# CERRO GRANDE MINING CORPORATION

**Report to Shareholders**
**for the**
**Third Quarter Ending**
**June 30, 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 nine month period ended June 30, 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" | "Peter W. Hogg" |
| Chief Executive Officer | Chief Financial Officer |

August 14, 2014

**Cerro Grande Mining Corporation**
**Condensed Interim Consolidated Statements of Financial Position**
**As At June 30, 2014**
**(Unaudited)**

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

| | June 30 2014 | September 30 2013 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 104 | 53 |
| Accounts receivable (note 4) | 1,096 | 1,126 |
| Recoverable taxes | 68 | 101 |
| Inventory (note 3) | 1,148 | 2,601 |
| | 2,416 | 3,881 |
| **Non-current assets** | | |
| Receivable from a related party (note 11) | 190 | 196 |
| Mining properties, plant and equipment (note 5) | 18,722 | 19,656 |
| **Total assets** | 21,328 | 23,733 |
| **Liabilities & Shareholders Equity** | | |
| **Current liabilities** | | |
| Trade and other payables | 3,037 | 2,449 |
| Payable to related parties (notes 11) | 1,209 | 432 |
| Current portion of long-term debt (note 6) | 432 | 813 |
| | 4,678 | 3,694 |
| **Non-current liabilities** | | |
| Long-term debt (note 6) | 1,317 | 1,879 |
| Due to related parties (notes 11) | 2,728 | 2,585 |
| Reclamation and remediation | 2,164 | 2,113 |
| **Total liabilities** | 10,887 | 10,271 |
| Shareholders' equity | | |
| Share capital (note 7) | 81,043 | 80,256 |
| Warrants (note 8) | 211 | 211 |
| Contributed surplus | 7,781 | 7,781 |
| Convertible unsecured debenture | 477 | 479 |
| Deficit | (79,071) | (75,265) |
| **Total shareholders' equity** | 10,441 | 13,462 |
| **Total liabilities and shareholders' equity** | 21,328 | 23,733 |

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 statement

**Cerro Grande Mining Corporation**
**Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss**
**For the nine months ended June 30, 2014 and 2013**
**(Unaudited)**

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| **Revenue** | $ | $ | $ | $ |
| Sales | 2,223 | 2,423 | 11,257 | 15,079 |
| Services | - | - | - | 101 |
| | 2,223 | 2,423 | 11,257 | 15,180 |
| **Expenses** | | | | |
| Operating costs | 3,355 | 4,384 | 12,960 | 14,922 |
| Operating costs for services | - | 8 | - | 85 |
| Reclamation and remediation | 10 | 10 | 20 | 32 |
| General, sales and administrative | 378 | 1,206 | 1,862 | 2,970 |
| Foreign exchange | 15 | (73) | (74) | (34) |
| Interest | 42 | 91 | 238 | 235 |
| Other gains and losses (net) | 14 | (865) | (56) | (821) |
| Impairment charges | - | 2,140 | - | 2,140 |
| Exploration costs | - | (96) | 190 | 1,105 |
| | 3,814 | 6,805 | 15,140 | 20,634 |
| **Loss and comprehensive loss before income taxes** | (1,591) | (4,382) | (3,883) | (5,454) |
| Income tax expense | 77 | (158) | 77 | (158) |
| Deferred income tax | - | 392 | - | 270 |
| **Loss and comprehensive loss for the period** | (1,514) | (4,148) | (3,806) | (5,342) |
| Basic and diluted loss per share (note 7(d)) | ( 0.02) | ( 0.05) | ( 0.03) | ( 0.06) |

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

**Cerro Grande Mining Corporation**
Condensed Interim Statement of Changes in Shareholders' Equity
For the nine months ended June 30, 2014 and 2013

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

| | Share capital (note 7 (b)) | Warrants (note 8) | Contributed surplus | Convertible unsecured debenture | Deficit | Total equity |
|---|---|---|---|---|---|---|
| Balance - October 1, 2012 | 78,496 | 211 | 7,493 | 154 | (69,045) | 17,309 |
| | | | | | | |
| Convertible unsecured debenture | 375 | 0 | 384 | 0 | 0 | 759 |
| Share-based compensation | 250 | 0 | 278 | 0 | 0 | 528 |
| Net loss | 0 | 0 | 0 | 0 | (5,342) | (5,342) |
| Balance - June 30, 2013 | 79,121 | 211 | 8,155 | 154 | (74,387) | 13,254 |
| | | | | | | |
| Balance - October 1, 2013 | 80,256 | 211 | 7,781 | 479 | (75,265) | 13,462 |
| | | | | | | |
| Convertible unsecured debenture | 785 | 0 | 0 | (8) | 0 | 777 |
| Share-based compensation | 2 | 0 | 6 | 0 | 0 | 8 |
| Net loss | 0 | 0 | 0 | 0 | (3,806) | (3,806) |
| Balance - June 30, 2014 | 81,043 | 211 | 7,787 | 471 | (79,071) | 10,441 |

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

**Cerro Grande Mining Corporation**
Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended June 30, 2014 and 2013
**(Unaudited)**

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| | $ | $ | $ | $ |
| **Net loss for the period** | (1,514) | (4,148) | (3,806) | (5,342) |
| Non-cash items: | | | | |
| Amortization, depreciation and impairment | 364 | 2,721 | 1,988 | 3,997 |
| Accretion of interest on long-term debt | 27 | 161 | 135 | 234 |
| ARO accretion | 4 | 10 | 19 | 32 |
| Foreign exchange gain | (16) | 33 | (74) | 17 |
| Debentures exercised | - | (868) | - | (868) |
| Deferred income tax | - | (392) | - | (270) |
| Stock-based compensation | 2 | 261 | 8 | 326 |
| | (1,133) | (2,222) | (1,730) | (1,874) |
| Change in non-cash working capital relating to operations | 818 | (659) | 1,850 | (845) |
| | (315) | (2.881) | 120 | (2,719) |
| **Investing activities** | | | | |
| Additions to mining properties, plant and equipment | 34 | (451) | 134 | (3,340) |
| | 34 | (451) | 134 | (3,340) |
| **Financing activities** | | | | |
| Shares issued | - | 1,701 | - | 1,701 |
| Debt payment | - | (1,673) | (182) | (127) |
| Loan from related parties | 62 | 2,816 | 196 | 2,816 |
| Capital leases | (40) | 175 | (207) | 624 |
| | 22 | 3,019 | (193) | 5,014 |
| **Effect of foreign exchange on cash held in foreign currency** | (2) | - | (10) | - |
| **Increase (decrease) in cash and cash equivalents during the period** | (261) | (313) | 51 | (1,045) |
| **Cash and cash equivalents - Beginning of period** | 365 | 604 | 53 | 1,336 |
| **Cash and cash equivalents - End of period** | **104** | **291** | **104** | **291** |

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

## 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. On July 28, the Company was advised by the TSX that the Continued Listing Committee of the TSX had decided to delist the Company effective August 25. The Company is applying for listing on the Canadian Securities Exchange. (See Subsequent Events Note 12(b)) 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 Companía Minera Pimenton (Pimenton).

These condensed interim 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 June 30, 2014, the Company had a working capital deficit of $2,262.

While the Company has operations generating revenue, in the last nine month period it has not achieved profitable operations and incurred a net loss of $3,806 and a negative operating cash flow of $1,818 in the nine month period ended June 30, 2014 and has been reliant on debt financing from third parties and related parties to finance its operations and working capital. While the Company is seeking 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 uncertainties may cast a 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.

## 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 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 August 14, 2014.

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

*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.

## 3. Inventory

| | **June 30, 2014** | **September 30, 2013** |
|---|---|---|
| | **$** | **$** |
| Ore and concentrate stockpiles | 400 | 1,664 |
| Materials and supplies | 748 | 937 |
| | **1,148** | **2,601** |

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

## 4. Accounts receivable

| | June 30, 2014 | September 30, 2013 |
|---|---|---|
| | $ | $ |
| Accounts receivable from customers | 65 | 494 |
| Other sundry receivables | 1,031 | 632 |
| **Total receivables** | **1,096** | **1,126** |

## 5. Mining property, plant and equipment

| Cost | Building | Plant & equipment * | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance - October 1, 2013 | 5,767 | 13,413 | 20,105 | 408 | 39,693 |
| Additions | 2 | 130 | 437 | - | 569 |
| Reclamtion | - | - | (30) | - | (30) |
| **Balance - June 30, 2014** | **5,769** | **13,543** | **20,512** | **408** | **40,232** |

| Accumulated depreciation | Building | Plant & equipment | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance - October 1, 2013 | 2,822 | 8,449 | 8,55 | 216 | 20,037 |
| Depreciation and amortization expenses | 183 | 924 | 356 | 10 | 1,473 |
| **Balance - June 30, 2014** | **3,005** | **9,373** | **8,906** | **226** | **21,510** |
| **Net book value as at June 30, 2014** | **2,764** | **4,170** | **11,606** | **182** | **18,722** |

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

| **Cost** | **Building** | **Plant & equipment *** | **Mining property development** | **Others** | **Total** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| 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) |
| Reclamtion | - | - | 344 | - | 344 |
| **Balance - September 30, 2013** | **5,767** | **13,413** | **20,105** | **408** | **39,693** |

| **Accumulated depreciation** | **Building** | **Plant & equipment *** | **Mining property development** | **Others** | **Total** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| 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 |
| **Balance - September 30, 2013** | **2,822** | **8,449** | **8,550** | **216** | **20,037** |
| **Net book value as at September 30, 2013** | **2,945** | **4,964** | **11,555** | **192** | **19,656** |

* The Company leases equipment and vehicles under finance lease contracts. As of June 30, 2014, the net carry forward value of leased equipment and vehicles was $624. (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 June 30, 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.

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

## 6. Long-term debt

| Description | Interest rate | June 30, 2014 Principal $ | September 30, 2013 Principal $ |
|---|---|---|---|
| C and D debentures (a) | 6.00% | 321 | 307 |
| Auromin and Chañar blanco debenture (b) | 0.00% | 97 | 588 |
| Bice Bank mortgage (c) | 5.13% | 708 | 790 |
| Lease | 4% -5.2% | 624 | 1,007 |
| Sub total | | 1,749 | 2,692 |
| Less: Current portion | | (432) | (813) |
| Long-term debt | | 1,317 | 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 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.

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

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

| | Number of shares | Amount |
|---|---|---|
| | | $ |
| Balance – October 1, 2012 | 94,925,714 | 78,496 |
| Options exercised 8(c(g)) | 650,000 | 118 |
| Options exercised 8(c(g)) | 725,000 | 132 |
| Private placement (i) | 5,228,076 | 1,510 |
| Balance – September 30, 2013 | 101,528,790 | 80,256 |
| Private placement (i) | 8,500,000 | 785 |
| Options exercised 8(h) | 60,000 | 2 |
| Balance – June 30, 2014 | 110,088,790 | 81,043 |

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.

### 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.

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

A summary of the Company's Plan at June 30, 2014 is presented as follow:

| | Number of options | Weighted average exercise price CA$ |
|---|---|---|
| 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 | (4,303,953) | 0.45/0.90 |
| Balance – September 30, 2013 | 6,090,999 | 0.32 |
| Exercised (h) | (60,000) | 0.03 |
| Balance – June, 2014 | 6,030,999 | 0.31 |

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 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.

h) 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 a net proceed of $2. The carrying amount of $2 assigned to these options was transferred to share capital.

During the nine month period ended June 30, 2014 and 2013 the Company has recognized a total stock based compensation expense of $8 and $326 respectively.

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

Options outstanding as at June 30, 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 | 1,166,046 | 0.20 | 0.44 | 1,166,046 |
| 0.35-0.35 | 1,505,572 | 0.85 | 0.35 | 1,505,572 |
| 0.79-0.79 | 730,428 | 1.88 | 0.79 | 730,428 |
| 0.10-0.18 | 2,628,953 | 3.81 | 0.12 | 2,478,953 |
| 0.35-0.90 | 6,030,999 | 2.12 | 0.32 | 5,880,999 |

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

| | June 30, 2014 $ | June 30, 2013 $ |
|---|---|---|
| Loss for the period | (3,806) | (5,342) |
| Weighted average number of shares outstanding | 110,148,790 | 95,070,542 |
| Basic loss per share | (0.03) | (0.06) |
| Diluted loss per share | (0.03) | (0.06) |

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.

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

## 8. Warrants

| Equity | Number of warrants | $ |
|---|---|---|
| Balance – October 1, 2012 | 1,608,254 | 211 |
| Balance – September 30, 2013 | 1,608,254 | 211 |
| Balance – June 30, 2014 | 1,608,254 | 211 |

The following table summarizes information about the warrants outstanding as at June 30, 2014:

| Number of warrants outstanding | Weighted average remaining warrant life (years) | Weighted average exercise price CA$ |
|---|---|---|
| **1,608,254** | **0.97** | **0.50** |

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

## 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 June 30, 2014 and 2013, segmented information is presented as follows:

| | Nine months ended June 30, 2014 | | |
|---|---|---|---|
| | **Pimenton** | **Corporate** | **Total** |
| | **$** | **$** | **$** |
| Sales revenue | 11,257 | - | 11,257 |
| Operating costs | (11,005) | - | (11,005) |
| Amortization and depreciation | (1,988) | (12) | (2,000) |
| Operating costs - services | - | - | - |
| Reclamation and remediation | (20) | - | (20) |
| General, sales and administrative | (1,296) | (609) | (1,905) |
| Foreign exchange | 74 | 25 | 99 |
| Interest | (238) | (48) | (286) |
| Other gains and losses (net) | 56 | - | 56 |
| Exploration costs | - | (2) | (2) |
| Total other income (expenses) | (3,412) | (646) | (4,058) |
| **Loss and other comprehensive loss for the period** | (3,160) | (646) | (3,806) |
| **Mining property, plant and equipment** | 16,583 | 2,139 | 18,722 |
| **Total assets** | 18,671 | 2,657 | 21,328 |

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

| | Nine months ended June 30, 2013 | | |
|---|---|---|---|
| | **Pimenton** | **Corporate** | **Total** |
| | **$** | **$** | **$** |
| Sales revenue | 15,079 | - | 15,079 |
| Services revenue | 101 | - | 101 |
| Operating costs | (13,065) | - | (13,065) |
| Amortization and depreciation | (1,831) | (26) | (1,857) |
| Operating costs - services | (85) | - | (85) |
| Reclamation and remediation | (32) | - | (32) |
| General, sales and administrative | (1,432) | (1,538) | (2,970) |
| Foreign exchange | (52) | 86 | 34 |
| Interest | (23) | (212) | (235) |
| Other gains and losses (net) | (48) | 869 | 821 |
| Impairment charges | (2,140) | - | (2,140) |
| Exploration costs | - | (1,105) | (1,105) |
| Income tax expense | (158) | - | (158) |
| Deferred income tax | 270 | - | 270 |
| Total other income (expenses) | (5,531) | (1,926) | (7,457) |
| **Income (loss) and other comprehensive income (loss) for the period** | (3,416) | (1,926) | (5,342) |
| **Mining property, plant and equipment** | 17,854 | 1,884 | 19,738 |
| **Total assets** | 21,453 | 2,209 | 23,662 |

## 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 nine months ended June 30, 2014 was 20%.

## 11. Related party transactions

A company owned by the CEO (who is also a director) billed $2 to the Company at June 30, 2014 (2013- $7) in relation to office space and services used by the Company. In addition, the Company has a receivable of $186 as at June 30, 2014 (2013 - $208) consisting of $122 of cash advances, net of salary and travel expenses, and two loans totaling $62, net of the market value at June 30, 2014 of 653,200 common shares of the Company, owned by him, which collaterizes one of the loans. The cash advances and loans bear no interest rate or specific repayment terms.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed $37 to the Company for accounting and administration services rendered for the nine months ended June 30, 2014 (2013 - $43). Accounts payable and accrued liabilities include payables of $19 to this officer in relation to such services at June 30, 2014 (2013 - $5).

A law firm, of which a director of the Company is a partner, billed the Company $115 for the nine months ended June 30, 2014 (2013 - $50) for legal services. Accounts payable and accrued liabilities include $64 at June 30, 2014 (2013- $74) for said legal services billed.

Accounts payable and accrued liabilities also include $271 at June 30, 2014 (2013 - $10) 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 nine month period ended June 30, 2014 (2013 - $512).

Accounts payable and accrued liabilities include $271 at June 30, 2014 (2013 - $10) 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 for the nine month period ended June 30, 2014 (2013 - $512).

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 June 30, 2014 the amount outstanding is $2,728. Interest accrued on this loan at June 30, 2014 is $120.

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 nine month period ended June 30, 2014 Pimenton has recognized expenses of $25 (2013 - $9).

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 June 30, 2014, receivables include $4 from related third parties (2013 – payable $58).

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 June 30, 2014 were $26 (2013 - $28).

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 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 June 30, 2014 accounts payable and accrued liabilities included $400 related to this contract (2013 - $100).

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 June 30, 2014 accounts payable and accrued liabilities included $147 related to this contract (2013 - $37).

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 June 30, 2014 the Corporation has paid $7 (2013 - $10) for truck expenses and $74 (2013- $83) for salary.

## 12. Subsequent events

**a)** Subsequent to the quarter end, the company signed a Private Placement Debenture agreement with Westmount Capital for up to US$3,000,000 of debentures to be issued. Westmount Capital is a Switzerland based capital market firm and has been engaged to assist with identifying and introducing purchasers to the Company related to the placement which shall be repaid in 6 semi-annual instalments either in cash or in gold dore produced by the Pimenton Mine at a deemed price per ounce of gold of US 1,157. The Debentures will bear an annual interest rate of 6% to be paid in cash quarterly in arrears.

**b)** On July 28th, the Company was advised by the Toronto Stock Exchange (TSX) that the Continued Listing Committee of the TSX had decided to delist the Company effective August 25th primarily under Section 710 (a) (i) Financial condition. However, the Company is applying for listing with the Canadian Security Exchange (TSX-V).

**Directors* and Officers**

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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**

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**Toronto Stock Exchange**
Stock Symbol: CEG

**OTCQX International**
Stock Symbol: CEGMF

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