

**CERRO GRANDE MINING CORPORATION**

**Report to Shareholders  
for the  
Second Quarter Ending  
March 31, 2014  
(These statements have not been audited)**

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

**The Company's auditors have not reviewed these condensed interim consolidated  
financial statements for the six month period ended March 31, 2014.**

## **Management's responsibility for financial reporting**

Under National instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The condensed interim unaudited consolidated financial statements and other information in this report were prepared by the management of **Cerro Grande Mining Corporation** and reviewed and approved by the Board of Directors. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Management is responsible for the preparation of the condensed interim consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management has included amounts in the Company's condensed interim consolidated financial statements based on estimates, judgments and policies that it believes reasonable under the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

"Stephen W. Houghton"  
Chief Executive Officer

"Peter W. Hogg"  
Chief Financial Officer

May 15, 2014

**Cerro Grande Mining Corporation**  
**Condensed Interim Consolidated Statements of Financial Position**  
**As At March 31, 2014**  
**(Unaudited)**

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

	<b>March 31</b>	<b>September 30</b>
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	365	53
Accounts receivable (note 4)	1,166	1,126
Recoverable taxes	85	101
Inventory (note 3)	1,288	2,601
	<u>2,904</u>	<u>3,881</u>
<b>Non-current assets</b>		
Receivable from a related party (note 11)	190	196
Mining properties, plant and equipment (note 5)	18,847	19,656
<b>Total assets</b>	<u><u>21,941</u></u>	<u><u>23,733</u></u>
<b>Liabilities and Shareholders' equity</b>		
<b>Current liabilities</b>		
Trade and other payables	2,627	2,449
Payable to related parties (notes 11)	923	432
Current portion of long-term debt (note 6)	783	813
	<u>4,333</u>	<u>3,694</u>
<b>Non-Current liabilities</b>		
Long-term debt (note 6)	1,091	1,879
Due to related parties (notes 11)	2,740	2,585
Reclamation and remediation	2,131	2,113
<b>Total liabilities</b>	<u><u>10,295</u></u>	<u><u>10,271</u></u>
<b>Shareholders' equity</b>		
Share capital (note 7)	81,041	80,256
Warrants (note 8)	211	211
Contributed surplus	7,787	7,781
Convertible unsecured debenture	206	479
Deficit	(77,599)	(75,265)
<b>Total shareholders' equity</b>	<u><u>11,646</u></u>	<u><u>13,462</u></u>
<b>Total liabilities and shareholders' equity</b>	<u><u>21,941</u></u>	<u><u>23,733</u></u>

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman Stephen W. Houghton Director

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

**Cerro Grande Mining Corporation**  
**Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss**  
**For the six months ended March 31, 2014 and 2013**  
**(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, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	4,233	6,199	8,774	12,656
Services	-	126	-	101
	<u>4,233</u>	<u>6,225</u>	<u>8,774</u>	<u>12,757</u>
<b>Expenses</b>				
Operating costs	4,909	5,841	9,699	10,538
Operating costs for services	-	24	-	77
Reclamation and remediation	11	11	22	22
General, sales and administrative	577	910	1,347	1,764
Foreign exchange	(8)	(4)	(58)	39
Interest	(5)	95	90	144
Other gains and losses (net)	(3)	43	6	44
Exploration costs	-	506	2	1,201
	<u>5,481</u>	<u>7,426</u>	<u>11,108</u>	<u>13,829</u>
<b>Loss and comprehensive loss before income taxes</b>	<b>(1,248)</b>	<b>(1,201)</b>	<b>(2,334)</b>	<b>(1,072)</b>
Income tax expense	-	189	-	-
Deferred income tax	-	(70)	-	(122)
<b>Loss and comprehensive loss for the period</b>	<b>(1,248)</b>	<b>(1,082)</b>	<b>(2,334)</b>	<b>(1,194)</b>
<b>Basic and diluted loss per share</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.01)</b>

**Cerro Grande Mining Corporation**

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended March 31, 2014 and 2013

**(Unaudited)**

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>March 31,</u> <u>2014</u> <u>\$</u>	<u>March 31,</u> <u>2013</u> <u>\$</u>	<u>March 31,</u> <u>2014</u> <u>\$</u>	<u>March 31,</u> <u>2013</u> <u>\$</u>
<b>Net loss for the period</b>	(1,248)	(1,082)	(2,334)	(1,194)
Adjustments for:				
Amortization and depreciation	705	614	1,429	1,276
Accretion of interest on long-term debt	13	43	108	73
ARO accretion	4	11	15	22
Foreign exchange gain	(8)	(22)	(58)	(16)
Deferred income tax	-	70	-	122
Stock-based compensation	-	65	6	65
	<u>(534)</u>	<u>(301)</u>	<u>(834)</u>	<u>348</u>
Change in non-cash working capital relating to operations	548	977	1,603	(186)
Net cash provided by operating activities	<u>14</u>	<u>676</u>	<u>769</u>	<u>162</u>
<b>Investing activities</b>				
Additions to mining properties, plant and equipment	(58)	(1,844)	(234)	(2,889)
Net cash (used in) investing activities	<u>(58)</u>	<u>(1,844)</u>	<u>(234)</u>	<u>(2,889)</u>
<b>Financing activities</b>				
Loan from related parties	-	-	134	-
Debt payments	(34)	-	(182)	1,546
Capital leases	(35)	531	(167)	449
Net cash provided by (used in) financing activities	<u>(69)</u>	<u>531</u>	<u>(215)</u>	<u>1,995</u>
<b>Effect of foreign exchange on cash held in foreign currency</b>	<u>(2)</u>	<u>-</u>	<u>(8)</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<u>(115)</u>	<u>(637)</u>	<u>312</u>	<u>(732)</u>
<b>Cash and cash equivalents - Beginning of period</b>	<u>480</u>	<u>1,241</u>	<u>53</u>	<u>1,336</u>
<b>Cash and cash equivalents - End of period</b>	<u><b>365</b></u>	<u><b>604</b></u>	<u><b>365</b></u>	<u><b>604</b></u>

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

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(Unaudited)

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

#### 1. Nature of the Company

Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries is a mining, exploration and development company which produces gold, silver and copper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Toronto Stock Exchange (“TSX”) trading under the symbol “CEG” and on the OTCQX trading under the symbol CEGMF. The Company is domiciled in Canada and the address of its records office is 1 King Street West, Suite 4009 Toronto Ontario M5H 1A1, Canada. The registered office is 200 Bay Street, Suite 3800, Toronto, Ontario M5J 2Z4, Canada.

The company’s only significant subsidiary is Compania Minera Pimenton (Pimenton).

#### 2. Basis of presentation

##### a. *Statements of compliance*

These unaudited condensed interim consolidated financial statements are expressed in thousands of US dollars and have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Standards Board (“IASB”) including IAS34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2013 which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company’s consolidated financial statements for the year ended September 30, 2013 except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective October 1, 2013.

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on October 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. The Company has classified its joint arrangements and

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

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(Unaudited)

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

concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 Disclosure of *Interests in Other Entities*. In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). The Company has adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 will result in incremental disclosures in the annual consolidated financial statements.

IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on October 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at October 1, 2013.

The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective October 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses.

All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 15, 2014.

#### b. *Use of estimates and judgments*

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

The more significant areas requiring the use of management estimates and assumptions relate to future cash flow estimates for asset impairments/reversals, any asset retirement obligation, estimation of useful lives of mining properties, plant and equipment, stock-based compensation and the provision for income taxes and composition of future income tax assets and liabilities. These estimates and judgments have a

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period.

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

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

### 3. Inventory

	<b>March 31, 2014</b>	<b>September 30, 2013</b>
	\$	\$
Ore and concentrate stockpiles	542	1,664
Materials and supplies	746	937
	<b>1,288</b>	<b>2,601</b>

### 4. Accounts receivable

	<b>March 31, 2014</b>	<b>September 30, 2013</b>
	\$	\$
Accounts receivable from customers	403	494
Other sundry receivables	763	632
<b>Total receivables</b>	<b>1,166</b>	<b>1,126</b>



# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended March 31, 2014 and 2013

(Unaudited)

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

### 5. Mining property, plant and equipment

Cost	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	5,767	13,413	20,105	408	39,693
Additions	-	248	353	-	601
Reclamation	-	-	(26)	-	(26)
<b>Balance - March 31, 2014</b>	<b>5,767</b>	<b>13,461</b>	<b>20,332</b>	<b>408</b>	<b>40,268</b>

Accumulated depreciation	Mining property				Total
	Building	Equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	2,822	8,449	8,550	216	20,037
Depreciation and amortization expenses	86	587	699	12	1,384
<b>Balance - March 31, 2014</b>	<b>2,883</b>	<b>8,746</b>	<b>8,906</b>	<b>226</b>	<b>21,421</b>
<b>Net book value as at March 31, 2014</b>	<b>2,884</b>	<b>4,715</b>	<b>11,426</b>	<b>182</b>	<b>18,847</b>

Cost	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2012	5,464	11,900	18,021	365	35,750
Additions	303	1,513	1,748	43	3,607
Disposals	-	-	(8)	-	(8)
Reclamation	-	-	344	-	344
<b>Balance - September 30, 2013</b>	<b>5,767</b>	<b>13,413</b>	<b>20,105</b>	<b>408</b>	<b>39,693</b>

Accumulated depreciation	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2012	2,530	6,429	6,223	177	15,359
Depreciation and amortization expenses	292	1,323	884	39	2,538
Impairment charges **	-	697	1,443	-	2,140
<b>Balance - September 30, 2013</b>	<b>2,822</b>	<b>8,449</b>	<b>8,550</b>	<b>216</b>	<b>20,037</b>

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

<b>Net book value as at September 30, 2013</b>	<b>2,945</b>	<b>4,964</b>	<b>11,555</b>	<b>192</b>	<b>19,656</b>
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\* The Company leases equipment and vehicles under finance lease contracts. As of March 31, 2014, the net carry forward value of leased equipment and vehicles was \$755. (September 2013- \$1,396).

\*\* Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the quarter ended March 31, 2014 there were no indicators of impairment. During the year ended September 30, 2013, there were potential indicators of impairment. The recoverable amount was calculated using the value-in-use method, which is the expected present value of future cash flows from the asset, using a pre-tax discount rate of 10.8%, consequently the Company recorded an impairment charge of \$2,140 related to the Pimenton project, primarily as a result of the decrease in long-term gold and copper prices.

#### 6. Long-term debt

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

Description	Interest rate	March 31,	September 30,
		2014	2013
		Principal	Principal
		\$	\$
C and D debentures (a)	6.00%	335	307
Auromin and Chañar blanco debenture (7 b(ii))	0.00%	97	588
Bice Bank mortgage (b)	5.13%	710	790
Lease	4% -5.2%	732	1,007
Sub total		1,874	2,692
Less: Current portion		(783)	(813)
Long-term debt		1,091	1,879

- a) On April 21, 2010 the Company issued \$300 of convertible unsecured debentures (the "C Debentures"). The maturity date of these debentures is April 21, 2015. The conversion price of the C Debentures is CA\$0.40 per share convertible into up to 782,100 common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition to the C debentures, the Company issued 782,100 common share purchase warrants exercisable for 60 months from the date of issuance at CA\$0.50 per share. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are presented separately in the consolidated statement of financial position. The \$300 face value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determined using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

estimated borrowing rate to the Company of 20%. As a result, the Company had allocated \$112 to equity, \$114 to warrants and \$241 to debt.

On May 11, 2010 the Company issued \$330 of convertible unsecured debentures (the "D Debentures"). The maturity date of these debentures is May 11, 2015. The conversion price of the D Debentures is CA\$0.40 per share convertible up to 826,155 common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition with the D Debenture, the Company issued 826,155 common share purchase warrants per common share exercisable for 60 months from the date of issuance at CA\$0.5 per share. On August 20, 2010 \$230 of the D Debentures were converted into 575,805 common shares. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are presented separately in the consolidated statement of financial position. The value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determine using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.93%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, the Company allocated \$43 to equity, \$97 to warrants and \$80 to debt.

- b) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$941). The mortgage bears interest at a fixed rate of 5.13% per annum. The UF is an inflation based unit of account used in Chile. The mortgage is repayable in monthly installments of principal UF 109 (\$24) and interest until 2026. The mortgage is secured by certain fixed assets with an approximate value of \$1,309.

## 7. 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

	<u>Number of shares</u>	<u>Amount</u>
		\$
Balance – October 1, 2012	94,925,714	78,496
Options exercised 7(c(g))	650,000	118
Options exercised 7(c(h))	725,000	132
Private placement (i)	5,228,076	1,510
Balance – September 30, 2013	<u>101,528,790</u>	<u>80,256</u>
Private placement (ii)	8,500,000	785

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

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(Unaudited)

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

Balance – March 31, 2014	<u>110,028,790</u>	<u>81,041</u>
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- i) On November 15, 2012 the Company issued \$1,568 in convertible unsecured debentures. The maturity date of these debentures is November 15, 2017. The conversion price of the Debentures is CA\$0.30 per share convertible into up to 5,228,076 common shares of the Company. Interest rate on the Debentures is 6% payable quarterly. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component. 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 15%. As a result, the Company has allocated \$474 to equity and \$1,130 to debt, of which \$36 were accreted. The Debentures have been issued in payment of cash advances by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also a director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also a director of the Company. On June 26, 2013 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company elected to convert the \$1,568 convertible unsecured debentures into 5,228,076 common shares at a conversion price of CA\$0.30 per share. These shares were recorded at the carrying amount of the equity and liability components of the debentures on the date of conversion, resulting in an amount of \$1,626 recorded as capital stock.
- ii) On July 30, 2013 the Company issued \$1,010 of convertible unsecured debentures. The maturity date of these debentures is July 30, 2018. The conversion price of the Debentures is CA\$0.10 per share convertible into up to 10,102,114 common shares of the Company. The debentures do not bear interest. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component. The fair value of the liability component was determined by discounting the future interest and principal payments at an estimated borrowing rate to the Company of 12%. As a result, the Company had allocated \$437 to the equity component and \$588 to the liability component. The Debentures have been issued in payment of cash advances made in April and May 2013 by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director of the Company. On December 23, 2013 each of Chañar Blanco and Auromin partially converted the debentures on the basis of 1,000 Common Shares for each \$100 of outstanding principal up to an aggregate of 8,500,000 Common Shares. These shares were value at \$160 using the TSX closing price of CA\$0.02 on December 23, 2013. As a result, the Company allocated \$97 to the liability component, \$52 to the equity component and \$785 to Capital stock. Under the term of the debenture, the maximum amount convertible into Common Shares is such that each do not hold directly or indirectly, more than 19,99% of the issued and outstanding Common Shares of the Company as at the date of conversion.

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

#### c) Share option plan

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

A summary of the Company's Plan at March 31, 2014 is presented as follow:

	<b>Number of options</b>	<b>Weighted average exercise price CAS</b>
Balance – October 1, 2012	7,615,999	0.58
Granted (a)	195,000	0.18
Granted (b)	150,000	0.18
Granted (c)	250,000	0.18
Granted (d)	3,325,000	0.10
Granted (e)	233,953	0.15
Exercised (f)	(650,000)	0.10
Exercised (g)	(725,000)	0.10
Expired	<u>(4,303,953)</u>	0.45/0.90
Balance – September 30, 2013	<u>6,090,999</u>	0.32
Balance – March 31, 2014	<u>6,090,999</u>	0.32

- a) On February 7, 2013 seven employees who are not officers of the Company were granted 195,000 Common Stock Options to replace 195,000 options which expired on January 9, 2013. These new options have a five year life with immediate vesting at a price of CA\$0.18 per share. These options were fair valued at \$32 using the Black –Scholes valuation model, assuming a risk-free rate of 0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation.
- b) On February 7, 2013 150,000 Common Stock Options were granted to an employee who is not an officer of the Company at an exercise price of CA\$0.18 per share, exercisable for a period of five years, 30,000 to vest one year from the date of grant, 30,000 to vest two years from the date of grant, 30,000 to vest three years from the date of grant, 30,000 to vest four years from the date of grant and the balance of 30,000 to vest on the fifth anniversary of the date of grant. These options were fair valued at \$16 using the Black –Scholes valuation model, assuming a risk-free rate of

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

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(Unaudited)

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

0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation over the appropriate period.

- c) On February 7, 2013, 250,000 Common Stock Options were granted to an employee who is an officer of the Company at an exercise price of CA\$0.18 per share, exercisable for a period of five years, 50,000 to vest immediately, 50,000 to vest one year from the date of grant, 50,000 to vest two year from the date of grant, 50,000 to vest three year from the date of grant and the balance of 50,000 to vest on the fourth anniversary of the date of grant. These options were fair valued at \$31 using the Black –Scholes valuation model, assuming a risks-free rate of 0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation over the appropriate period..
- d) The Company renewed 3,325,000 options that were due to expire on March 7, 2013 and on April 2, 2013. The new grant of stock options were issued on April 16, 2013 exercisable at CA\$0.10 per share for a period of five years from the date of issuance with immediate vesting and 3,250,000 options were issued to Directors of the Company and 75,000 options were issued to an employee. These options were fair valued at \$284, using the Black –Scholes valuation model, assuming a risk-free rate of return of 0.58%, no dividend and volatility factor of 146% and expensed as stock-based compensation over the appropriate period.
- e) The Company renewed 233,953 options that were due to expire on April 30, 2013. The new grant of stock options was issued on May 9, 2013 exercisable at CA\$0.15 per share for a period of five years from the date of issuance with immediate vesting and were issued to a Director of the Company. These options were fair valued at \$32, using the Black –Scholes valuation model, assuming a risk-free rate of return of 0.75%, no dividend and volatility factor of 162% and expensed as stock-based compensation.
- f) On May 23, 2013 Mr. Mario Hernández, who is a director of the Company exercised 650,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$118. The carrying amount of \$56 assigned to these options, along with the cash proceeds received, were transferred to share capital.
- g) On June 20, 2013 Mr. David Thomson, who is a director of the Company exercised 650,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$118. The carrying amount of \$56 assigned to these options was transferred to share capital. In addition an employee of the Company exercised 75,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$14. The carrying amount of \$6 assigned to these options, along with the cash proceeds received, were transferred to share capital.

During the periods ended March 31, 2014 and 2013 the Company has recognized a total stock based compensation expense of \$6 and \$65 respectively.

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2014 and 2013**

(Unaudited)

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

Options outstanding as at March 31, 2014 are as follows:

Exercise price CA\$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Options exercisable
0.40-0.60	1,226,046	0.38	0.44	1,211,046
0.35-0.35	1,505,572	1.05	0.35	1,505,572
0.79-0.79	730,428	2.08	0.79	730,428
0.10-0.18	<u>2,628,953</u>	4.01	0.12	<u>2,428,953</u>
0.35-0.90	<u>6,090,999</u>	2.32	0.32	<u>5,875,999</u>

**d) Basic and diluted loss per share as at :**

	March 31, 2014 \$	March 31, 2013 \$
Loss for the period	(2,334)	(1,194)
Weighted average number of shares outstanding	<u>110,028,790</u>	<u>94,925,714</u>
Basic loss per share	<u>(0.02)</u>	<u>(0.01)</u>
Diluted loss per share	<u>(0.02)</u>	<u>(0.01)</u>

The effect of convertible debentures, notes, options and warrants is not included in computing the diluted per share amounts, since in the context of reported losses for the years, such effect would be anti-dilutive.

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2014 and 2013**

(Unaudited)

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

**8. Warrants**

<b>Equity</b>	<b>Number of warrants</b>	<b>\$</b>
Balance – October 1, 2012	1,608,254	211
Balance – September 30, 2013	1,608,254	211
Balance – March 31, 2014	1,608,254	211

The following table summarizes information about the warrants outstanding as at March 31, 2014:

<b>Number of warrants outstanding</b>	<b>Weighted average remaining warrant life (years)</b>	<b>Weighted average exercise price CAS</b>
<u><b>1,608,254</b></u>	<u><b>1.03</b></u>	<u><b>0.50</b></u>

**9. Segment information**

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

- i) Company's mineral properties in Chile
- ii) Corporate offices in Chile and Canada;

The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at March 31, 2014 and 2013, segmented information is presented as follows:



# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

	Six months ended March 31, 2014		
	Pimento	Corporat	Tota
	\$	\$	\$
Sales	8,774	-	8,774
Operating	8,269	-	8,269
Amortization and	1,421	8	1,429
Operating costs -	-	-	-
Reclamation and	22	-	22
General, sales and	782	566	1,348
Foreign	(53)	(5)	(58)
Interes	38	52	90
Other gains and losses	6	-	6
Exploration	-	2	2
Total other expenses	2,216	623	2,839
<b>Loss and other comprehensive loss for the</b>	<b>(1,711)</b>	<b>(623)</b>	<b>(2,334)</b>
<b>Mining property, plant and</b>	<b>17,420</b>	<b>1,427</b>	<b>18,847</b>
<b>Total</b>	<b>19,873</b>	<b>2,078</b>	<b>21,941</b>

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

(Unaudited)

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

	Six months ended March 31, 2013		
	Pimento	Corporat	Tota
	\$	\$	\$
Sales	12,656	-	12,656
Services	101	-	101
Operating	9,176	-	9,176
Amortization and	1,344	18	1,362
Operating costs -	77	-	77
Reclamation and	22	-	22
General, sales and	944	820	1,764
Foreign	45	(6	39
Interes	9	135	144
Other gains and losses	45	(1	44
Exploration	-	1,201	1,201
Income tax	-	-	-
Deferred income	122	-	122
Total other expenses	2,608	2,167	4,775
<b>Income (loss) and other comprehensive income (loss) for the</b>	<b>973</b>	<b>(2,167</b>	<b>(1,194</b>
<b>Mining property, plant and</b>	<b>20,114</b>	<b>1,890</b>	<b>22,004</b>
<b>Total</b>	<b>24,835</b>	<b>2,209</b>	<b>27,044</b>

## 10. Income taxes

Income tax expense is recognized based on management's estimated of the weighted annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended September 30, 2013 and for the six months ended March 31, 2014 was 20%.

## 11. Related party transactions

A company owned by the CEO (who is also a director) billed \$1 to the Company at March 31, 2014 (2013- \$4) in relation to office space and services used by the Company. In addition, the Company has a receivable of \$185 as at March 31, 2014 (2013 - \$214) consisting of \$138 of cash advances, net of salary and travel expenses, and two loans totaling \$47, net of the market value at March 31, 2013 of 653,200 common shares of the Company, owned by him, which collateralizes one of the loans. The cash advances and loans bear no interest rate or specific repayment terms.

# **Cerro Grande Mining Corporation**

## **Notes to the Condensed Interim Consolidated Financial Statements**

### **For the six months ended March 31, 2014 and 2013**

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(Unaudited)

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

A company controlled by the Chief Financial Officer of the Company (the “CFO”) billed \$26 to the Company for accounting and administration services rendered for the six months ended March 31, 2014 (2013 - \$38). Accounts payable and accrued liabilities for \$28 include payables to this officer in relation to such services at March 31, 2014 (2013 - \$15).

A law firm, of which a director of the Company is a partner, billed the Company \$50 for the six months ended March 31, 2014 (2013 - \$76) for legal services. Accounts payable and accrued liabilities include \$74 at March 31, 2014 (2013- \$43).

Accounts payable and accrued liabilities also include \$207 at March 31, 2014 (2013 - \$66) related to royalties due to Mario Hernández, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid \$36 in royalty payments for the six month period ended March 31, 2014 (2013 - \$359). Accounts payable also include \$26 (2013 - \$nil) for interest not paid on the debenture issued on November 15, 2012 and converted on June 26, 2013.

Accounts payable and accrued liabilities include \$207 at March 31, 2014 (2013 - \$66) for royalties due to David Thomson who is the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid \$36 in royalty payments in 2014 (2013 - \$359). Accounts payable also include \$41 (2013 - \$9) for interest not paid on the debenture issued on November 15, 2012 and converted on June 26, 2013 and a debenture issued in 2006 and converted on June 9, 2009.

At the end of July 2013, Pimenton, a subsidiary of the Company entered into a loan agreement of \$3,000 in lieu of repayment of advances provided by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director of the Company. The loan will be paid at the end of a three year term and has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at March 31, 2014 the amount outstanding is \$2,725.

In April 2013, Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company entered into a rent contract with Compañía Minera Pimentón for a Los Andes office. For the six month period ended March 31, 2014 Pimenton has recognized expenses of \$17 (2012 - \$nil).

In October 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rent. As at March 31, 2014, receivables include \$4 from related third parties (2013 – payable \$133).

On June 21, 2011 the board approved a resolution that non-executive directors be paid \$1 per meeting attended. Amounts due to the directors for these director fees as at March 31, 2014 were \$39 (2013 - \$17).

On April 1, 2010, Compañía Minera Auromin Ltda a Company owned by David Thomson, entered into a services contract with the Company for a period of two years, which has been renewed for an additional two year period at the end of each contract term. Under the terms of the contract, the Company will pay Compañía Minera Auromin Ltda \$300 per annum. The services to be provided by Compañía Minera Auromin Ltda. include, seeking new mining projects, performing geological studies and designing drill programs for the

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2014 and 2013

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(Unaudited)

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

Company on exploration projects, conducting preliminary design of the mining plan for designated projects and providing other services related to the exploration and development of mining projects. As of March 31, 2014 accounts payable and accrued liabilities included \$325 related to this contract (2013 - \$25).

On April 1, 2010 Compañía Minera Chañar Blanco S.A a Company owned by Mario Hernández, entered into a services contract with the Company for a period of two years, which has been renewed for an additional two year period at the end of each contract term. Under the terms of the contract, the Company will pay Compañía Minera Chañar Blanco S.A \$110 per year. The services to be provided by Minera Chañar Blanco S.A. include, maintaining title and ownership of mining properties acquired by the Company, acquiring water rights or requesting concessions of water rights on the properties acquired by the Company and negotiating the acquisition of new mining properties for the Company. As of March 31, 2014 accounts payable and accrued liabilities included \$119 related to this contract (2013 - \$9).

On April 1, 2010, the Chief Executive Officer (CEO), and Director of the Company, entered into a management contract for a period of two years, which has been renewed for an additional two year period at the end of each contract term. Under the terms of the contract, the Company will pay the CEO \$110 per year plus truck and medical expenses. As of March 31, 2014 the Corporation has paid \$3 (2013 - \$9) for truck expenses and \$56 (2013- \$55) for salary.

## 12. Subsequent events

- a) In March 2014, Loewen, Ondaatje, McCutcheon Limited, Toronto, Ontario, Canada “LOM” completed a Valuation report for the Company which valued the Company at USD\$ 14,880,000. This report was referred to in an April 14, 2014 press release filed on SEDAR. The LOM valuation may have been performed under different requirements to International Financial Reporting Standards (“IFRS”) and consideration of any impairment under IFRS is under constant monitoring by the Board.
- b) On May 9, 2014 the Municipality of San Esteban, in which the Pimenton Mine and installations are located, ordered the mine shut down because the Mine lacks the proper municipal permit for the plant and camp buildings. The Company has undergone a long process of permitting with the municipality and all other relevant government authorities over a number of years which has resulted in all the appropriate permits being issued, except the final one for the plant and camp buildings which is based, to a large extent, on first receiving other permits or certificates dealing with water use, land use, health and safety and structural calculations, amongst others. The only missing document is the certificate relating to the structural calculations used in the construction of the plant and camp buildings. At this moment, the Company is concentrating its efforts on getting the already completed structural calculations approved by a required third party specialist so that it can be filed with the municipality in order to get the last remaining permit issued. Until such time as this permit is issued, operations at the Pimenton Mine will be on hold. The Company cannot predict how long it will take the municipality to issue the final permit for the mine plant and camp buildings, but it is reasonably confident that it will be done quickly, after which operations at the Pimenton Mine will be restarted.

## Directors\* and Officers

### **Paul J. DesLauriers\*(1),(2),(3),(4)**

Toronto, ON, Canada

*Chairman*

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

### **Stephen W. Houghton\***

Santiago, Chile

*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),(3),(4)**

Rockwood, ON, Canada

*Principal, William Hill Mining Consultants, Ltd.*

### **Richard J. Lachcik\*(3),(4)**

Toronto, ON, Canada

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

Concepción, Chile

### **Juan A Proaño\*(3)**

Washington Crossing,

Pennsylvania, USA

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

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

West Falmouth, Massachusetts, USA

Chairman, Givens Hall Bank and Trust Limited

### **David R. S. Thomson\***

Santiago, Chile

Executive Vice President and Director of  
Exploration

### **Peter W. Hogg**

Toronto, ON, Canada

Chief Financial Officer

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

## Corporate Information

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

### **Toronto Stock Exchange**

Stock Symbol: CEG

### **OTCQX International**

Stock Symbol: CEGMF

### **Registered Office:**

Royal Bank Plaza  
South Tower  
200 Bay street  
Suite 3800  
Toronto, ON M5J 2Z4

### **Toronto Office**

1 King Street West , Suite 4009  
Toronto, Ontario M5H 1A1, Canada

### **Santiago Office:**

Av. Santa María 2224  
Providencia, Santiago, Chile  
Telephone: 56-2-569-6200

Solicitors:

### **Norton Rose Fulbright LLP**

Toronto, Ontario, Canada

Auditors:

### **KPMG LLP**

Toronto, Ontario, Canada

Stock Registrar and Transfer Agent

### **Computershare Investor Services**

Toronto, Ontario, Canada

**Cerro Grande Mining Corporation**

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the six months ended March 31, 2014 and 2013

(Unaudited)

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

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	<i>Share capital (note 7 (b))</i>	<i>Warrants (note 8)</i>	<i>Contributed surplus</i>	<i>Convertible unsecured debenture</i>	<i>Deficit</i>	<i>Total equity</i>
<b>Balance - October 1, 2012</b>	<b>78,496</b>	<b>211</b>	<b>7,493</b>	<b>154</b>	<b>(69,045)</b>	<b>17,309</b>
Convertible unsecured debenture	-	-	-	474	-	474
Share-based compensation	-	-	65	-	-	65
Net loss	-	-	-	-	(1,194)	(1,194)
<b>Balance - March 31, 2013</b>	<b>78,496</b>	<b>211</b>	<b>7,558</b>	<b>628</b>	<b>(70,239)</b>	<b>16,654</b>
<b>Balance - October 1, 2013</b>	<b>80,256</b>	<b>211</b>	<b>7,781</b>	<b>479</b>	<b>(75,265)</b>	<b>13,462</b>
Convertible unsecured debenture	785	-	-	(273)	-	512
Share-based compensation	-	-	6	-	-	6
Net loss	-	-	-	-	(2,334)	(2,334)
<b>Balance - March 31, 2014</b>	<b>81,041</b>	<b>211</b>	<b>7,787</b>	<b>206</b>	<b>(77,599)</b>	<b>11,646</b>

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