

Cerro Grande Mining Corporation

Consolidated Financial Statements
September 30, 2012 and 2011
(expressed in thousands of U.S. dollars)

Management's responsibility for financial reporting

The consolidated financial statements and other information in this report were prepared by the management of **Cerro Grande Mining Corporation**, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the 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 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.

PricewaterhouseCoopers LLP were appointed as the Company's independent auditor at the Annual and Special Meeting of the Shareholders. Their report outlines the scope of their examination and their opinion.

"Stephen W. Houghton"
Chief Executive Officer

"Peter W. Hogg"
Chief Financial Officer

December 7, 2012



December 7, 2012

Independent Auditor's Report

To the Shareholders of Cerro Grande Mining Corporation

We have audited the accompanying consolidated financial statements of Cerro Grande Mining Corporation, which comprise the consolidated statement of financial position as at September 30, 2012 and 2011 and October 1, 2010 and the consolidated statement of income (loss) and other comprehensive income (loss), statement of changes in shareholders' equity and cash flows for the years ended September 30, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cerro Grande Mining Corporation as at September 30, 2012 and 2011 and October 1, 2010 and its financial performance and its cash flows for the years ended September 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Cerro Grande Mining Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of U.S. dollars)

Assets	September 30,	September 30,	October 1
Current assets	2012	2011	2010
	\$	\$	\$
Cash and cash equivalents	1,336	1,750	1,470
Accounts receivable	2,394	1,403	757
Recoverable taxes	59	172	1,406
Inventory (note 5)	2,306	2,639	855
	6,095	5,964	4,488
Non-current assets			
Receivable from a related party (note 16)	322	387	237
Mining properties, plant and equipment (note 6)	20,391	20,975	17,474
Total assets	26,808	27,326	22,199
Liabilities and Shareholders' equity			
Current liabilities			
Trade and other payables	3,587	2,727	3,342
Payable to related parties (notes 16 and 20)	1,747	351	-
Current portion of long-term debt (note 7)	538	238	2,239
Warrants liability (note 9)	-	46	770
	5,872	3,362	6,351
Non-Current liabilities			
Long-term debt (note 7)	1,019	270	364
Long-term amount due to related parties (note 16)	-	-	832
Reclamation and remediation (note 10)	1,727	3,201	2,959
Deferred income tax liability (note 13)	881	-	-
Total liabilities	9,499	6,833	10,506
Shareholders' equity			
Share capital	78,496	78,110	73,060
Warrants	211	211	565
Contributed surplus	7,493	7,351	6,434
Convertible unsecured debenture	154	154	154
Deficit	(69,045)	(65,333)	(68,520)
Total shareholders' equity	17,309	20,493	11,693
Total liabilities and shareholders' equity	26,808	27,326	22,199

Commitments (note 14)
Subsequent event (note 20)

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman Frederick D. Seeley Chairman

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

Cerro Grande Mining Corporation
Consolidated Statements of Financial Position

	2012	2011
	\$	\$
Revenue		
Sales	25,549	24,289
Services (note 16)	1,896	-
	<u>27,445</u>	<u>24,289</u>
Expenses		
Operating costs (note 11)	21,100	15,629
Operating costs for services	1,760	-
Reclamation and remediation (note 10)	58	161
General, sales and administrative (note11)	3,368	3,768
Warrant revaluation (note 9)	-	345
Foreign exchange	126	(53)
Interest	127	245
Other gains and losses (net) (note11)	96	(55)
Exploration costs (note11)	3,392	1,062
	<u>30,027</u>	<u>21,102</u>
(Loss) income and comprehensive (loss) income before income taxes	(2,582)	3,187
Income tax expense (note 13)	(249)	-
Deferred income tax (note 13)	(881)	-
	<u>(3,712)</u>	<u>3,187</u>
Net (loss) income and comprehensive (loss) income for the year	(3,712)	3,187
Basic and diluted (loss) income per share (note 8 (d))	(0.04)	0.04
Weighted average number of shares outstanding	94,595,467	90,656,813

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

Cerro Grande Mining Corporation
Consolidated Statement of Changes in Shareholders' Equity
For the year ended September 30, 2012 and 2011

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

	<i>Share capital (note 8 (b))</i>	<i>Warrants (note 9)</i>	<i>Contributed surplus</i>	<i>Convertible unsecured debenture</i>	<i>Deficit</i>	<i>Total equity</i>
Balance - October 1, 2010	73,060	565	6,434	154	(68,520)	11,693
Warrants exercised, expired and modified	4,113	(354)	847	-	-	4,606
Share-based compensation	937	-	70	-	-	1,007
Net Income	-	-	-	-	3,187	3,187
Balance - September 30, 2011	78,110	211	7,351	154	(65,333)	20,493
Warrants exercised, expired and modified	-	-	46	-	-	46
Share-based compensation	386	-	96	-	-	482
Net Income	-	-	-	-	(3,712)	(3,712)
Balance - September 30, 2012	78,496	211	7,493	154	(69,045)	17,309

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

Cerro Grande Mining Corporation
Consolidated Statements of Cash Flows
For the year ended September 30, 2012 and 2011

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

	2012	2011
	\$	\$
Net (loss) income for the year	(3,712)	3,187
Adjustments for:		
Amortization and depreciation	2,286	2,214
Accretion of interest on long-term debt	62	60
ARO accretion	58	161
Foreign exchange gain	(24)	(53)
Deferred income tax	881	-
Warrant revaluations	-	345
Stock-based compensation	482	566
	<u>33</u>	<u>6,480</u>
Change in non-cash working capital relating to operations (note 17)	593	(1,657)
Net cash provided by operating activities	<u>626</u>	<u>4,823</u>
Investing activities		
Additions to mining properties, plant and equipment	(2,781)	(5,629)
Net cash (used in) investing activities	<u>(2,781)</u>	<u>(5,629)</u>
Financing activities		
Shares issued	-	3,258
Issuance of debt (note 7)	987	(1,944)
Cash advances to related parties	1,225	-
Capital leases	(471)	(228)
Net cash provided by financing activities	<u>1,741</u>	<u>1,086</u>
(Decrease) increase in cash and cash equivalents during the year	(414)	280
Cash and cash equivalents - Beginning of year	<u>1,750</u>	<u>1,470</u>
Cash and cash equivalents - End of year	<u>1,336</u>	<u>1,750</u>

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

Cerro Grande Mining Corporation

Notes to the Consolidated Financial Statements

September 30, 2012 and 2011

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

1. Nature of the Company

Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries is a mining, exploration and development company which produces gold, silver and copper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Toronto Stock Exchange (“TSX”) trading under the symbol “CEG” and on the OTCQX trading under the symbol CEGMF. The Company is domiciled in Canada and the address of its records office is 67 Yonge Street, Suite 1201 Toronto Ontario M5E 1J8, Canada. The registered office is 79 Wellington Street West, Suite 2300, Toronto, Ontario M5K 1H1, Canada.

2. Basis of presentation

a. Statements of compliance

These consolidated financial statements are expressed in thousands of US dollars and have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Standards Board (“IASB”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company’s first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of consolidated financial statements, including IFRS 1, “First-time Adoption of IFRS”. Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at October 1, 2010 and throughout the current 2012 year and 2011 comparative periods, as if the policies had always been in effect. Note 4 provides reconciliations, descriptions, and explanations of how the transitions to IFRS has impacted the Company’s reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements reported under Canadian GAAP for the year ended September 30, 2011.

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

The Board of Directors approved the statements on December 7, 2012.

b. Use of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company also makes estimates and assumptions

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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 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.

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. Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

a) Basis of presentation

These consolidated financial statements have been prepared under the historical cost basis, except for the certain financial assets and liabilities that are measured at fair value through profit and loss including derivative instruments. All amounts are expressed in thousands of US dollars, except share and per share amounts.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation. The Company consolidates subsidiaries where they have the ability to exercise control. Control is achieved when we have the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly, of more than 50 percent of the voting power.

c) Foreign currency translation and transactions

The Company presents its financial statement in U.S. dollars. This is also the functional currency of CEG and its subsidiaries.

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

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Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and year-end translation are recognized in the statement of income and other comprehensive income within "Foreign exchange".

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

e) Financial instruments

At initial recognition, the company classifies its financial instruments in the following categories:

- (i) **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. All derivatives have been classified as held-for trading. The Company has issued warrants that qualify as derivative liabilities. All financial instruments in this category are recognized initially and subsequently at fair value, transaction costs are expensed in the consolidated statement of income and other comprehensive income, and gains and losses arising from changes in fair value are presented in the consolidated statement of income within "other gains and losses (net)" in the period in which they arise.
- (ii) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivables, accounts receivable from related parties, and cash and cash equivalents that are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (iii) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include trade and other payables, accounts payable to related parties, and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.
- (iv) **Compound financial instruments:** Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of

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shares to be issued is fixed. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

f) Inventory

Doré, concentrate, materials and supplies inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. Doré and concentrate inventory cost includes direct labour and material costs, mine site overhead, depreciation and depletion. Cost is allocated to the various doré and concentrate inventories based on the relative net revenue of each concentrate produced. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. Net realizable value is determined with reference to relevant market prices less estimated costs of completion and estimated costs necessary to make the sale. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

g) Mining properties, plant and equipment

Mining properties, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized separately, as appropriate, only when future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. All other repairs and maintenance costs are expensed during the period in which they are incurred.

Expenditures for the continued development of the mining property are capitalized as incurred. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

The major categories of property, plant and equipment are depreciated on a straight-line basis or units of production (UOP) as follow:

- Mining properties and development - UOP
- Building 7 years
- Plant and Equipment 1- 7 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. Changes to the estimated residual values or useful lives are accounted for prospectively.

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Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and value in use. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such considerations.

h) Leased assets

Leases, the terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt. The finance cost is charged to the consolidated statement of income and other comprehensive income over the lease period.

i) Exploration and development costs

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

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

Expenditures related to extensions of mineral deposits which are already being mined or developed, are capitalized as a mine development cost when the Company is able to conclude that a future economic benefit is probable.

j) Revenue recognition

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

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The terms of these contracts result in embedded derivatives because of the timing difference between the prevailing metal prices for provisional payments and the actual contractual metal prices used for final settlement. These embedded derivatives are adjusted to fair value at the end of each reporting period through to the date of final price determination with any adjustments recognized in revenue.

Revenue from services includes management, drilling, machinery and equipment rent and is recognized as the services are rendered.

k) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects either accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are presented as non-current.

l) Stock-based compensation

The Company has a share option plan, as discussed in note 8(c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Stock-based compensation granted to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date and the expense is recognized over the vesting period of the options with a corresponding increase in shareholder's equity. The exercise price is the share price at the grant date which is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

When the options are exercised, any consideration paid is credited to share capital and the contributed surplus resulting from Stock-based compensation is transferred to share capital.

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

m) Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the period by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants and on the converted method for convertible securities.

n) Reclamation and remediation

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, restoration and reclamation. The obligation is attributable to mining properties when the asset is installed or the environment is disturbed at the production location. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore.

The periodic unwinding of the discount applied in establishing the net present value of provisions over time is recognized in the consolidated statement of income and other comprehensive income as a interest. Changes in rehabilitation estimate attributable to development will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

o) Changes in accounting standards issued but not yet applied

The Company is currently assessing the impact of the following changes in accounting standards.

IFRS 9 Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and measurement, replacing the current classification and measurement criteria for financial asset and liabilities with only two classification categories: amortized cost and fair value. IFRS 9 has an effective date for annual periods beginning on or after date of January 1, 2015, with early adoption permitted.

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 11 Joint Arrangements establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligation in accounts for those rights and obligations in accordance with that type of joint arrangement.

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IFRS 12 Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements (and measurements such as fair value less costs to sell, based on fair value or disclosures about those measurements) except for: transactions within the scope of IFRS 2 and IAS 17 and certain measurements that have some similarities to fair value but that are not fair value.

IAS 28 Investments in Associates and Joint ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Each of the above five standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted, provided each of the other standards is also early applied. The early adoption of IFRS 12 is not subject to adopting the other standards.

4. Transition to IFRS

The effect of the Company's transition from Canadian GAAP to IFRS, as described in Note 2, is summarized in this note as follows:

- a) Transition elections;
- b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS;
- c) Adjustments to the statement of cash flow;

a) Transition elections

The Company has applied the following exemptions and exceptions to full retrospective application of IFRS and International Financial Reporting Interpretation Committee ("IFRIC"):

As described in Note 4(b)

IFRIC1 changes in existing decommissioning, restoration and similar liabilities	(i)
Share -based payments	(ii)

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b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Shareholders' equity	Note	September 30, 2011			October 1, 2010		
		Canadian	Effect of		Canadian	Effect of	
		GAAP	transition	IFRS	GAAP	transition	IFRS
	4b	\$	\$	\$	\$	\$	\$
Share capital	iii	78,305	(195)	78,110	73,060	-	73,060
Convertible debenture		154	-	154	154	-	154
Warrants	iii	247	(36)	211	1,752	(1,187)	565
Contributed surplus	iii	7,217	134	7,351	6,299	135	6,434
Deficit	i,ii,iii,iv	(64,912)	(421)	(65,333)	(68,337)	(183)	(68,520)
		21,011	(518)	20,493	12,928	(1,235)	11,693

	Note	Year ended
Comprehensive income (loss)	4b	September 30,
		2011
		\$
As reported under Canadian GAAP		3,425
Increase (decrease) in income for:		
Amortization and depreciation	i	(6)
Stock-based compensation	ii	1
Warrants revaluation	iii	(233)
Deficit	iv	(238)
As reported under IFRS		3,187

Explanatory notes

(i) 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, the asset retirement obligations are required to be recalculated at the end of each reporting date. In accordance with IFRS 1 transitional provisions, 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 and

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September 30, 2011 was recalculated using a 10 year Chilean long term interest rate of 3.26% and 2.58% respectively. The effect on transition was an increased mine closure provision of \$815 (\$895 at September 30, 2011); an increase in development cost of \$349 (\$422 at September 30, 2011); and an increase in deficit of \$466 (and increase losses by \$6 at September 30, 2011).

(ii) Share-based payments

A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before October 1, 2010. This election allows the Company to not apply the requirements of IFRS 2 to equity instruments which were granted prior to the 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 and an increase in deficit of \$135 at October 1, 2010. As at September 30, 2011 the effect of the transition was an increase in options of \$134 and reduced losses by of \$1.

(iii) Warrants revaluation

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 as other gains 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 (\$ 46 at September 30, 2011); decreased equity at October 1, 2010 by \$1,187 (\$36 at September 30, 2011); reduced deficit by \$417 at October 1, 2010 and reduced other gains and losses by \$233 at September 30, 2011.

(iv) Deficit

	Notes	Deficit at September 30, 2011	Deficit at October 1, 2010
Previously reported under Canadian GAAP		(64,912)	(68,337)
October 1, 2010 adjustment to "Deficit"			
IFRS transition adjustments:			
Reclamation	(i)	(472)	(465)
Stock based compensation	(iii)	(133)	(135)
Warrants revaluation	(iv)	184	417
Total adjustment to IFRS		(421)	(183)
Ending Deficit under IFRS		(65,333)	(68,520)

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c) *Adjustments to the statement of cash flow*

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flows.

5. Inventory

	September 30, 2012	September 30, 2011	October 1, 2010
	\$	\$	\$
Ore and concentrate stockpiles	1,253	1,859	548
Materials and supplies	1,053	780	307
	2,306	2,639	855

6. Mining properties, plant and equipment

		Plant & equipment	Mining property development	Others	Total
Cost	Building				
	\$	\$	\$	\$	\$
Balance - October 1, 2011	4,853	10,504	18,357	334	34,048
Additions	634	1,548	1,214	31	3,427
Reclamation (note 10)	-	-	(1,550)	-	(1,550)
Disposals	(23)	(152)	-	-	(175)
Balance - September 30, 2012	5,464	11,900	18,021	365	35,750
		Plant & equipment	Mining property development	Others	Total
Accumulated depreciation	Building				
	\$	\$	\$	\$	\$
Balance - October 1, 2011	2,302	5,280	5,330	161	13,073
Depreciation and amortization expenses	228	1,149	893	16	2,286
Balance - September 30, 2012	2,530	6,429	6,223	177	15,359
Net book value as at September 30, 2012	2,934	5,471	11,798	188	20,391

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			Mining		
		Plant &	property		
Cost	Building	equipment	development	Others	Total
	\$	\$	\$	\$	\$
Balance - October 1, 2010	2,991	7,803	17,304	235	28,333
Additions	1,862	2,711	1,053	99	5,725
Disposals	-	(10)	-	-	(10)
Balance - September 30, 2011	4,853	10,504	18,357	334	34,048
			Mining		
		Plant &	property		
Accumulated depreciation	Building	equipment	development	Others	Total
	\$	\$	\$	\$	\$
Balance - October 1, 2010	1,991	4,530	4,196	142	10,859
Depreciation and amortization expenses	311	750	1,134	19	2,214
Balance - September 30, 2011	2,302	5,280	5,330	161	13,073
Net book value as at September 30, 2011	2,551	5,224	13,027	173	20,975
Net book value as at October 1, 2010	1,000	3,273	13,108	93	17,474

7. Long-term debt

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

		September 30,	September 30,	October 1,
		2012	2011	2010
Description	Interest rate	Principal	Principal	Principal
		\$	\$	\$
C and D Debentures (a)	6.00%	247	188	128
Bice Bank mortgage (b)	5.13%	888	-	-
Pimenton note, due on August 15, 2011 (c)	5%	-	-	1,944
Lease (note 14 b)	4% -5.2%	422	320	531
Less: Current portion		(538)	(238)	(2,239)
Long-term debt		1,019	270	364

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The maturities of long-term debt and interest payments are as follows for the year ended September 30:

Ended September 30,	
2012-2026	2,060
	2,060
Less: Future accretion	(503)
	1,557

Interest paid by the Company was \$60 for the year ended September, 30, 2012 (2011- \$226).

- 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 with the C Debenture, the company issued 782,100 common share purchase warrants exercisable for 60 months from the date of issuance at CA\$0.50 per share. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are separately presented in the consolidated statement of financial position. The \$300 face value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determined using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, the Company had allocated \$112 to equity, \$114 to warrants and \$185 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 into up to 826,155 common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition with the D Debenture, the Company issued 826,155 common share purchase warrants per common share exercisable for 60 months from the date of issuance at CA\$0.5 per share. On August 20, 2010 \$230 of the D Debentures were converted into 575,805 common shares. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are separately presented in the consolidated statement of financial position. The value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was 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 \$62 to debt.

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- 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 instalments of principal UF 109 (\$24) and interest until 2026. The mortgage is secured by certain fixed assets with an approximate value of \$1,309.
- c) The Pimenton notes which were due on August 15, 2011 were accreted to \$1,944 as at September 30, 2010, with \$49 being charged to interest expense in 2010. Interest expense for the year ended September 30, 2011 was \$77 (2010 - \$73)

8. 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, 2010	86,682,586	73,060
Warrants exercised (note 10)	6,048,128	4,113
Bonus share (i)	210,000	127
Options exercised (note 9 c)	1,250,000	810
Balance – September 30, 2011	94,190,714	78,110
Bonus share (ii)	735,000	386
Balance – September 30, 2012	94,925,714	78,496

- i) On January 18, 2011 210,000 bonus shares were issued to certain employees who are not officers of the Company. They were valued at \$127 using the TSX closing price of CA \$0.60 per share.
- ii) On February 13, 2012 the Company issued the balance of 735,000 bonus shares pursuant to the Company's current stock option plan to the Pimenton workers. They were valued at \$386 using the TSX closing price of CA \$0.52 per share.

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c) Share option plan

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

A summary of the Company's Plan at September 30, 2012 is presented as follow:

	Number of options	Weighted average exercise price CA\$
Balance – October 1, 2010	8,646,999	0.55
Changes during the year		
Granted (a)	60,000	0.60
Exercised (b)	(1,250,000)	0.35
Expired	(571,428)	0.65
Granted (c)	186,000	0.79
Granted (d)	571,428	0.79
Granted (e)	51,000	0.60
Balance – September 30, 2011	7,693,999	0.58
Cancelled (f)	(78,000)	0.6 /0.79
Balance – September 30, 2012	7,615,999	0.59

- a) On January 11, 2011 the Company issued 60,000 Common Stock Options to an employee who is not an officer of the Company, at an exercise price of CA\$0.60 per share for a period of three years from the date of issuance. The vesting period is between the date of grant and three years. These options were valued at \$29 using the Black –Scholes valuation model, assuming a risks-free rate of 1.03%, no dividend, and volatility factor of 142% and expensed as stock-based compensation over the vesting period.
- b) On February 28, 2011 the Executive-Vice President-Director of Claims and Administration and Director of the Company (Mario Hernández) and the Executive-Vice President-Director of Exploration and Director of the Company (David Thomson) exercised 900,000 options granted on April 19, 2010 at a price of CA\$0.35 per share for net proceeds of \$583. The fair value of \$270 assigned to these options was transferred to share capital. In addition, employees of the Company exercised 350,000

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options granted on April 19, 2010 at a price of CA\$0.35 per share for net proceeds of \$227. The fair value of \$105 assigned to these options was transferred to share capital. The market share price at the exercise date was CA\$0.85.

- c) On April 29, 2011 the Company issued 186,000 Common Stock Options to ten employees who are not officers of the Company, at an exercise price of CA\$ 0.79 per share for a period of five years from the date of issuance. The vesting periods are between the date of the grant and three years. These options were valued at \$147 using the Black –Scholes valuation model, assuming a risk-free rate of 1.96%, no dividend, and volatility factor of 170% and expensed as stock-based compensation over the vesting period.
- d) The Company modified 571,428 common stock options issued to Directors of the Company that were due to expire on March 1, 2011. The new grant of stock options was issued on April 29, 2011 at an exercise price of CA\$0.79 per share for a period of five years from the date of issuance with immediate vesting. These options were valued at \$452, using the Black –Scholes valuation model, assuming a risk-free rate of 1.96%, no dividend and volatility factor of 170.23% and expensed as stock-based compensation over the vesting period.
- e) On July 26, 2011 the Company issued 51,000 Common Stock Options to three employees who are not officers of the Company, at an exercise price of CA\$ 0.60 per share for a period of five years from the date of issuance. The vesting period is between the date of the grant and three years. These options were valued at \$31 using the Black –Scholes valuation model, assuming a risks-free rate of 1.50%, no dividend, and volatility factor of 169% and expensed as stock-based compensation over the vesting period.
- f) During November, December, 2011 and January 2012, 78,000 Common Stock Options issued to employees who are not officers of the Company, were cancelled.

During the year ended September 30, 2012 and 2011 the Company has recognized a total stock based compensation expense of \$481 and \$566 respectively. Options outstanding as at September 30, 2012 are as follows:

Exercise price CA\$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Options exercisable
0.45-0.90	4,053,953	0.45	0.69	4,053,953
0.40-0.60	1,226,046	1.88	0.44	876,046
0.35-0.35	1,605,572	2.55	0.35	1,605,572
0.60-0.79	730,428	3.58	0.79	677,428
0.35-0.90	7,615,999	1.42	0.59	7,212,999

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d) Basic and diluted loss per share

	2012	2011
	\$	\$
(Loss) income for the year	(3,712)	3,187
Weighted average number of shares outstanding	94,595,467	90,656,813
Basic (loss) income per share	(0.04)	0.04
Diluted (loss) income per share	(0.04)	0.03

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.

9. Warrants

Liability	Number of warrants	\$
Balance - October 1, 2010	7,495,818	770
Exercised	(3,859,607)	(390)
Expired	(3,036,211)	(282)
Revaluation warrants	-	(52)
Balance – September 30, 2011	600,000	46
Expired	(600,000)	(46)
Balance – September 30, 2012	-	-

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Equity	Number of warrants	\$
Balance – October 1, 2010	3,897,400	565
Modification, extension of expiry date	-	10
Exercised	(2,188,300)	(344)
Expired	(100,846)	(20)
Balance – September 30, 2011	1,608,254	211
Balance – September 30, 2012	1,608,254	211

In December 17, 2010 TSX agreed to further extend the expiration date on the 4,618,728 outstanding common share purchase warrants (the “Warrants”) and 561,693 outstanding common share purchase warrants (the “Broker Warrants”) which were due to expire originally on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants was \$1,230. The fair value of the warrants was determined using the Black-Scholes valuation model, assuming a risk-free interest rate of 0.29%, no dividend and a volatility factor of 153%. These warrants were further extended to June 17, 2011, at which time 2,089,981 warrants and 460,866 broker warrants were exercised and 2,528,747 warrants and 100,846 broker warrants expired. The fair value of these modified warrants and broker warrants was \$27, in excess of the fair value of the previous modified warrants.

The following table summarizes information about the warrants outstanding as at September 30, 2012:

	September 30, 2012	
Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price CA\$
<u>1,608,254</u>	<u>2.58</u>	<u>0.50</u>

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10. Reclamation and remediation

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

		September 30,	September 30,	October 1,
		2012	2011	2010
		\$	\$	\$
Balance - October 1,		3,201	2,959	2,713
Change in interest rate		18	81	96
Accretion		58	161	150
Cash flow mine closure revaluation	(i)	(1,550)	-	-
Balance September 30,		1,727	3,201	2,959

(i) The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$1,988 is expected to be incurred over 6.5 years. These new estimated cash flows are discounted using a long term Chilean interest rate of 2.55% as at September 30, 2012. The effect was a decrease in the mine closure provision and development cost of \$1,550.

A 10% change in the discount rate, assuming that all other variables remain constant, would result in a liability change of approximately \$28. The estimate also assumes an undiscounted remediation cash flow of \$1,988. Assuming that all other variables remain constant, a 10% change in the undiscounted remediation estimate would result in a liability change of approximately \$168.

11. Expenses by nature

Operating costs are comprised of the following:

		September 30,	September 30,
		2012	2011
		\$	\$
Direct labor costs		7,444	5,859
Stock based compensation		386	-
Other direct mining and mill costs (i)		9,506	6,149
Depreciation, depletion and amortization		2,286	2,214
Royalties		1,478	1,407
Total operating costs		21,100	15,629

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- (i) Other operating costs consists of direct mining and milling costs; which include fuel and electricity, maintenance and repair costs as well as operating supplies, external services and third party smelting and refining fees.

General, sales and administrative costs consist of the following:

	September 30,	September 30,
	2012	2011
	\$	\$
Office and overhead costs	760	662
Salaries and wages	722	1,074
Stock-based compensation	95	566
Listing fees	180	145
Professional fees	1,146	962
Sales expenses	465	359
Total general, sales and administrative expenses	3,368	3,768

Other gains and losses are comprised of the following:

	September 30,	September 30,
	2012	2011
	\$	\$
Fixed asset sales	12	(35)
Other income (expenses)	84	(20)
Total other gains and losses (net)	96	(55)

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Exploration costs by project are comprised of the following:

	September 30,	September 30,
	2012	2011
	\$	\$
Santa Cecilia (note 16)	2,313	-
Catedral	56	170
La Bella	637	481
Cal Norte	5	6
Tordillo	68	93
Bandurrias	33	30
Services	280	280
Other	-	2
Total exploration costs	3,392	1,062

Exploration costs by category are comprised of the following:

	September 30,	September 30,
	2012	2011
	\$	\$
Drilling and geological studies	1,767	184
Claims costs	526	329
Services	825	457
Professional fees	146	50
Others	128	42
Total exploration costs	3,392	1,062

12. 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 September 30, 2012 and 2011, segmented information is presented as follows:

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	September 30, 2012		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	25,549	-	25,549
Services revenue	1,896	-	1,896
Operating costs	(18,814)	-	(18,814)
Amortization and depreciation	(2,268)	(18)	(2,286)
Operating costs - services	(1,760)	-	(1,760)
Reclamation and remediation	(58)	-	(58)
General, sales and administrative	(1,417)	(1,951)	(3,368)
Foreign exchange	(27)	(99)	(126)
Interest	(21)	(106)	(127)
Other gains and losses (net)	(96)	-	(96)
Exploration costs	-	(3,392)	(3,392)
Income tax expense	(249)	-	(249)
Deferred income tax	(881)	-	(881)
Total other income (expenses)	(6,777)	(5,566)	(12,343)
Income (loss) and other comprehensive income (loss) for the year	1,854	(5,566)	(3,712)
Mining property, plant and equipment	18,508	1,883	20,391
Total assets	24,375	2,433	26,808

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	September 30, 2011		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	24,289	-	24,289
Operating cost	(13,254)	(161)	(13,415)
Amortization and depreciation	(2,214)	-	(2,214)
Reclamation and remediation	(161)	-	(161)
General, sales and administrative	(1,886)	(1,882)	(3,768)
Warrants revaluation	-	(345)	(345)
Foreign exchange	150	(97)	53
Interest	(163)	(82)	(245)
Other gains and losses (net)	36	19	55
Exploration costs	-	(1,062)	(1,062)
Total other income (expenses)	(4,238)	(3,449)	(7,687)
Income (loss) and other comprehensive income (loss) for the year	6,797	(3,610)	3,187
Mining property, plant and equipment	19,325	1,650	20,975
Total assets	24,077	3,249	27,326

13. Income taxes

The income tax expense balance consists of:

	September 30,	September 30,
	2012	2011
	\$	\$
Current income tax:		
Based on taxable income for the period	249	-
	249	-
Deferred income tax:		
Original/reversal of temporary differences	881	-
	881	-
Income tax expense	1,130	-

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The Company operates in multiple industries and jurisdictions, and the related income is subject to varying rates of taxation. The combined Canadian tax rate reflects the federal and provincial tax rates in effect in Ontario, Canada for each applicable year. A reconciliation of the combined Canadian effective rate of income tax is as follows:

	September 30, 2012	September 30, 2011
	\$	\$
(Loss) income before taxes	(2,582)	3,187
Combined Canadian tax rate	26.90%	28.77%
Income tax (recovery) expense at combined rate	(695)	917
Difference in foreign tax rates	(83)	(662)
Non-deductible amounts	(3)	320
Previously unrecognized deferred tax assets	1,798	(1,119)
Change in deferred tax assets not recognized	113	544
Income tax expense	1,130	-

The deferred income tax assets (liabilities) balance reported on the balance sheet is comprised of the temporary differences as presented below:

	September 30, 2012	September 30, 2011	October 1, 2010
	\$	\$	\$
Deferred income tax assets:			
Property, plant and equipment, net	404	266	367
Reclamation and remediation obligations	345	461	429
Other long-term liabilities	144	132	108
Tax loss carry forwards	-	1,017	-
Deferred income tax assets-gross	893	1,876	904
Set-off against deferred income tax liabilities	(893)	(1,876)	(904)
Deferred income tax assets-per balance sheet	-	-	-
Deferred income tax liabilities:			
Property, plant and equipment, net	(1,609)	(1,725)	(815)
Other	(165)	(151)	(89)
Deferred income tax liabilities-gross	(1,774)	(1,876)	(904)
Set-off of deferred income tax assets	893	1,876	904
Deferred income tax liabilities-per balance sheet	(881)	-	-

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The deferred income tax liability continuity summary is as follows:

		September 30, 2012	September 30, 2011	October 1, 2010
		\$	\$	\$
Balance - October 1, 2010		-	-	-
Balance - September 30, 2011		-	-	-
Recognized in profit/loss		(881)	-	-
Balance - September 30, 2012		(881)	-	-

A Geographic split of the Company's tax losses not recognized and the associated expiry dates of those losses and credits are as follows:

	Expiry Date	September 30, 2012	September 30, 2011	October 1, 2010
		\$	\$	\$
Tax losses - gross				
Canada	2028-2031	6,857	5,513	4,139
Chile	None	-	5,086	-
United States	2026-2031	1,243	1,140	1,222
Tax losses - gross		8,100	11,739	5,361
Tax benefit at tax rate of 25% - 41.84%		-	-	-
Set-off against deferred tax liabilities		-	(5,086)	-
Total tax loss assets not recognized		8,100	6,653	5,361

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14. Commitments

a) Project commitments

Project	Description	Total potential commitment \$	Paid to date \$
Catedral and Rino	A loan for development costs	up to 2,500	250
La Bella	<p>La Bella inner was acquired in December 2007 by the Company for an option agreement of the property. Under the modified agreement entered into on December 16, 2011 on the inner circle the Company has paid \$125. The remaining payment obligations will be paid as follows \$200 in December 2012; \$300 in December 2013 and \$875 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.</p> <p>On the outer circle, under the new agreement the Company has paid \$125. The remaining payment obligations will be paid as follows: \$200 in December 2012; \$300 in December 2013 and \$875 in December 2014. The Company will pay a 3% net smelter royalty from production thereafter.</p>	2,750	250
Cal Norte	Capital contribution of \$1,800 to earn 60% equity interest	1,800	1,556
Tordillo	As compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay \$250 within 50 days of first cash flow from the property.	250	-
Cerro del Medio	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 share of a drilling campaign on the property which is expected to cost approximately \$4,000 in total. In order to obtain 65.6% participation in the project, CEG is committed to fund an estimated \$2,624 of this drilling campaign. Mario Hernandez and David Thomson, and an arm's length third party (the majority shareholders in aggregate) are owners of 65.6% of CDM.	2,624	2,313

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b) Lease commitments

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

	September 30,
	\$
2013	242
2014	148
2015	52
	442
Interest	20
	462

15. Compensation of key management

Key management includes directors (executive and non-executive) and senior executives. The compensation paid or payable to key management for employee services is presented below:

September 30,	2012	2011
	\$	\$
Salaries and short-term director benefits (iii)	124	167
Directors fees (iv)	45	-
Other long – term director benefits (Stock Options)	46	567
Services contract (i), (ii)	410	410
	<u>625</u>	<u>1,144</u>

- (i) 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 was renewed for an additional two years period at the end of each year. Under the term of the contract, the Company will pay \$300 per year to Compañía Minera Auromin Ltda. 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 project and providing other services related to the exploration and development of mining projects. As of September 30, 2012 accounts payable and accrued liabilities included \$225 related to this contract (2011 - \$75).
- (ii) 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 was renewed for an additional two years period at the end of each year. Under the term of the contract, the Company will

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pay \$110 per year to Compañía Minera Chañar Blanco S.A. The services to be provided by Minera Chañar Blanco S.A. include, maintaining title and ownership of mining properties acquired by the Company, acquiring water rights or request concessions of water rights on the properties acquired by the Company and negotiating the acquisition of new mining properties for the Company. As of September 30, 2012 accounts payable and accrued liabilities included \$83 related to this contract (2011 - \$28).

- (iii) 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 was renewed for an additional two year period at the end of each year. Under the terms of the contract, the Company will pay \$110 per year to the CEO plus a travel allowance. As of September 30, 2012 the Corporation paid \$14 (2011 - \$57) for the truck and its expenses and \$110 (2011 - \$110) for salary.
- (iv) On June 21, 2011 the Board of Directors approved a resolution that non-executive directors be paid \$1 per meeting attended. As at September 30, 2012 amounts due to the directors for these director fees were \$33 (2011 - \$nil).

16. Related party transactions

A company owned by the CEO (who is also a director) billed \$7 to the Company at September 30, 2012 (2011 - \$13) in relation to the office space and services used by the Company. In addition, the Company has a receivable from such officer and director of the Company for \$322 as at September 30, 2012 (2011 - \$387) of which \$189 (2011 - \$286) is a non-interest-bearing note receivable without specific repayment terms and is secured by collateral represented by 653,200 common shares owned by the CEO.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$51 to the Company for accounting and administration services rendered at September 30, 2012 (2011 - \$52). Accounts payable and accrued liabilities for \$9 include payables to this officer in relation to such services at September 30, 2012 (2011 - \$8).

A law firm, of which a director of the Company is a partner, billed the Company \$236 at September 30, 2012 (2011 - \$203) for legal services. Accounts payable and accrued liabilities include \$6 at September 30, 2012 (2011- \$4).

Accounts payable and accrued liabilities also include \$85 at September 30, 2012 (2011-\$114) 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 \$767 in royalty payment in 2012 (2011 - \$846).

Accounts payable and accrued liabilities include \$85 at September 30, 2012 (2011-\$114) for royalties due to David Thomson who is the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid \$767 in royalty payment in 2012 (2011 - \$846). Also accounts payable include \$9 (2011 - \$9) for interest not paid on the Debenture issued to him in 2006 and which was converted on June 9, 2009.

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Amounts due to related parties also include \$1,225 at September 30, 2012, of which \$613 is from Compañía Minera Auromin Ltda. a Company owned by David Thomson, and \$612 from Minera Chañar Blanco S.A. a Company owned by Mario Hernández.

In October 2011 Pimenton entered into a services contract with CDM (note 14). The services to be provided by Pimenton include management, machinery and equipment rent. As at September 30, 2012 Pimenton has recognized revenue of \$1,896. The costs related to these services amounted \$1,760. As at September 30, 2012 receivables include \$416 from non related third parties who hold the balance of 34.4% of CDM.

17. Supplemental cash flow information

	September 30, 2012 \$	September 30, 2011 \$
Changes in non-cash working capital relating to operations		
Receivables	(926)	(796)
Inventories	333	(1,784)
Recoverable taxes	137	1,287
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	1,049	(364)
	593	(1,657)
Significant non-cash financing and investing activities		
Shares and warrants issued	386	1,793
Total interest paid (note 7)	60	226
Total income tax paid	44	-

18. Financial instruments

(a) Financial assets and liabilities

The Company's financial instruments at September 30, 2012 and 2011 consist of cash and cash equivalents, accounts receivable, account receivable from related parties, trade and other payable, payable to related parties, warrant liabilities and current and long-term debt.

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

Fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At September 30, 2012, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

	Level 2
Accounts receivable arising from sales of metal concentrates	\$782

At September 30, 2012, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as level 3 in the fair value hierarchy above.

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

At September 30, 2012 the carrying amounts of accounts receivable not arising from sales of metal concentrates and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

(b) Management of Financial Risk

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

Credit Risk

Accounts receivable consist of:

	September 30, 2012	September 30, 2011	October 1, 2010
	\$	\$	\$
Accounts receivable from customers	782	969	454
Other sundry receivables	1,612	434	303
	2,394	1,403	757

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The Company, in the normal course of business, is exposed to credit risk from its two customers: a gold refinery in Europe and an entity owed by the State of Chile. Accounts receivable are subject to normal industry credit risks and are considered low.

During the year ended September 30, 2012 approximately 66% (67% - 2011) of the Company's sales were 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. During the same period 34% (33% - 2011) of the Company's sales were to Empresa Nacional de Minería (Enami) to smelter its gold and copper concentrate. Enami is owned by the State of Chile through its ownership of Corporación Nacional del Cobre (CODELCO). Enami pays for approximately 60% of the value of shipments the week following delivery and the balance is paid one to two months following the initial payment.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. At September 30, 2012, the Company had a positive working capital of approximately \$223 which included cash and cash equivalents of \$1,336. At September 30, 2012 the Company's accumulated deficit was approximately \$69,045 and shareholders' equity was approximately \$17,309.

The following are the maturities of the Company's liabilities as of September 30, 2012:

Contractual Obligations	Total	Less than 1 year	1-3 years	Over 4 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,587	3,570	17	-
Amount due to related parties	1,747	1,747	-	-
Long term debt and finance leases (note 7)	1,557	538	319	700
Total Contractual Obligations	6,891	5,855	336	700

Foreign currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Canadian Dollar and Chilean Peso.

The Company's risk management objective is to manage cash flow risk related to foreign denominated cash flows. The Company is exposed to currency risk related to changes in rates of exchange between the US\$ and the local currencies of the Company's principal operating subsidiaries. The Company's revenues and certain debt are denominated in US dollars, while most of the Company's operating and capital expenditures are denominated in the local currency. A significant change in the currency exchange rates between the US dollar and foreign currencies could have a material effect on the Company's net earnings and on other comprehensive income.

Cerro Grande Mining Corporation

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The following table summarizes, in U.S. dollar equivalents, the Company's major currency exposures as at September 30, 2012:

	Canadian Dollars	Chilean Pesos
Cash and cash equivalents	3	1,030
Accounts receivable	-	798
Inventory	-	1,066
Trade and other payables	(209)	(1,642)
Long-term debt	-	(474)
Total as at September 30, 2012	(206)	778

The impact of the US dollar strengthening by 10% at September 30, 2012 against the Company's foreign currencies with all other variables held constant would result in a \$97 increase or decrease in the Company's other comprehensive income.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of gold, silver, and copper.

The Company is particularly exposed to the risk of movements in the price of gold. Declining market prices for gold could have a material effect on the Company's profitability, and the Company's policy is not to hedge its exposure to gold. The average gold price, in USD per ounce, was \$1,646 in 2012 (2011: \$1,470). The Company estimates that an increase or decrease in the commodity prices by 10% in 2012 with all other variables held constant would have resulted in an increase or decrease in net income of approximately \$2,235.

19. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

The acquisition, exploration, financing and development of natural resources require significant expenditure before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes and debentures, bank debt and extended terms from creditors.

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

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20. Subsequent events

On November 15, 2012, Mario Hernandez and David Thomson, the companies they respectively control, each acquired one Debenture convertible into common shares of the Company. Mario Hernandez acquired a Debenture in the aggregate principal amount of \$704,443 which is convertible into up to 2,348,143 Common Shares. David Thomson acquired a Debenture in the aggregate principal amount of \$863,980 which is convertible into up to 2,879,933 Common Shares.

The Debentures have been issued in payment of cash advances to the Company totalling \$1,568,423 which were used for cash payments in lieu of issuing common stock from the Company's stock bonus plan which increase was not approved at the last Annual and Special Meeting of shareholders totalling \$905,719 to workers at the Company's 100% owned Pimenton mine in return for a four year labour contract; to fund capital expenditures on Pimenton and to fund working capital. The Debentures mature on November 15, 2017 and the outstanding principal there under may be converted at the option of the holder at any time into common shares of the Company on the basis of 333.33 common shares for each \$100 of outstanding principal (being a conversion price of CDN\$0.30 per share). Interest rate on the Debentures is 6% payable on a quarterly basis. The Company may also, at its option, accelerate the conversion (the "Acceleration Right") of all, but not less than all, of the outstanding principal, at any time after November 15, 2013 if the closing price of the Common Shares on the Toronto Stock Exchange, equals or exceeds CDN\$0.35 per share for a period of 20 consecutive trading days beginning at any time after November 15, 2013 (the "Acceleration Period"), provided that the Acceleration Right is exercised by the Company within 20 Business Days after the end of the Acceleration Period.

Directors* and Officers

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

Toronto, ON, Canada

Chairman

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

Stephen W. Houghton*

Santiago, Chile

Chief Executive Officer

Founder of Cerro Grande Mining Corporation

Mario Hernandez A.*

Santiago, Chile

Executive Vice President and Director, Claims and
Land Management

William Hill*(1),(3),(4)

Rock wood, ON, Canada

Principal, William Hill Mining Consultants, Ltd.

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

Toronto, ON, Canada

Fernando Saenz Poch*

Concepción, Chile

Juan A Proaño*(3)

Washington Crossing,

Pennsylvania, USA

Director of Minera Poderosa S.A.

a gold mining company located in Peru

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

West Falmouth, Massachusetts, USA

Chairman, Givens Hall Bank and Trust Limited

David R. S. Thomson*

Santiago, Chile

Executive Vice President and Director of
Exploration

Peter W. Hogg

Toronto, ON, Canada

Chief Financial Officer

(1) Member, Audit Committee

(2) Member, Compensation Committee

(3) Technical Committee

(4) Corporate Governance and Nominating
Committee

Corporate Information

Website: www.cegmining.com

Toronto Stock Exchange

Stock Symbol: CEG

OTCQX International

Stock Symbol: CEGMF

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Auditors:

PricewaterhouseCoopers LLP

Toronto, Ontario, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services

Toronto, Ontario, Canada