

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS  
(Expressed in thousands of United States dollars, except per share amounts)**

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation and its consolidated subsidiaries (“CEG” or the “Company”) for the year ended September 30, 2016, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of January 27, 2017. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2016, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company’s condensed interim consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS. All dollar amounts are expressed in thousands United States dollars, except as otherwise indicated.

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**1. FORWARD LOOKING STATEMENTS**

This management’s discussion and analysis contains or refers to forward-looking statements. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “may”, “could”, “potential”, “should” “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Such forward-looking information includes, without limitation, information regarding the Company’s expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the

Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, development and operational plans and objectives (including delineating additional mineral resources), expectations regarding cash flows, revenue and expenses, expectations regarding the timing for the calculation of mineral reserves, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital, the expected increase in concentration of gold in its Knelson concentrate resulting from the new gold table and gold furnace and the Company's expectations regarding its dividend policy.

The forward-looking statements in this management's discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking statements contained in this management discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to increase commercial mining operations at Pimenton, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's needs.

Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labour or supplies; climatic conditions; inability to delineate additional mineral resources and other factors including, but not limited to, those listed under "Operations at the Pimenton Mine, Risks".

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this management's discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining

experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management's discussion and analysis are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

### **Non-IFRS financial measures**

The Company has included certain non-IFRS financial measures in this document. These measures are not defined under IFRS and should not be considered in isolation. The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. The inclusion of these measures is meant to provide additional information and should not be used as a substitute for performance measures prepared in accordance with IFRS. These measures are not necessarily standard and therefore may not be comparable to other issues

## **2. OVERVIEW**

The Company is an exploration, development and mining corporation focused in Chile. The Company's primary asset is an operating gold and copper mine in Chile (the "Pimenton Mine"). The Pimenton mine is a narrow high-grade gold and copper mine located in the high mountain range of Chile and encompasses 3,121 hectares (7,708 acres).

The Company's other major projects are a porphyry copper deposit (the "Pimenton Porphyry") and other projects in various stages of exploration and development in Chile which include "Tordillo", and two limestone deposits "Catedral" and "Cal Norte".

## **3. HIGHLIGHTS**

### **Operational Highlights**

- Gold produced by the Pimenton Mine for the year ended September 30, 2016 was 4,256 oz compared to 6,633 oz produced in the prior year.
- The average gold recovery for the year ended September 30, 2016 was 91.75% compared to 92.54% in the prior year.
- The Company expects the mine to increase milling rates to 140 tons per day depending on the rate of conversion of its known resources to reserves.
- Currently the plant has been permitted to operate at an average of 166 tons per day. During the present year the plant has operated at an average of 100 tons per day and was closed for the period June to September 2016 due to a snow storm early in June.

The Company has prepared but not yet submitted permits to take the mine up to 500 tons per day.

- Non-IFRS Measures:
  - Pimenton's cash cost for the year ended September 30, 2016 was \$1,389 per ounce of gold produced net of by-product credits, compared to \$1,136 per oz in the prior year.
  - Pimenton's production cost including depreciation and amortization for the year ended September 30, 2016 was \$1,862 per ounce of gold produced net of by product credit compared to \$1,505 per oz in the prior year.

### **Financial Highlights**

- Loss before income taxes for the year ended September 30, 2016 was \$6,936 compared to a loss of \$12,729 in the same period in 2015. Loss before income taxes for the three month period ended September 30, 2016 was \$2,956 (2015 – \$8,463)
- Average price per ounce of gold for the year ended September 30 2016 was \$1,145. This considers only the first nine months of sales due to no production or sales in Q4 (2015 - \$1,164 based on twelve months). Average price per ounce during the three months ended September 2016 was \$nil due to no production or sales (2015 - \$1,099).
- Net loss after income taxes for the year ended September 30, 2016 was \$6,936 compared to \$12,905 in the same period in 2015. Net loss after income taxes for the three months ended September 30, 2016 was \$2,956 compared to \$8,639 for the same period in 2015. For both comparative periods \$6,737 was incurred as a result of an impairment charge.
- Basic loss per share for the year ended September 30, 2016 was a loss of 0.03 cents per share (2015 – loss of 0.08).
- At September 30, 2016 the Company had cash and cash equivalents of \$118 compared to \$252 at September 30, 2015.
- Cash flow from operations for the year ended September 30 2016 was negative \$1,667 (2015 – negative \$2,834).

### **Other Highlights**

- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, Tordillo exploration and the Catedral/Rino and Cal Norte limestone deposits are not reflected in the Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.
- Subsequent to year end, on December 7, 2016 the Company reported that it has agreed in principle 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\$ 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, by issuing a Convertible Debenture 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 December 7, 2016, the Related Parties hold 200,516,530 Common Shares representing approximately 74.86% of the issued and outstanding Common Shares. On a fully diluted basis they hold an aggregate of 291,002,231 Common Shares of the Company representing approximately 78.6% of the shares of the Company on a fully diluted basis.

On January 25, 2017 the Company announced approval by SERNAGEOMIN of the Pillar Recovery and Replacement Plan for the Pimenton Mine. The Pimenton Mine remnant pillars contain an estimated 28,000 tons of high grade mineralized material with an estimated grade of 15.8 grams per ton gold and 1.4% copper, as reported in the latest Technical Report on the Pimenton Mine dated July 21, 2016.

#### 4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated loss for the fourth quarter and years ended September 30, 2016 and 2015.

	Three months ended		Twelve months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Revenue</b>				
Sales	62	2,016	5,887	8,995
	62	2,016	5,887	8,995
<b>Expenses</b>				
Operating costs	2,459	2,397	10,616	12,088
Reclamation and remediation	5	-	21	27
General, sales and administrative	173	922	1,871	2,765
Foreign exchange	49	(71)	64	(154)
Share-based compensation	87	-	87	-
Interest	39	88	211	283
Other (income) and expenses (net)	206	455	(47)	(43)
Impairment charges	-	6,737	-	6,737
Exploration costs	-	19	-	21
	3,018	10,547	12,823	21,724
<b>Loss and comprehensive loss before income taxes</b>	(2,956)	(8,531)	(6,936)	(12,729)
Income tax (expense)/recovery	0	(176)	-	(176)
Deferred income tax	-	-	-	-
<b>Loss and comprehensive loss for the period</b>	(2,956)	(8,706)	(6,936)	(12,905)
<b>Basic and diluted loss per share</b>	(0.01)	(0.05)	(0.03)	(0.08)
<b>Weighted average number of shares outstanding</b>	256,687,061	170,743,264	256,687,061	170,743,264

1) Consolidated statements of loss and other comprehensive loss for the three month periods ended September 30, 2016 and 2015:

- a) Revenue for the three month period ended September 30, 2016 was \$62 due to the shut-down of the Plant and Mine during the quarter compared to \$ 2,016 in the three month period ended September 30, 2015.
- b) Operating expenses for the three months ended September 30, 2016 were \$2,459 compared to \$2,397 for the same period in 2015.

- c) General sales and administrative costs for the three months ended September 30, 2016 were \$173 compared to \$922 for the same period in 2015.

2) Consolidated statements for the year ended September 30, 2016 and 2015:

- a) Sales revenue for the year ended September 30, 2016 decreased over the same period in 2015 due to gold sales of 4,256 oz compared to 6,633 oz in the year ended September 30, 2015. This, in combination with a drop in the gold price and the grade for the year ended September 30, 2015 coupled with having to shut down the plant during the months of June 2016 to September 2016, have led to lower results for the year.
- b) Operating expenses for the year ended September 30, 2016 were \$10,616 compared to \$12,088 for the same period in 2015. The decrease of \$1,472 consists mainly of a reduction in labour costs and lower fuel, maintenance and other production costs as a result of the mine closure during the last quarter.
- c) General and administrative costs for the year ended September 30, 2016 were \$1,871 compared to \$2,765 for the same period in 2015, mainly due to reduction in labour costs.

3) Consolidated Cash flow for the year ended September 30, 2016:

Cash generated by the Pimenton Mine decreased due to operational problems and the drop in the price and grade of gold. The operational problems related to delays in reaching known and expected ore shoots below the existing levels. In addition, as mentioned previously, the Mine was closed down for a four month period starting in June 2016.

4) Consolidated Statement of Financial Position as at September 30, 2016:

As at September 30, 2016 the Company had a negative working capital of \$10,252 (2015–negative \$8,200).

The following information is provided for each of the eight most recent quarterly periods ending on the dates specified. The figures are extracted from underlying unaudited financial statements:

## Summary of Quarterly Results

	<b>Sept 30, 2016</b>	<b>June 30, 2016</b>	<b>Mar 31, 2016</b>	<b>Dec 31, 2015</b>
Sales	62	1,478	1,701	2,646
Net income (loss)	(2,956)	(1,629)	(1,314)	(1,040)
Per share	(0.001)	(0.001)	(0.001)	(0.003)
Per share diluted	(0.001)	(0.001)	(0.001)	(0.003)

	<b>Sept 30, 2015</b>	<b>June 30, 2015</b>	<b>Mar 31, 2015</b>	<b>Dec 31, 2014</b>
Sales	2,016	2,084	2,381	2,464
Net income (loss)	(8,706)	(1,426)	(1,372)	(1,466)
Per share	(0.005)	(0.001)	(0.001)	(0.001)
Per share diluted	(0.005)	(0.001)	(0.001)	(0.001)

## 5. OPERATIONS AT THE PIMENTON MINE

### Safety, Health and Environment

The following safety statistics have been presented for the fourth quarter and fiscal year ended in 2016 with 2015 comparable:

<b>Pimenton Mine Safety Statistics</b>				
	<b>For the 3 months ended Sept 30,</b>		<b>For the 12 months ended Sept 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Lost time injury	0	0	8	7
Medical aid	0	3	7	10
<b>Total</b>	<b>0</b>	<b>3</b>	<b>15</b>	<b>17</b>
Total injury frequency rate (i)	0	8	19	14
Total disabling injury frequency rate (ii)	0	84	100	361
Lost days for medical aid	0	10	42	187
Man - Hours worked	0	118,416	418,913	517,470

(i) A measurement of lost time injury multiplied by 1,000,000 man-hours worked

(ii) A measurement of the total number of shifts lost multiplied by 1.000.000 per total of number of man-hours worked

There were no adverse environmental issues during the years ended September 30, 2016 and 2015.

### Gold Production

The following table shows the tonnes milled, average mill grade, gold plant recovery and gold produced during each of the last eight quarters to September 30, 2016:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2016	9,254	7.73	92.73	2,137.99
Q2-2016	7,715	4.96	90.90	1,119.60
Q3-2016	5,527	6.05	91.30	998.74
Q4-2016 *	0	0.00	0.00	0.00
	22,496	6.37	91.75	4,256.33

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2015	9,601	6.36	92.70	1,822.04
Q2-2015	10,212	5.60	91.51	1,677.26
Q3-2015	8,764	5.99	93.75	1,587.97
Q4-2015	7,639	6.83	92.40	1,546.10
	36,216	6.16	92.54	6,633.37

\* - Mine was shut down during this quarter.

While the price and grade of gold continues to remain low, efforts are being focused on reaching higher grade veins. Drilling, drifting and a raise is also under way on the new Monica vein that has recently been discovered 100m to the west and parallel to the main Lucho vein.

## Operating Costs

The cash cost per ounce of gold produced during the quarters from October 2015 to September 30, 2016 are set out in the table below.

### *Reconciliation of Non-IFRS Measures Cost of Production:*

	<u>Q1-2016</u>	<u>Q2-2016</u>	<u>Q3-2016</u>	<u>Q4-2016</u>	<u>Total</u>
Gold ounces produced	2,138	1,120	999	47	4,303
Direct mine expenses	2,033	1,793	1,796	1,083	6,705
By product credits (deduct)	(279)	(223)	(203)	(23)	(728)
<b>Cash Costs</b>	<b>1,754</b>	<b>1,570</b>	<b>1,593</b>	<b>1,060</b>	<b>5,977</b>
<b>Cash cost/Oz</b>	<b>820.40</b>	<b>1,402.64</b>	<b>1,594.81</b>	<b>22,553.19</b>	<b>1,388.97</b>
Depreciation	365	360	358	344	1,427
Amortization	296	160	146	9	611
<b>Production costs</b>	<b>2,415</b>	<b>2,091</b>	<b>2,096</b>	<b>1,413</b>	<b>8,015</b>
<b>Production cost/Oz</b>	<b>1,129.57</b>	<b>1,867.18</b>	<b>2,099.04</b>	<b>30,063.83</b>	<b>1,862.49</b>
Net Smelter return	143	92	84	8	328
<b>Total costs</b>	<b>2,558</b>	<b>2,183</b>	<b>2,181</b>	<b>1,421</b>	<b>8,343</b>
<b>Total cost/Oz</b>	<b>1,196.45</b>	<b>1,949.62</b>	<b>2,183.63</b>	<b>30,234.04</b>	<b>1,938.66</b>

## Risks

Risks relating to the Pimenton Mine associated with mining operations (e.g. production, commodity prices, etc.) are set out below:

- Increasing costs: Pimenton, and other Chilean mines, continue to experience significant upward cost pressures from labour.
- Reserve replacement: As is normal with exploration/development in narrow veins, activities at Pimenton may not identify sufficient resources of an adequate grade to replace ore which has been depleted by mining activities.
- With the exception of the Gold Loan Debentures, the Company does not use financial instruments to mitigate the risks of either change in the price of gold or currency fluctuations.
- The mining industry is intensely competitive in all of its phases. The Company competes with many companies possessing larger technical facilities and financial resources.
- All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.
- The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.
- The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labour unrest could adversely affect the Company's exploration efforts and production plans.
- The Company's mine is located in an area that can experience severe winter weather conditions that could adversely affect mining operations.

## **Opportunities**

- Surplus capacity: The plant at the Pimenton Mine currently has a daily average milling capacity of over 150 tons per day. Any increased production arising from increased mining throughput could therefore be processed with little or no capital investment and incur only consumable costs to treat any increase throughput.
- Exploration success: Depending on future exploration success, Pimenton may be able to increase its production levels.

## **Outlook**

The Company achieved annualized production of 4,256 ounces of gold for the twelve month period ended September 30, 2015. The Company achieved production of 6,633 ounces of gold in fiscal 2015.

During the year ended September 30, 2016 approximately 60% (2015 – 58%) of the Company's sales were to a gold refinery in Europe. The refinery pays for 90% of the value of gold shipment the week following delivery at the Refinery in Switzerland and the balance of the payment is made less than a month from the day of receipt of the initial payment. During the same period the remaining 40% (2015 – 42%) of the Company's sales were to Empresa Nacional de Minería (ENAMI) to smelter its gold and copper concentrate. ENAMI is owned by the State of Chile through its ownership of Corporación Nacional del Cobre (CODELCO). ENAMI pays for approximately 70% of the value of shipments the week following delivery and the balance is paid one to two months following the initial payment subject to arbitration.

## **6. EXPLORATION AND DEVELOPMENT PROJECTS**

### **Pimenton - porphyry copper**

The Company is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. A prior diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the porphyry copper deposit located within the Pimenton area provided the Company with an exploration report which, among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project. Please see Report by Rio Tinto on the Company's web site, [www.cegmining.com](http://www.cegmining.com).

The Company will continue exploration and drilling on the Pimenton porphyry copper deposits during the 2017 exploration seasons.

### **Tordillo**

The Company holds mining claims on Tordillo which is located 11.5 kilometers south-southwest of Pimenton and covers an area of 6,632 hectares (16,381 acres). Tordillo is in the early exploration stage and to date the Company has identified several gold/copper vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity and was acquired by the Company in 2006.

Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. During the year ended September 30, 2016, the Company expensed a total of \$nil (2015 - \$nil) relating to mining property costs and exploration costs on Tordillo.

### **Bandurrias**

During the year ended September 30, 2016 acquisition costs of \$nil were expensed (2015 - \$nil).

### **Limestone deposits**

The Company holds interest in two limestone deposits. Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry. While the changing economic situation will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

As at September 30, 2016, the Company had contributed a cumulative total of \$4,080 (2015 - \$4,080) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton per day lime kiln on the Catedral property. During prior years the Company had written off \$4,080 in mining properties and exploration costs relating to Catedral/Rino.

As at September 30, 2016, the Company had contributed a total of \$1,556 (2015 - \$1,556) to Cal Norte, to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient exploration expenditures to maintain the Cal Norte property in good standing, the Company expensed this \$1,566 in prior years as it focused its efforts on the Pimenton gold mine.

## **7. INVESTING**

During the year ended September 30, 2016 the Company invested \$766 (2015 - \$1,236) in mining plant, equipment, and mining properties

## **8. FINANCING**

The Company finances its operations using either funds on hand, funds generated by its operations, cash advances by related parties or equity sold to related parties. Due to negative cash flow both Auromin (a company owned by David Thomson) and Chañar Blanco (a company owned by Mario Hernandez), both Directors and Officers of the Company have made cash advances to cover the shortfalls. On October 24, 2014 the accumulated loans, Net Smelter Royalties and annual Management fees accumulated to September 30, 2014 were exchanged for shares in the Company in payment of this debt, as shown in b) below.

Common stock issued during the year ending September 30, 2015 was as follows:

a) US \$700 Private Placement by Messrs. David Thomson and Mario Hernandez, both Directors and Officers of the Company, for which a total of 15,743,000 Common shares were issued and corresponding warrants,

b) Debt settlement of US \$2,162 owed to Messrs. David Thomson and Mario Hernandez, both Directors and Officers of the Company, for which a total of 48,645,220 Common shares were issued.

Common stock issued during the year ending September 30, 2016 was as follows:

On November 6, 2015 the cash advances made during the year ended September 30, 2015 were converted into shares in the company in payment of this debt.

Debt settlement of US \$3,466 owed to Messrs. David Thomson and Mario Hernandez, both Directors and Officers of the Company, for which a total of 92,875,400 Common shares were issued.

### **Other Financing**

The Company's secured mortgage bears an interest rate of 5.13% and is secured by the building and land the Company uses for its office space. At September 30, 2016 the balance of the mortgage was \$529

During the month of November 2014, the Company signed a Gold Loan Debenture for \$100 bearing an annual interest rate of 10%. The principal is to be repaid semi-annually at a gold price of \$1,057 per ounce or higher if the average price during the six month period prior to any repayment date exceeds the agreed price for the equivalent of 15.77 ounces of gold payment. During the fiscal year ended September 30, 2016 repayments of principal of \$33 were made.

On August 22, 2016 the company issued a second Gold Loan Debenture for \$200 with a maturity date of August 22, 2019. The debenture bears a fixed annual interest rate of 8% on the outstanding principal amount and is payable on a quarterly basis on the 25<sup>th</sup> day of February, May, August and November of each year. The payment of the principal is semi-annually on February 25 and August 25 of each year plus the difference in the average gold

price per ounce in excess of \$1,260 per ounce calculated on 26.455 ounces of gold. As of September 30, 2016 the Company has repaid \$nil of principal.

## **9. LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2016, the Company shows a negative working capital of \$10,252 (2015-negative \$8,200).

On December 7, 2016 the Company reported that it has agreed in principle to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the "Related Parties"), both directors 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\$ 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, by issuing a Convertible Debenture 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 December 7, 2015, the Related Parties hold 200,516,530 Common Shares representing approximately 74.86% of the issued and outstanding Common Shares. From a fully diluted basis they hold an aggregate of 291,002,231 Common Shares of the Company representing approximately 78.6% of the shares of the Company on a fully diluted basis.

Without these loans and cash advances, the Company would not have been able to continue its operations. It is likely that the Company will continue to require additional cash advances from these two Directors and Offices of the Company until the Company is able to mine higher grade ore reserves.

As of September 30, 2016 the Company had potential liabilities for reclamation and remediation costs, if and when the Pimenton Mine is permanently closed, at an estimated present value cost of \$1,806 (2015 - \$1,471). The Company calculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$2,030 is expected to be incurred in 3 years. These estimated cash flows are discounted using a long term 10 year Chilean interest rate of 3.96% as at September 30, 2016.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	4,241	4,241	-	-
Amount due to related parties	7,072	7,072	-	-
Long-term debt and finance leases	1,115	196	552	367
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>15,178</b>	<b>11,509</b>	<b>552</b>	<b>2,867</b>

Note (1). Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to \$1,250 each or \$2,500 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totaling \$500, which was paid during 1997.

Note (2). As compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay \$250 within 50 days of first cash flow from the property.

The Company must make an additional capital contribution of \$239 in Cal Norte to earn its 60% equity interest.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on the common shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

## **10. OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

## **11. RELATED PARTY TRANSACTIONS**

As at September 30, 2016, the Company has salaries and expenses payable to the CEO in the amount of \$211 which is included in due to related parties. This amount is offset by cash advances, and loans receivable from the CEO in the amount of \$602 included in due from related parties. Net receivable from the CEO at September 30, 2016 is \$391 (2015 -282). One of the loans receivable from the CEO is secured by a 653,200 common shares of the Company, owned by him. The cash advances and loans bear no interest or specific terms of repayment.

As at September 30, 2016, the Company has a receivable from a company with common directors in the amount of \$250 included in due from related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$56 to the Company for accounting and administration services rendered during the year ended September 30, 2016 (2015 - \$34). Trade and other payables include \$19 in relation to such services at September 30, 2016 (2015 - \$27).

A law firm, of which an ex- director of the Company is a partner, billed the Company \$71 during the year ended September 30, 2016 (2015 - \$100) for legal services. Trade and other payables includes \$126 at September 30, 2016 (2015- \$147).

Due to related parties include \$416 at September 30, 2016 (2015- \$251) 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 and salaries due of \$1,307 at September 30, 2016 (2015 - \$1,870).

Due to related parties include \$ 416 at September 30, 2016 (2015 - \$251) 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 and salaries due of \$ 1,285 at September 30, 2016 (2015 - \$2,159).

In July 2013, the Company entered into a loan agreement of \$3,000, which is included in due to related parties, in lieu of repayment of advances provided 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. The loan which will be paid at the end of a three-year term has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at September 30, 2016 the amount due is \$3,000, and is included in due to related parties (2015 - \$3,000). As of September 30, 2016 there is a total of \$300 (2015 - \$150) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda., which is included in due to related parties.

As at September 30, 2016, the Company owes a total of \$137 owing to directors for director's compensation. This amount is included in due to related parties.

## **12. CRITICAL ACCOUNTING ESTIMATES**

A summary of the critical accounting estimates are set out below:

### *Mining properties, plant and equipment*

Mining properties, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost included expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized separately, as appropriate, only when future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. All other repairs and maintenance costs are expensed during the period in which they are incurred.

Expenditures for the continued development of the mining property are capitalized as incurred. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

The major categories of property, plant and equipment are depreciated on a straight-line basis or units of production (UOP) as follow:

- Mining properties and development - UOP
- Building 5 years
- Plant and Equipment 1- 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. Changes to the estimated residual values or useful lives are accounted for prospectively.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and value in use. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such considerations.

#### *Exploration and development costs*

Acquisition and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units 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.

#### *Revenue recognition*

Revenue from the sale of concentrates and gold doré are recognized following the transfer of title and risk of ownership and the determination of value in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of customers. Generally, the final settlement price is computed with reference to quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to customers and revenue from these by-products are recognized on the same criteria as those used for gold revenues.

Revenue from services includes management, drilling, machinery and equipment rent and is recognized as the services are rendered.

#### *Stock-based compensation*

The Company has a share option plan, as discussed in note 9 (c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the relevant Stock Exchange on the business day preceding the grant date.

#### *Reclamation and remediation*

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there are a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

### **13. SECURITIES OUTSTANDING**

As of January 27, 2017 the Company has issued one class of common shares of which total of 360,727,810 are outstanding.

On January 27, 2017, the Company had 15,743,000 common share purchase warrants outstanding which are exercisable into one common share at an exercise price of CA\$0.07.

Options granted under the stock option plan of the Company (each, an "Option") outstanding as of January 27, 2017 totaled 11,920,953 of which 11,920,953 are exercisable into one common share at exercise prices of CA\$0.02 to CA \$0.18 through March 2021.

"CEG" is the stock trading symbol for the Company on the CSE and CEGMF for the OTCQB International Symbol on the OTC market.

### **14. CONTROLS**

**National Instrument 52-109**

### *Evaluation of disclosure controls and procedures*

Public companies are required to perform an evaluation of disclosure controls and procedures annually and to disclose management's conclusions about the effectiveness of these disclosure controls and procedures in its annual Management's Discussion and Analysis. The Company has established, and is maintaining, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is disclosed in annual filings, interim filings or other reports, and is recorded, processed, summarized and reported within the time periods specified as required by securities regulations.

Management has evaluated the effectiveness of the Company's Disclosure Controls and Procedures as at September 30, 2016 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

### *Internal controls over financial reporting*

Management of the Company is responsible for evaluating the design of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS as of September 30, 2016, have not identified any changes to the Company's internal control over financial reporting in the latest reporting period that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.