <b>\$</b>                     |
| Trade payables                         | 432                      | 1,430                         |
| Salaries and wages payable             | -                        | 2,317                         |
| Other payables and accrued liabilities | 3                        | 494                           |
| <b>Total Payables</b>                  | <b>435</b>               | <b>4,241</b>                  |

**7. Long-term debt**

The maturities of long-term debt and related interest payments are as follows:

| <b>Description</b> | <b>Interest rate</b> | <b>June 30,<br/>2017</b> | <b>September 30,<br/>2016</b> |
|--------------------|----------------------|--------------------------|-------------------------------|
|                    |                      | <b>Principal</b>         | <b>Principal</b>              |

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

|  |           | \$    | \$    |
|--|-----------|-------|-------|
| Auromin and Chañar Blanco 2013 debenture (a) | 0.00%     | 148   | 136   |
| Auromin and Chañar Blanco 2016 debenture (b) | 8.00%     | -     | -     |
| Bice Bank mortgage (c)                       | 5.13%     | 617   | 529   |
| Gold Loan debenture (d)                      | 10 and 8% | 216   | 231   |
| Sub total                                    |           | 981   | 896   |
| Less: Current portion                        |           | (302) | (156) |
| Long-term debt                               |           | 679   | 740   |

- a) On July 30, 2013 the Company issued \$1,010 of convertible unsecured debentures. The maturity date of these debentures is July 30, 2018. The conversion price of the Debentures is CA\$0.10 per share convertible to up to 10,102,114 common shares of the Company. In the month of December 2013 the equivalent of \$850 were exercised and converted into 8,500,000 common shares. This resulted in the reclassification of \$518 from long-term debt and \$362 from the equity component of convertible debentures to share capital. At September 30, 2014 the carrying value classified within long-term debt was \$107 and within the equity component of convertible debentures was \$65. The Debentures had been issued in payment of cash advances made in April and May 2013 by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director and officer of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director and officer of the Company. As of March 31, 2017 \$144 remains in debt and \$65 in equity related to these convertible unsecured debentures.
- b) On December 7, 2016 the Company agreed in principle to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the “Related Parties”), both officers and directors of the Company by issuing convertible debentures. The Debt Settlement was completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing. Pursuant to the Debt Settlement, the Company extinguished outstanding indebtedness in the aggregate amount of US\$ 2,771,237 owed to the Related Parties, such indebtedness being made up of net smelter royalty, management fees, cash advances and interest thereon made to the Company by the Related Parties. The interest rate on these Debentures is 8% to be paid semi-annually. In June 2017 these convertible debentures were converted into common shares.

Following the conversion of the Convertible Debentures, the Company has 339,390,784 shares outstanding (368,626,851 shares on a fully-diluted basis).

Following the conversion David Thomson holds 139,670,195 common shares of the Company, representing approximately 44.15% of the outstanding shares (approximately 39.33% on a fully-diluted basis).

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

Following the conversion Mario Hernandez holds 132,384,709 common shares of the Company, representing approximately 39.01% of the outstanding shares (approximately 39.18% on a fully-diluted basis).

On a fully diluted basis, Mr. Thomson and Mr. Hernandez hold an aggregate of 289,400,018 common shares of the Company, representing approximately 78.51% of the shares of the Company.

- c) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$772). The mortgage bears interest at a fixed rate of 5.13% per annum. The UF is an inflation based unit of account used in Chile.

The mortgage is repayable in monthly installments of principal UF 109 (\$4) plus interest until the year 2027. The mortgage is secured by certain fixed assets with an approximate value of \$1,000. The mortgage is payable in Chilean pesos (19,600 UF) and has been translated into US dollars using the closing exchange rate at June 30, 2017.

- d) On November 5, 2014 the Company issued a debenture for \$100 with a maturity date of November 5, 2017 related to a “Gold Loan” agreed to by the parties for an equivalent amount. The debenture bears a fixed annual interest rate of 10% on the outstanding principal amount and is payable on a quarterly basis on the 5th day of February, May, August and November of each year. The payment of the principal is semi-annually on May 6 and November 6 of each year plus the difference in the average gold price per ounce in excess of \$ 1,057 per ounce multiplied by 15.77 ounces of gold. The derivative liability associated with the fluctuation of the price of gold in the contract as at June 30, 2017 is insignificant.

On August 22, 2016 the Company issued a second debenture for \$200 with a maturity date of August 22, 2019 related to a “Gold Loan” agreed to by the parties for an equivalent amount. The Company incurred transaction costs on this loan of \$14. The debenture bears a fixed annual interest rate of 8% on the outstanding principal amount and is payable on a quarterly basis on the 25th day of February, May, August and November of each year. The payment of the principal is semi-annually on Feb 25 and August 25 of each year plus the difference in the average gold price per ounce in excess of US\$ 1,260 per ounce multiplied by 26.455 ounces of gold. The derivative liability associated with the fluctuation of the price of gold in the contract as at June 30, 2017 is insignificant.

**8. Share capital**

**a) Authorized capital**

The authorized capital of the Company consists of an unlimited number of common shares, with no par value.

**b) Issued and outstanding**

| Number of<br>shares | Amount |
|---------------------|--------|
|---------------------|--------|

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

|                              |             | \$     |
|------------------------------|-------------|--------|
| Balance – September 30, 2015 | 174,977,010 | 83,653 |
| Private placement (i)        | 92,875,400  | 3,466  |
| Balance – September 30, 2016 | 267,852,410 | 87,119 |
| Private placement (ii)       | 71,538,374  | 2,662  |
| Balance – June 30, 2017      | 339,390,784 | 89,781 |

- i) On November 6, 2015 the Company reported that it has agreed to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the “Related Parties”), both directors and officers of the Company, by issuing common shares of the Company (each, a “Common Share”) in settlement of such debt (the “Debt Settlement”). The Debt Settlement was completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing.

Pursuant to the Debt Settlement, the Company extinguished outstanding indebtedness in the aggregate amount of US\$3,465 owed to the Related Parties, such indebtedness being made up of cash advances made to the Company by the Related Parties, by issuing an aggregate of 92,875,400 Common Shares (representing an issue price of CDN\$0.05 per share) in full and final settlement thereof. All dollar amounts have been converted at an exchange rate of CDN\$1.34 per US\$1.00.

With the completion of the Debt Settlement on November 12, 2015, the Related Parties held 200,516,530 Common Shares representing approximately 74.86% of the issued and outstanding Common Shares.

- ii) In June 2017, the December 6, 2017 convertible debentures were converted into common shares.

**c) Share option plan**

The Company has a share option plan (the Plan) whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees, certain consultants and service providers. The maximum number of common shares issuable under the Plan is 12,578,754 common shares and 5,000,000 common shares issuable under the share bonus plan, within the Plan, to eligible participants. The aggregate number of shares which may be issued pursuant to stock options which remain outstanding shall not exceed 10% of the issued and outstanding shares. The Board of Directors determines the vesting period for each award granted under the plans at its discretion. The maximum number of shares which may be issued pursuant to the share bonus plan cannot exceed 2% of the aggregate number of shares issued and outstanding shares.

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

Options outstanding as at June 30, 2017 are as follows:

| Exercise Price<br>CDN\$ | Number of options | Weighted average<br>remaining contractual life | Options exercisable |
|-------------------------|-------------------|--|---------------------|
| 0.02                    | 9,287,000         | 3.73   | 3,943,795           |
| 0.10                    | 1,950,000         | 0.79   | 1,950,000           |
| 0.15                    | 233,953           | 0.86   | 233,953             |
| 0.18                    | 450,000           | 0.61   | 450,000             |
|                         | <b>11,920,953</b> | <b>3.02</b>                                    | <b>6,577,748</b>    |

**9. Warrants**

| Equity                                | Number of<br>warrants  | \$   |
|---------------------------------------|--|--|
| Balance – September 30, 2016          | 15,743,000   | 379  |
| Balance – June 30, 2017               | 15,743,000   | 379  |
| <b>Number of warrants outstanding</b> | <b>Weighted<br/>average<br/>remaining<br/>warrant life<br/>(years)</b> | <b>Weighted<br/>average<br/>exercise<br/>price</b> |
|                                       | <b>years</b>   | <b>CAS</b>   |
| <u>15,743,000</u>                     | <u>2.33</u>  | <u>0.07</u>  |

**10. Segment information**

In order to determine reportable operating segments, the Chief Executive Officer reviews various factors, including geographical location, quantitative thresholds and managerial structure. The Company had one operating segment, which was placed into bankruptcy in May of 2017 (See Note 12). The Company's principal operations are carried out in Chile. The Company's geographic segments are located as follows:

- i) Company's mineral properties in Chile
- ii) Corporate offices in Chile and Canada;

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

The Company's Pimenton segment included a gold mine and mill operating in Chile until May 31, 2017, before it was placed into bankruptcy. As at June 30, 2017 and 2016, segmented information is presented as follows

|   | <b>Nine months ended June 30, 2017</b> |                  |                |
|---|--|------------------|----------------|
|   | <b>Pimenton</b>                        | <b>Corporate</b> | <b>Total</b>   |
|   | <b>\$</b>                              | <b>\$</b>        | <b>\$</b>      |
| Sales revenue   | 3,236                                  | -                | 3,236          |
| <b>Operating costs</b>  | <b>4,624</b>                           | <b>-</b>         | <b>4,624</b>   |
| Amortization and depreciation   | 1,888                                  | 15               | 1,903          |
| Reclamation and remediation   | 16                                     | -                | 16             |
| General, sales and administrative   | 509                                    | 444              | 953            |
| Foreign exchange  | (66)                                   | (30)             | (96)           |
| Interest  | 99                                     | 116              | 215            |
| Other gains and losses (net)  | 21                                     | 2                | 23             |
| Exploration costs   | 75                                     | -                | 75             |
| Total other expenses (income)   | 2,542                                  | 547              | 3,089          |
| <b>Loss for the period</b>  | <b>(3,930)</b>                         | <b>(547)</b>     | <b>(4,477)</b> |
| Gain on bankruptcy  | 4,727                                  | -                | 4,727          |
| <b>Income (loss) and other comprehensive income (loss) for the period</b> | <b>797</b>                             | <b>(547)</b>     | <b>250</b>     |
| <b>Mining property, plant and equipment</b>                               | <b>-</b>                               | <b>1,377</b>     | <b>1,377</b>   |
| <b>Total assets</b>   | <b>-</b>                               | <b>2,324</b>     | <b>2,324</b>   |

|                                   | <b>Nine months ended June 30, 2016</b> |                  |              |
|-----------------------------------|--|------------------|--------------|
|                                   | <b>Pimenton</b>                        | <b>Corporate</b> | <b>Total</b> |
|                                   | <b>\$</b>                              | <b>\$</b>        | <b>\$</b>    |
| Sales revenue                     | 5,825                                  | -                | 5,825        |
| <b>Operating costs</b>            | <b>6,456</b>                           | <b>-</b>         | <b>6,456</b> |
| Amortization and depreciation     | 1,685                                  | 16               | 1,701        |
| Reclamation and remediation       | 16                                     | -                | 16           |
| General, sales and administrative | 980                                    | 718              | 1,698        |
| Foreign exchange                  | 62                                     | (47)             | 15           |

**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

(Expressed in thousands of U.S. dollars, except share and per share amounts)

|   |                |              |                |
|---|----------------|--------------|----------------|
| Interest  | 115            | 57           | 172            |
| Other gains and losses (net)                            | (168)          | (85)         | (253)          |
| Income tax recovery                                     | -              | -            | -              |
| <b>Total other expenses (income)</b>                    | <b>2,690</b>   | <b>659</b>   | <b>3,349</b>   |
| <b>Loss and other comprehensive loss for the period</b> | <b>(3,321)</b> | <b>(659)</b> | <b>(3,980)</b> |
| <b>Mining property, plant and equipment</b>             | <b>6,119</b>   | <b>1,512</b> | <b>7,631</b>   |
| <b>Total assets</b>                                     | <b>7,086</b>   | <b>2,257</b> | <b>9,343</b>   |

## 11. Related party transactions

The Company has a receivable from the CEO (who is also a Director) of \$358 (2016 - \$457) consisting of \$40 (2016 - \$139) of cash advances, net of salary and travel expenses, and two loans totaling \$318 (2016 - \$318). One of the loans is collateralized at June 30, 2017 by 653,200 common shares of the Company, owned by him. The cash advances and loans bear no interest rate or specific repayment terms.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$32 to the Company for accounting and administration services rendered during the nine month period ended June 30, 2017 (2016 - \$64). Trade and other payables include \$46, which includes the above mentioned \$32, in relation to such services at June 30, 2017 (2016 - \$68).

Due to related parties include \$nil accumulated to June 30, 2017 (2016 - \$415) for royalties due to Mario Hernández, who is also a Director and Officer of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Due to related parties also include cash advances for \$1,046 and salaries due of \$nil at June 30, 2017 (2016 - \$193).

Due to related parties include \$nil at June 30, 2017 (2016 - \$415) for royalties due to David Thomson, who is also a Director and Officer of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Due to related parties also include cash advances for \$1,119 and salaries due of \$nil at June 30, 2017 (2016 - \$525).

On June 21, 2011 the board approved a resolution that non-executive directors be paid \$1 per meeting attended. Amounts due to the directors for these director fees as at June 30, 2017 were \$163 (2016 - \$114) and are included in due to related parties.

## 12. Cia. Minera Pimento Bankruptcy

The company's only significant subsidiary is Compañía Minera Pimentón (Pimentón), which filed for voluntary bankruptcy on May 31, 2017. The Court approved this bankruptcy filing and named a Liquidator on July 18, 2017.



**Cerro Grande Mining Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2017**

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(Expressed in thousands of U.S. dollars, except share and per share amounts)

These consolidated financial statements do not include Pimentón's assets and liabilities, which have been eliminated and show a gain of \$4,727. The Consolidated Statement of Income includes 7 months of operations of Pimenton before the bankruptcy filing.

In accordance with Chilean law, the court appointed bankruptcy Liquidator has taken possession of Pimentón and all of its assets and liabilities. It is also responsible for all ongoing costs of Pimentón until they are successful in obtaining the sale or liquidation of Pimentón.

Any profits obtained, or losses incurred by the Liquidator in the bankruptcy process have no impact on the Company since all financial assets and obligations transfer to the liquidator.

## Directors\* and Officers

### **Paul J. DesLauriers\*(1),(2),(3),(4)**

Toronto, ON, Canada

*Chairman*

Executive Vice President and Director  
Loewen, Ondaatje, McCutcheon & Company  
Limited, Toronto, Canada

### **Stephen W. Houghton\***

Santiago, Chile

*Chief Executive Officer*

Founder of Cerro Grande Mining Corporation

### **Mario Hernandez A.\***

Santiago, Chile

Executive Vice President and Director, Claims and  
Land Management

### **William Hill\*(1),(3),(4)**

Rockwood, ON, Canada

*Principal, William Hill Mining Consultants, Ltd.*

### **Juan A Proaño\* (3)**

Washington Crossing,

Pennsylvania, USA

Director of Minera Poderosa S.A.

A gold mining company located in Peru

### **Frederick D. Seeley\*(1),(2),(4)**

West Falmouth, Massachusetts, USA

Chairman, Givens Hall Bank and Trust Limited

### **David R. S. Thomson\***

Santiago, Chile

Executive Vice President and Director of  
Exploration

### **Peter W. Hogg**

Toronto, ON, Canada

Chief Financial Officer

- (1) Member, Audit Committee
- (2) Member, Compensation Committee
- (3) Technical Committee
- (4) Corporate Governance and Nomination  
Committee

## Corporate Information

Website: [www.cegmining.com](http://www.cegmining.com)

### **Canadian Securities Exchange**

Stock Symbol: CEG

### **OTCQB International**

Stock Symbol: CEGMF

### **Registered Office:**

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### **Santiago Office:**

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Providencia, Santiago, Chile

Telephone: 56-2-569-6200

Solicitors:

### **Norton Rose Fulbright LLP**

Toronto, Ontario, Canada

Auditors:

### **Davidson & Company**

Vancouver, British Columbia, Canada

Stock Registrar and Transfer Agent

### **Computershare Investor Services**

Toronto, Ontario, Canada