CERRO GRANDE MINING CORPORATION

Report to Shareholders
for the
Second Quarter Ending
March 31, 2012
(These statements have not been audited)

Listed on the Toronto Stock Exchange
Symbol: CEG
And
The OTCQX International
Symbol: CEGMF

The Company's auditors have not reviewed these interim financial statements for the six month period ended March 31, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS
(Expressed in United States dollars)

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation (formerly South American Gold and Copper Company Limited) and its consolidated subsidiaries ("CEG" or the "Company") for the for the six months ended March 31, 2012 together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of May 15, 2012. The discussion should be read in conjunction with the unaudited consolidated financial statements for the Company and the notes to those statements for the six month ended March 31, 2012, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2011, and the related notes thereto (the "2011 Financial Statements") which were prepared in accordance with Canadian generally accepted accounting principles as at September 30, 2011 ("GAAP") and the related annual management's discussion. In addition, this discussion contains certain forward-looking statements regarding the Company's businesses and operations. These statements are based on assumptions and judgments of management regarding future events and results. Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of CEG. For more detail on these factors, refer to the section titled "Risk Factors" in this document.

Unless otherwise indicated, this MD&A has been prepared as of May 15, 2012. Amounts for the six month period ended March 31, 2012 and 2011 are in accordance with IFRS. Unless otherwise indicated, all amounts in this MD&A are in accordance with IFRS.

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

On March 28, 2011 shareholders approved a reverse split of the Company's shares on the basis of ten old shares for one new share as well as to change the name of the Company from South American Gold and Copper Company Limited to "Cerro Grande Mining Corporation". "Cerro Grande Mining Corporation" was listed and posted for trading at the market opening on Thursday April 14, 2011. "CEG" is the new stock trading symbol on the TSX for the Company and the OTCQX International Symbol "CEGMF" on OTC market. All Common Share and per Common Share amounts in this MD&A have been adjusted to reflect the 10 for one consolidation.

Additional information relating to the Company, including the Company's most recent annual information form, is available on SEDAR at www.sedar.com.

Forward Looking Information

This management's discussion and analysis contains or refers to forward-looking information. 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 information 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 information contained in this management's 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 information is 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 “Risk Factors”.

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.

The following discussion addresses matters which the Company believes are important for an understanding of its financial condition and results of operations as of and for the period ended March 31, 2012 and for its future prospects. It consists of the following subsections:

- Overall Performance
- Capacity to Deliver Results
- Results of Operations
- Summary of Quarterly Results
- Related Party Transactions
- Outstanding Share Information
- Risk Factors
- Critical Accounting Estimates and judgments
- International Financial Reporting Standards
- Disclosure Controls and Procedures
- Internal Control Over Financial Reporting

Overall Performance

The Company's Pimenton gold/copper mine is a narrow high grade gold/copper mine located in the high mountain range of Chile. Its location means it is subject to snow and avalanches that may increase operating costs and can cause temporary shut downs during the Chilean winter season. Mining costs in a narrow high grade mine such as Pimenton can also be higher on a cost per ton basis than in an underground larger vein mine.

The Company's sales of gold, copper and silver for the period ended March 31, 2012 were $9,433,202 compared to $9,349,977 for the six months ended March 31, 2011. This was due to a production stoppage for approximately three weeks, while a fatigued Ball Mill crown gear was substituted with a new one. During the six 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. During this quarter the mine is currently preparing high grade stopes to compensate for the drop in head grades and estimates an increase in grades and plant production.

The mine operating expenses increased during the period ended March 31, 2012 primarily due to the hiring of more miners to prepare the mine for the planned production increases, as well as higher labor costs as wage pressure increased.

The total fleet of available mining and related equipment is being increased with the purchase of three 8 ton mine trucks and a rebuilt small Jumbo drill. The Company expects the mine to gradually increase production above the current 110 to 120 tons per day.

Effective February 28, 2012 the Company entered into a new four year agreement with its labour unions which will assure the Company of labour peace for this extended period of time.

Using its core mineral assets, the Company believes it is positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and as it continues to develop it's 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 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.

Pimenton gold mine

Pimenton encompasses 3,121 hectares (7,708 acres).

The Company expects production to move up to 150 tons per day by mid 2012 and to reach 180 tons per day by the end of calendar 2012. 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. Reaching 180 tons per day will depend on the speed of the regulators in processing the new permits. 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.

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 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 2012 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.

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 $125,000 was paid on December 17, 2011. The remaining payment obligations will be paid as follows: $200,000 in December 2012; $300,000 in December 2013 and $875,000 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.

On the outer circle, under the new agreement $125,000 was paid in December 2011; $200,000 in December 2012; $300,000 in December 2013 and $875,000 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.

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 US $4,000,000. CEG is committed to fund an estimated US $2,624,000 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.

Under the terms of the Letter of Agreement, CEG will engage 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 completion of the drilling campaign, which commenced in January 2012, on Santa Cecilia and receipt of the NI 43-101 technical reports, an evaluation (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 measured and indicated resource of 21.3 million ounces of gold, 5.3 billion pounds of copper and 48.4 million ounces of silver.

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 time.

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

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.

Capacity to Deliver Results

Pimenton gold mine.

Potential porphyry copper.

The Company has incurred sufficient exploration expenditures to maintain the Pimenton porphyry in good standing.

Tordillo

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 period ended March 31, 2012, the Company expensed a total of $67,712, (2011 - $74,267) relating to mining property costs and exploration costs on Tordillo.

Bandurrias

During the period ended March 31, 2012 acquisition costs of $18,495 were expensed (2011 -$25,754).

La Bella

During the period ended March 31, 2012, the Company expensed a total of $532,360 (2011 - $288,645) relating to mining property costs and exploration costs on La Bella.

Limestone deposits

As at March 31, 2012, the Company had contributed a total of $3,953,466 (2011 - $3,912,539) 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. At September 30, 2011 the Company wrote off the balance of $3,912,539 in mining properties and exploration costs relating to Catedral/Rino, in accordance with section 3063 – impairment of long – lived assets, as the properties had been on care and maintenance for more than three years as it focused its efforts on the Pimenton gold mine. For the six months ended March 31, 2012, the Company expensed $40,927 (2011 - $62,757) relating to mining property costs on Catedral/Rino.

As at March 31, 2012, the Company had contributed $1,556,130 (2011 - $1,551,333) 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 has expensed the balance of $1,556,130 in mining property costs and exploration costs as the properties had been on care and maintenance for more than three years as it focused its efforts on the Pimenton gold mine. For the six months ended March 31, 2012 the Company expensed $4,797 (2011 - $6,490) related to mining property costs on Cal Norte.

Santa Cecilia

As at March 31, 2012, the Company had contributed $209,118 (2011 - $nil) to 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 US $4,000,000. CEG is committed to fund an estimated US $2,624,000 or 65.6% of this drilling campaign.

Under the terms of the Letter of Agreement, CEG will engage 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.

During the period ended March 31, 2012 exploration costs of $209,118 were expensed (2011 -$nil).

Other Projects

In addition, during the six months ended March 31, 2012, the Company incurred exploration costs on other projects where the resource potential has not yet been determined amounting to $140,000 (2011 - $159,000).

Result of operation - for the quarter ended March 31, 2012, compared to the quarter ended March 31, 2011.

The Company reported a net loss of $995,000 for the three months ended March 31, 2012 compared to a net loss of $456,000 for the same period in 2011.

For the three months ended March 31, 2012, revenue from gold sales was $5,331,000, or 2,730 gold ounces (2011 - $3,868,000 or 2,631.55 gold ounces ounces) and revenues from copper and silver sales were $688,000 (2011 - $989,000). For the three months ended March 31, 2012, revenue from services provided by Pimenton to CDM which include management, machinery and equipment rent was $951,000 (2011 - $nil).

Operating expenses from metal sales were $4,351,000 for the three months ended March 31, 2012 compared to $2,655,000 for the same period in 2011. The increase of $1,696,000 during the three months ended March 31, 2012 consisted of mine expenses of $1,304,099; plant operations of $90,380; maintenance and operation of road of $93,738; health clinic and safety of $92,520; transportation of $53,361; camp of $92,457; and royalties of $32,633. This was off set by a reduction in smelting, refining and metallurgical charges of $60,623; and management by $2,565. For the three months ended March 31, 2012, costs from services provided by Pimenton to CDM including management, machinery and equipment rent was $828,153 (2011 - $nil).

In accordance with IFRS, on February 8, 2012 the Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $2,585,000 is expected to be incurred over 6.5 years. The new estimated cash flow is discounted using a long term US interest rate of 2.55% as at December 31, 2011. The effect was to decrease the mine closure provision and development cost by $1,045,000. Reclamation and remediation discounted at 2.73% for the three months ended March 31, 2012 was $14,551 (2011- $39,843).

Amortization and depreciation expense was $541,420 for the three months ended March 31, 2012 (2011 - $478,000). Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves and amounted to $211,730 for the three months ended March 31, 2012 (2011 - $199,287). Depreciation expense for the period ended March 31, 2012 was $329,690 compared to $278,285 for the same period in 2011, the increase of $51,405 was due to additional mining equipment purchased during the year.

General and administrative costs were $683,000 for the three months ended March 31, 2012 compared to $803,000 for the same period in 2011. This $120,000 decrease was due to a decrease in salaries of $75,074; a decrease in shareholders expenses of $29,729, a decrease in patents, notary fees and licenses of $11,792, a decrease in utilities and other expenses of $3,405.

Stock based compensation was $28,578 during the three months ended March 31, 2012 compared to $33.000 for the same period in 2011. The Company expensed $28,578 (2011- $33,000) for the vesting period of common stock options issued during the three month period ended March 31, 2012 and 2011 for options granted whose vesting period is between the date of grant and three, four and five years.

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering and must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting reduced other profit and losses by $805,127 at March 31, 2011.

Interest expense was $26,461 for the three months ended March 31, 2012 compared to $55,576 in the same period of 2011. The decrease of $29,115 was due to full payment the Pimenton notes, and repayment of the Givens Hall bank loan in the amount of $23,303. There was also a reduction of lease interest in the amount of $5,812.

The foreign exchange loss was $51,701 for the three months ended March 31, 2012 compared to a gain of $16,451 in the same period of 2011. This increased loss of $68,152 was due to the US dollar versus the Chilean peso variation.

The Company had taken the decision to expense its mining properties and exploration costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. Exploration and mining properties expensed during the period ended March 31, 2012 totaled $611,498 (2011 – $430,188), and were as follows: Catedral $40,927 (2011 85,843); La Bella $203,475 (2011 - $168,936); Cal Norte $4,797 (2011 - $4,656); Tordillo $66,873 (2011 - $74,267); Cerro del Medio $209,118 (2011 - $nil); Bandurrias and other $16,308 (2011 - $26,486) and other $70,000.
Other losses for the three month period ended March 31, 2012 of $99,000 were principally from a labor fine and a donation made to the San Esteban Township of $56,850, and other expenses for $42,150. This is compared to a gain of $4,636 in the same period for 2011, where the company received financial interest in the amount of $4,636.

Results of operations for the six months ended March 31, 2012, compared to the six months ended March 31, 2011.

The Company reported net income of $953,000 for the six month period ended March 31, 2012 compared to a loss of $482,000 for the six months ended March 31, 2011.

For the six months ended March 31, 2012, revenue from gold sales was $9,433,202, or 5,622 gold ounces (2011 - $9,349,977 or 6,853.91 gold ounces) and revenues from copper and silver sales were $1,186,793 (2011 - $1,669,918). For the six months ended March 31, 2012, revenue from services provided by Pimenton to CDM include management, machinery and equipment rent was $951,000 (2011 - $nil).

Operating expenses from metal sales were $7,912,364 in the six months ended March 31, 2012 compared to $5,687,178 for the same period in 2011. The increase of $2,225,186 during the six month period ended March 31, 2012 consisted of mine operation expenses of $1,293,683; plant operations costs of $139,903; road maintenance and operation costs of $350,708; management costs of $23,603; camp costs of $165,801; transport costs of $143,464; health clinic & safety $225,900. This was offset by a reduction in royalties of $18,651; a reduction in smelting, refining and metallurgical charges of $99,225. For the six months ended March 31, 2012, costs from services provided by Pimenton to CDM including management, machinery and equipment rent was $828,153 (2011 - $nil).

In accordance with IFRS, on February 8, 2012 the Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $2,585,000 is expected to be incurred over 6.5 years. The new estimated cash flow is discounted using a long term US interest rate of 2.55% as at December 31, 2011. The effect was to decrease the mine closure provision and development cost by $1,045,000. Reclamation and remediation discounted at 2.88% for the six months ended March 31, 2012 was $41,361 (2011- $78,972).

Amortization expense was $370,479 in the six months ended March 31, 2012 (2011 - $502,910). Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Depreciation expense for the six months ended March 31, 2012 were $644,900 compared to $534,133 for the same period in 2011. The increase of $110,767 was due to mining equipment purchases. Impairment expense was $56,779 for the six month ended March 31, 2012 (2011 $nil). Under IFRS impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount.

General and administrative costs were $1,401,503 for the six months ended March 31, 2012 compared to $1,199,338 for the same period in 2011. The difference of $202,165 is due to an increase in salaries of $48,196; an increase in professional fees of $134,553 of which $121,673 related to legal fees; $108,625 related to accounting and other professional fees and a decrease in geological fees by $95,745. In addition, for the six months ended March 31, 2012 there is an increase in overhead of $149,46 and a decrease of $33,285 in miscellaneous and others expenses.

Stock based compensation was $57,235 during the six month period ended March 31, 2012 compared to $28,656 for the same period in 2011. The Company expensed $57,235 (2011 - $28,656) for the vesting period of common stock options (as defined below) issued during the six months ended March 31, 2012 for options granted whose vesting period is between the date of grant and three, four and five years.

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares at a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting reduced other profit and losses by $1,543,081 at March 31, 2011. In December, 2010 46,187,485 outstanding common share purchase warrants (the

“Warrants”) and 5,616,936 outstanding common share purchase warrants (the “Broker Warrants”) (before 10 for 1 share consolidation) which were due to expire, were further extended to June 17, 2011. All of these were exercised in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of $111,986 was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 1.24%, no dividend and a volatility factor of 143%.

Interest expense was $53,681 in the six months ended March 31, 2012 compared to $143,078 in the same period of 2011. The decrease of $89,397 was due to full payment of the Pimenton notes and repayment of the Givens Hall bank loan. There was also a reduction of lease interest for the amount of $11,711.

The foreign exchange loss was $42,853 for the six months ended March 31, 2012 when compared to a loss of $5,990 in the same period of 2011. The increase of $36,863 was due to the US dollar versus Chilean peso variation.

Other income decreased by $84,648 in the six months ended March 31, 2012 compared to the same period of 2011. During the six month period ended March 2012, the Company paid a labour fine and made a donation to San Esteban Township in the amount of $56,850. During the six month period ended March 2011 the Company received insurance proceeds and interest in the amount of $27,798.

The Company had taken the decision to expense its exploration expenditure on properties until NI 43 -101 compliant recourses has been established on a property. As a result during the six month period ended March 31, 2012, the Company expensed $1,013,442 (2011 – $693,117) as follows: Catedral $40,927 (2011 - $154,767); La Bella and Chilque $532,393 (2011 – $289,506); Cal Norte $4,797 (2011 – $6,490); Tordillo $67,712 (2011 –$74,267); Bandurrias $18,495 (2011– $28,087); Cerro del Medio $209,118 (2011 - $nil) and other $140,000.

Summary of Quarterly Results

	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
Sales	6,282	5,289	5,574	7,695
Net income (loss) before extraordinary items	(162)	421	652	2,437
Per share	(0.002)	0.004	0.007	0.026
Per share diluted	(0.002)	0.004	0.006	0.023
Net income (loss) after extraordinary items	(995)	42	400	2,304
Per share	(0.010)	0.000	0.004	0.025
Per share diluted	(0.009)	0.000	0.004	0.022

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Sales	4,857	6,163	4,045	2,714
Net income (loss) before extraordinary items	43	1,254	(232)	(1,731)
Per share	0.000	0.014	(0.000)	(0.002)
Per share diluted	0.000	0.012	(0.000)	(0.002)
Net income (loss) after extraordinary items	(455)	938	(917)	(2,803)
Per share	(0.005)	0.011	(0.001)	(0.003)
Per share diluted	(0.004)	0.009	(0.001)	(0.003)

Non-IFRS Financial Measures

This MD&A refers to cash cost per ounce of gold produced because certain investors may use this information to assess the Company's performance and also determine the Company's ability to generate cash flow for investing activities. These measurements capture all of the important components of the Company's production and related costs. In addition, management utilizes these metrics as an important management tool to monitor cost performance of the Company's operations. These measurements have no standardized meaning under IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. These measurements are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The following table provides, for the periods indicated, a reconciliation of the Company's cash cost measures to its IFRS cost sales:

Reconciliation of Non-IFRS Measures to IFRS Cost of Sales:

For the six month period ended March 31,	2012	2011
Gold ounces sold	5,622	6,854
Cost of sales	8,721	6,917
Deduct:		
Amortization and depreciation	(1,011)	(1,033)
Remediation and reclamation	(41)	(79)
Total cash cost of production before by-product credits	7,669	5,805
Copper and Silver – by- product credits	(1,148)	(1,620)
Total cash cost of production after by-product credits	6,521	4,185
Cash cost per ounce sold	**$1,159.91**	**$610,59**

Reconciliation of Non-IFRS Measures to IFRS Cost of Production:

For the six month period ended March31,	**2012**	**2011**
Gold ounces produced	4,951	7,309
Cost of production	8,862	7,777
Deduct:		
Amortization and depreciation	(1,011)	(1,033)
Remediation and reclamation	(41)	(79)
Total cash cost of production before by-product credits	7,810	6,665
Copper and Silver – by- product credits	(1,148)	(1,620)
Total cash cost of production after by-product credits	6,662	5,045
Cash cost per ounce produced	**$1,345.59**	**$690.24**

The Company declared the Pimenton mine to be in commercial production effective October 1, 2008. The production rate is expected to increase to an average of 150 tons per day by June 2012 and to near 180 tons per day by the end of calendar 2012. 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. Reaching the 180 tons per day will depend on the speed of the regulators processing the new permits.

The following is a sensitivity analysis:

PRODUCTION VARIABLES AND SENSITIVITIES FOR UP TO 180 TPD.

VARIABLES

Head grade gold	12	g/t
Head grade copper	1	%
Starting tons per day year 1	150	Tpd
Tons per day year 2	150	Tpd
Plant combined recovery	92%	
Price per Ounce Gold	$1,500	
Price per pound Copper	$3.00	
Exchange rate US$	500	CH$
Loan Interest rate	8.50%	
Price per liter Diesel	620	CH$
Price per liter Gasoline	750	CH$

ALL IRR% ARE FOR ENTIRE INVESTMENT

Grade Sensitivity. Projects from a low of 10g/t to 16 g/t Au head grade through plant.

Au g/t	Cu%	Op.Cost/Oz	IRR%
10	0.8	$918	57%
12	1.0	$801	90%
14	1.2	$718	119%
16	1.4	$657	147%

Cost/Oz is cash cost per ounce at the mine

UP TO 180 TPD

Recovery Sensibility. Projects from 5% to 10% less plant Recovery for gold.

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	$871	68%
-5%	$834	79%
2%	$789	94%

Cost/Oz is cash cost per ounce at the mine

Tonnage Sensitivity from a low of at 100 to a high of 180 tpd.

Tons per day	Op.Cost/Oz	IRR%
100	$910	81%
150	$801	90%
180	$752	95%

UP TO 180 TPD

Price of Gold Sensitivity

Price per Ounce	IRR%
$1,000	19%
$1,200	48%
$1,400	76%
$1,600	103%
$1,800	129%
$2,000	156%

Note: The current reserve grades are 14.4 g/t Au and 1.26% Cu. Below the 3430 level reserve grades are significantly higher.

UP TO 180 TPD

Price of Copper Sensitivity with gold at US$1,500

Price per pound Cu	IRR%
$1,00	74%
$2,00	82%
$3,00	90%
$4,00	98%

Liquidity and capital resources

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years
	$	$	$	$
Purchase obligations	3,340,264	3,340,264	-	-
Amount due to related parties	339,874	339,874	-	-
Other debts (5)	1,099,023	277,400	180,356	641,267
Capital leases	381,930	236,425	145,505	-
Short term warrants liability	46,260	46,260	-	-
La Bella option payments (1)	2,750,000	400,000	2,350,000	-
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Tordillo prospect (3)	250,000	-	-	250,000
Santa Cecilia agreement (4)	2,414,882	1,102,882	1,312,000	-
Total Contractual Obligations	**13,122,233**	**5,743,105**	**3,987,861**	**3,391,267**

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 $1,250,000 each or $2,500,000 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 $500,000, which was paid during 1997.

Note (3). As a compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay $250,000 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 $4,000,000 (of which CEG is committed to fund an estimated US $2,624,000 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. During the period ended March 31, 2012 acquisition costs of $209,118 were expensed (2011 -$nil).

Note (5). On April 21, 2010 and May 11, 2010 the Company issued $300,000 and $330,000 of convertible unsecured debentures (the "C and D Debentures"). The conversion price of the C Debentures is CA$0.4 per share convertible into up to 1,608,255 shares of common shares of the Company. Interest rate on the C and D Debentures is 6% payable annually. In addition the C Debenture holders were issued 1,608,255 common share purchase warrants of the Company exercisable for 60 months from the date of issuance at CA$0.05

per share. As a result, as of December 30, 2011 the Company had allocated $217,000 to debt. In addition the Company has acquired on November 7, 2011 a loan with Bice Bank at fixed rate of 5.13% for fifteen years payable monthly until 2026.

The acquisition, exploration, financing, and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, the issuance of promissory notes and debentures, bank debt and extended terms from creditors. The Company believes that it will generate sufficient cash flow in the future to sustain normal operations.

At March 31, 2012, cash was $537,000

The Company had a positive working capital of $1,692,000 at March 31, 2012. The working capital is expected to be improved by increased operating profits from the Company's Pimenton gold mine. The production rate is expected to gradually increase to an average of 150 tons per day by June 2012 to near 180 tons per day by the end of calendar 2012. 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. Reaching the 180 tons per day will depend on the speed of the regulators processing the new permits.

Revenues for gold, silver and copper sales from the mine are expected to cover operating costs of the mine plus generate sufficient funds to cover capital expenditure required to sustain operations in the future. The ability of the Pimenton mine operations to cover its operating costs and generate sufficient funds to cover capital expenditure budget is dependent on the prices of gold, silver and copper; the gold veins in the mine retaining their width, continuity and grade of ore; snow conditions in the Chilean winter which runs from May to August; the future price of diesel fuel; the price of the Chilean peso relative to the US Dollar and the ability of the Company to retain its current work force.

In May, 2010 the Company started to produce its own gold doré at the mine site. In the same month the Company started to ship the gold doré bars directly to a gold refinery in Europe. The refinery pays for 90% of the value of gold shipment the week following delivery and the balance of the payment is made less than a month from the day of receipt of the initial payment. For the six months ended March 31, 2012 the Company has sold approximately 71% to a gold refinery in Europe, 29 % to Enami to smelter its gold and copper concentrate. Enami is owed 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 initial payment.

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.

Related Party Transactions

A company owned by the CEO (who is also a director) billed the Company $2,000 for the six month period ended March 31, 2012 (2011 - $3,000) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of $409,000 as at March 31, 2012 (2011 - $386,000) of which $286,000 (2011 - $286,000) was the net amount of a non-interest-bearing note receivable, $32,000 was a loan in August 2011, and $91,000 (2011 - $68,000) was net of cash advances, salary and truck expenses reimbursement. The note has been extended to September 30, 2012 and is collateralized by 653,200 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the “CFO”) billed the Company $33,000 for accounting and administration services rendered for the six month period ended March 31, 2012 (2011 - $34,000). Accounts payable and accrued liabilities include payables to this officer of $15,000 for such services at March 31, 2012 (2011 - $8,000).

A law firm of which a director of the Company is a partner billed the Company $83,000 in the six month period ended March 31, 2012 (2011 - $74,000) for legal services. Accounts payable and accrued liabilities include $30,000 as at March 31, 2012 (2011- $4,000).

Accounts payable and accrued liabilities include $106,000 as at March 31, 2012 (2011- $114,000) for royalties due to the Executive Vice President and Director of Land and Administration, who is also a director of the Company, who is the owner of a net smelter royalty on the Pimenton gold mine.

Accounts payable and accrued liabilities include $106,000 as at March 31, 2012 (2011- $114,000) for royalties due to the Executive Vice President - Director of Exploration who is also a director of the Company, who is the owner of a net smelter royalty on the Pimenton gold mine. Also accounts payable include $9,000 (2011 - $9,000) for interest not paid on the Debenture issued to him in 2006 and which were converted on June 9, 2009.

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 US $4,000,000. CEG is committed to fund an estimated US $2,624,000 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. As of March 31, 2012 CEG has financed $209,000 to CDM project.

On October, 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rent. As at March 31, 2012 Pimenton has billed to CDM $951,000, the costs related to these services amounted $828,000. As of March 31, 2012 receivable included $762,000 related to this contract.

On April 1, 2010, a Company owned by David Thomson, who is Executive-Vice President-Director of Exploration and a director of the Company, Compañía Minera Auromin Ltda, entered into a services contract with the Company for a period of two years, which can be renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Auromin Ltda. is to be paid $300,000 per year. The services to be provided by Compañía Minera Auromin Ltda. Include, seeking new mining projects, performing geological studies and design 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 explorations and development of mining projects. As of March 31, 2012 accounts payable and accrued liabilities included $75,000 related to this contract.

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 can be 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 $110,000 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 March 31, 2012 accounts payable and accrued liabilities included $27,500 related to this contract.

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 can be 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 $110,000 per year. Additionally, during the term of the agreement, the Corporation will provide him with a diesel truck or its equivalent with all expenses paid. As of March 31, 2012 the Corporation paid for salary $27,500 and $5,958 for expenses.

On June 21, 2011 the board approved a resolution that non-executive directors be paid $1,000 per meeting attended. As at March 31, 2012 amounts due to the directors for these director fees were $25,000.

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 $1,250,000 each or $2,500,000 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 $500,000, 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 $3,125,000 (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.

Outstanding Share Information

As of May 15, 2012, the Company has issued one class of common shares of which a total of 94,925,714 common shares were outstanding. As of May 15, 2012, the Company had 2,208,254 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA$2.5 to CA$0.50 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of May 15, 2012, totaled 7,615,999 of which 7,099,999, are currently exercisable into one common share at prices of CA$0.35 to CA$0.90 per common share expiring at various dates through July, 2016.

On March 28, 2011 at the Company's annual and special meeting, the shareholders approved a special resolution authorising consolidation of the Company's issued and outstanding common shares on the basis of one consolidated common share for each ten old common shares and the average number of shares outstanding have been restated to reflect the shares consolidation. Also it was authorized that the name of the Company be changed from South American Gold and Copper Company Limited to "Cerro Grande Mining Corporation". "Cerro Grande Mining Corporation" was listed and posted for trading at the market opening on Thursday April 14, 2011. "CEG" is the new stock trading symbol on the TSX for the Company and the OTCQX International Symbol "CEGMF" on OTC market.

Outlook

Risk Factors

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve inherent risks. The Company is subject to various financial, operational and political risks that could affect its future profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold or copper, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chilean peso against the US dollar. The Company does not use financial instruments to mitigate the risks of changes 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 greater 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's revenues will be primarily derived from the mining and sale of gold, silver, copper, limestone and lime and the disposition of interests in mineral properties or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumptive patterns. A drop in the price of gold, silver, copper, limestone and lime could adversely affect the Company's financial condition, results of operations and cash flows. Significantly lower commodity prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations.
The Company's Pimenton mine is highly dependent on generating its own electrical needs at the mine, plant and camp sites. Fuel costs have risen substantially and are expected to further increase. Higher fuel costs may have an adverse impact on profitability of the mine.

Mine labour costs in Chile are increasing which could adversely impact operating profits at the Pimenton mine.

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 labor unrest could adversely affect the Company's exploration efforts and production plans.

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company's development and exploration programs will result in new gold reserves. Mineral reserves and resources are estimates which may differ significantly from actual mining results.

Due to financial constraints the Company manages its operations with a limited number of key personnel. The need to replace any of these individuals could adversely affect the Company's operations until a qualified replacement is found.

The Company is insured for business interruptions ($10,000,000) and on its camp, plant, assay laboratory, fuel storage and garage facilities at Pimenton. The Company currently is also ensured against civil responsibility.

The Company's mine is located in an area that can experience severe winter weather conditions that could adversely affect mining operations.

Readers should read the risk factors, which are described in more detail in the Company's annual information form, which was dated December 15, 2011. Such factors could materially affect future operating results of the Company and cause actual results to differ materially from those described in forward–looking information relating to the Company.

The Company's continuance as a going concern is dependent upon obtaining adequate funding, maintaining profitable operations at the mine, pursuing joint venture partners, the sale or other disposition of all or part of its assets, or additional external funding. There is no assurance that the steps management is taking will be successful and, in the event that such resources are not available, the Company's assets may not be realized or its liabilities discharged at their carrying amounts, and these differences could be material.

Critical accounting estimates and judgments

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

The more significant areas requiring the use of management estimates and assumptions relate to ore reserves and resources and estimates of recoverable gold that are the basis of future cash flow estimates for asset impairments/reversals, any sensitive analysis to provide, estimation of useful lives of mining property, plant and equipment, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

The Company estimates mineral resources and reserves in accordance with the with National Instrument 43-101 -Standard of Disclosure for Mineral Projects ("NI 43-101") into proven and probable reserves. , which requires mining companies to disclose reserves and resources using the subcategories of "proven" reserves, "probable" reserves, "measured" resources, "indicated" resources and "inferred" resources.

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

The estimation of mineral resources and reserves is complex and requires significant subjective assumptions which are valid at the time of estimation. These assumptions may change significantly over time when new information becomes available and may cause the mineral resources and reserves estimates to change. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may have a significant impact on the economic assessment of the mineral resources and reserves and may result in their restatement.

International Financial Reporting Standards

CEG transitioned to IFRS effective October 1, 2011 and is issuing interim financial statements under IFRS for the six month period ending March 31, 2012. It first set of complete financial statements under IFRS will be issued for the year ending September 30, 2012.

The First Quarter 2012 Financial Statements ended December 31, 2012 were the first set of financial statements prepared by the Company under IFRS and contain significant disclosures regarding the impact of the transition to IFRS from Canadian GAAP. Please refer to the March 31, 2012 financial statements for details of the accounting policies being used under IFRS as well as reconciliations of certain prior Canadian GAAP financial statement amounts to IFRS.

IFRS First –time Adoption of International Financial Reporting Standards ("IFRS 1") sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities posted to retained earnings unless certain exemptions are applied. Based on current and expected future IFRS, the Company notes the following items with respect to the restatement under IFRS to its opening balance sheet at October 1, 2010 and anticipates the following future impact of the transitional to the IFRS:

a) Provision for environmental reclamation (asset retirement obligation and asset retirement costs)

Under Canadian GAAP, the Company discounted asset retirement obligations using the historical rate in effect when the asset retirement obligation was established. Under IFRS, asset retirement obligations are required to be recalculated at the end of each reporting date. In accordance with IFRS 1 transitional provision, the company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date. The asset retirement obligation outstanding at October 1, 2010 was recalculated using a 10 year US treasury long term interest rate of 3.26%. The effect on transition was an increased mine closure provision of $815,000 ($594,000 at March 31, 2011); an increase in development cost of $349,000 ($128,000 at March 31, 2011); and an increase in deficit of $466,000 ($466,000 at March 31, 2011). Deemed cost of mineral properties and fixed assets.

The Company elected on transition to IFRS to use Canadian GAAP valuation as deemed cost at the date of the revaluation, for the mineral properties and fixed assets. The revaluation was, at the date of the revaluation, broadly comparable to fair value. For all other property, plant and equipment assets, the Company maintained the historic cost. No opening balance sheet adjustment was recorded as at October 1, 2010.

b) A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 that vested before the October 1, 2010. This election allows the Company to not apply the requirements of IFRS 2 to equity instruments which were granted prior to transition date and vested. Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the company's policy under Canadian GAAP. The impact was an increase in options of $135,000 and an increase in deficit of $135,000 at October 1, 2010. As at March 31, 2011 the effect of transition was an increase in option of $138,000 and an increase in profit and loss of $3,000.

c) The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting increased liabilities at October 1, 2010 by $770,000 ($1,553,000 at March 31, 2011); decreased equity at October 1, 2010 by $1,187,000 ($1,136,000 at March 31, 2011); reduced deficit by $417,000 at October 1, 2010 and reduced other profit and losses by $1,543,000 at March 31, 2011.

Disclosure Controls and Procedures

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 change to IFRS 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 IFRS, 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 IFRS.

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.

Mineral Reserves and Mineral Resources Estimates

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

Cerro Grande Mining Corporation
Consolidated Statements of Financial Position
(Unaudited, expressed in thousands of U.S. dollars)

	March 31, 2012	September 30. 2011	October 1 2010
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	537	1,750	1,470
Accounts receivable	1,616	1,403	757
Loan to related parties (note 14)	762	-	-
Recoverable taxes	130	172	1,406
Inventory (note 5)	2,887	2,639	855
	5,932	5,964	4,488
Non-current assets			
Receivable from a related party (note 14)	409	387	237
Mining properties, plant and equipment (note 6)	20,988	20,975	17,474
Total assets	27,329	27,326	22,199
Liabilities and Shareholders' equity			
Current liabilities			
Trade and other payables	3,340	2,727	3,342
Account payable to related parties	340	351	-
Current portion of long-term debt (note 7)	514	238	2,239
Short term warrants liability (note 9)	46	46	770
	4,240	3,362	6,351
Non-Current liabilities			
Long-term debt (note 7)	967	270	364
Long-term amount due to related parties (note 14)	-	-	832
Reclamation and remediation (note 10)	2,139	3,201	2,959
Total liabilities	7,346	6,833	10,506
Shareholders' equity	19,983	20,493	11,693
Total liabilities and shareholders' equity	27,329	27,326	22,199

Commitments (note 12)

Approved by the Board of Directors

(signed) Paul J. DesLauriers **(signed) Stephen W. Houghton**

Chairman Chief Executive Officer

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

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

	Three months ended		Six months ended	
	March 31, 2012	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
Revenue	**$**	**$**	**$**	**$**
Gold	4,643	3,868	9,433	9,350
Copper and silver	688	989	1,187	1,670
Services	951	-	951	-
	6,282	4,857	11,571	11,020
Expenses				
Operating costs	4,351	2,656	7,913	5,687
Operating costs for services	828	-	828	-
Reclamation and remediation	14	40	41	79
Amortization and depreciation	541	478	1,072	1,037
General, sales and administrative	682	803	1,401	1,200
Stock-based compensation	28	33	57	66
Warrant revaluation	-	805	-	1,655
Foreign exchange	52	16	43	6
Interest	27	55	54	143
Other gains and losses (net)	99	(4)	57	(28)
Exploration costs	611	431	1,013	693
	7,233	5,313	12,479	10,538
Income (loss) and comprehensive income (loss) before income taxes	(951)	(456)	(909)	482
Income tax expense	(44)	-	(44)	-
Income (loss) and comprehensive income (loss) for the period	(995)	(456)	(953)	482
Basic and diluted Income (loss) per share	(0.01)	(0.00)	(0.01)	0.00

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

Cerro Grande Mining Corporation
Consolidated Statement of Changes in Shareholders' Equity

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

	Share capital	Options	Warrants	Contributed surplus	Convertible subordinated debentures	Deficit	Total equity
Balance as at October 1, 2011	78,110	2,010	211	5,341	154	(65,333)	20,493
Share-based compensation	-	41	-	17	-	-	58
Bonus shares	385	-	-	-	-	-	385
Net Income	-	-	-	-	-	(953)	(953)
Balance as at March 31, 2012	**78,495**	**2,051**	**211**	**5,358**	**154**	**(66,286)**	**19,983**
Balance as at October 1, 2010	73,060	1,940	565	4,494	154	(68,520)	11,693
Warrants exercised	1,913	-	(242)	215	-	-	1,886
Share-based compensation	937	(515)	-	-	-	-	422
Net Income	-	-	-	-	-	482	482
Balance as at March 31, 2011	**75,910**	**1,425**	**323**	**4,709**	**154**	**(68,038)**	**14,483**

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

Cerro Grande Mining Corporation

Consolidated Statements of Cash Flows

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

	Three months ended		Six months ended	
Cash provided by (used in) Operating activities	**March 31, 2012**	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
	$	$	$	$
Income (loss) for the period	(995)	(456)	(953)	482
Non-cash items				
Disposal, amortization and depreciation	541	478	1,072	1,037
Accretion of interest on long-term debt	(14)	55	-	143
Foreign exchangegain	(11)	16	(15)	6
Warrants revaluations	(14)	805	-	1,655
Stock-based compensation	42	33	57	66
	(451)	931	161	3,389
Change in non-cash working capital relating to operations (note 15)	(248)	(1,159)	(586)	(1,376)
	(699)	(228)	(425)	2,013
Investing activities				
Additions to mining properties, plant and equipment	(672)	(701)	(1,908)	(1,729)
	(672)	(701)	(1,908)	(1,729)
Financing activities				
Shares issued	386	1,645	386	1,675
Issuance of debt	139	-	973	335
Loan from related parties	-	(338)	-	(338)
Mine closure	14	40	41	79
Capital leases	(169)	(169)	(280)	(247)
	370	1,178	1,120	1,504
Effect of foreign exchange on cash held in foreign currency	-	13	-	13
Increase (decrease) in cash and cash equivalents during the period	(1,001)	262	(1,213)	1,801
Cash and cash equivalents - Beginning of period	1,538	3,009	1,750	1,470
Cash and cash equivalents - End of period	**537**	**3,271**	**537**	**3,271**

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

1. Nature of the Company

Cerro Grande Mining Corporation "CEG" (Formerly South American Gold and Copper Company Limited) and its subsidiaries is a mining, exploration and development company which produced gold, silver and cooper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Toronto Stock Exchange ("TSX") trading under the symbol "CEG". The Company is domiciled in Canada and the address of its records office is 67 Yonge Street, Suite 1201 Toronto Ontario M5E 1J8, Canada. The registered office is 79 Wellington Street West, Suite 2300, Toronto, Ontario M5K 1H1, Canada.

2. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its financial statement in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared by management in accordance with IFRS applicable to the preparation of interim financial statement, including IAS 34 and IFRS 1. Subject to certain transitions elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at October 1, 2010 and throughout all periods presented, as if the policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended September 30, 2011.

The policies applied in these interim consolidated financial statement are based on IFRS issued and outstanding as of May 15, 2012, the date the Board of Directors have approved these statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended September 30, 2012 could result in restatement of these interim consolidated financial statement, including the transition adjustment recognized on change-over to IFRS.

These interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statement for the year ended September 30, 2011, and in consideration of the IFRS transition disclosure included in Note 4.

3. Summary of significant accounting policies, critical accounting estimates and judgments

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

a) Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost basis, except for the certain financial assets and liabilities that are measured at fair value through profit and loss including derivative instruments. All amounts are expressed in thousands of US dollars, except share and per share amounts.

b) Basis of consolidation

These interim consolidated financial statements include the accounts of Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation. We consolidate subsidiaries where we have the ability to exercise control. Control is achieved when we have the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly, of more than 50 percent of the voting power. Control can also be achieved through power over more than half of the voting rights by virtue of an agreement with other investors.

c) Foreign currency translation and transactions

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

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

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and year-endtranslation are recognized in the statement of income.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

e) Financial instruments

At initial recognition, the company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. All derivatives have been classified as held-for trading.TheCompany has issued warrants that qualify as derivative liabilities. Provisionally priced sales contracts entered into in accordance with the Company's expected sales requirements are considered to host embedded derivatives. These embedded derivatives are initially recognized and subsequently re-measured at fair value at each reporting date using the currently prevailing metal prices. Gain and losses are recognized in revenue as described in the revenue recognition accounting policy.All other financial instruments in this category are recognized initially and subsequently at fair value, transaction costs are expensed in the consolidated statement of income and gains and losses arising from changes in fair value are presented in the consolidated statement of income within "other gains and losses (net)" in the period in which they arise

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise accounts receivables, cash and cash equivalents and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(iv) Compound financial instruments: Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

f) Inventory

Doré, concentrate, materials and supplies inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. Concentrate inventory cost includes direct labour and material costs, mine site overhead, depreciation and depletion. Cost is allocated to the various concentrate inventories based on the relative net revenue of each concentrate produced. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. Net realizable value is determined with reference to relevant market prices less estimated costs of completion and estimated costs necessary to make the sale. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

g) 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 is 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 as follow:

- Mining properties and development - UOP
- Building 7 year
- 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.

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

h) Leased assets

Leases, the terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt. The finance cost is charged to the statement of income over the lease period

i) Exploration and development costs

Acquisition and exploration costs of resource properties are expensed as incurred until resources have been determined and then the development costs are capitalized. Upon reaching commercial production, these capitalized development costs are transferred from exploration properties to mining properties, plant and equipment and are amortized in the statement of income 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.

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

j) Revenue recognition

Revenue from the sale of concentrates and gold doré is recognized following the transfer of title and risk of ownership in accordance with contractual arrangements with customers. Risk and title is transferred when the gold doré is picked up at the mine site and in the case of the concentratewhen 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 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.

k) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are presented as non-current.

l) 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. 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 and the expense is recognized over the vesting period of the options with a corresponding increase in equity. The exercise price is the share price at the grant datewhich 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.

When the options are exercised, any consideration paid is credited to share capital and the contributed surplus resulting from Stock-based compensation is transferred to share capital.

m) Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the period by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants and on the as-if converted method for convertible securities.

n) Reclamation and remediation

The company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, restoration and reclamation. The obligation is attributable to mining properties when the asset is installed or the environment is disturbed at the production location. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognised, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore.

The periodic unwinding of the discount applied in establishing the net present value of provisions due to the passage of time is recognised in the statement of income as a finance cost. Changes in rehabilitation estimate attributable to development will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

Where a closure and environmental obligation arises from production activities, the costs are expensed as incurred because there are no associated economic benefits.

Changes in accounting standards

IFRS 9 Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and measurement, replacing the current classification and measurement criteria for financial asset and liabilities with only two classification categories: amortized cost and fair value.

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard

a. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements:

b. defines the principle of control and establishes control as the basis for consolidation:

c. sets out how to apply the principle of control to identity whether an investor controls an investee and therefore must consolidate the investee; and.

d. sets out the accounting requirements for the preparation of consolidated financial statements. IFRS l0 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC- 12 Consolidation-Special Purpose Entities.

IFRS 11 Joint Arrangements establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligation in accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS l2 Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of financial statements to evaluate he nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS l3 applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements (and measurements such as fair value less costs to sell, based on fair value or disclosures about those measurements)except for: transactions within the scope of IFRS 2 and IAS l7 and certain measurements that have some similarities to fair value but that are not fair value.

IAS 28 Investments in Associates and Joint ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

The Company anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements except for additional disclosures.

Critical accounting estimates and judgments

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

The more significant areas requiring the use of management estimates and assumptions relate to ore reserves and resources and estimates of recoverable gold that are the basis of future cash flow estimates for asset impairments/reversals, any sensitive analysis to provide, estimation of useful lives of mining property, plant and equipment, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

The Company estimates mineral resources and reserves in accordance with National Instrument 43-101 - Standard of Disclosure for Mineral Projects ("NI 43-101") into proven and probable reserves. , which requires mining companies to disclose reserves and resources using the subcategories of "proven" reserves, "probable" reserves, "measured" resources, "indicated" resources and "inferred" resources.

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

The estimation of mineral resources and reserves is complex and requires significant subjective assumptions which are valid at the time of estimation. These assumptions may change significantly over time when new information becomes available and may cause the mineral resources and reserves estimates to change. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may have a significant impact on the economic assessment of the mineral resources and reserves and may result in their restatement.

4. Transition to IFRS

The effect of the Company's transition from Canadian GAAP to IFRS, as described in Note 2, is summarized in this note as follows:

a) Transition elections;

b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS;

c) Adjustments to the statement of cash flow;

a) Transition elections

The Company has applied the following exemptions and exceptions to full retrospective application of IFRS and International Financial Reporting Interpretation Committee ("IFRIC"):

	As described in Note 4(b)
IFRIC1 changes in existing decommissioning, restoration and similar liabilities	(i)

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

Deemed cost of mineral properties and fixed assets	(ii)
Shared -based payments	(iii)

b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Shareholders' equity		March 31, 2011			September 31, 2011			October 1, 2010		
	Note 4b	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS
		$	$	$	$	$	$	$	$	$
Share capital	iii	75,992	(82)	75,910	78,305	(195)	78,110	73,060		73,060
Convertible debenture		154	-	154	154	-	154	154	-	154
Warrants	iv	1,459	(1,136)	323	247	(36)	211	1,752	(1,187)	565
Options	iii	1,287	138	1,425	1,876	134	2,010	1,805	135	1,940
Contributed surplus		4,709	-	4,709	5,341	-	5,341	4,494	-	4,494
Deficit	i,iii,iv	(66,308)	(1,730)	(68,038)	(64,912)	(421)	(65,333)	(68,337)	(183)	(68,520)
		17,293	**(2,810)**	**14,483**	**21,011**	**(518)**	**20,493**	**12,928**	**(1,235)**	**11,693**

Comprehensive income (loss)	Note 4b	Six months ended March 31, 2011	Year ended September 30, 2011
		$	$
As reported under Canadian GAAP		2,029	3,425
Increase (decrease) in the income for:			
Amortization and depreciation	i	-	(6)
Stock- based compensation	iii	(3)	1
Warrants revaluation	iv	(1,543)	(233)
Deficit	v	(1,546)	(238)
As reported under IFRS		**483**	**3,187**

Explanatory notes

(i) Provision for environmental reclamation(asset retirement obligation and asset retirement costs)

Under Canadian GAAP, the Company discounted asset retirement obligations using the historical rate in effect when the asset retirement obligation was established. Under IFRS, the asset retirement obligations are required to be recalculated at the end of each reporting date. In accordance with IFRS 1 transitional provision, the company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date. The asset retirement obligation outstanding at October 1, 2010 was recalculated using a 10 year US treasury long term interest rate of 3.26%. The effect on transition was an increased mine closure provision of $815 ($594 at March 31, 2011); an increase in development cost of$349 ($128 at March 31, 2011); and an increase in deficit of $466 ($466 at March 31, 2011).

(ii) Deemed cost of mineral properties, plant and equipment

The Company elected on transition to IFRS to use Canadian GAAP valuation as deemed cost at the date of the revaluation, for the mineral properties. The revaluation was, at the date of the revaluation, broadly comparable to fair value. For all other property, plant and equipment assets, the Company maintained the historic cost.

No opening balance sheet adjustment was recorded as at October 1, 2010.

(iii) Shared-based payments

A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after November 7, 2002 that vested before October 1, 2010. This election allows the Company to not apply the requirements of IFRS 2 to equity instruments which were granted prior to the transition date and vested. Under IFRS, The Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the company's policy under Canadian GAAP. The impact was an increase in options of $135 and an increase in deficit of $135 at October 1, 2010.As at March 31, 2011 the effect of the transition was an increase in option of $138 and an increase in profit and loss of $3.

(iv) Warrants revaluation

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting increased liabilities at October 1, 2010 by $770 ($1,553 at March 31, 2011); decreased equity at October 1, 2010 by $1,187 ($1,136 at March 31, 2011); reduced deficit by $417 at October 1, 2010 and reduced other gains and losses by $1,543at March 31, 2011.

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

(v) Deficit

	Notes	Retained Earnings at March 31, 2011	Retained Earnings at September 30, 2011	Retained Earnings at October 1, 2010
Previously reported under Canadian GAAP		**(66,308)**	**(64,912)**	**(68,337)**
October 1, 2010 adjustment to deficit				
IFRS transition adjustments:				
Reclamation	(i)	(466)	(472)	(465)
Stock based compensation	(iii)	(138)	(133)	(135)
Warrants revaluation	(iv)	(1,126)	184	417
Total adjustment to IFRS		(1,730)	(421)	(183)
Ending Deficit under IFRS		**(68,038)**	**(65,333)**	**(68,520)**

c) Adjustments to the statement of cash flow

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flows.

5. Inventory

	March 31, 2012	September 30, 2011	October 1, 2010
	$	$	$
Ore and concentrate stockpiles	2,090	1,859	548
Materials and supplies	797	780	307
Balance	**2,887**	**2,639**	**855**

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

6. Mining properties, plant and equipment

Cost	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
As at October 1, 2011	4,853	10,504	18,357	334	34,048
Additions	476	1,114	559	17	2,166
Reclamation (note10)	-	-	(1,046)	-	1,046)
Disposals	(23)	(12)	-	-	(35)
As at March 31, 2012	**5,306**	**11,606**	**17,870**	**351**	**35,133**

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
As at October 1, 2011	2,302	5,280	5,330	161	13,073
Depreciation and amortization expenses	113	581	370	8	1,072
As at March 31, 2012	**2,415**	**5,861**	**5,700**	**169**	**14,145**
Net book value as at March 31, 2012	**2,891**	**5,745**	**12,170**	**182**	**20,988**

Cost	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
As at October 1, 2010	2,991	7,803	17,304	235	28,333
Additions	1,862	2,711	1,053	99	5,725
Disposals	-	(10)	-	-	10)
As at September 30, 2011	**4,853**	**10,504**	**18,357**	**334**	**34,048**

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
As at October 1, 2010	1,991	4,530	4,196	142	10,859
Depreciation and amortization expenses	311	750	1,134	19	2,214
As at September 30, 2011	**2,302**	**5,280**	**5,330**	**161**	**13,073**
Net book value as at September 30,2011	**2,551**	**5,224**	**13,027**	**173**	**20,975**

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

7. Long-term debt

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

Description	Interest rate	March 31 2011 Principal $	September 30 2011 Principal $	October 1 2010 Principal
Pimenton note, due August 15, 2011 (a)	5.00%	-	-	1,944
C and D Debentures (b)	6.00%	217	188	128
Bice Bank mortgage (c)	5.13%	882	-	-
Lease (note 12 b)	4% -5.2%	382	320	531
Less: Current portion		(514)	(238)	(2,239)
Long-term debt		967	270	364

The maturities of long-term debt and interest payments are as follows for the periods ended March 31:

2011-2026	1,995
	1,995
Less: Future accretion	(514)
	1,481

Interest paid by the Company was $11 for the six months ended March 31, 2012 (2011- $166).

a) The Pimenton notes, which were due on August 15, 2011, had $nil charged to interest expense for the six month period ended March 31, 2012 (2011 - $113).

On August 18, 2011 the Pimenton notes were fully paid.

b) On April 21, 2010 the Company issued $300 of convertible unsecured debentures (the "C Debentures"). The conversion price of the C Debentures is CA$0.4 per share convertible into up to 782,100 shares of common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition the C Debenture holders were issued 782,100 common share purchase warrants of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share.

For accounting purposes, the convertible unsecured debentures have a liability component, a warrant component and an equity component, which are separately presented in the consolidated balance sheets. The $300 face value of the convertible unsecured debentures has been allocated to the liability, warrants and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was measured using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%, and such fair value was credited to contribute surplus. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, as of March 31, 2012 the Company had allocated $112 to equity, $114 to warrants and $162 to debt, with $88 being accreted.

On May 11, 2010 the Company issued $330 of convertible unsecured debentures (the “D Debentures”). The conversion price of the D Debentures is CA$0.4 per share convertible into up to 826,155 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition the D Debenture holders were issued 826,155 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.5 per share. On August 20, 2010 $230 of the D Debentures was converted into 575,805 common shares.

For accounting purposes, the convertible unsecured debentures have a liability component, a warrant component and an equity component, which are separately presented in the consolidated balance sheets. The value of the convertible unsecured debentures has been allocated to the liability, warrants and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was measured using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.93%, no dividend and a volatility factor of 132%, and such fair value was credited to contribute surplus. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, as of March 31, 2012 the Company allocated $43 to equity, $97 to warrants and $55 to debt, with $35 being accreted.

c) On November 7, 2011 the Company obtained a loan with Bice Bank for Unidad de Fomento (UF) 19,600, bearing interest at a fixed rate of 5.13% per annum. The UF is a Unit of account that is used in Chile. The exchange rate between the UF and the Chilean peso is constantly adjusted to Chilean inflation. The loan is repayable monthly until 2026. The loan is secured by certain fixed assets with an approximate value of $1,309.

8. Share capital

a) Authorized capital

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

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

b) Issued and outstanding

	Number of shares	Amount
		$
Balance –October 1, 2010	86,682,586	73,060
Warrants exercised note 9	3,190,629	1,914
Bonus share (i)	210,000	127
Options exercised note 8(c)	1,250,000	809
Balance – March 31, 2011	91,333,215	75,910
Warrants exercised note 9	2,857,499	2,200
Balance – September 30,2011	94,190,714	78,110
Bonus share (ii)	735,000	385
Balance – March 31, 2012	94,925,714	78,495

The descriptions regarding share transactions that took place before March 28, 2011 have been adjusted to reflect the 10 for 1 share consolidation approved on March 28, 2011.

i) On January 18, 2011 210,000 bonus shares were issued to seven employees who are not officers of the Company. They were valued at $127 using the TSX closing price of CA $0.60 per share.

ii) On February 13, 2012 the Company has issued the balance of 735,000 bonus shares pursuant to the Company's current stock option plan to the Pimenton workers. They were valued at $385 using the TSX closing price of CA $0.52 per share.

c) Share option plan

The Company has a share option plan (the Plan) whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees and certain consultants. The maximum number of common shares issuable under the Plan is 12,578,754 common shares and 5,000,000 common shares issuable under the share bonus plan, within the Plan, to eligible participants. The Board of Directors determines the vesting period at its discretion.

A summary of the Company's Plan at March 31, 2012 is as follow:

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

	$	Number of options	Weighted average Exercise price CA$
Balance – October 01, 2010	1,940	8,646,999	0.55
Changes during the year			
Granted (a)	-	60,000	0.60
Exercised (b)	(375)	(1,250,000)	0.35
Expired	(215)	(571,428)	0.65
Vested	75	-	-
Balance – December 31, 2010	**1,425**	**6,885,571**	0.58
Granted (c)	-	186,000	0.79
Granted (d)	452	571,428	0.79
Granted (e)	-	51,000	0.60
Vested	133	-	
Balance – September 30, 2011	2,010	7,693,999	0.60
Cancelled (f)	(17)	(78,000)	0.60 /0.79
Vested	58	-	
Balance – March 31, 2012	**2,051**	**7,615,999**	0.59

The following descriptions regarding share transactions that took place before March 28, 2011 have been adjusted to reflect the 10 for 1 share consolidation.

a) On January 11, 2011 the Company issued 60,000 Common Stock Options exercisable at CA$0.60 per share for a period of three years from the date of issuance. The vesting period is between date of grant and three years and was issued to an employee who is not an officer of the Company. These options were fair valued at $29 using the Black –Scholes valuation model, assuming a risks-free rate of 1.03%, no dividend, and volatility factor of 142% and expensed as stock-based compensation.

b) On February 28, 2011 Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company and Mr. David Thomson, Executive-Vice President-Director of Exploration and a director of the Company exercised 900,000 options granted on April 19, 2010 at a price of CA$0.35 per share for net proceeds of $583. The fair value of $270 assigned to these options was transferred to share capital. In addition an employee of the Company exercised 350,000

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

options granted on April 19, 2010 at a price of CA$0.35 per share for net proceeds of $227. The fair value of $105 assigned to these options was transferred to share capital.

c) On April 29, 2011 the Company issued 186,000 Common Stock Options exercisable at CA$ 0.79 per share for a period of five years from the date of issuance. The vesting periods are between the date of the grant and three years, and were issued to ten employees who are not officers of the Company. These options were fair valued at $147 using the Black –Scholes valuation model, assuming a risks-free rate of 1.963%, no dividend, and volatility factor of 170% and expensed as stock-based compensation.

d) The Company renewed 571,428 common stock options that were due to expire on March 1, 2011. The new grant of stock options were issued on April 29, 2011 exercisable at CA$0.79 per share for a period of five years from the date of issuance with immediate vesting and were issued to Directors of the Company. These options were fair valued at $452, using the Black –Scholes valuation model, assuming a risk-free rate of return of 1.96%, no dividend and volatility factor of 170.23% and expensed as stock-based compensation.

e) On July 26, 2011 the Company issued 51,000 Common Stock Options exercisable at CA$ 0.60 per share for a period of five years from the date of issuance. The vesting period is between the date of the grant and three years and they were issued to three employees who are not officers of the Company. These options were fair valued at $31 using the Black –Scholes valuation model, assuming a risks-free rate of 1.50%, no dividend, and volatility factor of 169% and expensed as stock-based compensation.

f) During November, December, 2011 and January 2012, 78,000 Common Stock Options were cancelled which were issued to employees who are not officers of the Company, whose have resigned to the Company.

During the six month periods ended March 31, 2012 and March 31, 2011 the Company recognized total stock based compensation expense of $58 and $75 respectively.

Options outstanding as at March 31, 2012 are as follows:

Exercise price CA$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA$	Options exercisable
0.45-0.90	4,053,953	0.95	0.69	4,007,163
0.40-0.60	1,226,046	2.38	0.43	862,837
0.35-0.35	1,605,572	3.05	0.35	1,605,571
0.60-0.79	730,428	4,08	0.79	624,428
0.35-0.90	**7,615,999**	**1,92**	**0.59**	**7,099,999**

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

Options outstanding as at March 31, 2011 are as follows:

Exercise price CA$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA$	Options exercisable
0.45-0.90	4,053,953	1,95	0.69	3,900,373
0.40-0.60	1,226,046	3.39	0.44	574,628
0.35	1,605,571	4,05	0.35	1,605,571
0.35-0.90	**8,646,999**	**2,70**	**0.57**	**6,080,572**

9. Warrants

Liability short - term	Number of warrants	$
Balance - October 1, 2010	7,495,818	770
Exercised	(1,463,300)	(70)
Revaluation warrants (a)	-	1,645
Balance – March 31, 2011	6,032,518	2,345
Exercised	(2,396,307)	(537)
Expired	(3,036,211)	(451)
Revaluation warrants (a)	-	(1,311)
Balance – September 30, 2011	600,000	46
Balance – March 31, 2012	600,000	46

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

Equity	Number of warrants	$
Balance – October 1, 2010	3,897,400	565
Revaluation (a)	-	10
Exercised	(1,727,453)	(252)
Balance – March 31, 2011	2,169,947	323
Exercised	(460,847)	(105)
Expired	(100,846)	(7)
Balance – September 30, 2011	1,608,254	211
Balance – March 31, 2012	1,608,254	211

a) TSX agreed to further extend the expiration date on the 4,618,728 outstanding common share purchase warrants (the "Warrants") and 561,693 outstanding common share purchase warrants (the "Broker Warrants") which were due to expire on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of $641, in excess of the fair value of the original warrants. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 0.29%, no dividend and a volatility factor of 153%. In Addition the fair value of the warrants for the quarter ended at March 31, 2012 amounted $805 (2011 - $1,014).

The following table summarizes information about the warrants outstanding as at March 31, 2012 and 2011:

		March 31, 2012
Number of warrants outstanding	**Weighted average remaining warrant life (years)**	**Weighted average exercise price CA$**
600,000	0.40	2.50
1,608,254	3.08	0.50
2,208,254	**2.36**	**1.04**

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

		March 31, 2011
Number of warrants outstanding	**Weighted average remaining warrant life (years)**	**Weighted average exercise price CA$**
5,994,211	0.25	0.60
600,000	1.40	2.50
1,608254	4.09	0.50
8,202,465	**1.08**	**0.72**

10. Reclamation and remediation

The Company's reclamation and remediation liability is summarized as follows:

		March 31, 2011	September 30, 2011
		$	$
Balance - Beginning of period		3,201	2,959
Change in interestrate		(57)	80
Accretion		41	162
Cash flow mine clousure revaluation	(i)	(1,046)	-
Balance		**2,139**	**3,201**

(i) The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $2,585 is expected to be incurred over 6.5 year. These new estimated cash flow are discounted using a long term US interest rate of 2.55% as at December 31, 2011. The effect was decrease the mine closure provision by $1,045 and development cost.

A ten percent change in the discount rate, assuming that all other variables remain constant, would result in a liability change of approximately $55. The estimate also assumes an undiscounted remediation cash flow of $2,585. Assuming that all other variables remain constant, a ten percent change in the undiscounted remediation estimate would result in a liability change of approximately $218.

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

11. Segment information

In order to determine reportable operating segments, the Chief Executive Officer reviews various factors, including geographical location, quantitative thresholds and managerial structure. The Company has one operating segment, which is the exploration and development of mineral properties. The Company's principal operations are carried out in Chile. The Company's geographic segments are located as follows:

i) the Company's mineral properties in Chile
ii) corporate offices in Chile and Canada;

The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at, and for the six months ended March 31, 2012 and 2011, segmented information is presented as follows:

	Six months ended March 31, 2012		
	Pimenton	**Corporate**	**Total**
	$	**$**	**$**
Revenue – Gold, copper and silver	10,620	-	10,620
Services	951	-	951
Operating costs	(7,848)	(65)	(7,913)
Amortization and depreciation	(1,068)	(4)	(1,072)
Operating costs services	(828)		(828)
Reclamation and remediation	(41)	-	(41)
General, sales and administrative	(884)	(518)	(1,402)
Stock-based compensation	-	(57)	(57)
Foreign exchange	6	(49)	(43)
Interest	(12)	(42)	(54)
Other gains and losses (net)	(57)	-	(57)
Exploration costs	-	(1,013)	(1,013)
Income tax expenses	(44)	-	(44)
Total other income (expenses)	(2,928)	(1,683)	(4,611)
Income (loss) and other comprehensive income (loss) for period	**795**	**(1,748)**	**(953)**
Total assets	**24,898**	**2,431**	**27,329**

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

	Six months ended March 31, 2011		
	Pimenton	**Corporate**	**Total**
	$	**$**	**$**
Revenues	11,020	-	11,020
Operating cost	(5,622)	(65)	(5,687)
Amortization and depreciation	(1,033)	(4)	(1,037)
Reclamation and remediation	(79)	-	(79)
General, sales and administrative	(641)	(559)	(1,200)
Stock-based compensation	-	(66)	(66)
Warrants revaluation	-	(1,655)	(1,655)
Foreign exchange	16	(22)	(6)
Interest	(101)	(42)	(143)
Other gains and losses (net)	28	-	28
Exploration costs	-	(693)	(693)
Total other income (expenses)	(1,810)	(3,041)	(4,851)
Income (loss) and other comprehensive income (loss) for period	**3,588**	**(3,106)**	**482**
Total assets	**23,068**	**1,453**	**24,521**

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

12. Commitments

a) Project commitments

Project	Description	Total potential commitment $	Paid to date $
Catedral and Rino	A loan for development costs	up to 2,500	250
La Bella	La Bella inner was acquired in December 2007 by the Company by way of an option agreement of the property. Under the modified agreement entered into on December 16, 2011 on the inner circle the Company has paid $125. The remaining payment obligations will 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 the Company has paid $125. The remaining payment obligations will be paid $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.	2,750	830
Cal Norte	Capital contribution of $1,800 to earn 60% equity interest	1,800	1,557
Tordillo	As a 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.	250	-
Cerro del Medio	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 US $4,000. CEG is committed to fund an estimated US $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.	2,624	209

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

b) Lease commitments

The Company is committed to future minimum lease payments under capital lease arrangements:

	March 31,
	$
2012	201
2013	126
2014	73
	400
Interest	(18)
	382

13. Compensation of key management

Key management includes directors (executive and non-executive) and senior executives. The compensation paid or payable to key management for employee services is presented below:

Six months ended March 31,	**2012**	**2011**
	$	**$**
Salaries and short-term director benefits (iii)	65	55
Directors fees (iv)	37	-
Other long - term director benefits (Options)	27	63
Services director contract (i), (ii)	205	205
	334	323

(i) On April 1, 2010, a Company owned by David Thomson, who is Executive-Vice President-Director of Exploration and a director of the Company, Compañía Minera Auromin Ltda, entered into a services contract with the Company for a period of two years, which can be renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Auromin Ltda. is to be paid $300 per year. 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 explorations and development of mining projects. As of March 31, 2012 accounts payable and accrued liabilities included $75 related to this contract (2011 - $25).

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

(ii) 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 can be 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 negotiating the acquisition of new mining properties for the company. As of March 31, 2012 accounts payable and accrued liabilities included $28 related to this contract (2011 - $9).

(iii) 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 can be 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. Additionally, during the term of the agreement, the Corporation will provide him with a diesel truck or its equivalent with all expenses paid. As of March 31, 2012 the Corporation paid $10 (2011 - $nil) for expenses and $55 (2011 - $55) for salary.

(iv) On June 21, 2011 the board approved a resolution that non-executive directors be paid $1 per meeting attended. As at March 31, 2012 amounts due to the directors for these director fees were $37 (2011 - $nil).

14. Related party transactions

A company owned by the CEO (who is also a director) billed the Company $2 for the six month period ended March 31, 2012 (2011 - $3) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of $409 as at March 31, 2012 (2011 - $386) of which $286 (2011 - $286) was the net amount of a non-interest-bearing note receivable, $32 was a loan in August 2011, and $91 (2011 - $68) was net of cash advances, salary and truck expenses reimbursement. The note has been extended to September 30, 2012 and is collateralized by 653,200 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed the Company $33 for accounting and administration services rendered for the six month period ended March 31, 2012 (2011 - $34). Accounts payable and accrued liabilities include payables to this officer of $15 for such services at March 31, 2012 (2011 - $8).

A law firm of which a director of the Company is a partner billed the Company $83 in the six month period ended March 31, 2012 (2011 - $74) for legal services. Accounts payable and accrued liabilities include $30 as at March 31, 2012 (2011- $4).Accounts payable and accrued liabilities include $106 as at March 31, 2012 (2011-$114) for royalties due to the Executive Vice President and Director of Land and Administration, who is also a director of the Company, who is the owner of a net smelter royalty on the Pimenton gold mine.

Accounts payable and accrued liabilities include $106 as at March 31, 2012 (2011-$114) for royalties due to the Executive Vice President - Director of Exploration who is also a director of the Company, who is the owner of a net smelter royalty on the Pimenton gold mine. Also accounts payable include $9(2011 - $9) for interest not paid on the Debenture issued to him in 2006 and which were converted on June 9, 2009.

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

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 US $4,000. CEG is committed to fund an estimated US $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. As of March 31, 2012 CEG has financed $209 to CDM project.

On October, 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rent. As at March 31, 2012 Pimenton has billed CDM $951, the costs related to these services amounted $828. As of March 31, 2012 receivable include $762 related to this contract.

15. Supplemental cash flow information

	March 31, 2012 $	March 31 2011 $
Changes in non-cash working capital relating to operations		
Receivables	1,008	(440)
Inventories	248	(962)
Recoverable taxes	(57)	1,306
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	(613)	(1,280)
	586	(1,376)
Significant non-cash financing and investing activities		
Shares and warrants issued	-	1,257
Total interest paid	11	166

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

16. Financial instruments

(a) Financial assets and liabilities

The Company's financial instruments at March 31, 2012 and 2011 consist of cash and cash equivalent, accounts receivable, trade and other payable, and current and long-term debt.

Fair value measurements of financial assets and liabilities recognized in the balance sheet

Fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At March 31, 2012, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

	Level 2
Cash and cash equivalents	$537
Accounts receivable arising from sales of metal concentrates	$673
Warrants	$46

At March 31, 2012, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as level 3 in the fair value hierarchy above.

Fair values of financial assets and liabilities not measured at fair value in the balance sheet

At March 31, 2012 the carrying amounts of accounts receivable not arising from sales of metal concentrates and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

(b) Management of Financial Risk

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

The Company's financial instruments are exposed to financial risks as summarized below:

Credit Risk

The Company, in the normal course of business, is exposed to credit risk from its two customers: a gold refinery in Europe and an entity owed by the State of Chile. Accounts receivable are subject to normal industry credit risks and are considered low.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. As at March 31, 2012, the Company had a positive working capital of approximately $1,692 which included cash and cash equivalents of $537. At March 31, 2012 the Company's accumulated deficit was approximately $66,286 and shareholders' equity was approximately $19,983.

Sensitivity Analysis

As of March 31, 2012, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

The Company believes the following movements are "reasonably possible" over a three-month period:

(i) There would be no impact on the cash held as the Company does not earn any interest on this cash.

(ii) The Company operates using principally the Canadian dollar, US dollar and Chilean peso, and may be negatively affected by fluctuation in foreign exchange rates. The Company`s sales are denominated in US dollars, while a significant percentage of its expenses are denominated in Chilean peso. This exposes the Company to increase volatility in earning due to fluctuations in foreign exchange rates.

Economic dependence

For the six months ended March 31, 2012 approximately 63% 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 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, 29% of the company's sales were to Enami to smelter its gold and copper concentrate. 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 is paid one to two months following that of initial payment.

17. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

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

The acquisition, exploration, financing and development of natural resources require significant expenditure before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes and debentures, bank debt and extended terms from creditors.

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 its 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.

Directors* and Officers

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

Stephen W. Houghton*
New York, New York
Chief Executive Officer
Founder of Cerro Grande Mining Corporation

Mario Hernandez A.*
Santiago, Chile
Executive Vice President and Director, Claims and Land Management

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Principal, William Hill Mining Consultants, Ltd.

Richard J. Lachcik*,(3),(4)
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Fernando Saenz Poch*
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Juan A Proaño*,(3)
Washington Crossing,
Pennsylvania
Director of Minera Poderosa S.A.
a gold mining company located in Peru

Frederick D. Seeley*(1),(2),(4)
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Chairman, Givens Hall Bank and Trust Limited

David R. S. Thomson*
Santiago, Chile
Executive Vice President and Director of Exploration

Peter W. Hogg
Toronto, ON, Canada
Chief Financial Officer

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

Corporate Information

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Toronto Stock Exchange
Stock Symbol: CEG

OTCQX International
Stock Symbol: CEGMF

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