

**CERRO GRANDE MINING CORPORATION**  
(Formerly South American Gold and Copper Company Limited)

**Report to Shareholders  
For the  
Second Quarter Ending  
March 31, 2011  
(These statements have not been audited)**

**Listed on the Toronto Stock Exchange  
Symbol: CEG**

**The Company's auditors have not reviewed these financial statements for the three and six month periods ended March 31, 2011.**

**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) and its consolidated subsidiaries ("CEG" or the "Company") for the quarters ended March 31, 2011 and 2010 and the six months ended March 31, 2011 and March 2010, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of May 13, 2011. The discussion should be read in conjunction with the audited consolidated financial statements for the Company and the notes to those statements. The Company's consolidated financial statements and financial data have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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.

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

Additional information relating to the Company, including the Company's most recent annual information form, is available on SEDAR at [www.sedar.com](http://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 three months ended March 31, 2011 and the six months period ended March 31, 2011 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
- 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 six months ended March 31, 2011 were considerably above the six months ended March 31, 2010 due to increased production of gold ounces, as well as silver and copper. The price of gold and silver per ounce, and copper per pound was also higher then the same period a year ago.

While mine operating expenses increased during the six month period ended March 31, 2011 this was 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. The Company expects the mine to gradually increase production above the current 100 to 110 tons per day during the year ending September 30, 2011 at current reserve grades.

Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and continues to develop its indicated resources into proven and probable reserves.

Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral/Rino and Cal Norte limestone deposits, and the Tordillo, and La Bella prospects are not currently reflected in the Company's market capitalization and will continue its effort to enhance the underlying values of the Company's assets.

#### Pimenton gold mine

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

The Pimenton gold mine started operations in July 2004 and, while it was shut down on September 9, 2005 when a major snowstorm moved through the region causing avalanche damage at the mine site, in December 2007 the Company was successful in raising sufficient funds to re-start operations. In January 2008, the Company commenced work to prepare the mine for operations.

Most of the Company's efforts in 2007 and 2008 were focused on restarting Pimenton and the Pimenton mine was put back into production in July 2008 with commercial production being declared October 1, 2008. During October 2008 a rate of production of 91 tons per day was achieved during the 21 days the plant was in operation. The Company expects production to move up to 150 tons per day by mid 2011 and to reach 200 tons per day by the end of calendar 2011. 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 200 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 four 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 December 31, 2010 resources and reserve report which was prepared in compliance with National Instrument 43-101 -*Standard of Disclosure for Mineral Projects* ("NI 43-101") into the proven and probable reserves and continue 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. Currently additional Mobil Metal Ion (MMI) studies are being conducted on the property which is expected 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 Rio Tinto

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.

In March 2007, the Company entered into a letter of understanding with Empresa Minera de Mantos Blancos S.A., which was subsequently renamed Anglo American Norte S.A. (“Anglo”) a wholly-owned subsidiary of Anglo American, p.l.c. (“Anglo American”), pursuant to which Anglo agreed to fund and complete a 2,000 meters diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Anglo completed this drill program. In October 2008, during its joint venture discussions, Anglo American informed the Company that it had decided to terminate further discussions regarding such joint venture agreement due to the uncertainty in world commodity prices. The Company will continue exploration on the Pimenton porphyry copper deposits during the 2010-2011 exploration seasons and has commenced further drilling on the prospect.

#### 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 \$25,000 was paid on December 17, 2010. The remaining payment obligations will be paid as follows: \$100,000 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.

On the outer circle, under the new agreement \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 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 to the optionee of the outer circle from production thereafter.

### 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 Chilean lime market was adversely affected by the devaluation of the Argentinean peso in 2003 resulting in a flow of cheap lime from Argentina into the Chilean lime market for the last four years. This situation and financial constraints on the Company have limited the ability of the Company to capitalize on its lime position.

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, as noted above, 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 explorations 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 to Pimenton.

## La Bella

During the six months ended March 31, 2011, the Company wrote off a total of \$273,026 (September 2010 - \$1,015,417) relating to mining property costs and exploration costs on La Bella.

## Limestone deposits

As at March 31, 2011, the Company had contributed \$3,898,767 (2010 - \$3,580,629) to finance a drilling program on Catedral/Rino and completed a preliminary feasibility study for construction of a 1,320 ton per day capacity cement manufactory facility on the project as well as a preliminary feasibility study for constructions of a 600 ton per day lime kiln on the Catedral property. At September 30, 2010 the Company wrote off the balance of \$3,743,000 in mining properties and exploration costs relating to Catedral/Rino, as the properties had been on care and maintenance for more than three years, in accordance with section 3063 – impairment of long – lived assets, as it focuses its efforts on its Pimenton gold mine. For the six months period ended March 31, 2011, the Company wrote off an additional \$154,767 (September 2010 - \$207,756) relating to mining property costs on Catedral/Rino.

As at March 31, 2011, the Company had contributed \$1,551,490 (2010 - \$1,541,000) to Cal Norte to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient explorations expenditures to maintain the Cal Norte property in good standing, at September 30, 2010 the Company wrote off the balance of \$1,545,000 in mining property costs and exploration costs as the properties had been on care and maintenance for more than three years as it focuses its efforts on its Pimenton gold mine. For the six month period ended March 31, 2011, the Company wrote off an additional \$6,490 (September 2010 - \$14,012) of mining property costs.

## **Result of operation - for the quarter ended March 31, 2011, compared to the quarter ended March 31, 2010.**

The Company reported net income of \$351,000 for the three month period ended March 31, 2011 and net loss of \$508,000 for the three month period ended March 31, 2010.



For the three month period ended March 31, 2011, revenue from gold sales were \$3,868,000 or 2,631.55 gold ounces (2010 - \$1,815,014 or 1,747.81 gold ounces) and from copper and silver sales were \$989,000 (2010 - \$222,000).

Operating expenses were \$2,655,496 in the three months ended March 31, 2011 compared to \$1,974,635 for the same period in 2010. The increase of \$680,861 during the three month period ended March 31, 2011 consisted of plant operations \$129,811; management \$84,596 camp \$158,742; concentrate transport and material transport \$104,578; royalties \$159,404; smelting, refining and metallurgical charges \$89,890; road maintenance and improvements \$326,185; health clinic & safety and others \$70,580. This was offset by a reduction in mine expenses of \$442,925.

The estimated cost of reclamation and remediation of \$3,825,000 is expected to be incurred over a period extending ten years calculated at the present value on March 31, 2011. This estimated cash flow is discounted using a credit –adjusted risk-free rate of 7.5%. Reclamation and remediation discounted at 7.5% for the three month period ended March 31, 2011 was \$39,843 (2010 - \$37,083)

Amortization expense were \$199,287 in the three months ended March 31, 2011 (2010 - \$108,152). 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 three months ended March 31, 2011 was \$278,285 compared to \$229,663 for the same period in 2010. The increase of \$48,622 was due to additional mining equipment purchased.

General and administrative costs were \$803,245 for the three months ended March 31, 2011 compared to \$318,110 for the same period in 2010. This \$485,135 increase was due to increased salaries of \$181,760; increased professional fees by \$96,703, of which \$67,271 related to geological, \$18,604 related to legal fees and \$10,828 related to other professional fees; increased claims, notary and licenses of \$68,640; increased shareholders expenses of \$37,841; increased transportation expenses of \$14,443; increased sales expenses of \$53,878; and increased administration and others expenses of \$31,870.

Stock based compensation was \$31,235 during the three month period ended March 31, 2011 compared to \$52,606 for the same period in 2010. The Company expensed \$31,932 (2010 - \$52,606) for the vesting period of common stock options (as defined below) issued during the three months ended March 31, 2011 and 2010 for options granted whose vesting period is between the date of grant and three, four and five years.

The foreign exchange loss was \$16,451 for the three months ended March 31, 2011 compared to a loss of \$13,933 in the same period of 2010. This increase of \$2,518 was due to the increase of the US dollar versus the Chilean peso.

Interest expense was \$55,576 for the three months ended March 31, 2011 compared to \$50,357 in the same period of 2010. The increase of \$5,219 was due to an increase in

accretion and interest of the C and D Debentures of \$20,590. This increase was offset by a reduction of OPIC loan interest of \$13,716 and a reduction of leasing interest by \$1,655.

The Company has taken the decision to write off its exploration expenditure on properties until NI 43 -101 compliant resources have been established on a property. As a result, during the period the Company wrote off the carrying value of its exploration properties of \$430,188 (2010 – \$44,873) as follows: Catedral \$85,843 (2010 -\$35,000); La Bella and Chilque \$168,936 (2010 – \$7,816); Cal Norte \$4,656 (2010 – \$nil); Tordillo \$74,267 (2010 – \$nil); Bandurrias \$23,006 (2010 – \$nil). In addition the Company wrote down recoverable taxes in the amount of \$3,480 (2010 - \$2,057). During 2011, the Company incurred additional exploration costs on projects where the resource potential has not yet been determined as defined by National Instrument 43 – 101 and accordingly these exploration costs amounting to \$70,000 (as development cost \$100,000 – 2010) were expensed.

Other income was \$3,643 for the three month period ended March 31, 2011 compared to \$385,240 in the same period of 2010. The Company reached a settlement with the Chilean IRS in March 2010 to pay \$172,331 of taxes versus the original claim by the Chilean IRS of \$554,182, the difference of \$381,851 included interest and penalties, and was recorded as other income. Other income also included \$3,389 for scrap sales.

**Results of operations for the six months ended March 31, 2011, compared to the six months ended March 31, 2010.**

The Company reported net income of \$2,029,000 for the six month period ended March 31, 2011 compared to loss of \$1,528,000 for the six months ended March 31, 2010.

For the six month period ended March 31, 2011, revenue from gold sales was \$9,349,977 or 6,853.91 gold ounces (2010 - \$3,729,807 or 3,429.43 gold ounces) and from copper and silver sales were \$1,669,918 (2010 - \$469,800).

Operating expenses were \$5,687,178 in the six months ended March 31, 2011 compared to \$4,161,162 for the same period in 2010. The increase of \$1,526,016 during the six month period ended March 31, 2011 consisted of plant operations \$224,785; maintenance and operation of road \$451,215; management \$132,602 camp \$242,469; transportation \$16,247; royalties \$395,487; smelting, refining and metallurgical charges \$140,488; health clinic & safety \$8,581. This was offset by a reduction in mine expenses \$85,858.

The estimated cash flow of reclamation and remediation of \$3,825,000 is expected to be incurred over a period extending ten years calculated at the present value on March 31, 2011. This estimated cash flow is discounted using a credit –adjusted risk-free rate of 7.5%. Reclamation and remediation discounted at 7.5% for the six month period ended March 31, 2011 was \$78,972 (2010 - \$73,462).

Amortization expense was \$502,910 in the six months ended March 31, 2011 (2010 - \$233,227). 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, 2011 were \$534,133 compared to \$441,946 for the same period in 2010. The increase of \$92,187 was due to mining equipment purchases.

General and administrative costs were \$1,199,338 for the six months ended March 31, 2011 compared to \$784,736 for the same period in 2010. This \$414,602 increase was due to increased salaries of \$118,675, of which \$95,745 related to geological, \$9,000 related to legal fees and \$13,930 related to other professional fees. In addition, for the six months ended March 31, 2011 the company incurred an increase of \$68,358 in claims and notary expenses a \$39,012 increase in shareholders expenses, a \$111,442 increase in sales expenses and a \$20,865 increase in miscellaneous and others expenses. Overhead decreased by \$88,655.

Stock based compensation was \$63,167 during the six month period ended March 31, 2011 compared to \$138,103 for the same period in 2010. The Company expensed \$63,167 for the vesting period of common stock options (as defined below) issued during the six months ended March 31, 2011 for options granted whose vesting period is between the date of grant and three, four and five years. The Company expensed \$172,238 for the vesting period of the Common Stock Options during the six months ended March 31, 2010 whose vesting period is between date of grant and four years. The vesting period expenses were offset by \$34,135 for the pre-vest cancellations of 6,000,000 options for the former president of the company, who had resigned.

Warrant revaluation expenses was \$111,986 in the six months period ended March 31, 2011 compared to \$8,066 for the same period in 2010. December 6, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the "Warrants") and 5,616,936 outstanding common share purchase warrants (the "Broker Warrants") which were due to expire on December 17, 2010, 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 \$111,986 (8,066 - 2010) 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%. These warrants were further extended to June 17, 2011.

Interest expense was \$143,078 in the six months ended March 31, 2011 compared to \$144,428 in the same period of 2010.

The foreign exchange loss was \$5,990 for the six months ended March 31, 2011 compared to a gain of \$147,918 in the same period of 2010. This decrease of \$153,908 was due to the increase of the US dollar versus Chilean peso.

Other income decrease by \$357,443 in the six months ended March 31, 2011 compared to the same period of 2010. During the six month period ended March 2011 the Company

received insurance proceeds and interest in the amount of \$27,798. For the six month period ended March 31, 2010 the Company reached settlement with the Chilean IRS in March 2010 to pay \$172,331 of taxes versus the original claim by the Chilean IRS of \$554,182. The difference of \$381,851 included interest and penalties, which was recorded as other income. Other income also included \$3,389 for scrap sales.

The Company has taken the decision to write off its exploration expenditure on properties until NI 43 -101 compliant recourse has been established on a property. As a result during the period the Company wrote off during the six months ended March 31, 2011 the carrying value of its exploration properties of \$693,117 (\$76,069 – 2010) as follows: Catedral \$154,767 (\$45,629 - 2010); La Bella and Chilque \$273,323 (\$20,143 – 2010); Cal Norte \$6,490 (\$nil – 2010); Tordillo \$74,267 (\$nil – 2010); Bandurrias \$28,087 (\$nil– 2010). In addition the Company wrote down recoverable taxes in the amount of \$16,163 (2010 - \$10,297). During 2011, the Company incurred additional exploration costs on projects where the resource potential has not yet been determined as defined by National Instrument 43 – 101 and accordingly these exploration costs amounting to \$140,000 (as development cost \$200,000 – 2010) were expensed.

### Summary of Quarterly Results

	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	778	1,916	(232)	(1,731)
Per share	0.0009	0.0022	(0.0003)	(0.0021)
Per share diluted	0.0007	0.0018	(0.0002)	(0.0017)
Net income (loss) after extraordinary items	351	1,678	(917)	(2,803)
Per share	0.000	0.002	(0.001)	(0.003)
Per share diluted	0.000	0.002	(0.001)	(0.003)

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Sales	2,037	2,163	1,789	2,890
Net income (loss) before extraordinary items	(748)	(889)	(1,201)	204
Per share	(0.0009)	(0.0009)	(0.0015)	0.0003
Per share diluted	(0.0008)	(0.0008)	(0.0012)	0.0002
Net income (loss) after extraordinary items	(508)	(1,020)	(1,285)	651
Per share	(0.001)	(0.001)	(0.002)	0.001
Per share diluted	(0.001)	(0.001)	(0.001)	0.001

Non-GAAP 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 Canadian GAAP 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 Canadian GAAP.

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

Reconciliation of Non-GAAP Measures to Canadian GAAP Cost of Sales:

For the six month period ended March 31,	<u>2011</u>	<u>2010</u>
Gold ounces sold	6,854	3,429
Cost of sales	6,917	4,829
Add (deduct):		
Amortization and depreciation	(1,033)	(665)
Remediation and reclamation	(79)	(73)
Total cash cost of production before by-product credits	5,805	4,121
Copper and Silver – by- product credits	(1,620)	(451)
Total cash cost of production after by-product credits	4,185	3,670
<b><i>Cash cost per ounce</i></b>	<b>\$610.06</b>	<b>\$1,070.15</b>

The Company declared the Pimenton mine to be in commercial production effective October 1, 2008 at the rate of 91 tons per day of production. This production rate is expected to be gradually increased to an average of 150 tons per day by mid 2011 and to near 200 tons per day by year 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 200 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 200 TPD.**

**VARIABLES**

Head grade gold	13	g/t
Head grade copper	1	%
Starting tons per day year 1	100	Tpd
Tons per day year 2	200	Tpd
Plant combined recovery	90%	
Price per Ounce Gold	\$1,350	
Price per pound Copper	\$3.50	
Exchange rate US\$	470	CH\$
Loan Interest rate	8.50%	
Price per liter Diesel	620	CH\$
Price per liter Gasoline	720	CH\$

**ALL IRR% ARE FOR ENTIRE INVESTMENT**

**Grade Sensitivity. Projects from a low of 10g/t to 18 g/t Au head grade through plant.**

Au g/t	Cu%	Op.Cost/Oz	IRR%
10	0.8	\$382	112%
12	1.0	\$340	142%
14	1.2	\$310	171%
16	1.4	\$288	199%

Cost/Oz is cash cost per ounce at the mine

**200 TPD**

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

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	\$326	152%
-5%	\$314	165%
2%	\$301	183%

Cost/Oz is cash cost per ounce at the mine

**Tonnage Sensitivity from a low of at 100 to a high of 200 tpd.**

Tons per day	Op.Cost/Oz	IRR%
100	\$581	85%
125	\$498	103%
150	\$441	119%
175	\$401	132%
200	\$371	144%

**200 TPD****Price of Gold Sensitivity**

Price per Ounce	IRR%
\$500	98%
\$600	119%
\$700	140%
\$800	161%
\$900	183%
\$1,000	204%

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

**200 TPD****Price of Copper Sensitivity with gold at US\$1,300**

Price per pound Cu	IRR%
\$1,00	108%
\$2,00	113%
\$3,00	119%
\$4,00	125%

**Liquidity and capital resources**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Purchase obligations	2,188,573	2,188,573	-	-
Other amounts due to related parties	195,551	195,551	-	-
Pimenton notes	1,943,567	1,943,567	-	-
Other debts	157,616	-	-	157,616
Capital leases	517,757	337,986	179,771	-
La Bella option payments (1)	2,950,000	200,000	1,000,000	1,750,000
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Tordillo prospect (3)	250,000	-	-	250,000
<b>Total Contractual Obligations</b>	<b>10,703,065</b>	<b>4,865,677</b>	<b>1,179,771</b>	<b>4,657,616</b>

**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 totalling \$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.

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, 2011, cash was \$3,271,000

The Company had a positive working capital of \$1,707,000 at March 31, 2011. The working capital is expected to be improved by increases in operating profits from the Company's Pimenton gold mine. The production rate is expected to be gradually increased to an average of 150 tons per day by mid 2011 and to near 200 tons per day by the year end of calendar 2011. 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 200 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 dependant 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. 90% of the value of gold shipment is paid during the week following delivery and the balance of the payment is received a month from the day of receipt of the initial payment. For the six months ended at March 31, 2011 59% of the Company's sales have been to a gold refinery in Europe and 41% to the Enami smelter in Ventana, Chile. Enami is owned by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment.

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.

The Executive Vice President - Director, Claims and Land Management and the Executive Vice President-Director of Exploration, both directors of the Company hold the non-controlling interest in the Cathedral prospect and the Company has agreed to lend such officers and directors up to an additional \$2,250,000 for development costs.

#### *La Bella Option Agreement*

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, 2010 on the inner circle \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 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.

El Chilque prospect area (formerly "the outer circle"), acquired by the Company by way of an option agreement of the property, modified on December 16, 2010. Under the new agreement \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 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 to the optionee of the outer circle from production thereafter.

#### *Cal Norte*

The Company must make an additional capital contribution of \$384,000 to Cal Norte to earn its 60% equity interest.

### **Related Party Transactions**

A company owned by the CEO (who is also a director) billed the Company \$nil for the six months period ended March 31, 2010 (September 2010 - \$26,041) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of \$342,458 as at March 31, 2011 (September 2010 - \$236,577) of which \$286,233 (2010 - \$190,289 is the net amount of non-interest-bearing note receivable and \$56,225 (2010 - \$46,117) are cash advances. The note has been extended to September 30, 2011 and is collateralized by 6,532,000 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed the Company \$34,323 for accounting and administration services rendered for the six months period ended March 31, 2011 (September 2010 - \$40,712). Accounts payable and accrued liabilities include payables to this officer of \$3,986 for such services at March 31, 2011 (2010 - \$5,195).

A law firm of which a director of the Company is a partner billed the Company \$73,776 in the six months period ended March 31, 2011 (2010 - \$178,452) for legal services. Accounts payable and accrued liabilities include \$23,372 and \$70,732 as at March 31, 2011 and September 30, 2010, respectively.

During 2007, the Executive Vice President and Director of Land and Administration, who is also a director of the Company, purchased an interest in the Pimenton notes and royalty from a non-related party. The present value of this note was \$974,918 at March 31, 2011 (2010 - \$974,918) and interest expense was \$24,306 for the six month ended March 31, 2011 (2010 - \$48,746). Accounts payable and accrued liabilities include \$4,140 (2010- \$36,459) for interest and \$74,108 for royalties as at March 31, 2011 (2010 - \$254,979).

Accounts payable and accrued liabilities include \$4,113 and \$36,224 as at March 31, 2011 and September 30, 2010, respectively, for interest due to Executive Vice President - Director of Exploration who is also a director of the Company who holds one of the Pimenton notes. Such Pimenton note has present value amounts of \$968,645 and \$968,645 as at March 31, 2010 and September 30, 2010, respectively, and interest expense was \$24,150 for the six months ended March 31, 2011 (2010 - \$48,432). In addition accounts payable and accrued liabilities include \$74,108 and \$254,979 as at March 31, 2011 and September 30, 2010, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine. Also accounts payable include \$9,094 for interest not paid on the Debenture issued to him in 2006 and which were converted on June 9, 2009.

Working capital of \$330,000 was provided between April and July 2010, by Compañía Minera Auromin Ltda owned by the Executive Vice-President of Exploration and a director of the Company. On January 26, 2011 the Company repaid this amount in full.

Working capital of \$500,000 was provided in June 2010, by Minera Chañar Blanco S.A. owner by the Executive-Vice President-Director of Claims and Administration and a director of the Company. From December 18, 2011 to February 28, 2011 this amount was repaid in full.

On April 1, 2010, a Company owned by David Thomson, 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 will 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, 2011 accounts payable and accrued liabilities included \$25,000.

On April 1, 2010 a Company owned by Mr. Mario Hernández, 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 will 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, 2011 accounts payable and accrued liabilities included \$9,167.

The Company made payments and issuances of securities to certain directors and officer. For the six month ended March 31, 2011 the expense were \$17,400 (\$24,706 – 2010).

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 will 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.

### **Outstanding Share Information**

As of May 13, 2011, the Company has issued one class of common shares of which a total of 91,642,755 common shares are outstanding. As of May 13, 2011, the Company had 7,892,997 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA\$0.25 to CA\$0.70 through May, 2015. Options granted under the stock option plan of the Company (each, an “Option”) outstanding as of May 13, 2011, totaled 7,842,999 of which 6,651,999, 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 April 19, 2015.

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.

### **Outlook**

### **Risk Factors**

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve numerous inherent

risks. The Company is subject to various financial, operational and political risks that could affect its 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 than are available to it.

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 currently pursuing insurance for business interruptions and insurance on its camp, plant, assay laboratory, fuel storage and garage facilities at Pimenton. The Company currently does not have these insurance policies.

The Company's mine is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. Such conditions occurred during 2005, resulting in the shutdown of the Pimenton mine. In addition, the Company is subject to environmental laws and regulations that are constantly changing and may require expenditures that are significantly different from our current estimates.

Readers should read the risk factors, which are described in more detail in the Company's annual information form, which was dated December 15, 2010. 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**

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

### *Mining properties, plant and equipment*

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on “proven and probable” mineral reserves and “mineral measured resources.”

In March 2009, the CICA approved EIC 174, “Mining Exploration Costs”. This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties at March 31, 2011.

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

### *Exploration and development costs*

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

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment.

### *Revenue recognition*

Revenue from the sale of concentrates and gold doré are recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of customers. Generally, the final settlement

price is computed with reference quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers for each shipment.

Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to customers and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

#### *Stock-based compensation*

The Company has a share option plan, as discussed in note 7. Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

#### *Reclamation and remediation*

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

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

#### *Future changes in accounting policies*

#### *Business Combinations/Consolidated Financial Statements/Non-Controlling Interest*

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, "Non Controlling Interest" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business

combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new section concurrently. These new sections were created to converge Canadian GAAP to IFRS. The Company will assess the impact of this section prior to implementation.

### **International Financial Reporting Standards**

The Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises for the financial periods beginning on or after January 1, 2011, including comparative figures for the prior year.

CEG will transition to IFRS effective October 1, 2011 and intends to issue its first interim financial statements under IFRS for the three month period ending December 31, 2011 and a complete set of financial statements under IFRS for the year ending September 30, 2012.

CEG is currently undertaking a process to identify differences between Canadian GAAP and IFRS relevant to CEG and evaluate the impact of the required changes on existing accounting systems, business processes, and requirements for personnel training and development.

The Potentially High Impact Areas are:

#### 1.1. First Time Adoption of IFRS (IFRS 1)

- IFRS 1 provides detailed guidance on the specific disclosures required in the first set of IFRS financial statements. It also provides exemptions, in a number of areas, from the retrospective application of some standards.
- CEG has to carefully assess the exemptions provided by IFRS 1 to ensure that the right decisions are made on transition.
- Additionally, CEG has to ensure that it has the right systems in place to be able to collect all the data and information required for disclosure in the first IFRS financial statements.

#### 1.2. Asset Retirement Obligations

- CEG needs to consider whether any constructive obligations exist, which could give rise to additional Asset Retirement Obligations liabilities under IFRS.



- Provisions will need to be reviewed at each reporting date, using the pre-tax discount rate prevailing on the balance sheet date.
- IFRS requires more disclosure than existing Canadian GAAP.

### 1.3. Presentation of Financial Statements

- CEG will need to ensure that the presentation of their IFRS financial statements is consistent with the requirements of IAS 1.
- As part of the conversion to IFRS, the Company will need to consider whether they have the right systems in place to capture the information required for these additional disclosures
- Management will need to familiarize themselves with the layout and disclosure requirements of IFRS statements. There are several disclosure checklists and examples in the public domain of IFRS financial statements for mining companies which could provide CEG with examples of the required disclosures.

### 1.4. Functional Currency Determination (Foreign Exchange

- IAS 21 provides specific indicators in determining an entity's functional currency.
- CEG has to assess the functional currency of its operating entities based on these indicators.
- IFRS requires more disclosure than the existing Canadian GAAP regarding functional currency determinations.

### 1.5. Stock-based Compensation

- On transition to IFRS, CEG will need to review the terms, of its stock-based compensation, in order to ensure that the awards are correctly accounted for under IFRS.
- CEG currently issues equity instruments to directors, officers, employees, and certain consultants. It will therefore have to consider whether the consultants meet the definition of employees, under IFRS and apply the appropriate treatment to these awards.
- The requirement to re-measure the fair value of settled awards and estimate forfeitures may increase the implementation effort.
- CEG will have to estimate a forfeiture rate under IFRS

### 1.6. Property, Plant & Equipment (PP&E)

- The components of the capitalized PP&E costs may need to be examined to determine whether or not they are capitalizable under IFRS. CEG needs information in sufficient detail for this assessment.
- The separate measurement of the significant individual components of PP&E along with their differing useful lives may be a complex task, which will require modification of existing fixed asset systems to track additional asset details.
- Overhaul and maintenance schedules can be used to help determine the specific useful lives of significant components within large items of PP&E.
- Defining reserves and resources and deciding which one is used for calculating depreciation cost will require significant technical expertise and judgment.
- IFRS has greater disclosure requirements than Canadian GAAP.

IFRS 1 Consideration:

- Electing to measure an item of PP&E at the date of transition at its fair value and use that fair value as its deemed cost, will require significant technical expertise, judgment, and resources to determine fair value.

#### 1.7. Mineral Property and Exploration Costs

- CEG will need to monitor the progress of developments in IFRS 6, regarding the capitalization of exploration and evaluation costs and the treatment of reserves and resources.

#### 1.8. Impairments

- Develop an accounting policy for impairment testing, guidelines for determination of fair value less cost to sell and value in use measures.
- Impairment testing is a one-step test under IAS 36 rather than a two-step test under Canadian GAAP, which may increase the frequency of the recognition of impairment charges.
- Under IAS 36, impairment losses are measured differently, i.e. as the excess of carrying value and the recoverable amount, which is the higher of fair value less cost to sell and value in use.
- CEG will need to review its asset groupings under the definition of cash-generating unit to ensure that the level of review for impairment testing purposes is still appropriate.

- The criteria for recognizing impairments are similar to Canadian GAAP; however, the reversal of impairments (other than goodwill) is not permitted under Canadian GAAP, but is required under IFRS, should events and circumstances exist that may indicate reversal of impairment tests.
- In order to be able to reverse impairments, when conditions reverse, CEG will need to keep detailed accounting records of the depreciated historic cost for impaired assets as the reversal of impairment is limited to this amount.

### **IFRS changeover plan**

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has dedicated resources to this process. The changeover plan consists of three primary phases:

- Initial diagnostic phase
- Impact analysis, evaluation and solution development phase
- Implementation and review phase

#### **Phase 1: Initial diagnostic**

The objective of this phase is to identify the required changes to the Company's accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the next two phases.

#### **Phase 1 involves:**

- A detailed review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices
- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS
- The prioritization of those differences that could have a more than inconsequential impact on the Company's consolidated financial statements, business processes or IT systems
- The identification of internal stakeholders and business areas that may be affected by the changeover.

### Phase 2: Impact analysis, evaluation and solution development

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of the changeover plan. These solutions will result in certain necessary changes to the Company's internal business processes and financial systems to comply with IFRS accounting and disclosure requirements. Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

### Phase 3: Implementation and review phase

This phase involves the implementation of the required changes to the Company's information systems and business policies and procedures identified in the previous phase of the plan. It will culminate in the collection of financial information necessary to prepare consolidated IFRS financial statements and audit committee approval of IFRS consolidated financial statements.

### Progress towards completion of the IFRS changeover plan

The Company has completed Phase 1 of its changeover plan and has identified the differences between Canadian GAAP and IFRS that impact its consolidated financial statements. The Company's detailed analysis has identified a number of accounting differences and policy alternatives under IFRS as compared to Canadian GAAP. The Company has also determined that its accounting policies are largely aligned with IFRS requirements in many key areas other than those set out above.

Work on phase 2 has commenced and the Company has begun assessing the impact and designing solutions to address the differences, focusing initially on those differences that may require changes to its financial systems or that are more complex or time-consuming to resolve.

Appropriate resources have been secured to complete the changeover on a timely basis according to the Company's plan. The Company is also ensuring that training needs are met and will continue to be addressed throughout the changeover period.

The Company has detailed project plans and progress reporting in place to support and communicate the changeover. At this time, the Company cannot quantify the impact that the future adoption of IFRS will have on its consolidated financial statements and

operating performance measures; however, such impact may be material. Additional information will be provided as the Company moves towards the changeover date.

### **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 GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that

could have a material effect on the annual financial statements or interim financial statements.

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

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

#### *Mineral Reserves and Mineral Resources Estimates*

The Company has compiled, with an independent qualified person under Canadian Instrument 43-101, a Mineral Reserve and Mineral Resource estimate of the Pimenton mine in December 2010. These reports are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

**Cerro Grande Mining Corporation**

(formerly South American Gold and Copper Company Limited)

## Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

	<b>March 31, 2011 (Unaudited)</b>	<b>September 30, 2010</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,271	1,470
Receivables	1,197	757
Recoverable taxes	86	1,406
Inventories (note 3)	1,817	855
	<hr/>	<hr/>
	6,371	4,488
<b>Receivable from an officer and director (note 12)</b>	342	237
<b>Mining properties, plant and equipment (note 4)</b>	17,806	17,125
	<hr/>	<hr/>
<b>Total assets</b>	<u>24,519</u>	<u>21,850</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,187	3,342
Current portion of long term lease (note 11 b)	338	295
Current portion of long-term debt (note 9)	1,944	1,944
Amount due to related parties (note 12)	195	-
	<hr/>	<hr/>
	4,664	5,581
<b>Long-term debt (note 9)</b>	158	128
<b>Long-term lease (note 11 b)</b>	180	236
<b>Long-term amount due to related parties (note 12)</b>	-	832
<b>Reclamation and remediation (note 10)</b>	2,224	2,145
	<hr/>	<hr/>
<b>Total liabilities</b>	<u>7,226</u>	<u>8,922</u>
<b>Shareholders' equity</b>		
Share capital (note 6)	75,992	73,060
Contributed surplus	4,709	4,494
Convertible subordinated debentures	154	154
Options (note 7)	1,287	1,805
Warrants (note 8)	1,459	1,752
Accumulated deficit and comprehensive loss	(66,308)	(68,337)
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	<u>17,293</u>	<u>12,928</u>
	<hr/>	<hr/>
<b>Total liabilities and shareholders' equity</b>	<u>24,519</u>	<u>21,850</u>

**Commitments**

Approved by the Board of Directors

(signed) Paul J. DesLauriers

Chairman

(signed) Stephen W. Houghton

Chief Executive Officer

**Cerro Grande Mining Corporation**  
(formerly South American Gold and Copper Company Limited)  
Consolidated Statements of Operations, Comprehensive Income (loss) and Deficit (Unaudited)

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Gold	3,868	1,815	9,350	3,730
Copper and silver	989	222	1,670	470
	<u>4,857</u>	<u>2,037</u>	<u>11,020</u>	<u>4,200</u>
<b>Expenses</b>				
Operating cost	2,656	1,975	5,687	4,161
Reclamation and remediation	40	37	79	73
Amortization and depreciation	478	338	1,037	675
General, sales and administrative	803	318	1,199	785
Stock-based compensation	31	52	63	138
Warrant revaluation	-	-	112	8
Foreign exchange	16	14	6	(148)
Interest	55	51	143	145
	<u>4,079</u>	<u>2,785</u>	<u>8,326</u>	<u>5,837</u>
Other income	3	385	28	385
Development costs	-	(100)	-	(200)
Write off of exploration properties	(430)	(45)	(693)	(76)
	<u>351</u>	<u>(508)</u>	<u>2,029</u>	<u>(1,528)</u>
<b>Income (loss) and comprehensive income (loss) for period</b>				
	351	(508)	2,029	(1,528)
<b>Deficit- beginning of period</b>	(66,659)	(64,109)	(68,337)	(63,089)
<b>Deficit- end of period</b>	<u>(66,308)</u>	<u>(64,617)</u>	<u>(66,308)</u>	<u>(64,617)</u>
<b>Basic and diluted income (loss) per share</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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



## Cerro Grande Mining Corporation

(formerly South American Gold and Copper Company Limited)

Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of United States dollars)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
<b>Operating Activities</b>	\$	\$	\$	\$
Net income (loss) for the period	351	(508)	2,029	(1,528)
Non-cash items				
Amortization	478	338	1,037	675
Accretion of interest on long-term debt	55	51	143	145
Taxes and penalty	-	(382)	-	(382)
Write off of exploration costs	431	45	693	76
Foreign exchange	16	(10)	6	(172)
Mine closure	40	37	79	73
Provision and withholding	-	100	-	200
Stock based compensation	31	52	63	138
Non-cash warrant revaluation	-	-	112	8
	<u>1,402</u>	<u>(277)</u>	<u>4,162</u>	<u>(767)</u>
Change in non-cash working capital relating to operations	<u>(1,159)</u>	<u>319</u>	<u>(1,377)</u>	<u>532</u>
	<u>243</u>	<u>42</u>	<u>2,785</u>	<u>(235)</u>
<b>Investing Activities</b>				
Additions to mining equipment	(951)	94	(1,979)	(16)
Mine development and mining properties capitalized	(170)	(626)	(432)	(805)
Receivable from an officer and director	(11)	-	(11)	(7)
	<u>(1,132)</u>	<u>(532)</u>	<u>(2,422)</u>	<u>(828)</u>
<b>Financing activities</b>				
Shares issued	1,645	-	1,675	-
Repayment of debt	-	(228)	335	(330)
Long-term debt	-	300	-	300
Loan from related parties	(338)	-	(338)	572
Repayment of capital lease	(169)	(160)	(247)	(165)
	<u>1,138</u>	<u>(88)</u>	<u>1,425</u>	<u>377</u>
Effect of foreign exchange on cash held in foreign currency	<u>13</u>	<u>14</u>	<u>13</u>	<u>24</u>
Increase (Decrease) in cash and cash equivalents during the period	262	(564)	1,801	(662)
Net cash and cash equivalents-beginning of period	<u>3,009</u>	<u>757</u>	<u>1,470</u>	<u>855</u>
Net cash and cash equivalents-end of period	<u>3,271</u>	<u>193</u>	<u>3,271</u>	<u>193</u>

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

# **Cerro Grande Mining Corporation**

**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

## **1. Basis of Consolidation and Presentation of Interim Financial Statements**

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian GAAP following the same accounting policies and methods as the consolidated financial statements for the fiscal year ended September 30, 2010. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. The disclosure in these interim consolidated financial statements may not conform in all respects to Canadian GAAP for annual consolidated financial statements and as such should be read in conjunction with the Company's most recent annual consolidated financial statements, being those for the year ended September 30, 2010.

## **2. Summary of significant accounting policies**

These consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

A summary of the significant accounting policies are set out below:

### **a) Principles of consolidation**

These consolidated financial statements include the accounts of Cerro Grande Mining Corporation (the Company or SAGC) and its subsidiaries:

South American Gold and Copper Bermuda Ltd. (Bermuda)  
SAGC Cathedral Limited (Cathedral)  
SAGC Management, Inc. (Management)  
SAGC Pimenton Limited  
Compañía Minera Til Til Limitada (Til Til)  
Compañía Minera Pimenton (Pimenton)  
Compañía Minera Vizcachas (Vizcachas)  
Compañía Minera Catedral (Catedral)  
Compañía Cal Norte (Cal Norte)  
Compañía Minera Tordillo Limitada  
Minera Bandurria SAGC Limitada  
Compañía Minera La Bella SAGC Limitada

All inter-company transactions and balances have been eliminated upon consolidation.

### **b) Foreign currency translation and transactions**

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

# **Cerro Grande Mining Corporation**

**(Formerly South American Gold and Copper Company Limited)**  
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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

Monetary assets and liabilities are translated at the exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, with the exception of amortization, which is translated at the historic rate of the related asset. Translation gains and losses are reflected on the consolidated statements of operations, deficit and comprehensive loss.

**c) Use of estimates**

Generally accepted accounting principles require management to make assumptions and estimated that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimated.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, any asset retirement obligation, recoverability of mineral properties including exploration properties, stock-based compensation and the provision for income taxes and composition of future income tax assets and liabilities.

**d) Cash and restricted cash**

Cash and restricted cash consist of cash. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within the year.

**e) Inventories**

Ore stockpile and concentrate stockpile inventories are valued at the lower of production cost and net realizable value. Production costs include direct costs of materials and labour related directly to mining and processing activities, including depreciation and amortization of property, plant and equipment directly involved in the related mining and production process and directly attributable overhead costs. Materials and supplies inventories are valued at the lower of cost and net realizable value.

**f) Accounts receivables**

Accounts receivables include the provisional invoicing of the sale of concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold are taken to income.

**g) Mining properties, plant and equipment**

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on "proven and probable" mineral reserves and "mineral measured resources."

# **Cerro Grande Mining Corporation**

**(Formerly South American Gold and Copper Company Limited)**

**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

In March 2009, the CICA approved EIC 174, "Mining Exploration Costs". This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties at March 31, 2011.

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

## **h) Exploration and development costs**

Acquisition and exploration costs of resource properties are expensed as incurred until resources have been determined and then these expenses are capitalized. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment.

## **i) Goodwill and intangible assets**

Effective October 1, 2009 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

# **Cerro Grande Mining Corporation**

**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

## **j) Revenue recognition**

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

## **k) Stock-based compensation**

The Company has a share option plan, as discussed in note 7. Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

## **l) Income taxes**

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined, based on differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the income tax rates substantively enacted at the consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

## **m) Earnings and loss per share (EPS)**

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares when the conditions necessary for issuance have been met. 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 on the as-if converted method for convertible securities.

# **Cerro Grande Mining Corporation**

**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

**n) Reclamation and remediation**

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

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

**o) Financial instruments recognition, measurement, disclosure and presentation**

Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognised or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

**Hedging**

The Company currently does not hold any financial instruments designated for hedge accounting.

**p) Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivatives for the period ended March 31, 2011. The Company has performed an assessment as of March 31, 2011 and believes there to be no impact on its financial statements.

**q) Recent accounting pronouncements**

Business Combinations/Consolidated Financial Statements/Non-Controlling Interest

**Cerro Grande Mining Corporation**  
**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, "Non Controlling Interest" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new section concurrently. These new sections were created to converge Canadian GAAP to IFRS. The Company will assess the impact of this section prior to implementation.

**3. Inventories**

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	\$	\$
Ore and concentrate stockpiles	1,354	548
Materials and supplies	463	307
	<u>1,817</u>	<u>855</u>

**4. Mining properties, plant and equipment**

				<b>March 31, 2011</b>
	<b>Estimated useful life</b>	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Mining properties	UOP	4,005	1,195	2,810
Buildings and equipment	1-10 years	12,315	7,197	5,118
Mine development	UOP	13,389	3,511	9,878
		<u>29,709</u>	<u>11,903</u>	<u>17,806</u>
				<b>September 30, 2010</b>
	<b>Estimated useful life</b>	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Mining properties	UOP	3,999	1,073	2,926
Buildings and equipment	1-10 years	11,029	6,663	4,366
Mine development	UOP	12,956	3,123	9,833
		<u>27,984</u>	<u>10,859</u>	<u>17,125</u>

**Cerro Grande Mining Corporation**  
**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

The cost of assets under capital leases and the related accumulated amortization amounted to \$1,059,821 on March 31, 2011 (\$836,557 - 2010) and \$223,265 on March 31, 2010 (\$90,036 - 2010), respectively.

The Company capitalized \$432,385 in mine development for the six months ended March 31, 2011 (\$nil - 2010), used to drive explorations and development headings for making new reserves under Canadian Instrument 43-101.

Mining properties and mine development are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Amortization expenses were \$502,910 for the six month ended March 31, 2011 (\$587,805 - 2010) Prior to October, 2008 gold sales and operating costs have been capitalized for financial accounting purposes.

**5. Exploration properties**

The following table summarizes exploration expenses by property.

	Catedral \$	Cal Norte \$	Tordillo \$	Bandurrias \$	La Bella \$	Other \$	Total \$
<b>Acquisition costs</b>							
Balance as at September 30, 2009	-	-	228	-	399	-	627
Additional costs capitalized	208	4	45	22	541	-	820
Writedowns	(208)	(4)	(273)	(22)	(940)	-	(1,447)
Balance as at September 30, 2010	-	-	-	-	-	-	-
Additional costs capitalized	63	6	74	26	228	19	416
Writedowns	(63)	(6)	(74)	(26)	(228)	(19)	(416)
Balance as at March 31, 2011	-	-	-	-	-	-	-
<b>Exploration costs</b>							
Balance as at September 30, 2009	-	-	-	-	-	-	-
Additional costs capitalized	-	-	-	-	76	-	76
Reclasification	-	-	-	-	-	-	-
Writedowns	-	-	-	-	(76)	-	(76)
Balance as at September 30, 2010	-	-	-	-	-	-	-
Additional costs capitalized	92	-	-	-	45	-	137
Reclasification	-	-	-	-	-	-	-
Writedowns	(92)	-	-	-	(45)	-	(137)
Balance as at March 31, 2011	-	-	-	-	-	-	-

During the six months end March 31, 2011 the Company wrote off acquisition and exploration costs totalling \$693,000 (\$76,069 - 2010), on properties the Company has no intent on developing further. During the six months ended March 31, 2011, the Company incurred exploration costs on projects where the resource



**Cerro Grande Mining Corporation**  
**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

potential has not yet been determined and these exploration costs of \$140,000 were written off as development costs (\$200,000 - 2010).

**6. Share capital**

**a) Authorized capital**

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

**b) Issued and outstanding**

	<b>Number of shares</b>	<b>Amount \$</b>
Balance – September 30, 2010	866,825,868	73,060
Warrants exercised 8 (b)	1,209,888	43
Warrants exercised 8 (c)	2,142,510	112
Warrants exercised 8 (d)	7,561,800	395
Warrants exercised 8 (e)	4,928,485	428
Warrants exercised 8 (f)	1,414,050	74
Bonus share (a)	2,100,000	127
Warrants exercised 8 (g)	8,243,644	532
Warrants exercised 8 (h)	6,406,970	412
Options exercised 7 (b)	12,500,000	810
	<hr/>	
Balance – March 31, 2011	913,333,215	75,992
	<hr/> <hr/>	

NOTE: Effective April 14, 2011 the Company consolidated its shares on a 10 for 1 basis.

- a) On January 18, 2011 2,100,000 bonus shares were issued to seven employees who are not officers of the Company and were valued at \$127,234 using the TSX closing price of CA \$0.06 per share.

**Cerro Grande Mining Corporation**  
**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

**7. 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 115,787,544 common shares and 45,000,000 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 for the six month period ended March 31, 2011 is as follows:

	\$	Number of options	Weighted average exercise price CA\$
Balance – September 30, 2010	1,805	86,470,000	0.055
Changes during the year			
Granted (a)	-	600,000	0.060
Exercised (b)	(375)	(12,500,000)	0.035
Vested	72	-	
Expired	(215)	(5,714,286)	0.065
Balance – March 31, 2011	1,287	68,855,714	0.058

NOTE: Effective April 14, 2011 the Company consolidated its shares on a 10 for 1 basis.

- a) The Company issued on January 11, 2011 600,000 Common Stock Options exercisable at CA.\$ 0.06 per share for a period of three years from the date of issuance, and vesting period is between date of grant and three years, which were issued to an employee who is not officers of the Company. These options were fair valued at \$28,538 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 9,000,000 options granted on April 19, 2010 at a price of CA\$0.035 per share for net proceeds of \$583,156. The fair value of \$269,855 assigned to these options was transferred to share capital. In addition an employees who are officers of the Company exercised 3,500,000 options granted on April 19, 2010 at a price of CA\$0.035 per share for net proceeds of \$226,783. The fair value of \$104,944 assigned to these options was transferred to share capital. In addition an employees who are officers of the Company.

**Cerro Grande Mining Corporation**  
**(Formerly South American Gold and Copper Company Limited)**  
**For the Six Months Ended March 31, 2011 and Year Ended September 30, 2010**

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(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

**8. Warrants**

	Number of warrants	\$
Balance – September 30, 2010	113,932,230	1,752
Modified (a)	-	112
Exercised (b)	(1,209,888)	(13)
Exercised (c)	(2,142,510)	(16)
Exercised (d)	(7,561,800)	(59)
Exercised (e)	(4,928,485)	(77)
Exercised (f)	(1,414,050)	(23)
Exercised (g)	(8,243,644)	(122)
Exercised (h)	(6,406,970)	(93)
Balance – March 31, 2011	82,024,883	1,459

NOTE: Effective April 14, 2011 the Company consolidated its shares on a 10 for 1 basis.

- (a) On December 6, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the “Warrants”) and 5,616,936 outstanding common share purchase warrants (the “Broker Warrants”) which were due to expire on December 17, 2010, 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 \$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%. These warrants were further extended to June 17, 2011.
- (b) On November 22, 2010, the holders of broker warrants in a Private placement completed in December 18, 2008 exercised 1,209,888 warrants at a price of CA\$0.025 per share for net proceeds of \$42,873. The fair value of \$12,867 assigned to these warrants was transferred to share capital.
- (c) On December 18, 2010, Compañía Minera Chañar Blanco S.A owned by Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, exercised 2,142,510 warrants issued in conjunction with a private placement completed on December, 18 2008 at a price of CA\$0.045 per share for net proceeds of \$111,896. The shares were issued on January 4, 2011. The fair value of \$16,664 assigned to these warrants was transferred to share capital.
- (d) On December 18, 2010 an arms length shareholder who participated in a private placement completed on December 18, 2008 exercised 7,561,800 warrants at a price of CA\$0.045 per share for net proceeds of \$394,382. The shares were issued on January 04, 2011. The fair value of \$58,814 assigned to these warrants was transferred to share capital.
- (e) On January 11, 2011 Compañía Minera Chañar Blanco S.A owned by Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, exercised

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4,928,485 warrants issued on January, 15 2008 at a price of CA\$0.07 per share for net proceeds of \$427,569. The fair value of \$77,818 assigned to these warrants was transferred to share capital.

- (f) On January 28, 2011, the holders in a Private placement exercised 1,414,050 warrants issued on March 6, 2009 at a price of CA\$0.036 per share for net proceeds of \$73,883.5. The fair value of \$23,390 assigned to these warrants was transferred to share capital.
- (g) On February 28, 2011 Compañía Minera Chañar Blanco S.A owned by Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, exercised 8,243,644 warrants issued on April 21, 2010 at a price of CA\$0.05 per share for net proceeds of \$532,136. The fair value of \$122,179 assigned to these warrants was transferred to share capital.
- (h) On February 28, 2011 Compañía Minera Auromin Ltda owned by Mr. David Thomson, Executive-Vice President-Director of Exploration and a director of the Company, exercised 6,406,970 warrants issued on April 21, 2010 at a price of CA\$0.05 per share for net proceeds of \$411,974. The fair value of \$93,356 assigned to these warrants was transferred to share capital.

**9. Long-term debt**

Description	Interest rate	March 31, 2011	September 30, 2010
		Principal \$	Principal \$
Pimenton note, due on August 15, 2011 (a)	5%	1,944	1,944
C and D Debentures (b)		158	128
		2,102	2,072
Less: Current portion		1,944	1,944
Long-term debt		158	128

- a) The Pimenton notes, which are due on August 15, 2011, were accreted to \$1,943,561 as at March 31, 2011, with \$48,456 being charged to interest expense for the six months period ended March 31, 2011.
- b) On April 21, 2010 the Company issued \$300,000 of convertible unsecured debentures (the “C Debentures”). The conversion price of the C Debentures is CA\$0.04 per share convertible into up to 7,821,000 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 7,821,000 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 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 contributed surplus. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing

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rate to the Company of 20%. The Company allocated at March 31, 2011 \$111,509 to equity, \$114,035 to warrants and \$116,946 to debt.

On May 11, 2010 the Company issued \$330,000 of convertible unsecured debentures (the "D Debentures"). The conversion price of the D Debentures is CA\$0.04 per share convertible into up to 8,261,550 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 8,261,550 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA\$0.05 per share. On August 20, 2010, \$230,000 of the D Debentures was converted into 5,758,050 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 contributed 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%. The Company allocated at March 31, 2011 \$42,819 to equity, \$96,720 to warrants and \$40,970 to debt.

## 10 Reclamation and remediation

The Company's mining and exploration activities are subject to various Chilean laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are becoming more restrictive. Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The total undiscounted amount of estimated cash flows of \$3,825,000 is expected to be incurred over a period extending to ten years. These estimated cash flows are discounted using a credit-adjusted risk-free rate of 7.5%. The actual asset retirement obligation and closure costs may differ significantly based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

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

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	<b>\$</b>	<b>\$</b>
Balance - Beginning of period	2,145	1,995
Accretion	79	150
	<hr/>	<hr/>
Balance - End of period	<b>2,224</b>	<b>2,145</b>
	<hr/>	<hr/>

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**11 Commitments**

**a) Project commitments**

<b>Project</b>	<b>Description</b>	<b>Total potential commitment \$</b>	<b>Paid to date \$</b>
Catedral and Rino	A loan for development costs	up to 2,500	250
La Bella	<p>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, 2010 on the inner circle \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 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.</p> <p>On the outer circle under the new agreement \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 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 to the optionee of the outer circle from production thereafter.</p>	2,950	629
Cal Norte	Capital contribution of \$1,800,000 to earn 60% equity interest	1,800	1,552
Tordillo	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.	250	-

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**b) Lease commitments**

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

Year ending	March 31, 2011	September 30, 2010
2011	333	327
2012	166	172
2013	46	72
	545	571
Interest	(27)	(39)
	<b>518</b>	<b>532</b>

**12 Related party transactions**

A company owned by the CEO (who is also a director) billed the Company \$nil for the six month period ended March 31, 2011 (September 2010 - \$26,041) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of \$342,458 as at March 31, 2011 (September 2010 - \$236,577) of which \$286,233 (2010 - \$190,289) is the net amount of non-interest-bearing note receivable and \$56,225 (2010 - \$46,117) are cash advances. The note has been extended to September 30, 2011 and is collateralized by 6,532,000 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed the Company \$34,323 for accounting and administration services rendered for the six month period ended March 31, 2011 (September 2010 - \$40,712). Accounts payable and accrued liabilities include payables to this officer of \$3,986 for such services at March 31, 2011 (2010 - \$5,195).

A law firm of which a director of the Company is a partner billed the Company \$73,776 in the six month period ended March 31, 2011 (2010 - \$178,452) for legal services. Accounts payable and accrued liabilities include \$23,372 and \$70,732 as at March 31, 2011 and September 30, 2010, respectively.

During 2007, the Executive Vice President and Director of Land and Administration, who is also a director of the Company, purchased an interest in the Pimenton notes and royalty from a non-related party. The present value of this note was \$974,918 at March 31, 2011 (2010 - \$974,918) and interest expense was \$24,306 for the six month ended March 31, 2011 (2010 - \$48,746). Accounts payable and accrued liabilities include \$4,140 (2010- \$36,459) for interest and \$74,108 for royalties as at March 31, 2011 (2010 - \$254,979).

Accounts payable and accrued liabilities include \$4,113 and \$36,224 as at March 31, 2011 and September 30, 2010, respectively, for interest due to Executive Vice President - Director of Exploration who is also a director of the Company who holds one of the Pimenton notes. Such Pimenton note has present value amounts of \$968,645 and \$968,645 as at March 31, 2011 and September 30, 2010, respectively, and interest expense was \$24,150 for the six months ended March 31, 2011 (2010 - \$48,432). In addition accounts payable and accrued

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liabilities include \$74,108 and \$254,979 as at March 31, 2011 and September 30, 2010, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine. Also accounts payable include \$9,094 for interest not paid on the Debenture issued to him in 2006 and which were converted on June 9, 2009.

Working capital of \$330,000 was provided between April and July 2010, by Compañía Minera Auromin Ltda owned by the Executive Vice-President of Exploration and a director of the Company. On January 26, 2011 the Company paid in full this amount.

Working capital of \$500,000 was provided in June 2010, by Minera Chañar Blanco S.A. owner by the Executive-Vice President-Director of Claims and Administration and a director of the Company. From December 18, 2010 to February 28, 2011 this amount was paid in full with the warrants exercised.

On April 1, 2010, a Company owned by David Thomson, 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 will 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, 2011 accounts payable and accrued liabilities included \$25,000 related to this contract.

On April 1, 2010 a Company owned by Mr. Mario Hernández, 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 will 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, 2011 accounts payable and accrued liabilities included \$9,167 related to this contract.

The Company made payments and issuances of securities to certain directors and officer. For the six month ended March 31, 2011 the expense were \$17,400 (\$24,706 – 2010).

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 will 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.



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## 13 Financial instruments

### (a) Financial assets and liabilities

The Company's financial instruments at March 31 consist of cash, accounts receivable, accounts payable and accrued liabilities and current and long-term debt.

#### Classification of financial assets and liabilities

Cash is classified as held-for-trading. Accounts receivable arising from sales of metal concentrates are designated and classified as held-for-trading. Held-for-trading financial assets are measured at fair value with mark-to-market gains and losses recorded in earnings in the period they occur. The carrying amounts of cash approximate their fair values. The change in fair values of accounts receivable arising from sales of metal concentrates result from changes in metal market prices to which the related revenues are subject. These changes are recorded in revenue in the period they occur. Accounts receivable not arising from sales of metal concentrates are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

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

The amendments to Section 3862 introduce a 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 December 31, 2010, 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:

Cash	Level 2 \$3,271
Accounts receivable arising from sales of metal concentrates	\$624

At March 31, 2011, 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.

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

At March 31, 2011 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

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

#### **Credit Risk**

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to receivables is remote.

#### **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, 2011, the Company had a positive working capital of approximately \$1,707,000 which included cash of \$3,271,000. At March 31, 2011 the Company's accumulated deficit was approximately \$66,308,000 and shareholders' equity was approximately \$17,293,000.

To preserve its cash position the Company plans to concentrate its efforts on Pimenton.

#### **Sensitivity Analysis**

As of March 31, 2011, 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 twelve- 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 does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

#### **Economic dependence**

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 at March 31, 2011 the Company has sold approximately 59% to a gold refinery in Europe and 41% to Enami to smelter its gold and copper concentrate. Enami is owed by the State of Chile through its ownership of CODELCO. Enami

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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.

## **14 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.

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, 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.

## **15 Comparative amounts**

Certain of the prior period's amounts have been reclassified to conform to the current period consolidated financial statement presentation.

## **16 Subsequent event**

On March 28, 2011 shareholders has approved a reverse split the Company's shares on the basis of ten old shares for one new share and to change the name of the Company South American Gold and Copper Company Limited to "Cerro Grande Mining Corporation. "Cerro Grande Mining Corporation" was listed and posted for trading at the opening on Thursday April 14, 2011."CEG" is the new stock symbol on the TSX for trading Cerro Grande Mining Corporation.

## Directors\* and Officers

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

Toronto, Canada  
*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

### **William Hill\*(1)**

Rock wood, ON, Canada  
*Principal, William Hill Mining Consultants, Ltd.*

### **Richard J. Lachcik\***

Toronto, ON, Canada

### **Fernando Saenz Poch\***

Concepción, Chile

### **Juan A Proaño\***

Potomac, Maryland  
Director of Minera Poderosa S.A.  
a gold mining company located in Peru

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

New York, New York  
Chairman, Givens Hall Bank and Trust Limited

### **John J. Selters\***

Santiago, Chile  
General manager of Magna Energy Chile Ltda.  
Santiago, Chile

### **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

## Corporate Information

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

### **Toronto Stock Exchange**

Stock Symbol: CEG

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### **MacLeod Dixon LLP**

Toronto, Ontario, Canada

Auditors:

### **PricewaterhouseCoopers LLP**

Toronto, Ontario, Canada

Stock Registrar and Transfer Agent

### **Computershare Investor Services**

Toronto, Ontario, Canada