

CERRO GRANDE MINING CORPORATION

**Report to Shareholders
for the
First Quarter Ending
December 31, 2022
(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 three month period ended December 31, 2022

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2022 and September 30, 2022

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

| | | December 31, 2022 | September 30, 2022 |
|---|-------|----------------------|-----------------------|
| | Notes | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash | | 6 | 8 |
| Receivables and advances | 4 | 13 | 18 |
| Recoverable taxes | | 4 | 7 |
| | | <u>23</u> | <u>33</u> |
| Non-current assets | | | |
| Pimenton project | 5 | 1,153 | 1,153 |
| | | <u>1,153</u> | <u>1,153</u> |
| Total assets | | <u><u>1,176</u></u> | <u><u>1,186</u></u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 6 | 109 | 129 |
| Due to related parties | 11 | 1,961 | 1,863 |
| Other debt | 7 | 267 | 264 |
| | | <u>2,337</u> | <u>2,256</u> |
| Non-Current liabilities | | | |
| Long Term Debt | 8 | 4,154 | 4,158 |
| | | <u>4,154</u> | <u>4,158</u> |
| Total liabilities | | <u><u>6,491</u></u> | <u><u>6,414</u></u> |
| SHAREHOLDERS' DEFICIENCY | | | |
| Share capital | 9 | 91,509 | 91,509 |
| Contributed surplus | | 8,575 | 8,575 |
| Deficit | | (105,399) | (105,312) |
| Total shareholders' deficiency | | <u>(5,315)</u> | <u>(5,228)</u> |
| Total liabilities and shareholders' deficiency | | <u><u>1,176</u></u> | <u><u>1,186</u></u> |

Nature of operations and going concern assumption (Note 1)

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman **(Signed) Peter Hogg** CEO (interim) and CFO

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

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Loss and Other Comprehensive Loss

For the three months ended December 31, 2022 and 2021

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

| | Three months ended | |
|--|--------------------|---------------|
| | December 31, | |
| | 2022 | 2021 |
| | \$ | \$ |
| Expenses | | |
| General, sales and administrative | 82 | 121 |
| Foreign exchange | 5 | 31 |
| Interest | 4 | 4 |
| Accretion expense (Note 8) | 19 | 19 |
| Unrealized (gain) on derivative liability | (23) | (3) |
| | <u>87</u> | <u>172</u> |
| Loss and comprehensive loss for the period | <u>(87)</u> | <u>(172)</u> |
| Basic and diluted loss per share | <u>(0.00)</u> | <u>(0.00)</u> |
| Weighted average number of shares outstanding | 436,263,916 | 396,429,993 |
| - basic and diluted | | |

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

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Changes in Shareholders' Deficiency

For the three months ended December 31, 2022 and 2021

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

| | Share capital | | Contributed surplus | Deficit | Total equity |
|------------------------------------|---------------------|---------------|------------------------|------------------|----------------|
| | Number of shares | Amount | | | |
| Balance - October 1, 2021 | 396,429,993 | 91,036 | 8,575 | (105,188) | (5,577) |
| Net loss | | | - | (172) | (172) |
| Balance - December 31, 2021 | 396,429,993 | 91,509 | 8,575 | (105,360) | (5,749) |
| Balance - October 1, 2022 | 436,263,916 | 91,509 | 8,575 | (105,312) | (5,228) |
| Net loss | | | - | (87) | (87) |
| Balance - December 31, 2022 | 436,263,916 | 91,509 | 8,575 | (105,399) | (5,315) |

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

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Cash Flows

For the three months ended December 31, 2022 and 2021

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

| | December 31, | |
|--|--------------|--------------|
| | 2022 | 2021 |
| | \$ | \$ |
| Operating Activities | | |
| Net loss for the period | (87) | (172) |
| Items not involving cash: | | |
| Accrued interest | 3 | 3 |
| Accretion of convertible debentures | 19 | 18 |
| Unrealized gain on derivative liability | (23) | (3) |
| | (88) | (154) |
| Change in non-cash working capital | (12) | (4) |
| Net cash used by operating activities | (100) | (158) |
| Financing activities | | |
| Due to related parties | 98 | 156 |
| Net cash provided by financing activities | 98 | 156 |
| Decrease in cash | (2) | (2) |
| Cash - Beginning of period | 8 | 7 |
| Cash - End of period | 6 | 5 |

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

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

Cerro Grande Mining Corporation (the “Company” or “CEG”) and its subsidiaries is a mining and exploration company, which used to produce gold, silver and copper, with operations mainly in Chile. The Company is currently focused on the Pimenton project, as detailed in Note 5. The Company is 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, ON, M5H 1A1, Canada. The registered office is 1810 University Avenue, Suite 800, Toronto, ON M5H 2X7, Canada.

These consolidated financial statements have been prepared on a going concern basis, which contemplates, that the Company will continue in operations for the near future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2022, the Company has a working capital deficit of \$2.314 (2021 - \$1,753).

With the bankruptcy of its only cash generating entity (Minera Pimentón) during the year ended September 30, 2017, the certainty of future profitability and availability of sources of additional financing 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, liabilities, 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.

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, 2022, 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, 2022 except as described below. 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.

The Board of Directors approved the consolidated financial statements on March 1, 2023.

b) Basis of preparation

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value through profit and loss including derivative instruments. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All amounts are expressed in thousands of US dollars.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

2. BASIS OF PRESENTATION – (Continued)

c) Use of estimates and judgements

The preparation of 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 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 judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

i) Significant judgements in applying accounting policies

The areas which require management to make significant judgements in applying the Company's accounting policies in determining carrying values include, but are not limited to:

a) Taxes

The Company is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

b) Pimenton Project

The carrying value and recoverability of the Pimenton project requires management to make certain estimates, judgements and assumptions about the project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. Management has assessed these indicators and does not believe an impairment provision is required.

ii) Significant accounting estimates and assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred income tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

b) Convertible debentures / Derivative liability

The valuation of an equity conversion option derivative is subject to estimation at the date of issuance and at each reporting period using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Such subjective input assumptions can materially affect the calculated fair value.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation. The Company consolidates subsidiaries where they have the ability to exercise control. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

b) Foreign currency translation and transactions

The Company presents its financial statement in U.S. dollars. This is also the functional currency of CEG and its subsidiaries.

The Company's foreign currency transactions and balances denominated in foreign currencies are translated into the Company's functional currency, the U.S. dollar, as follows:

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and year-end translation of monetary items are recognized in the statement of loss and other comprehensive loss under "Foreign exchange".

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term liquid investments with original maturities of three months or less, which are subject to an insignificant risk of changes in value except for foreign exchange risk. As at December 31, 2022 and 2021, the Company does not hold any cash equivalents.

d) Financial instruments

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

Fair value through profit or loss ("FVTPL") - financial assets are classified in this category if they are a derivative instrument, an equity instrument for which the Company has not made the irrevocable election to classify as fair value through other comprehensive income ("FVTOCI"), or a debt instrument that is not held within a business model whose objective includes holding the financial assets in order to collect contractual cash flows that are solely payments of principal and interest. Gains and losses arising from changes in fair value are recognized in profit and loss. The Company's cash is recorded at FVTPL.

Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) The objective of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Company's receivables are recorded at amortized cost.

Impairment of financial assets

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit and loss.

Amortized cost: This category includes trade and other payables, due to related parties and other debt and long term debt, which are recognized at amortized cost.

Convertible Debenture: On the issue of a convertible debenture, the Company determines whether the financial instrument is a compound instrument or a hybrid instrument. In a compound instrument, the fair value of the liability component is determined by discounting the contractual future cash flows using a market rate for a non-convertible instrument with similar terms. In a hybrid instrument, the fair value of the liability component is the residual value of the proceeds after the equity conversion option derivative fair value is determined unless the entire convertible financial instrument is designated as a financial liability at FVTPL, in which case, the entire convertible financial instrument is measured at fair value.

Subsequent to initial recognition, the Company measures the debt component of both a compound and a hybrid financial instrument at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. The equity conversion option of a hybrid financial instrument is marked to market at the reporting date and changes to the fair value are charged or credited to profit and loss.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

e) Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's

length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

f) Exploration and development costs

During the year ended September 30, 2021, the Company amended its accounting policy with respect to exploration and development costs. The Company amended its accounting policy to capitalize acquisition costs of resource properties. Previously, it expensed acquisition costs as incurred. The Company has accounted for this change in accounting policy on a retrospective basis. The exploration and development costs on the statement of financial position have been restated for the prior period and presented as if the new accounting policy had always been applied. For the opening numbers on October 1, 2021 and the year ended September 30, 2022, the impact of this change was \$nil. As such, the restating had no effect on the financial position, operating results or cash flows previously reported. The accounting policy with respect to exploration costs of resource properties has not been amended. Exploration costs are expensed as incurred until resources have been determined and then the development costs are capitalized. Upon reaching commercial production, these capitalized development costs are transferred from exploration properties to mining properties, plant and equipment and are amortized in the statement of loss and other comprehensive loss using the unit of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment, such as declining mineral grades and both current and projected declines in the price of gold.

Expenditures related to extensions of mineral deposits which are already being mined or developed, are capitalized as a mine development cost when the Company is able to conclude that a future economic benefit is probable.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

4. RECEIVABLES AND ADVANCES

| | December 31, 2022 | September 30, 2022 |
|--------------------------|----------------------|-----------------------|
| | \$ | \$ |
| Sundry Debtors | 10 | 11 |
| Advances | 3 | 7 |
| Total receivables | 13 | 18 |

The Company has no trade receivables for the periods presented.

5. PIMENTON PROJECT

| | December 31, 2022 | September 30, 2022 |
|-----------------|----------------------|-----------------------|
| | \$ | \$ |
| Option payments | 1,153 | 1,153 |
| Total | 1,153 | 1,153 |

The Company's subsidiary Minera Til Til Spa signed an Asset Purchase Agreement (the "APA") with Minera Tamidak Limitada ("Tamidak"), a private Chilean company owned by the family of a former director and significant shareholder. Under the terms of the APA, the Company has an option to acquire certain assets, rights and obligations of Tamidak relating to the Pimenton Copper Gold Mining Project for an aggregate of 3,900,000,000 Chilean pesos payable in three installments. The Company paid the first installment under the APA through the issuance of 44,055,102 common shares of the Company with a fair value of \$680 and a second installment through the issuance of a further 39,833,923 common shares of the Company with a fair value of \$473. The remaining payment of 1,300,000,000 Chilean pesos payable in cash or common shares of the Company, at Tamidak's option, is due on December 1, 2023. Certain of the assets relating to the Pimenton Copper Gold Mining Project are subject to royalty agreements with a company owned by the family of a former director and significant shareholder of the Company and a company controlled by a director of the Company.

6. TRADE AND OTHER PAYABLES

Details are as follows:

| | December 31, 2022 | September 30, 2022 |
|--|----------------------|-----------------------|
| | \$ | \$ |
| Trade payables | 99 | 119 |
| Other payables and accrued liabilities | 10 | 10 |
| Total trade and other payables | 109 | 129 |

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

7. OTHER DEBT

| | December 31, 2022 | September 30, 2022 |
|-----------------------|----------------------|-----------------------|
| | \$ | \$ |
| Gold loan (a & b) | 267 | 264 |
| | 267 | 264 |
| Less: Current portion | (267) | (264) |
| Long-term Debt | - | - |

Interest paid by the Company was \$nil for the period ended December 31, 2022 (2021 - \$nil).

- a) 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 payment of this excess requires that the Company sell greater than 250 ounces of gold bullion from the Pimenton Mine for a 60 day period prior to repayment. As at December 31, 2022, this loan is in default.

The balance of the Gold Loan at December 31, 2022 is \$26 (2021 - \$26). The derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2022 is of \$nil (2021 – \$nil).

- b) 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 payment of this excess requires that the Company sell greater than 250 ounces of gold bullion from the Pimenton Mine for a 60 day period prior to repayment. As at December 31, 2022, this loan is in default.

The principal balance of the Gold Loan at December 31, 2022 is \$167 (2021 - \$167) and unpaid interest amounts to \$75 (2021 - \$61). The derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2022 is of \$nil (2021 - \$nil).

8. LONG TERM DEBT

| | December 31, 2022 | September 30, 2022 |
|-----------------------|----------------------|-----------------------|
| | \$ | \$ |
| Auromin | 3,017 | 3,002 |
| Chañar Blanco | 578 | 575 |
| Mario Hernandez A | 33 | 32 |
| Derivative Liability | 526 | 549 |
| Total Payables | 4,154 | 4,158 |

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

8. LONG TERM DEBT (Continued)

On February 20, 2020 three Debentures were issued in exchange for the cancellation of cash advances and other debt amounts made to the Company, by each of Mario Hernandez, who is also a director and officer of the Company, Compañía Minera Chañar Blanco S.A., a Company owned by Mario Hernández, and Compañía Minera Auromín Ltda., a Company owned by the family of David Thomson, who is a former director and significant shareholder of the Company, in the aggregate amount of \$3,787. The Debentures mature on February 20, 2025 and are non-interest bearing.

Mario Hernandez acquired a Debenture in the principal amount of \$34, Compañía Minera Chañar Blanco S.A. acquired a Debenture in the principal amount of \$604 and Compañía Minera Auromín Ltda. acquired a Debenture in the principal amount of \$3,149. The outstanding amount of principal for each Debenture is convertible into Common Shares at a conversion price (the "Conversion Price") equal to the greater of (i) CDN\$0.05 per Common Share, and (ii) the simple average of the closing price per Common Share on the Canadian Securities Exchange (or such other exchange on which the Common Shares may then be listed) for the 15 consecutive trading days period ending immediately prior to the date of the notice of conversion provided by the holder of the Debenture to the Company. On this basis, each of Hernandez, Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromín Ltda. can acquire at their option, at any time after the date that is 180 days from the date hereof until maturity, up to 882,290, 15,680,601 and 81,807,694 Common Shares, respectively, upon conversion of the full amount of principal under their respective Debentures.

The Company may also, at its option, accelerate the conversion (the "Acceleration Right") of all or part of the outstanding principal at the Conversion Price, at any time if the closing price of the Common Shares on the Canadian Securities Exchange, equals or exceeds CDN\$0.15 per Common Share for a period of 20 consecutive trading days (the "Acceleration Period").

At their issuance, the Debentures were considered to be hybrid financial instruments, with the conversion feature, because it is not based on a fixed share price, measured separately and then subsequently fair valued at each balance sheet date. Such adjustments are reflected in operations. The debt component of the Debentures, representing the difference between their face amounts and this initial conversion feature value, is accreted up to the face amount on a straight-line basis over the term of the Debentures. These accretion charges are also included in operations.

At February 20, 2020 the equity conversion option derivative was fair valued at \$371 using the Black-Scholes pricing model using a share price of CAD\$ 0.005, expected life of 5 years, risk free rate of 1.33% and a volatility of 348%.

At December 31, 2022 the equity conversion derivative was revalued at \$526 (2021 - \$1,122) using the Black-Scholes pricing model using a share price of CAD\$0.01, expected life of 2.4 years, risk free rate of 3.76% and a volatility of 201%. Due to the change in fair value a revaluation adjustment gain of \$23 (2021 - gain of \$3) was recorded in the statement of loss and other comprehensive loss.

During the three month period ended December 31, 2022, the Company recorded an accretion expense of \$19 (2021 - \$19) relating to the debenture.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

9. SHARE CAPITAL

| | <u>Number of shares</u> | <u>Amount</u> \$ |
|---|-----------------------------|---------------------|
| Balance – September 30, 2021 | 396,429,993 | 91,036 |
| Shares issued (Note 5 and Note 9(b)(i)) | 39,833,923 | 473 |
| Balance – September 30, 2022 | 436,263,916 | 91,509 |
| Balance – December 31, 2022 | 436,263,916 | 91,509 |

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

i) During the year ended September 30, 2022.

- 39,833,923 common shares with a fair value of \$473 were issued in name of Tamidak, a company owned by the family of a former director and significant shareholder of the Company in payment of the second option of the APA (Note 5).

ii) During the period ended December 31, 2022.

- No common shares were issued.

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.

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

9. SHARE CAPITAL – (Continued)

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 plan provides for a minimum term of 10 years for stock options.

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.

A continuity schedule of outstanding stock options is as follows:

| | Number of options | Weighted average exercise price CA\$ |
|------------------------------|----------------------|---|
| Balance – September 30, 2021 | <u>2,562,000</u> | 0.05 |
| Balance – September 30, 2022 | <u>2,562,000</u> | 0.05 |
| Balance – December 31, 2022 | <u>2,562,000</u> | 0.05 |

Options outstanding as at December 31, 2022 are as follows:

| Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price CA\$ | Options exercisable |
|----------------------|---|--|------------------------|
| <u>2,562,000</u> | 0.65 | 0.05 | <u>2,562,000</u> |
| <u>2,562,000</u> | | | <u>2,562,000</u> |

There were no incentive stock options granted during the year ended September 30, 2022 or the period ended December 31, 2022.

CERRO GRANDE MINING CORPORATION

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

10. SEGMENT INFORMATION

In determining reportable operating segments, management reviews various factors, including geographic location, quantitative thresholds, and managerial structure.

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral properties.

Geographic information is as follows:

| December 31, 2022 | | Canada | Chile | United States | Total |
|--------------------------|----|---------------|--------------|----------------------|--------------|
| Due from related parties | \$ | - | 1,153 | - | 1,153 |
| Total Non-current assets | \$ | - | 1,153 | - | 1153 |

| September 30, 2022 | | Canada | Chile | United States | Total |
|---------------------------|----|---------------|--------------|----------------------|--------------|
| Due from related parties | \$ | - | 1,153 | - | 1,153 |
| Total Non-current assets | \$ | - | 1,153 | - | 1153 |

11. RELATED PARTY TRANSACTIONS

A company controlled by the Chief Financial Officer of the Company (the “CFO”) and interim Chief Executive Officer (the “CEO”) who is also a director billed \$5 to the Company for accounting and administration services and \$9 for interim CEO services during the three months ended December 31, 2022 (2021 - \$4 and \$9). Trade and other payables include \$2 and \$3 in relation to such services at December 31, 2022 (2021 - \$3 and \$3).

Due to related parties includes cash advances of \$1,743 from the estate of David Thomson (or his companies), who was a former director and officer of the Company at December 31, 2022 (2021 - \$1,153). The cash advances bear no interest and have no specific terms of repayment.

As at December 31, 2022, the Company owes a total of \$219 (2021 - \$201) to directors for director’s compensation. This amount is included in due to related parties

12. SUBSEQUENT EVENTS

Tamidak has received all of the applicable environmental and mining permits to initiate the tailings pond reprocessing operation at the Company’s Pimentón project. See Note 5 and also the Company’s press release dated February 21, 2023.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2022

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

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

Mario Hernandez A. *

Santiago, Chile

Executive Vice President and Director,
Claims and

Land Management

Matthew S. Thomson *(3)

Santiago, Chile

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

West Falmouth, Massachusetts, USA

Chairman, Givens Hall Bank and Trust

Limited

Peter W. Hogg *(1)

Toronto, ON, Canada

Chief Financial Officer and Interim

Chief Executive Officer

(1) Member, Audit Committee

(2) Member, Compensation Committee

(3) Technical Committee

(4) Corporate Governance and Nominating
Committee

Corporate Information

Website: www.cegmining.com

Canadian Securities Exchange

Stock Symbol: CEG

OTCQB International

Stock Symbol: CEGMF

Registered Office:

c/o Ricketts Harris LLP

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Canada

Toronto Office

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Toronto, Ontario M5H 1A1, Canada

Santiago Office:

Avda. Antonio Varas 175, Office 810

Providencia, Santiago, Chile

Telephone: 56-9-98374476

Solicitors:

Ricketts Harris LLP

Toronto, Ontario, Canada

Auditors:

DeVisser Gray LLP

Vancouver, British Columbia, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services

Toronto, Ontario, Canada