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, 2012, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of December 14, 2012. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2012, and the Company's most recent annual information form, which are available on SEDAR at www.sedar.com. The Company's consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") to IFRS is set out in Note 4 to these financial statements.

All dollar amounts are expressed in thousands United States dollars, except as otherwise indicated.

Contents of the MD&A

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 operation 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 demand.

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, labor 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.

2. OVERVIEW

The Company is an exploration, development and mining corporation focused in Chile. The Company's primary assets are an operating gold and copper mine in Chile (the "Pimenton Mine"). The Pimenton gold/copper 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 assets are a porphyry copper deposit (the "Pimenton Porphyry"), and other projects in various stages of exploration and development in Chile which include "Santa Cecilia", "La Bella", "Tordillo", "Bandurrias" and two limestone deposits "Catedral" and "Cal Norte".

3. HIGHLIGHTS

Operational Highlights

- Gold produced by the Pimenton Mine in 2012 was 12,583 oz compared to 15,749 oz of gold produced in 2011.
- Pimenton's cash operating costs in 2012 were $1,203 per ounce of gold produced compared to $732 in the preceding year.
- The average gold recovery in 2012 was 94.17% compared to 94.52% in the preceding year.

- The total fleet of available mining and related equipment is being increased. The Company expects the mine to gradually increase production above the current 110 - 120 tons per day to 150 ton per day by the end of calendar 2013 at current reserve grades.
- Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has applied for permits to take the mine up to 500 tons per day. At the present rate of production, proven and probable reserves are sufficient for 3 years of production. In addition the Company is currently working to convert 189,000 tons of drill indicated resources as defined in the Company's January 31, 2011 resources and reserve report which was prepared in compliance with National Instrument 43-101 - *Standard of Disclosure for Mineral Projects* ("NI 43-101") into proven and probable reserves. The Company will continue with exploration for new gold veins at Pimenton.

Financial Highlights.

- Loss before income taxes for the year was $2,582 (2011- income $3,187). Income before income taxes for the three months ended September 30, 2012 was $654 (2011- $400)
- Average price per ounce of gold sold for year 2012 was $1,646 (2011 - $1,470). Average price per ounce during the three months ended September 30, 2012 was $1,668 (2011 - $1,675)
- Net loss for the year, after income taxes was $3,712 compared to net income of $3,187 in 2011. Net loss after income taxes for the three months ended September 30, 2012 was $432 compared to $400 in the same period in 2011.
- Basic earnings per share for 2012 was a loss of 0.04 cents per share compared to earnings of 0.04 cents per share in 2011
- At September 30, 2012, the Company had cash and cash equivalents of $1,336 compared to $1,750 at September 30, 2011.
- Cash flow from operations in 2012 before capital investment was $626 (2011- $4,823)

Other Highlights

- During 2012 the Company started the drilling program on the Santa Cecelia property as outlined in the Letter of Agreement signed July 11, 2011.
- Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and as it continues to develop its indicated resources into proven and probable reserves.
- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral/Rino and Cal Norte limestone deposits, and the Santa Cecilia, Tordillo and La Bella prospects are not currently reflected in the Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.

4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated profit and loss for the three month period ended September 30, 2012 and 2011 and for the year ended September 30, 2012 and 2011:

	Three months ended		Twelve months ended	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Revenue	**$**		**$**	
Sales revenue	6,675	5,574	25,549	24,289
Services revenue	-	-	1,896	-
	7,675	5,574	27,445	24,289
Expenses				
Operating costs	5,655	4,198	21,100	15,629
Operating costs for services	-	-	1,760	-
Reclamation and remediation	3	41	58	161
General, sales and administrative	960	744	3,368	3,768
Warrants revaluation	-	(60)	-	345
Foreign exchange	10	32	126	(53)
Interest	23	43	127	245
Other gains and losses (net)	(1)	(21)	96	(55)
Exploration costs	371	197	3,392	1,062
	7,021	5,174	30,027	21,102
Income (loss) and comprehensive income (loss) before income taxes	654	400	(2,582)	3,187
Income tax expense	(205)	-	(249)	-
Deferred income tax	(881)	-	(881)	-
Income (loss) and comprehensive income (loss) for the period	**(432)**	**400**	**(3,712)**	**3,187**

1) Consolidated statements of income and other comprehensive income (loss) for the three month period ended September 30, 2012 and 2011:

   a) Revenue for the three month period ended September 30, 2012 increased over the same period 2011 due to increased gold sales of 3,924 oz compared to 2,744 oz in the three month period ended September 30, 2011.
   b) Operating expenses for the three months ended September 30, 2012 were $5,655 compared to $4,198 for the same period in 2011. The increase of $1,457 consisted of increased labor cost of $584; direct costs of $57; inventory variation of $427; net smelter return of $115; indirect costs of $327, of which $140 related to mine insurance; $128 environmental control and other miscellaneous costs of $59. This was off set by a reduction of smelting, refining and metallurgical charges of $17 and indirect supplies costs of $36.

c) General and administrative costs for the three months ended September 30, 2012 were $960 compared to $744 for the same period in 2011. This $216 increase was due to an increase of $72 in salaries; an increase of $72 in transportation; an increase in claims and notary expenses of $57, an increase in sales expenses of $17; an increase in overhead expenses of $52; an increase in insurance costs of $46; an increase in taxes and penalties of $72. This was offset by a reduction in a provision for pending compensation of $43; a reduction in investor relations of $67 and a reduction in professional fees and other expenses by $62.
d) The Company expenses its exploration expenditures on properties until a NI 43 - 101 compliant resource has been established on a property. As a result during the three month period ended September 30, 2012, the Company expensed $371 (2011 – $197) of exploration costs as follows: La Bella $59 (2011 – $126); Bandurrias $2 (2011– $1); Santa Cecilia $240 (2011 - $nil) and other $70 (2011 - $70).

2) Consolidated profit and loss for the year ended September 30, 2012 and 2011:

a) Revenue for the year ended September 30, 2012 increased over the same period in 2011 due to the combined effect of an increase in the average gold price of $1,646 compared to $1,470 and a decrease in gold sales to 13,576 oz in 2012 compared to 14,083 oz in 2011. For the year ended September 30, 2012, revenue from services provided by Pimenton to Cerro del Medio (CDM) include management, machinery and equipment rent was $1,896 (2011 - $nil).
b) Operating expenses were $21,100 for the year ended September 30, 2012 compared to $15,629 for the same period in 2011. This increase of $5,471 during the year ended September 30, 2012 consisted of the following increases; labor costs of $1,971; energy and fuel of $253; services costs of $630; indirect costs of $811; inventory variation of $2,062; net smelter return of $68 and depreciation and amortization of $87. This was offset by a reduction of smelting, refining and metallurgical charges of $95 and indirect supplies cost of $316. For the year ended September 30, 2012, costs from services provided by Pimenton to CDM including management, machinery and equipment rent was $1,760 (2011 - $nil).
c) General and administrative costs were $3,368 for the year ended September 30, 2012 compared to $3,768 for the same period in 2011. This $400 decrease was due to an increase of $122 in salaries; an increase of $184 in professional fees of which $116 related to legal fees, $47 related to auditing fees and $118 related to internal accounting fees; this was offset by a reduction in geological services by $97. In addition, for the year ended September 30, 2012 the Company incurred increase costs of $102 for claims and notary expenses, an increase in sales expenses of $106, an increase in overhead expenses of $161. This was offset by a reduction in a provision for pending compensation of $474; a reduction in investor relations of $67; a reduction in stock based compensation of $471 and a reduction in other expenses by $63.
d) The Company expenses its exploration expenditures on properties until a NI 43 - 101 compliant resource has been established on a property. As a result during the year ended September 30, 2012, the Company expensed $3,392 (2011 – $1,062) of exploration costs as follows: Catedral $56 (2011 - $170); La Bella $637 (2011

– $481); Cal Norte $5 (2011 – $6); Tordillo $68 (2011 –$93); Bandurrias $33 (2011– $30); Santa Cecilia $2,313 (2011 - $nil) and other $280 (2011 -$282).

3) Consolidated Cash flow for the year ended September 31, 2012

Cash generated by the Pimenton Mine decreased due to lower gold sales which was slightly offset by higher gold prices realized and increase in unit cash operating expenses and exploration cost. The Company's working capital requirements increased because of the increase in operating production levels and in particular, higher consumables and labour costs. Capital expenditures related primarily to expenditures at the Pimenton Mine were $2,781 in 2012.

4) Consolidated Statement of Financial Position as at September 30, 2012

Inventory levels were lower in 2012 due to lower levels of unsold gold maintained by the Company at the 2012 year end compared to the 2011 year end.

$1,227 of payable to related parties were cash advances by Compañía Minera Auromin Ltda. a Company owned by David R.S. Thomson, Executive-Vice President-Director of Exploration of the Company and Minera Chañar Blanco S.A. a Company owned by Mario Hernández, Executive-Vice President-Director of Claims and Administration. These advances were used for cash payments in lieu of issuing common stock from the Company's stock bonus plan which was not approved at our last Annual and Special Meeting of shareholders for a four year labor contract; used to fund capital expenditures on Pimenton and used for working capital.

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 that have been prepared using accounting policies consistent with IFRS.

Summary of Quarterly Results

	September 30 2012	**June 30, 2012**	**March 31, 2012**	**December 31 2011**
Sales	7,675	8,199	6,282	5,289
Net income (loss) before extraordinary items	1,057	(157)	(162)	421
Per share	0.011	(0.002)	(0.002)	0.004
Per share diluted	0.010	(0.001)	(0.002)	0.004
Net income (loss) after extraordinary items	(432)	(2,328)	(994)	42
Per share	(0.005)	(0.025)	(0.010)	0.000
Per share diluted	(0.004)	(0.022)	(0.009)	0.000

	September 30 2011	June 30, 2011	March 31, 2011	December 31 2010
Sales	5,574	7,695	4,857	6,163
Net income (loss) before extraordinary items	652	2,437	43	1,254
Per share	0.007	0.026	0.000	0.014
Per share diluted	0.006	0.023	0.000	0.012
Net income (loss) after extraordinary items	400	2,304	(455)	938
Per share	0.004	0.025	(0.005)	0.011
Per share diluted	0.004	0.022	(0.004)	0.009

5. OPERATIONS AT THE PIMENTON MINE

Safety, Health and Environment

The following safety statistics have been recorded from October 1, 2011 and 2010 to September 30, 2012 and 2011:

Pimenton Mine Safety Statistics				
	For the 3 months ended September 30,		**For the year ended September 30,**	
	2012	2011	**2012**	2011
Lost time injury	2	4	9	9
Medical aid	3	9	20	39
Total	**5**	**13**	**29**	**48**
Total injury frequency rate (i)	12.90	26.94	15.00	15.79
Total disabling injury frequency rate (ii)	1,257	263	1,105	1,002
Lost days for medical aid	205	39	674	654
Man -hours worked	155,076	148,476	599,916	570,048

(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

Overall, Pimenton's 2012 accident record has decreased considerably, nevertheless the gravity of these have increased slightly reflected in the lost days.

There were no adverse environment issues during the Quarter.

Gold Production

Gold produced in Q4 of 2012 was 3,769 ounces, a 1.26% decrease compared to the 3,817 ounces produced in Q3 of 2012. Gold produced in Q4 of 2012 was 3,769 ounces, a 6.54% decrease compared to 4,032 ounces produced in Q4 of 2011. Total gold production in

2012 was 12,583 ounces, a 20.1% decrease over the annual gold production in 2011 of 15,749 ounces.

The following table shows the tones milled, average mill grade, plant gold recovery and gold produced during each quarter of 2012, and 2011:

Quarter	Tones milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2012	7,229	11.39	94.86	2,135.88
Q2-2012	9,397	9.73	92.93	2,861.43
Q3-2012	8,665	13.88	93.82	3,817.03
Q4/2012	9,045	13.65	95.08	3,768.92
	34,336	12.16	94.17	12,583.27

Quarter	Tones milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2011	9,061	16.52	94.29	4,674.98
Q2-2011	6,612	14.58	94.46	3,152.79
Q3-2011	7,610	19.07	94.91	3,889.09
Q4/2011	7,970	13.18	94.41	4,032.51
	31,253	15.84	94.52	15,749.37

The main reason for the decline in Q1 of 2012 was a production stoppage for approximately three weeks while a fatigued Ball Mill crown gear was substituted by a new one. During the three month fabrication time of the crown gear, production was lowered to less then 100 tpd so as not to cause a major failure during the build time. During the down time a new 600 kva generator was installed as well as a new ball mill electric motor and a Hydraulic clutch. The new generator has lead to a 10% drop in fuel consumption despite an increase in plant production. This combined with a decrease in the grade, lead to a decrease from 4,675 Oz for the quarter ended December 31, 2011 to 2,136 Oz in the same period 2011. The mine is currently preparing high grade stopes to compensate for the drop in head grades and estimates a significant increase in grades and plant production for the next quarter.

Operating Costs

The operating cash cost per ounce of gold produced during the four quarters of 2012 are set out in the table below.

Reconciliation of Non-GAAP Measures to IFRS Cost of Production:	Q1-2012	Q2-2012	Q3-2012	Q4-2012	Year 2012
Gold ounces produced	2,136	2,861	3,817	3,769	**12,583**
Cost of production	4,362	4,500	5,692	5,949	**20,503**
Deduct:					
Amortization and depreciation	(469)	(542)	(633)	(566)	**(2,210)**
Remediation and reclamation	(27)	(14)	(14)	(3)	**(58)**
Total cash cost of production before by-product credits	3,866	3,944	5,045	5,380	**18,235**
Copper and Silver – by- product credits	(481)	(667)	(929)	(1,021)	**(3,098)**
Total cash cost of production after by-product credits	3,385	3,277	4,116	4,359	**15,137**
Cash cost per ounce produced	**1,584.83**	**1,145.23**	**1,078.32**	**1,156.56**	**1,202.95**

Mineral Reserves and Resources

As of January 31, 2011, the date of the last NI-43-101 report prepared, Pimenton had sufficient Proven and Probable reserves to operate the mine at its current rate of production of 110 to 120 tons per day for 3 years and resources reserves to support operation for an additional 3 years. The Company believes that it has been successful in maintaining this level of reserves to date and plans to complete a new NI-43-101 reserves and resources Technical Report during the first 6 months of calendar 2013. The Company expects to increase production from its current rate of 110 to 120 tons per day to 150 tons per day in calendar 2013.

Exploration and development are ongoing at the Pimenton mine. The rate of exploration and development at Pimenton is expected to increase during calendar 2013 with delivery of additional new mining equipment.

Risks

Risks such as interest and credit risk are considered in note 18 to the consolidated financial statements. Risks relating to the Pimenton Mine, in addition to the normal risks associated with mining operations (e.g. production, commodity prices, etc.) are set out below:

- Increasing costs: Pimenton and other Chilean miners continue to experience significant upward cost pressures from labour and the costs associated with generating its own electricity at the mine.
- Reserve replacement: As is normal with exploration, activities at Pimenton may not identify sufficient resources of an adequate grade to replace ore which has been depleted by mining activities. Pimenton has embarked on development and exploration programs as set out under "Mineral Reserves and Resources" above.

- 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

- Increased production: Pimenton's existing reserves and resources would support a further increase in production provided the necessary investments in the resource development can be made.
- Surplus capacity: The plant at the Pimenton Mine currently has a daily average mining capacity of over 150 tones 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 has achieved annualized production of 12,583 ounces of gold, which is expected to be sustained and increased over the next year. As a result of upgrades made to the plant during the shut down that occurred during Q1of 2012, the plant has surplus capacity and can process additional material if the planned exploration and development work is successful.

In May 2010 the Company started to produce its own gold doré at the mine site allowing it to ship the gold doré bars directly to a gold refinery in Europe. 90% of the value of this gold shipment is paid during the week following delivery with the balance of payment received a month from the day of receipt of the initial payment. For the year ended September 30, 2012, 66% of the Company's sales have been to a gold refinery in Europe and 34% to the Enami smelter in Ventana, Chile. Enami is owned by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment.

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. Additional Mobil Metal Ion (MMI) studies have been conducted on the property to further define drill targets. 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. The Company has recently commenced drilling on the porphyry copper project at Pimenton

The Company will continue exploration and drilling on the Pimenton porphyry copper deposits during the 2012-2013 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 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.

The presence of strong extensive explosive breccias is reminiscent of the porphyry copper systems at large existing copper mines in Chile. Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. The Company is deferring exploration activities while it is focusing its attention on Pimenton. During the year ended September 30, 2012, the Company expensed a total of $68 (September 2011 - $93) relating to mining property costs and exploration costs on Tordillo. The Company plans to do further exploration at Tordillo during the first and second quarters of 2013.

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") in 2007, which was modified on December 18, 2009 and again on December 16, 2010. The new agreements provide for an earn-in of a 100% interest on claims covering approximately 6,000 hectares (14,820 acres) on the La Bella prospect area (formerly the "inner circle"). The Company has also put down additional claims covering the El Chilque project area (formerly the "outer circle") to earn a 100% interest which encompasses an additional area of approximately 26,000 hectares (64,220 acres) of claims located 75 kilometers southwest of Santiago, Chile. See "Liquidity and Capital Resources – La Bella Option Agreement" for a discussion of the option payments required under the La Bella Option Agreement.

A small field crew is prospecting for gold veins on the 32,000 hectares (78,793 acres) of total claims held by the Company. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results.

Under the modified agreement entered into on December 16, 2010 on the inner circle $125 was paid on December 17, 2011. The remaining payment obligations are due to be paid as follows: $200 in December 2012; $300 in December 2013 and $875 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.

On the outer circle, under the new agreement $125 was paid in December 2011 and $200 is due in December 2012, $300 is due in December 2013 and $875 is due in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.

During the year ended September 30, 2012, the Company expensed a total of $637 (September 2011 - $481) relating to mining property costs and exploration costs on La Bella.

Santa Cecilia

On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio (CDM), the 100% owner of the Santa Cecilia project which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement, between July 31, 2011 and July 31, 2013 CEG must fund the CDM majority shareholders, and any option shareholders, the pro rata of a drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, at an aggregate cost of approximately $4,000. CEG is committed to fund an estimated $2,624 or 65.6% of this drilling campaign. Mario Hernandez Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are owners of 65.6% of CDM. At September 30, 2012 3,335 meters has been drilled at a total cost to CDM of $3,526.

In October 2012, the Company began an Orian 3D geophysical study by Quantec Geoscience Toronto, Canada on Santa Cecilia. This study is expected to be completed in the first quarter of 2013.

Under the terms of the Letter of Agreement, CEG has engaged a qualified engineering firm to supervise the drilling campaign on Santa Cecilia. This firm will also update NI 43-101 technical reports on CEG's other projects and Santa Cecilia on completion of the drilling campaign.

Following the completion of the drilling campaign on Santa Cecilia, and receipt of the NI 43-101 technical reports, an evaluation of CEG and CDM will be undertaken by a competent, independent investment banking group to value CEG and CDM. On completion of a satisfactory evaluation, CEG will have 90 days in which to determine if it wishes to proceed with acquiring the interest of the Majority Shareholders in CDM.

Under the terms of the agreement, CEG or CDM may terminate the Letter of Agreement under certain circumstances. Depending on the circumstance, CEG will be reimbursed up to 125% of its share of drilling campaign costs. CEG may terminate the agreement at any time after having drilled not less than 1,500 meters.

CDM has conducted Mobile Metal Ion geochemical and CSAMT geophysical surveys on the Santa Cecilia property. These surveys have successfully established the existence of a drill target in the shape of a large gold and copper anomaly. This gold and copper drill target is 3,000 meters directly west of the Caspiche project owned by Exeter Resources.

Since the letter of agreement has no immediate impact on the shareholdings of Mr. Hernandez and Dr. Thomson in CEG, CEG is unable to provide a description of any impact that a definite acquisition agreement may have on any shareholdings in CEG at this, or any other, time.

Final approval of any such acquisition will likely require CEG shareholder and Toronto Stock Exchange approval.

Bandurrias

During the year ended September 30, 2012 acquisition costs of $33 were expensed (September 30, 2011 $30).

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, 2012, the Company had contributed a cumulative total of $3,969 (2011 - $3,913) 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 has written off $3,913 in mining properties and exploration costs relating to Catedral/Rino. For the year ended September 30, 2012, the Company expensed $56 (2011 - $170) relating to mining property costs on Catedral/Rino.

As at September 30, 2012, the Company had contributed a total of $1,556 (2011 - $1,551) 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 $1,556 in prior years as it focused its efforts on the Pimenton gold mine. For the year ended September 30, 2012 the Company expensed $5 (2011 - $6) related to mining property costs on Cal Norte.

7. INVESTING

During the year the Company invested $2,763 in mining property, plant and equipment. Of that amount, $2,511 was spent at the Pimenton Mine site with the balance of $252 being spent on the head office building where the company has its office space.

8. FINANCING

The Company financed all its operations using either funds on hand, funds generated by its operations or funds as described under "Related Party Transactions". No equity fundraising took place in 2012 and none is currently planned. 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.

9. LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2012, the Company had positive working capital of $223 (September 2011 - $2,602).

As of September 30, 2012 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 $1,727 (2011 - $3,201). The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $1,988 is expected to be incurred over 6.5 years. These new estimated cash flows are discounted using a long term 10 years Chilean interest rate of 2.55% as at September 30, 2012. The effect was a decrease in the mine closure provisions and development costs of $1,550

Contractual Obligations	Total	Less than 1 year	1-3 years	Over 4 years
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	3,587	3,570	17	-
Amount due to related parties	1,747	1,747	-	-
long term debt and finance leases	1,557	538	319	700
La Bella option payments (1)	2,750	400	2,350	-
Conditional loan agreement (2)	2,500	-	-	2,500
Tordillo prospect (3)	250	-	-	250
Santa Cecilia agreement (4)	311	311	-	-
Total Contractual Obligations	**12,702**	**6,566**	**2,686**	**3,450**

Note (1). The Company is only obligated to make the option payments on either the inner circle or the outer circle as long as it desires to keep the underlying claims. The Company may drop either or both the inner or outer circle at any time and no further option payments are due to be paid.

Note (2). 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 (3). 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.

Note (4). On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio (CDM) which is the 100% owner of the Santa Cecilia project, which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement CEG, between July 31, 2011 and July 31, 2013, must fund the CDM majority shareholders and any Option Shareholders, pro rata share of a diamond drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, including but not limited to, core logging and assaying at an aggregate cost of approximately US $4,000 (of which CEG is committed to fund an estimated US $2,624 or 65.6%). Mario Hernandez and Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are the owners of 65.6% of CDM.

The Company must make an additional capital contribution of $244 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

On April 1, 2010 a Company owned by Mr. Mario Hernández, who is Executive-Vice President-Director of Claims and Administration and a director of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract with the Company for a period of two years, which was renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Chañar Blanco S.A. is to be paid $110 per year. The services to be provided by Minera Chañar Blanco S.A. include, maintaining title and ownership of mining properties acquired by the Company, acquiring water rights or request concessions of water rights on the properties acquired by the Company and negotiations the acquisition of new mining properties for the company. As of September 30, 2011 accounts payable and accrued liabilities included $83 related to this contract.

On April 1, 2010, a Company owned by David Thomson,(Executive-Vice President-Director of Exploration and Director of the Company, Compañía Minera Auromin Ltda), entered into a services contract with the Company for a period of two years, which was renewed for an additional two years period at the end of each year. Under the term of the contract, the Company will pay $300 per year to Compañía Minera Auromin Ltda. The services to be provided by Compañía Minera Auromin Ltda. include, seeking new mining projects, performing geological studies and designing drill programs for the Company on exploration projects, conducting preliminary design of the mining plan for designated project and providing other services related to the exploration and development of mining projects. As of September 30, 2012 accounts payable and accrued liabilities included $225 related to this contract (2011 - $75).

On April 1, 2010, The CEO, who is also a director of the Company, entered into a management contract for a period of two years, which was renewed for an additional two year period at the end of each year. Under the terms of the contract, the CEO is to be paid $110 per year plus a car allowance.
A company owned by the CEO (who is also a director) billed $7 to the Company at September 30, 2012 (2011 - $13) in relation to the office space and services used by the Company. In addition, the Company has a receivable from such officer and director of the Company for $322 as at September 30, 2012 (2011 - $387) of which $189 (2011 - $286) is a non-interest-bearing note receivable without specific repayment terms and is secured by collateral represented by 653,200 common shares owned by the CEO.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed $51 to the Company for accounting and administration services rendered at September

30, 2012 (2011 - $52). Accounts payable and accrued liabilities for $9 include payables to this officer in relation to such services at September 30, 2012 (2011 - $8).

A law firm, of which a director of the Company is a partner, billed the Company $236 at September 30, 2012 (2011 - $203) for legal services. Accounts payable and accrued liabilities include $6 at September 30, 2012 (2011- $4).

Accounts payable and accrued liabilities also include $85 at September 30, 2012 (2011- $114) related to royalties due to Mario Hernández, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid $767 in royalty payment in 2012 (2011 - $846).

Accounts payable and accrued liabilities include $85 at September 30, 2012 (2011-$114) for royalties due to David Thomson who is the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid $767 in royalty payment in 2012 (2011 - $846). Also accounts payable include $9 (2011 - $9) for interest not paid on the Debenture issued to him in 2006 and which was converted on June 9, 2009.

Amounts due to related parties also include $1,225 at September 30, 2012, of which $613 is from Compañía Minera Auromin Ltda. a Company owned by David Thomson, and $612 from Minera Chañar Blanco S.A. a Company owned by Mario Hernández.

In October 2011 Pimenton entered into a services contract with CDM (note 14). The services to be provided by Pimenton include management, machinery and equipment rent. As at September 30, 2012 Pimenton has recognized revenue of $1,896. The costs related to these services amounted $1,760. As at September 30, 2012 receivables include $416 from non related third parties who hold the balance of 34.4% of CDM.

The Company made payments and issued securities to certain directors and officers. For the year ended September 30, 2012 the expense related to this was $44 ($60 – 2010).

On June 21, 2011 the board approved a resolution that non-executive directors be paid $1,000 per meeting attended. As at September 30, 2012 amounts due to the directors for these director fees were $33.

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.

On February 9, 1999, the board of directors agreed to amend its November 27, 1996, agreement with Messrs. Hernandez and Thomson regarding the recovery of advances made to explore and develop the Catedral prospect. The board of directors agreed that all funds advanced will be recovered from 80% of the cash flow of the properties or from the sale thereof until the Company has recovered 125% of such advances. On September 11, 2000, the board of directors agreed to an additional amendment to this agreement limiting recovery of advances made through September 30, 2000, to $3,125 (and not the 125% of such advances). Such recovery will be from 60% (reduced from 80% previously agreed upon) of the cash flow from the property or the sale of the property. Future advances will also be recovered from 60% of the cash flow. Accordingly, such advances have been reflected in "Exploration and development costs."

In 2001, the board of directors and compensation committee of the board approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella to the CEO, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also directors of the Company.

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 7 years
- Plant and Equipment 1- 7 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 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 criterion 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 8 (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 TSX 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 December 7, 2012, the Company has issued one class of common shares of which a total of 94,925,714 common shares were outstanding. As of December 9, 2012, the Company had 1,608,254 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA$0.50 through May, 2015. Options granted under the stock option plan of the Company (each, an “Option”) outstanding as of December 19, 2012, totaled 7,615,999 of which 7,212,999, are currently exercisable into one common share at prices of CA$0.35 to CA$0.79 per common share expiring at various dates through July, 2016.

“CEG” is the stock trading symbol on the TSX for the Company and the OTCQX International Symbol CEGMF on the OTC market.

14. CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company’s CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company’s system of disclosure controls and procedures includes, but is not limited to, the effective functioning of its audit committee and procedures in place to systematically identify matters warranting consideration of disclosure by the audit committee.

As at the end of the period covered by this management’s discussion and analysis, management of the Company, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company’s disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management’s discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

As at the end of the period covered by this management's discussion and analysis, management of the Company, under the supervision of the CEO and the CFO, evaluated the effectiveness of the Company's internal control over financial reporting as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the internal control over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

During the most recent quarter there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. QUALIFIED PERSON

Mineral Reserves and Mineral Resources Estimates

The Company has compiled with an independent qualified person under National Instrument 43-101, a Mineral Reserve and Mineral Resource estimate of the Pimenton Mine on January 31, 2011. These reports are filed on SEDAR at www.sedar.com.