

**CERRO GRANDE MINING CORPORATION**

**Report to Shareholders  
for the  
Second Quarter Ending  
March 31, 2015  
(These statements have not been audited)**

**Listed on the Canadian Securities Exchange  
Symbol: CEG  
and  
The OTCQB International  
Symbol: CEGMF**

**The Company's auditors have not reviewed these condensed interim consolidated  
financial statements for the six month period ended March 31, 2015.**

## **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**, reviewed by the Audit Committee of the Board of Directors 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 29, 2015

**Cerro Grande Mining Corporation**  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Unaudited)**

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

	<b>March 31</b>	<b>September 30</b>
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	45	87
Accounts receivable (Note 4)	954	1,265
Recoverable taxes	184	649
Inventory (Note 3)	896	1,060
	<b>2,079</b>	<b>3,061</b>
<b>Non-current assets</b>		
Receivable from a related party (Note 11)	212	210
Fixed assets, plant and equipment (Note 5)	16,855	17,118
	<b>17,067</b>	<b>17,328</b>
<b>Total assets</b>	<b>19,146</b>	<b>20,389</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade and other payables	2,247	2,693
Due to related parties (Note 11)	1,685	2,383
Current portion of long-term debt (Note 6)	833	732
	<b>4,765</b>	<b>5,808</b>
<b>Non-Current liabilities</b>		
Long-term debt (Note 6)	630	855
Due to related parties (Note 11)	3,000	3,000
Reclamation and remediation	1,908	1,868
	<b>5,538</b>	<b>5,723</b>
<b>Total liabilities</b>	<b>10,303</b>	<b>11,531</b>
<b>Shareholders' equity</b>		
Share capital (Note 7)	84,026	81,163
Warrants (Note 8)	211	211
Contributed surplus	7,779	7,779
Convertible unsecured debenture	86	117
Deficit	(83,259)	(80,412)
<b>Total shareholders' equity</b>	<b>8,843</b>	<b>8,858</b>
<b>Total liabilities and shareholders' equity</b>	<b>19,146</b>	<b>20,389</b>

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, 2015 and 2014**  
**(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>March 31,</b>	<b>March 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Sales	2,381	4,233	4,845	8,774
Services	-	-	-	-
	<u>2,381</u>	<u>4,233</u>	<u>4,845</u>	<u>8,774</u>
<b>Expenses</b>				
Operating costs	3,203	4,909	6,508	9,699
Operating costs for services	-	-	-	-
Reclamation and remediation	6	11	13	22
General, sales and administrative	557	577	1,172	1,347
Foreign exchange	(39)	(8)	(59)	(58)
Interest	52	(5)	105	90
Other gains and losses (net)	(26)	(3)	(48)	6
Exploration costs	-	-	-	2
	<u>3,753</u>	<u>5,481</u>	<u>7,692</u>	<u>11,108</u>
<b>Loss and comprehensive loss before income taxes</b>	<b>(1,372)</b>	<b>(1,248)</b>	<b>(2,847)</b>	<b>(2,334)</b>
Income tax (expense)/recovery	-	-	-	-
Deferred income tax	-	-	-	-
<b>Loss and comprehensive loss for the period</b>	<b><u>(1,372)</u></b>	<b><u>(1,248)</u></b>	<b><u>(2,847)</u></b>	<b><u>(2,334)</u></b>
<b>Basic and diluted loss per share</b>	<b><u>(0.01)</u></b>	<b><u>(0.01)</u></b>	<b><u>(0.02)</u></b>	<b><u>(0.02)</u></b>

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

**Cerro Grande Mining Corporation**Condensed Interim Consolidated Statement of Changes in Shareholders' Equity  
For the six months ended March 31, 2015 and 2014

(Unaudited)

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

	Share capital	Warrants	Contributed surplus	Convertible unsecured debentures	Deficit	Total equity
Balance - October 1, 2013	80,256	211	7,781	479	(75,265)	13,462
Convertible unsecured debenture	785	-	-	(273)	-	512
Share-based compensation	-	-	6	-	-	6
Net income	-	-	-	-	(2,334)	(2,334)
Balance - March 31, 2014	81,041	211	7,787	206	(77,599)	11,646
Balance - October 1, 2014	81,163	211	7,779	117	(80,412)	8,858
Convertible unsecured debenture	-	-	-	(31)	-	(31)
Share-based compensation	-	-	-	-	-	-
Private placements	2,863	-	-	-	-	2,863
Net income	-	-	-	-	(2,847)	(2,847)
Balance - March, 2015	84,026	211	7,779	86	(83,259)	8,843

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

## Cerro Grande Mining Corporation

Condensed Interim Consolidated Statements of Cash Flows  
For the six months ended March 31, 2015 and 2014  
(Unaudited)

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

	Three months ended		Six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
	\$	\$	\$	\$
<b>Net loss for the period</b>	(1,372)	(1,248)	(2,847)	(2,334)
<b>Non-Cash items:</b>				
Amortization and depreciation	615	705	1,217	1,429
Accretion of interest on long-term debt	52	13	105	108
ARO accretion	-	4	-	15
Foreign exchange gain	(39)	(8)	(59)	(58)
Gain on disposal of assets	-	-	-	-
Deferred income tax	-	-	-	-
Stock-based compensation	-	-	-	6
	(744)	(534)	(1,584)	(834)
Change in non-cash working capital relating to operations	340	548	950	1,603
<b>Net cash provided/(used) by operating activities</b>	(404)	14	(634)	769
<b>Investing activities</b>				
Additions to mining properties, plant and equipment	(43)	(58)	(86)	(234)
<b>Net cash provided/(used) in investing activities</b>	(43)	(58)	(86)	(234)
<b>Financing activities</b>				
Loan from related parties	358	-	790	134
Debt payment	-	(34)	-	(182)
Gold loan	-	-	100	-
Capital leases	(111)	(35)	(212)	(167)
	247	(69)	678	(215)
<b>Effect of foreign exchange on cash held in foreign currency</b>	-	(2)	-	(8)
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(200)	(115)	(42)	312
<b>Cash and cash equivalents - Beginning of period</b>	245	480	87	53
<b>Cash and cash equivalents - End of period</b>	<b>45</b>	<b>365</b>	<b>45</b>	<b>365</b>

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2015 and 2014

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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 Canadian Securities Exchange (“CSE”) trading under the symbol “CEG” and on the OTCQB 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 Royal Bank Plaza, South Tower, 200 Bay Street Suite 3800, Toronto, ON M5J 2Z4, Canada.

The company’s only significant subsidiary is Compañía Minera Pimentón (Pimentón).

These consolidated financial statements have been prepared on a basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2015, the Company has a negative working capital of \$2,686 (September 30, 2014 – negative \$2,747).

While the Company has operations generating revenue it continues to be reliant on financing from related parties to finance its operations and working capital. The Company continues to seek to reduce operating costs, the certainty of future profitability expectations and availability of sources of additional financing if required in the future cannot be assured at this time and accordingly, these material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern and those adjustments may be material.

#### 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, 2014 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, 2014 except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective October 1, 2014.

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2015 and 2014

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(Unaudited)

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

IFRIC 21 Levies (“IFRIC 21”) was issued in May 2013 and is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. There was no impact on the Company’s financial statements upon adoption of IFRIC 21 on October 1, 2014.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) was issued to clarify the principles for recognizing revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. There was no impact on the Company’s financial statements upon adoption of IFRS 15 on October 1, 2014.

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 Director on February 27, 2015.

#### *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 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.



**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2015 and 2014**

(Unaudited)

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

**3. Inventory**

	<b>March 31, 2015</b>	<b>September 30, 2014</b>
	<b>\$</b>	<b>\$</b>
Ore and concentrate stockpiles	262	405
Materials and supplies	634	655
	<b>896</b>	<b>1,060</b>

**4. Accounts receivable**

	<b>March 31, 2015</b>	<b>September 30, 2014</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable from customers	214	628
Advances and other sundry receivables	740	637
<b>Total receivables</b>	<b>954</b>	<b>1,265</b>

**5. Mining property, plant and equipment**

<b>Cost</b>	<b>Building</b>	<b>Plant &amp; equipment *</b>	<b>Mining property development</b>	<b>Others</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance - October 1, 2014	5,769	13,556	19,859	657	39,841
Additions	2	84	-	373	459
Disposals	-	-	-	-	-
Changes in reclamation and remediation liability	-	-	-	-	-
<b>Balance - March 31, 2015</b>	<b>5,771</b>	<b>13,640</b>	<b>19,859</b>	<b>1,030</b>	<b>40,300</b>

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2015 and 2014**

(Unaudited)

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

<b>Accumulated depreciation</b>	<b>Building</b>	<b>Plant &amp; equipment</b>	<b>Mining property development</b>	<b>Others</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance - October 1, 2014	3,305	9,465	9,737	216	22,723
Depreciation and amortization expenses	122	600	-	-	722
<b>Balance - March 31, 2015</b>	<b>3,427</b>	<b>10,065</b>	<b>9,737</b>	<b>216</b>	<b>23,445</b>
<b>Net book value as at March 31, 2015</b>	<b>2,344</b>	<b>3,575</b>	<b>10,122</b>	<b>814</b>	<b>16,855</b>

<b>Cost</b>	<b>Building</b>	<b>Plant &amp; equipment *</b>	<b>Mining property development</b>	<b>Others</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance - October 1, 2013	5,767	13,413	20,105	408	39,693
Additions	-	248	353	-	601
Reclamationn	-	-	(26)	-	(26)
<b>Balance - March 31, 2014</b>	<b>5,767</b>	<b>13,661</b>	<b>20,432</b>	<b>408</b>	<b>40,268</b>

<b>Accumulated depreciation</b>	<b>Building</b>	<b>Plant &amp; equipment *</b>	<b>Mining property development</b>	<b>Others</b>	<b>Total</b>
	\$	\$	\$	\$	\$
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>2,908</b>	<b>9,036</b>	<b>9,249</b>	<b>228</b>	<b>21,421</b>
<b>Net book value as at March 31, 2014</b>	<b>2,859</b>	<b>4,625</b>	<b>11,183</b>	<b>180</b>	<b>18,847</b>

\* The Company leases equipment and vehicles under finance lease contracts. As of March 31, 2015, the net book values of leased equipment and vehicles were \$211 and \$81, respectively. (2014- \$887 and \$509). During 2015, the Company did not acquire equipment under finance leases.

\*\* Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the period ended March 31, 2015 there was no indication of impairment. During the year ended September 30, 2013 the Company recorded an impairment charge of \$2,140 related to the Pimenton project, primarily as a result of the decrease in the future gold and copper price.

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2015 and 2014**

(Unaudited)

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

**6. Long-term debt**

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

Description	Interest rate	March 31,	September 30,
		2015	2014
		Principal	Principal
		\$	\$
C and D debentures (a)	6.00%	361	361
Auromin and Chañar Blanco debenture (b)	0.00%	160	107
Bice Bank mortgage (c)	5.13%	599	640
Gold Loan debenture (d)	10.00%	100	-
Finance Leases	4% -5.2%	243	479
Sub total		1,463	1,587
Less: Current portion		(833)	(732)
Long-term debt		630	855

- a) On April 21, 2010 the Company issued \$300 of convertible unsecured debentures (the “C Debentures”). The maturity date of these debentures was 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 with the C Debenture, 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 separately presented 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 estimated borrowing rate to the Company of 20%. As a result, the Company had allocated \$112 to equity (2014 - \$112), \$114 to warrants (2014 - \$114) and \$271 to debt (2014 - \$271).

On May 11, 2010 the Company issued \$330 of convertible unsecured debentures (the “D Debentures”). The maturity date of these debentures was May 11, 2015. The conversion price of the D Debentures is CA\$0.40 per share convertible into 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

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2015 and 2014

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(Unaudited)

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

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 separately presented 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 determined 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 (2014 - \$43), \$97 to warrants (2014 - \$97) and \$90 to debt (2014 - \$90).

- b) 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. In the month of December 2013 the equivalent of \$ 850 were exercised and converted into 8,500,000 common shares. This resulted in the reclassification of \$518 from long-term debt and \$362 from the equity component of convertible debentures to share capital. At September 30, 2014 the carrying value classified within long-term debt is \$107 and within the equity component of convertible debentures is \$65. The Debentures had 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. Under the term of the debentures, the maximum amount convertible into Common Shares is such that each of Hernandez and Thomson 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 and therefore \$160 remain as convertible unsecured debentures.
- c) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$790). 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 (\$4) and interest until 2027. The mortgage is secured by certain fixed assets with an approximate value of \$1,230.
- d) On November 5, 2014 the company issued a Debenture for \$100 with a maturity date of November 5, 2017 related to a “Gold Loan” agreed to by the parties for an equivalent amount. The debenture bears a fixed annual interest rate of 10% on the outstanding principal amount and is payable on a quarterly basis on the 5<sup>th</sup> day of February, May, August and November of each year. The payment of the principal is semi-annually on May 6 and November 6 of each year plus the difference in the average gold price per ounce in excess of US\$ 1.057 per ounce calculated on 15.77 ounces of gold.

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2015 and 2014**

(Unaudited)

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

**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**

	<b>Number of shares</b>	<b>Amount</b>
		\$
Balance – October 1, 2013	101,528,790	80,256
Private placement (i)	8,500,000	880
Options exercised 9(c)(i)	60,000	2
Private placement (ii)	500,000	25
Balance – September 30, 2014	110,588,790	81,163
Private placement (iii)	15,743,000	700
Private placement (iv)	48,645,220	2,163
Balance – March 31, 2015	174,977,010	84,026

- i) 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. As a result, \$511 of debt was extinguished and \$880 was credited to Common Shares.
- ii) On July 17, 2014 the Company entered a Corporate Advisories Agreement with Westmount Capital. A Swiss Public Relations and Investor Relations Advisory Firm, for a Private Placement by the way of a Gold Loan with a nominal value of \$ 2,500 whereby Cerro Grande agreed to pay Westmount a one-time retainer fee of 500,000 common shares at a price of CAD \$0.05.
- iii) On October 24, 2014 Mr. David Thomson and Mr. Mario Hernandez, both officers and directors of the Company, through their respective companies have (i) Suscribed to a Private Placement of units of the Company for cash proceeds of US\$700 (the “Placement”), and (ii) agreed to extinguish certain outstanding indebtedness owed to the Directors by receipt of common shares of

# Cerro Grande Mining Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the six months ended March 31, 2015 and 2014

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(Unaudited)

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

the Company (each, a “Common Share”) in settlement of such debt (the “Debt Settlement”). The Private Placement and Debt Settlement has been completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing, and with a view of setting the Company on firm financial ground to carry out its mining business in Chile in the future.

Pursuant to the Private Placement the Company has issued an aggregate of 15,743,000 units of securities of the Company (each, a “Unit”) at CDN\$0.05 per Unit, with each Unit comprising one Common Share and one Common Share purchase warrant (each, a “Warrant”), with each Warrant exercisable for a period of 5 years to purchase one Common Share at CDN\$0.07. Proceeds of the Placement are expected to be used for general working capital purposes, including, but not limited to, corporate and administrative purposes.

- iv) Pursuant to the Debt Settlement, the Company has extinguished, during the first quarter of 2015, outstanding indebtedness in the aggregate amount of US\$2,163, owed to these Directors, such indebtedness being made up of accrued but unpaid royalty payments, service fees owed to the Directors and cash advances made to the Company by the Directors and interest thereon, by issuing an aggregate of 48,645,220 Common Shares (representing an issue price of CDN\$0.05 per share) in full and final settlement thereof. All dollar amounts have been converted at an exchange rate of CND\$1.1245 per US\$1.00.

#### **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 for each award granted under the plans at its discretion.

A summary of the Company’s Plan at March 31, 2015 is presented as follow:

**Cerro Grande Mining Corporation**  
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(Unaudited)

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

	Number of options	Weighted average exercise price CA\$
Balance – October 1, 2013	6,090,999	0.58
Expired	(426,047)	0.43
Granted (a)	60,000	0.03
Exercised (a)	(60,000)	0.03
Balance – September 30, 2014	<u>5,664,952</u>	0.32
Balance – March 31, 2015	<u>5,664,952</u>	0.32

i) On June 25, 2014 a former employee exercised 60,000 options granted on January 31, 2014 at a price of CA\$ 0.03 per share for net proceeds of \$2. The carrying amount of \$2 assigned to these options was transferred to share capital.

ii)

During the three month period ended March 31, 2015 and 2014 the Company recognized total stock based compensation expense of \$nil and \$6 respectively.

Options outstanding as at March 31, 2015 are as follows:

Exercise price CA\$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Options exercisable
0.10 - 0.30	4,134,524	2.04	0.20	4,134,524
0.31 - 0.50	800,000	0.01	0.44	800,000
0.51 - 0.84	<u>730,428</u>	0.88	0.84	<u>730,428</u>
	<u>5,664,952</u>	1.55	0.32	<u>5,664,952</u>

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**8. Warrants**

Equity	Number of warrants	\$
Balance – September 30, 2014	1,608,254	211
Balance – March 31, 2015	1,608,254	211

The following table summarizes information about the warrants outstanding as at March 31, 2015:

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price  CA\$
<u>1,608,254</u>	<u>0.05</u>	<u>0.5</u>
<u>15,743,000</u>	<u>4.42</u>	<u>0.07</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;



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The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at March 31, 2015 and 2014, segmented information is presented as follows:

	<b>Six months ended March 31, 2015</b>		
	<b>Pimenton</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales revenue	4,845	-	4,845
Operating costs	-	-	-
Amortization and depreciation	1,207	10	1,217
Operating costs - services	5,205	-	5,205
Reclamation and remediation	13	-	13
General, sales and administrative	542	630	1,172
Foreign exchange	(57)	(2)	(59)
Interest	86	19	105
Other gains and losses (net)	3	(52)	(49)
Exploration costs	-	87	87
Income tax recovery	-	-	-
Total other income expenses (income)	6,999	692	7,691
<b>Loss and other comprehensive loss for the year</b>	<b>(2,154)</b>	<b>(692)</b>	<b>(2,847)</b>
<b>Mining property, plant and equipment</b>	<b>14,457</b>	<b>2,398</b>	<b>16,855</b>
<b>Total assets</b>	<b>16,891</b>	<b>2,255</b>	<b>19,146</b>

**Cerro Grande Mining Corporation**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2015 and 2014**

(Unaudited)

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

	<b>Six months ended March 31, 2014</b>		
	<b>Pimenton</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales revenue	8,774	-	8,774
Operating costs	8,269	-	8,269
Amortization and depreciation	1,421	8	1,429
Operating costs - services	-	-	-
Reclamation and remediation	22	-	22
General, sales and administrative	782	566	1,348
Foreign exchange	(53)	(5)	(58)
Interest	38	52	90
Other gains and losses (net)	6	-	6
Exploration costs	-	-	-
Income tax recovery	-	2	2
<b>Total other income expenses (income)</b>	<b>2,216</b>	<b>623</b>	<b>2,839</b>
<b>Loss and other comprehensive loss for the year</b>	<b>(1,711)</b>	<b>(623)</b>	<b>(2,334)</b>
<b>Mining property, plant and equipment</b>	<b>17,420</b>	<b>1,427</b>	<b>18,847</b>
<b>Total assets</b>	<b>19,873</b>	<b>2,078</b>	<b>21,951</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, 2014 and for the three months ended December 31, 2014 was 20%.

**11. Related party transactions**

A company owned by the CEO (who is also a director) billed \$nil to the Company at March 31, 2015 (2014- \$1) in relation to office space and services used by the Company. In addition, the Company has a receivable of \$203 (2014 - \$185) consisting of \$163 (2014 - \$138) of cash advances, net of salary and travel expenses, and two loans totaling \$40 (2014 - \$47), net of the market value at March 31, 2015 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, 2015 and 2014**

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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 \$31 to the Company for accounting and administration services rendered at March 31, 2015 (2014 - \$26). Accounts payable and accrued liabilities include \$28 in relation to such services at March 31, 2014 (2014 - \$28).

A law firm, of which a director of the Company is a partner, billed the Company \$63 at March 31, 2015 (2014 - \$50) for legal services. Accounts payable and accrued liabilities include \$109 at March 31, 2014 (2014- \$74).

Accounts payable and accrued liabilities include \$ 138 at March 31, 2015 (2014 - \$207) for 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. Amounts payable to related parties also include cash advances and salaries due of \$432 at March 31, 2015 (2014 - \$26).

Accounts payable and accrued liabilities include \$138 at March 31, 2014 (2014 - \$207) for royalties due to David Thomson, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Amounts payable to related parties also include cash advances and salaries due of \$ 564 at March 31, 2015 (2014 - \$41).

In 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 which will be paid at the end of a three year term, has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at September 30, 2014 the amount due is \$3,000. As of March 31, 2015 there is a total of \$74 (2014 - \$nil) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda. The amount outstanding as of this date is USD 3,000.

In October 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rental. In the year ended September 30, 2014 Pimenton recognized revenue of \$nil (2013 - \$101). For the three month period ended March 31, 2015 there is no revenue or payment.

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, 2015 were \$85 (2014 - \$39).

## 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)**

Rock wood, 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)

### **Canadian Securities Exchange**

Stock Symbol: CEG

### **OTCQB International**

Stock Symbol: CEGMF

### **Registered Office:**

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### **Santiago Office:**

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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