

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

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation (formerly South American Gold and Copper Company Limited) and its consolidated subsidiaries ("CEG" or the "Company") for the nine months ended June 30, 2012 together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of August 10, 2012. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes to those statements for the nine month ended June 30, 2012, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2011, and the related notes thereto (the "2011 Financial Statements") which were prepared in accordance with Canadian generally accepted accounting principles as at September 30, 2011 ("GAAP") and the related annual management's discussion. In addition, this discussion contains certain forward-looking statements regarding the Company's businesses and operations. These statements are based on assumptions and judgments of management regarding future events and results. Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of CEG. For more detail on these factors, refer to the section titled "Risk Factors" in this document.

Unless otherwise indicated, this MD&A has been prepared as of August 10, 2012, and covers the nine month period ended June 30, 2012 and 2011 in accordance with IFRS.

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

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

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

Forward Looking Information

This management's discussion and analysis contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "may", "could", "potential", "should" "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Such forward-looking information includes, without limitation, information regarding the Company's expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, development and operational plans and objectives (including delineating additional mineral resources), expectations regarding cash flows, revenue and expenses, expectations regarding the timing for the calculation of mineral reserves, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital.

The forward-looking information in this management's discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this management's discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to increase commercial mining operation at Pimenton, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labor or supplies, climatic conditions; inability to delineate additional

mineral resources and other factors including, but not limited to, those listed under “Risk Factors”.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this management’s discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management’s discussion and analysis are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

The following discussion addresses matters which the Company believes are important for an understanding of its financial condition and results of operations as of and for the period ended June 30, 2012 and for its future prospects. It consists of the following subsections:

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

Overall Performance

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

The Company's sales of gold, copper and silver for the period ended June 30, 2012 were \$17,873,477 compared to \$18,715,143 for the nine months ended June 30, 2011. This was due to a production stoppage for approximately three weeks during the past first quarter ended December 31, 2011, while a fatigued Ball Mill crown gear was substituted with a new one. During the nine month fabrication time of the crown gear, production was lowered to less than 80 tpd so as not to cause a major failure during the build time. During the down time a new 600 kva generator was installed as well as a new ball mill electric motor and a Hydraulic clutch. The new generator has lead to a 10% drop in fuel consumption despite an increase in plant production. During the quarter ended June 30, 2012 the mine was currently preparing high grade stopes to compensate for the drop in head grades.

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

Effective February 28, 2012 the Company entered into a new four year agreement with its labor unions which will assure the Company of labor stability for this extended period of time. In connection with the four year labor contract the Company paid a one time bonus in the form of cash and shares amounting to \$677,000 which was charged to mine operations.

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

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

Pimenton gold mine

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

The Company expects production to move up to 150 tons per day by the end of calendar 2012 and to reach 180 tons per day by March 2013. Currently the plant has been

permitted to operate at an average of 166 tons per day. The Company has pending permits to take the mine up to 500 tons per day. At the present rate of production, proven and probable reserves are sufficient for 3 years of production. In addition the Company is currently working to convert 189,000 tons of drill indicated resources as defined in the Company's January 31 2011 resources and reserve report which was prepared in compliance with National Instrument 43-101 *-Standard of Disclosure for Mineral Projects* ("NI 43-101") into proven and probable reserves. The Company will continue with exploration for new gold veins at Pimenton.

Pimenton - porphyry copper

The Company is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. Additional Mobil Metal Ion (MMI) studies have been conducted on the property to further define drill targets. A diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the porphyry copper deposit located within the Pimenton area provided the Company with an exploration report which among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project. The Company has commenced drilling on the porphyry copper project at Pimenton

The Company will continue exploration and drilling on the Pimenton porphyry copper deposits during the 2012 exploration season.

Tordillo

The Company holds mining claims on Tordillo which is located 11.5 kilometers south-southwest of Pimenton and covers an area of 6,632 hectares (16,381 acres). Tordillo is in the early exploration stage and to date the Company has identified several gold vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity and was acquired by the Company in 2006.

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") in 2007, which was modified on December 18, 2009 and again on December 16, 2010. The new agreements provide for an earn in of a 100% interest on claims covering approximately 6,000 hectares (14,820 acres) on the La Bella prospect area (formerly the "inner circle"). The Company has also put down additional claims covering the El Chilque project area (formerly the "outer circle") to earn a 100% interest which encompasses an additional area of approximately 26,000 hectares (64,220 acres) of claims located 75 kilometers southwest of Santiago, Chile. See "Liquidity and Capital

Resources – La Bella Option Agreement” for a discussion of the option payments required under the La Bella Option Agreement.

A small field crew is prospecting for gold veins on the 32,000 hectares (78,793 acres) of total claims held by the Company. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results.

Under the modified agreement entered into on December 16, 2010 on the inner circle \$125,000 was paid on December 17, 2011. The remaining payment obligations will be paid as follows: \$200,000 in December 2012; \$300,000 in December 2013 and \$875,000 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.

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

Santa Cecilia

On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio, (CDM) the 100% owner of the Santa Cecilia project which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement between July 31, 2011 and July 31, 2013 CEG must fund the CDM majority shareholders, and any option shareholders, the pro rata of a drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, at an aggregate cost of approximately \$4,000,000. CEG is committed to fund an estimated \$2,624,000 or 65.6% of this drilling campaign. Mario Hernandez Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are owners of 65.6% of CDM. At June 30, 2012 it has drilled 3,335 meters at a total cost to CDM of \$3,159,620.

Under the terms of the Letter of Agreement, CEG has engaged a qualified engineering firm to supervise the drilling campaign on Santa Cecilia. This firm will also update NI 43-101 technical reports on CEG's other projects and Santa Cecilia on completion of the drilling campaign.

Following completion of the drilling campaign, which commenced in January 2012 on Santa Cecilia, and receipt of the NI 43-101 technical reports when the drill program is completed, an evaluation of CEG and CDM will be undertaken by a competent, independent investment banking group to value CEG and CDM. On completion of a satisfactory evaluation, CEG will have 90 days in which to determine if it wishes to proceed with acquiring the interest of the Majority Shareholders in CDM.

Under the terms of the agreement, CEG or CDM may terminate the Letter of Agreement under certain circumstances. Depending on the circumstance, CEG will be reimbursed up to 125% of its share of drilling campaign costs. CEG may terminate the agreement at any time after having drilled not less than 1,500 meters.

CDM has conducted Mobile Metal Ion geochemical and CSAMT geophysical surveys on the Santa Cecilia property. These surveys have successfully established the existence of a drill target in the shape of a large gold and copper anomaly. This gold and copper drill target is 3,000 meters directly west of the Caspiche measured and indicated resource of 21.3 million ounces of gold, 5.3 billion pounds of copper and 48.4 million ounces of silver.

Since the letter of agreement has no immediate impact on the shareholdings of Mr. Hernandez and Dr. Thomson in CEG, CEG is unable to provide a description of any impact that a definite acquisition agreement may have on any shareholdings in CEG at this time.

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

Limestone deposits

The Company holds interest in two limestone deposits.

Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry.

While the changing economic situation will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

Capacity to Deliver Results

Pimenton gold mine.

See "Overall Performance" section.

Potential porphyry copper.

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

Tordillo

The presence of strong extensive explosive breccias is reminiscent of the porphyry copper systems at large existing copper mines in Chile. Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. The Company is deferring exploration activities while it is focusing its attention on Pimenton. Up to the period ended June 30, 2012, the Company has expensed a total of \$67,712, (2011 - \$92,631) relating to mining property costs and exploration costs on Tordillo.

Bandurrias

Up to the period ended June 30, 2012 acquisition costs of \$31,403 have been expensed (2011 - \$32,359).

La Bella

Up to the period ended June 30, 2012, the Company has expensed a total of \$579,118 (2011 - \$353,906) relating to mining property costs and exploration costs on La Bella.

Limestone deposits

As at June 30, 2012, the Company had contributed a total of \$3,968,310 (2011 - \$3,912,539) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton per day lime kiln on the Catedral property. At September 30, 2011 the Company wrote off the balance of \$3,912,539 in mining properties and exploration costs relating to Catedral/Rino, in accordance with section 3063 – impairment of long – lived assets, as the properties had been on care and maintenance for more than three years as it focused its efforts on the Pimenton gold mine. For the nine months ended June 30, 2012, the Company expensed \$55,771 (2011 - \$169,539) relating to mining property costs on Catedral/Rino.

As at June 30, 2012, the Company had contributed a total of \$1,556,130 (2011 - \$1,551,333) to Cal Norte to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient exploration expenditures to maintain the Cal Norte property in good standing, the Company expensed this amount of \$1,556,130 in mining property costs and exploration costs as the properties had been on care and maintenance for more than three years as it focused its efforts on the Pimenton gold mine. For the nine months ended June

30, 2012 the Company expensed \$4,797 (2011 - \$6,333) related to mining property costs on Cal Norte.

Santa Cecilia

As at June 30, 2012, the Company had contributed \$2,072,776 (2011 - \$nil) to Compania Minera Cerro del Medio, (CDM) the 100% owner of the Santa Cecilia project which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement between July 31, 2011 and July 31, 2013 CEG must fund the CDM majority shareholders, and any option shareholders, the pro rata of a drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, at an aggregate cost of approximately \$4,000,000. CEG is committed to fund an estimated \$2,624,000 or 65.6% of this drilling campaign. At June 30, 2012 it has drilled 3,335 meters at a total cost of \$3,159,620 to CDM.

Under the terms of the Letter of Agreement, CEG has engaged a qualified engineering firm to supervise the drilling campaign on Santa Cecilia. This firm will also update NI 43-101 technical reports on CEG's other projects and Santa Cecilia on completion of the drilling campaign.

Other Projects

During the nine months ended June 30, 2012, the Company incurred additional exploration costs related to services contracts of \$210,000 (2011 - \$210,000).

Result of operation - for the quarter ended June 30, 2012, compared to the quarter ended June 30, 2011.

The Company reported a net loss of \$2,328,000 for the three months ended June 30, 2012 compared to a net profit of \$2,306,000 for the same period in 2011.

For the three months ended June 30, 2012, revenue from gold sales was \$6,295,000, or 3,962 gold ounces (2011 - \$6,640,000 or 4,305 gold ounces) and revenues from copper and silver sales were \$959,000 (2011 - \$1,055,000). For the three months ended June 30, 2012, revenue from services provided by Pimenton to CDM which include management, machinery and equipment rent was \$945,000 (2011 - \$nil).

Operating expenses related to metal sales were \$5,819,000 for the three months ended June 30, 2012 compared to \$4,119,000 for the same period in 2011. The increase of \$1,700,000 during the three months ended June 30, 2012 consisted of mine operating expenses of \$1,179,301; plant operations of \$38,367; maintenance and operation of road of \$350,962; health clinic and safety of \$141,579; and camp of \$125,567;. This was off set by a reduction in smelting, refining and metallurgical charges of \$12,689; royalties of \$28,346; transportation of \$16,226, and management of \$78,515. For the three months ended June 30, 2012, costs from services provided by Pimenton to CDM including management, machinery and equipment rent was \$931,874 (2011 - \$nil). Effective

February 28, 2012 the Company entered into a new four year agreement with its labor unions which will assure the Company of labor stability for this period of time. Operating costs for the quarter ended June 30, 2012 include \$677,000 as a one time bonus payment as a part of labor union negotiations.

In accordance with IFRS, on February 8, 2012 the Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$2,585,000 is expected to be incurred over 6.5 years. The new estimated cash flow is discounted using a long term US interest rate of 2.55% as at December 31, 2011. The effect was to decrease the mine closure provision and development cost by \$1,045,000. Reclamation and remediation discounted at 2.4% for the three months ended June 30, 2012 was \$13,149 (2011- \$40,570).

Amortization and depreciation expense was \$640,335 for the three months ended June 30, 2012 (2011 - \$587,550). Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves and amounted to \$305,090 for the three months ended June 30, 2012 (2011 - \$332,113). Depreciation expense for the period ended June 30, 2012 was \$335,245 compared to \$255,437 for the same period in 2011, the increase of \$79,808 was due to additional mining equipment purchased during the year.

General and administrative costs were \$929,000 for the three months ended June 30, 2012 compared to \$1,277,000 for the same period in 2011. This \$348,000 decrease was due to a decrease in transport of \$69,418; a decrease in bank charges of \$33,366, a decrease in overhead of \$39,864; and a decrease in a general provision for pending compensation of \$430,852. This was off set by an increase in salaries by \$97,508; an increase in professional fees by \$86,189; and an increase in utilities and other expenses of \$41,803.

Stock based compensation was \$21,000 during the three months ended June 30, 2012 compared to \$481,000 for the same period in 2011. The Company expensed \$21,000 (2011- \$27,541) for the vesting period of common stock options issued during the three month period ended June 30, 2012 for options granted whose vesting period is between the date of grant and three, four and five years. On April 29, 2011 the Company issued 186,000 Common Stock Options exercisable at CA.\$ 0.79 per share for a period of five years from the date of issuance, with the vesting period being between the date of grant and three years. The Options were issued to ten employees who are not officers of the Company. These options were fair valued at \$147,027 using the Black –Scholes valuation model, assuming a risks-free rate of 1.963%, no dividend, and volatility factor of 170% and expensed as stock-based compensation. The Company renewed 571,428 common stock options that were due to expire on March 1, 2011. The new grant of stock option were issued on April 29, 2011, are exercisable at CA\$0.79 per share for a period of five years from the date of issuance with immediate vesting, and were issued to 3 Directors of the Company. These options were fair valued at \$451,694, using the Black –Scholes valuation model, assuming a risk-free rate of return of 1.96%, no dividend and volatility factor of 170.23% and expensed as stock-based compensation

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering and must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This IFRS change in accounting reduced other profit and loss statement by a total by \$1,249,883 at June 30, 2011.

Interest expense was \$35,318 for the three months ended June 30, 2012 compared to \$59,170 in the same period of 2011. The decrease of \$22,229 was due to full payment of the Pimenton notes, and repayment of the Givens Hall bank loan in the amount of \$9,878. There was also a reduction of lease interest in the amount of \$2,975. This was off set by interest paid to a bank in the amount of \$11,230.

The foreign exchange loss was \$72,864 for the three months ended June 30, 2012 compared to a gain of \$91,246 in the same period of 2011. This increased loss of \$164,110 was due to the US dollar versus the Chilean peso variation.

The Company had taken the decision to expense its mining properties and exploration costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. Exploration and mining properties expensed during the three month period ended June 30, 2012 totaled \$2,008,135 (2011 - \$171,651), and were as follows: Catedral \$14,845 (2011- \$14,772); La Bella \$46,758 (2011 - \$64,717); Tordillo \$nil (2011 - \$18,207); Cerro del Medio \$1,863,624 (2011 - \$nil); Bandurrias \$12,908 (2011 - \$3,955) and other \$70,000 (2011 - \$70,000).

Other net losses for the three month period ended June 30, 2012 amounted to \$55,508 and were principally from a reduction in the value of labor shares of \$47,273; labor fines, donations and other expenses of \$8,235. This is compared to a gain of \$7,493 in the same period for 2011, consisting of financial interest and other.

Results of operations for the nine months ended June 30, 2012, compared to the nine months ended June 30, 2011.

The Company reported net loss of \$3,280,000 for the nine month period ended June 30, 2012 compared to a net profit of \$2,787,000 for the nine months ended June 30, 2011.

For the nine months ended June 30, 2012, revenue from gold sales was \$15,728,000, or 9,617 gold ounces (2011 - \$15,989,651 or 11,262 gold ounces) and revenues from copper and silver sales were \$2,146,000 (2011 - \$2,725,492). For the nine months ended June 30, 2012, revenue from services provided by Pimenton to CDM include management, machinery and equipment rent was \$1,896,000 (2011 - \$nil).

Operating expenses from metal sales were \$13,732,000 in the nine months ended June 30, 2012 compared to \$9,806,000 for the same period in 2011. The increase of \$3,926,000 during the nine month period ended June 30, 2012 consisted of mine operation expenses of \$2,441,302; plant operations costs of \$178,270; road maintenance and operation costs of \$834,406; camp costs of \$291,367; health clinic & safety \$367,478. This was offset by a reduction in royalties of \$46,997; a reduction in smelting, refining and metallurgical charges of \$111,915; a reduction in management costs of \$22,412 and a reduction in transport cost of \$5,499. For the nine months ended June 30, 2012, costs from services provided by Pimenton to CDM including management, machinery and equipment rent was \$1,760,027 (2011 - \$nil). Operating costs for the quarter ended June 30, 2012 include \$677,000 as a one time bonus payment as a part of labor union negotiations.

In accordance with IFRS, on February 8, 2012 the Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$2,585,000 is expected to be incurred over 6.5 years. The new estimated cash flow is discounted using a long term US interest rate of 2.55% as at December 31, 2011. The effect was to decrease the mine closure provision and development cost by \$1,045,000. Reclamation and remediation discounted at 2.56% for the nine months ended June 30, 2012 was \$54,510 (2011- \$119,542).

Amortization expense was \$675,569 in the nine months ended June 30, 2012 (2011 - \$835,023). Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Depreciation expense for the nine months ended June 30, 2012 were \$1,036,924 compared to \$789,573 for the same period in 2011. The increase of \$190,572 was due to mining equipment purchases. Impairment expense was \$56,779 for the nine month ended June 30, 2012 (2011 \$nil). Under IFRS impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount.

General and administrative costs were \$2,329,736 for the nine months ended June 30, 2012 compared to \$2,477,000 for the same period in 2011. This \$147,264 decrease was due to a decrease of \$69,356 in transport; a decrease of \$40,370 in bank charges; and a decrease in a provision for pending compensation of \$430,852. This was off set by an increase in salaries of \$49,312; an increase in overhead expense of \$109,600; an increase in miscellaneous and others expenses of \$13,660; an increase in professional fees of \$220,742 of which \$159,797 related to legal fees; \$156,690 related to accounting and other professional fees and a decrease in geological fees of \$95,745.

Stock based compensation was \$77,814 during the nine month period ended June 30, 2012 compared to \$542,402 for the same period in 2011. The Company expensed \$77,814 (2011 - \$90,707) for the vesting period of common stock options (as defined below) issued during the nine months ended June 30, 2012 for options granted whose vesting period is between the date of grant and three, four and five years. On April 29, 2011 the Company issued 186,000 Common Stock Options exercisable at CA.\$ 0.79 per share for a period of five years from the date of issuance. The vesting period is between

the date of grant and three years and were issued to ten employees whose are not officers of the Company. These options were fair valued at \$147,027 using the Black –Scholes valuation model, assuming a risks-free rate of 1.963%, no dividend, and volatility factor of 170% and expensed as stock-based compensation. The Company renewed 571,428 common stock options that were due to expire on March 1, 2011. The new grant of stock options were issued on April 29, 2011, were exercisable at CA\$0.79 per share for a period of five years from the date of issuance with immediate vesting and were issued to Directors of the Company. These options were fair valued at \$451,694, using the Black – Scholes valuation model, assuming a risk-free rate of return of 1.96%, no dividend and volatility factor of 170.23% and expensed as stock-based compensation.

The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares at a price that is not fixed in the Company’s functional currency, and does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting reduced other profit and losses by \$293,198, at June 30, 2011. In December, 2010 46,187,485 outstanding common share purchase warrants (the “Warrants”) and 5,616,936 outstanding common share purchase warrants (the “Broker Warrants”) (before 10 for 1 share consolidation) which were due to expire, were further extended to June 17, 2011. All of these were exercised in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of \$111,986 was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 1.24%, no dividend and a volatility factor of 143%.

Interest expense was \$104,147 in the nine months ended June 30, 2012 compared to \$202,238 in the same period of 2011. The decrease of \$107,137 was due to full payment of the Pimenton notes and repayment of the Givens Hall bank loan. There was also a reduction of lease interest for the amount of \$17,331. This was off set by \$26,377 in interest paid to a bank.

The foreign exchange loss was \$115,717 for the nine months ended June 30, 2012 compared to a gain of \$85,256 in the same period of 2011. The increase of \$200,973 was due to the US dollar versus Chilean peso variation.

Other net losses was \$97,209 in the nine months ended June 30, 2012 compared to a gain of \$33,706 in the same period of 2011. During the nine month period ended June 30, 2012, the Company paid a labor fines, donations and other expenses of \$65,020; a reduction in the value of labor shares of \$47,273. This was offset by an interest received of \$15,084. During the nine month period ended June 2011 the Company received insurance proceeds in the amount of \$24,155, and interest in the amount of \$9,551.

The Company had taken the decision to expense its exploration expenditure on properties until NI 43 -101 compliant recourses have been established on a property. As a result during the nine month period ended June 30, 2012, the Company expensed \$3,021,577 (2011 – \$864,768) as follows: Catedral \$55,771(2011 - \$169,539); La Bella and Chilque \$579,118 (2011 – \$353,906); Cal Norte \$4,797 (2011 – \$6,333); Tordillo \$67,712 (2011 – \$92,631); Bandurrias \$31,403 (2011– \$32,359); Cerro del Medio \$2,072,776 (2011 - \$nil) and other \$210,000 (2011 -\$210,000).

Summary of Quarterly Results

	June 30, 2012	March 31, 2012	December 31 2011	September 30 2011
Sales	8,199	6,282	5,289	5,574
Net income (loss) before extraordinary items	(157)	(162)	421	652
Per share	(0.002)	(0.002)	0.004	0.007
Per share diluted	(0.001)	(0.002)	0.004	0.006
Net income (loss) after extraordinary items	(2,328)	(995)	42	400
Per share	(0.025)	(0.010)	0.000	0.004
Per share diluted	(0.022)	(0.009)	0.000	0.004

	June 30, 2011	March 31, 2011	December 31 2010	September 30 2010
Sales	7,695	4,857	6,163	4,045
Net income (loss) before extraordinary items	2,437	43	1,254	(232)
Per share	0.026	0.000	0.014	(0.000)
Per share diluted	0.023	0.000	0.012	(0.000)
Net income (loss) after extraordinary items	2,304	(455)	938	(917)
Per share	0.025	(0.005)	0.011	(0.001)
Per share diluted	0.022	(0.004)	0.009	(0.001)

Non-IFRS Financial Measures

This MD&A refers to cash cost per ounce of gold produced because certain investors may use this information to assess the Company's performance and also determine the Company's ability to generate cash flow for investing activities. These measurements capture all of the important components of the Company's production and related costs. In addition, management utilizes these metrics as an important management tool to monitor cost performance of the Company's operations. These measurements have no standardized meaning under IFRS and are therefore unlikely to be comparable to similar

measures presented by other companies. These measurements are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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

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

For the nine month period ended June 30,	<u>2012</u>	<u>2011</u>
Gold ounces sold	9,617	11,262
Cost of sales	15,389	11,730
Deduct:		
Amortization and depreciation	(1,644)	(1,592)
Remediation and reclamation	(55)	(120)
Total cash cost of production before by-product credits	13,690	10,018
Copper and Silver – by- product credits	(2,077)	(2,643)
Total cash cost of production after by-product credits	11,613	7,375
<i>Cash cost per ounce sold</i>	\$ 1,207.58	\$654.92

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

For the nine month period ended June 30,	<u>2012</u>	<u>2011</u>
Gold ounces produced	8,744	11,592
Cost of production	14,554	12,562
Deduct:		
Amortization and depreciation	(1,644)	(1,592)
Remediation and reclamation	(55)	(120)
Total cash cost of production before by-product credits	12,855	10,851
Copper and Silver – by- product credits	(2,077)	(2,643)
Total cash cost of production after by-product credits	10,778	8,207
<i>Cash cost per ounce produced</i>	\$ 1,232.75	\$708.05

The Company declared the Pimenton mine to be in commercial production effective October 1, 2008. The production rate is expected to increase to an average of 150 tons

per day by the end of calendar 2012 and to near 180 tons per day by March 2013. Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has applied for permits to take the mine up to 500 tons per day. Reaching the 180 tons per day will depend on the speed of the regulators processing the new permits.

The following is a sensitivity analysis:

PRODUCTION VARIABLES AND SENSITIVITIES FOR UP TO 180 TPD.

VARIABLES

Head grade gold	12	g/t
Head grade copper	1	%
Starting tons per day year 1	100	Tpd
Tons per day year 2	150	Tpd
Plant combined recovery	92%	
Price per Ounce Gold	\$1,500	
Price per pound Copper	\$1.00	
Exchange rate US\$	500	CH\$
Loan Interest rate	8.50%	
Price per liter Diesel	620	CH\$
Price per liter Gasoline	750	CH\$

ALL IRR % ARE FOR ENTIRE INVESTMENT

Grade Sensitivity. Projects from a low of 10g/t to 16 g/t Au head grade through plant.(120 tpd)

Au g/t	Cu%	Op.Cost/Oz	IRR%
10	0.8	\$1,107	63%
12	1.0	\$ 958	92%
14	1.2	\$ 853	118%
16	1.4	\$ 774	143%

Cost/Oz is cash cost per ounce at the mine

UP TO 180 TPD

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

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	\$1,047	71%
-5%	\$1,000	82%
2%	\$ 943	96%

Cost/Oz is cash cost per ounce at the mine

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

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

150 TPD**Price of Gold Sensitivity**

Price per Ounce	IRR%
\$1,000	99%
\$1,200	55%
\$1,400	80%
\$1,600	104%
\$1,800	129%
\$2,000	153%

150 TPD**Price of Copper Sensitivity with gold at US\$1,500**

Price per pound Cu	IRR%
\$1,00	77%
\$2,00	85%
\$3,00	92%
\$4,00	100%

Liquidity and capital resources

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years
	\$	\$	\$	\$
Purchase obligations	3,239,413	3,239,413	-	-
Amount due to related parties	1,593,659	1,593,659	-	-
Other debts (5)	1,068,342	290,120	174,012	604,210
Capital leases	469,504	256,566	212,938	-
Short term warrants liability	46,260	46,260	-	-
La Bella option payments (1)	2,750,000	400,000	2,350,000	-
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Tordillo prospect (3)	250,000	-	-	250,000
Santa Cecilia agreement (4)	1,927,224	1,927,224	-	-
Total Contractual Obligations	13,844,402	7,753,242	2,736,950	3,354,210

Note (1). The Company is only obligated to make the option payments on either the inner circle or the outer circle as long as it desires to keep the underlying claims. The Company may drop either or both the inner or outer circle at any time and no further option payments are due to be paid.

Note (2). Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to \$1,250,000 each or \$2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totaling \$500,000, which was paid during 1997.

Note (3). As a compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay \$250,000 within 50 days of first cash flow from the property.

Note (4). On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio (CDM) which is the 100% owner of the Santa Cecilia project, which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement CEG, between July 31, 2011 and July 31, 2013, must fund the CDM majority shareholders and any Option Shareholders, pro rata share of a diamond drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, including but not limited to, core logging and assaying at an aggregate cost of approximately \$4,000,000 (of which CEG is committed to fund an estimated \$2,624,000 or 65.6%). Mario Hernandez and Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are the owners of 65.6% of CDM. During the period ended June 30, 2012 its have drilled 3,335 meters, and the amount of \$3,159,620 have been the total expensed, of which \$2,072,677 were expensed by CEG (2011 -\$nil).

Note (5). As June 30, 2011 the Company had allocated \$232,000 to debt for C and D Debenture. In addition the Company has acquired on November 7, 2011 a loan with Bice Bank at fixed rate of 5.13% for fifteen years payable monthly until 2026.

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

At June 30, 2012, the cash balance was \$805,000.

The Company had a negative working capital of \$598,000 at June 30, 2012. The working capital is expected to be improved by increased operating profits from the Company's Pimenton gold mine. The production rate is expected to gradually increase to an average of 150 tons per day by the end of calendar 2012 to near 180 tons per day by March 2013. Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has applied for permits to take the mine up to 500 tons per day. Reaching the 180 tons per day will depend on the speed of the regulators processing the new permits.

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

In May, 2010 the Company started to produce its own gold doré at the mine site. In the same month the Company started to ship the gold doré bars directly to a gold refinery in Europe. The refinery pays for 90% of the value of gold shipment the week following delivery and the balance of the payment is made less than a month from the day of receipt of the initial payment. For the nine months ended June 30, 2012 the Company has sold approximately 67% to a gold refinery in Europe, 33 % to Enami to smelter its gold and copper concentrate. Enami is owed by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the initial payment.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on the common shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

Related Party Transactions

Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to \$1,250,000 each or \$2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totaling \$500,000, which was paid during 1997.

On February 9, 1999, the board of directors agreed to amend its November 27, 1996, agreement with Messrs. Hernandez and Thomson regarding the recovery of advances made to explore and develop the Catedral prospect. The board of directors agreed that all funds advanced will be recovered from 80% of the cash flow of the properties or from the sale thereof until the Company has recovered 125% of such advances. On September 11, 2000, the board of directors agreed to an additional amendment to this agreement limiting recovery of advances made through September 30, 2000, to \$3,125,000 (and not the 125% of such advances). Such recovery will be from 60% (reduced from 80% previously agreed upon) of the cash flow from the property or the sale of the property. Future

advances will also be recovered from 60% of the cash flow. Accordingly, such advances have been reflected in “Exploration and development costs.”

In 2001, the board of directors and compensation committee of the board approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella to the CEO, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also directors of the Company.

Outstanding Share Information

As of August 10, 2012, the Company has issued one class of common shares of which a total of 94,925,714 common shares were outstanding. As of August 10, 2012, the Company had 2,208,254 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA\$2.5 to CA\$0.50 through May, 2015. Options granted under the stock option plan of the Company (each, an “Option”) outstanding as of August 10, 2012, totaled 7,615,999 of which 7,212,999, are currently exercisable into one common share at prices of CA\$0.35 to CA\$0.90 per common share expiring at various dates through July, 2016.

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

Outlook

Risk Factors

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve inherent risks. The Company is subject to various financial, operational and political risks that could affect its future profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold or copper, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chilean peso against the US dollar. The Company does not use financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

The mining industry is intensely competitive in all of its phases. The Company competes with many companies possessing greater technical facilities and financial resources.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.

The Company's revenues will be primarily derived from the mining and sale of gold, silver, copper, limestone and lime and the disposition of interests in mineral properties or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumptive patterns. A drop in the price of gold, silver, copper, limestone and lime could adversely affect the Company's financial condition, results of operations and cash flows. Significantly lower commodity prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations. The Company's Pimenton mine is highly dependent on generating its own electrical needs at the mine, plant and camp sites. Fuel costs have risen substantially and are expected to further increase. Higher fuel costs may have an adverse impact on profitability of the mine.

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

The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labor unrest could adversely affect the Company's exploration efforts and production plans.

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company's development and exploration programs will result in new gold reserves.

Mineral reserves and resources are estimates which may differ significantly from actual mining results.

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

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

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

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

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

Critical accounting estimates and judgments

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

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

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

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

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

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

International Financial Reporting Standards

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

The First Quarter 2012 Financial Statements ended December 31, 2011 were the first set of financial statements prepared by the Company under IFRS and contain significant disclosures regarding the impact of the transition to IFRS from Canadian GAAP. Please refer to the June 30, 2012 financial statements for details of the accounting policies being used under IFRS as well as reconciliations of certain prior Canadian GAAP financial statement amounts to IFRS.

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

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

Under Canadian GAAP, the Company discounted asset retirement obligations using the historical rate in effect when the asset retirement obligation was established. Under IFRS, asset retirement obligations are required to be recalculated at the end of each reporting date. In accordance with IFRS 1 transitional provision, the company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date. The asset retirement obligation outstanding at October 1, 2010 was recalculated using a 10 year US treasury long term interest rate of 3.26%. The effect on transition was an increased mine closure provision of \$815,000 (\$618,000 at June 30, 2011); an increase in development cost of \$349,000 (\$152,000 at June 30, 2011); and an increase in deficit of \$466,000 (and reduced profit and losses by \$1,000 at June 30, 2011).

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

- b)** A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 that vested before the October 1, 2010. This election allows the Company to not apply the requirements of IFRS 2 to equity instruments which were granted prior to transition date and vested. Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the company's policy under Canadian GAAP. The impact was an increase in options of \$135,000 and an increase in deficit of \$135,000 at October 1, 2010. As at June 30, 2011 the effect of the transition was an increase in option of \$1,340,000 and reduced other gains and losses by of \$5,000.
- c)** The warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement on income as they arise. The Company has recorded these changes in the other profit and losses. Under Canadian GAAP, the warrants were classified as equity and charges in fair value were not recognized. This change in accounting increased liabilities at October 1, 2010 by \$770,000 (\$211,000 at June 30, 2011); decreased equity at October 1, 2010 by

\$1,187,000 (\$166,000 at June 30, 2011); reduced deficit by \$417,000 at October 1, 2010 and reduced other gains and losses by \$293,000 at June 30, 2011.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, the effective functioning of its audit committee and procedures in place to systematically identify matters warranting consideration of disclosure by the audit committee.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's change to IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets

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

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

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

Mineral Reserves and Mineral Resources Estimates

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