

## CERRO GRANDE MINING CORPORATION

67 Yonge Street, Suite 1201  
Toronto, Ontario, M5E 1J8

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN THAT** the annual and special meeting (the “**Meeting**”) of shareholders (the “**Shareholders**”) of Cerro Grande Mining Corporation (the “**Company**”) will be held at the offices of Norton Rose Canada LLP, Royal Bank Plaza, South Tower, Suite 3800, 200 Bay Street, Toronto, Ontario, on Monday, March 25, 2013 at 4:00 p.m. (Toronto time), for the following purposes:

1. to receive the audited consolidated financial statements of the Company for the year ended September 30, 2012, together with the report of the auditors thereon;
2. to consider and, if deemed advisable, to pass an ordinary resolution electing, as directors for the ensuing year, the nominees proposed by management of the Company in the accompanying management information circular dated February 21, 2013 (the “**Circular**”) to hold office until the close of the next annual meeting of shareholders of the Company;
3. to consider and, if deemed advisable, to pass an ordinary resolution reappointing PricewaterhouseCoopers LLP, Chartered Accountants, as the auditors of the Company and to authorize the directors of the Company to fix the auditors’ remuneration and terms of engagement;
4. to consider and, if deemed advisable, to pass an ordinary resolution (the full text of which is set out under the heading “Matters to be Acted Upon at the Meeting — Amendments to the Share Option Plan — Approval by Shareholders” in the Circular) of disinterested shareholders to approve certain amendments to the Company’s share option plan, as described in further detail in the accompanying Circular;
5. To consider and, if deemed advisable, to pass an ordinary resolution (the full text of which is set out under the heading “Matters to be Acted Upon at the Meeting — Approval of Amendment to By-law No. 1 — Confirmation by Shareholders” in the Circular) to ratify, confirm and approve By-law No. 1A; and
6. to transact such other business as may properly come before the Meeting, or any adjournment or postponement thereof.

The specific details of the matters to be put before the Meeting as identified above are set forth in the Circular accompanying this Notice. This Notice and the accompanying Circular have been sent to each director of the Company, each shareholder of the Company entitled to notice of the Meeting and the auditors of the Company.

Shareholders, even those who are able to attend the Meeting in person are requested to sign and return the enclosed form of proxy to Computershare Investor Services Inc., 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 so as to arrive no later than 4:00 p.m. (Toronto time) on March 21, 2013 or the second business day preceding the of any adjournment(s) or postponement(s) of the Meeting. Notwithstanding the foregoing, the Chair of the Meeting has the sole discretion to accept proxies received after such deadline but is under no obligation to do so.

If you have any questions or need assistance to vote, please contact the Company’s proxy solicitation agent, CST Phoenix Advisors, by e-mail at [inquiries@phoenixadvisorscst.com](mailto:inquiries@phoenixadvisorscst.com), by telephone at 1-866-822-1243 (toll-free within Canada or the United States) or 1-201-806-2222 (banks, brokers and collect calls outside Canada and the United States) or by fax at 1-888-509-5907 (North American Toll Free Facsimile) or 1-647-351-3176.

**DATED** the 21<sup>st</sup> day of February, 2013.

**BY ORDER OF THE BOARD OF DIRECTORS**

*“Stephen W. Houghton” (signed)*

\_\_\_\_\_  
Stephen W. Houghton  
Chief Executive Officer

**CERRO GRANDE MINING CORPORATION**  
67 Yonge Street, Suite 1201  
Toronto, Ontario, M5E 1J8

**MANAGEMENT INFORMATION CIRCULAR**

**SOLICITATION OF PROXIES**

The information contained in this management information circular (the "Circular"), which is dated February 21, 2013, is furnished in connection with the solicitation of proxies to be used at the annual and special meeting of the shareholders of Cerro Grande Mining Corporation (the "Company") to be held at the offices of Norton Rose Canada LLP, Royal Bank Plaza, South Tower, Suite 3800, 200 Bay Street, Toronto, Ontario, at 4:00 p.m. (Toronto time) on Monday, March 25, 2013 (the "Meeting") for the purposes set forth in the notice of meeting (the "Notice of Meeting") accompanying this Circular and at any adjournment(s) or postponement(s) thereof. It is expected that the solicitation will be made primarily by mail but proxies may also be solicited personally by directors, officers or employees of the Company. **The solicitation of proxies by this Circular is being made by or on behalf of the management of the Company.**

The Company has retained CST Phoenix Advisors ("Phoenix"), a proxy solicitation firm, for assistance in connection with the solicitation of proxies for the Meeting for a fee of approximately \$25,000 plus additional charges related to telephone calls and out-of-pocket expenses. The total cost of the solicitation will be borne by the Company.

If you have any questions or need assistance to vote, please contact Phoenix, by e-mail at [inquiries@phoenixadvisorscst.com](mailto:inquiries@phoenixadvisorscst.com), by telephone at 1-866-822-1243 (toll-free within Canada or the United States) or 1-201-806-2222 (banks, brokers and collect calls outside Canada and the United States) or by fax at 1-888-509-5907 (North American Toll Free Facsimile) or 1-647-351-3176.

**APPOINTMENT AND REVOCATION OF PROXIES**

A form of proxy is enclosed and, if it is not your intention to be present in person at the Meeting, you are asked to complete and return the form of proxy in the envelope provided. The proxy must be executed by the shareholder or the attorney of such shareholder, duly authorized in writing. Proxies to be used at the Meeting must be deposited with Computershare Investor Services Inc., 9<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 so as to arrive no later than 4:00 p.m. (Toronto time) on the second business day preceding the date of the Meeting or the date of any adjournment(s) or postponement(s) thereof.

The persons named in the enclosed form of proxy accompanying this Circular are directors and/or officers of the Company. **A shareholder of the Company has the right to appoint a person or company other than the persons specified in such form of proxy and who need not be a shareholder of the Company to attend and act for him or her and on his or her behalf at the Meeting. Such right may be exercised by striking out the names of the persons specified in the form of proxy, inserting the name of the person or company to be appointed in the blank space provided in the form of proxy, signing the form of proxy and returning it in the reply envelope in the manner set forth in the accompanying Notice of Meeting.**

In accordance with section 148(4) of the *Canada Business Corporations Act* ("CBCA") a shareholder who has given a proxy may revoke it at any time to the extent that it has not been exercised. A proxy may be revoked by an instrument in writing, including another completed form of proxy, executed by the shareholder or the shareholder's attorney authorized in writing, deposited at the registered office of the Company, or at the offices of Computershare Investor Services Inc., 9<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, no later than 4:00 p.m. (Toronto time) on the last business day preceding the date of the Meeting, or any adjournment(s) or postponement(s) thereof. Notwithstanding the foregoing, the Chair of the Meeting has the sole discretion to accept proxies received after such deadline but is under no obligation to do so

## VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXIES

The persons named in the enclosed form of proxy will vote or withhold from voting the common shares of the Company (each, a “**Common Share**”) in respect of which they are appointed by proxy on any ballot that may be called for in accordance with the instructions thereon. **In the absence of such specifications, such Common Shares will be voted in favour of each of the matters referred to herein.**

**The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to or variations of matters identified in the Notice of Meeting and with respect to other matters, if any, which may properly come before the Meeting.** At the date of this Circular, the management of the Company knows of no such amendments, variations, or other matters to come before the Meeting. However, if any other matters which are not known to management should properly come before the Meeting, the proxy will be voted on such matters in accordance with the best judgment of the named proxy.

## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

As of the close of business on February 21, 2013 the Company had outstanding 94,925,714 Common Shares, each carrying one vote. Each holder of a Common Share of record at the close of business on February 13, 2013, the record date established for notice of and voting at the Meeting, will, unless otherwise specified herein, be entitled to one vote for each Common Share held by such holder on the matters proposed to come before the Meeting.

As of the date hereof, to the knowledge of the directors or executive officers of the Company, no person beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Common Shares, except (i) Mario Hernandez, a director and the Executive Vice President, Claims and Land Management of the Company who beneficially owns, or controls or directs, directly or indirectly, 14,268,618 Common Shares, representing approximately 15.03% of the outstanding Common Shares as at the date hereof, and (ii) David R.S. Thomson, a director and the Executive Vice President, Exploration of the Company who beneficially owns, or controls or directs, directly or indirectly, 14,081,156 Common Shares, representing approximately 14.83% of the outstanding Common Shares as at the date hereof.

## CURRENCY

Any reference to “\$” or “dollars” in this Circular is a reference to the lawful currency of Canada unless otherwise indicated.

## BUSINESS OF THE MEETING

### Election of Directors

The number of directors of the board of directors of the Company (the “**Board**”) must consist of not more than 15 and not less than 3 directors to be elected annually. Each of the present directors will hold office until the Meeting. At the Meeting, nine directors will be nominated for election. All directors so elected will hold office until the next annual meeting of shareholders of the Company or until their successors are elected or appointed. **The persons named in the enclosed form of proxy intend to cast the votes to which the Common Shares represented by such proxy are entitled for the election of the nominees whose names are set forth below, unless the shareholder who has given such proxy has directed that the Common Shares be withheld from voting on the election of directors.** Management of the Company does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason at or prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee at their discretion.

The following table and the notes thereto set out the name and the province or state and country of residence of each person proposed to be nominated for election as a director, his current position and

office with the Company, his present principal occupation(s) or employment, the date on which he was first elected or appointed a director of the Company, and the approximate number of Common Shares of the Company beneficially owned, or controlled or directed, directly or indirectly as at the date of this Circular:

Nominee and Province or State and Country of Residence	Position held in Company	Principal Occupation <sup>(1)</sup>	Director Since	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly <sup>(2)</sup>
Paul J. DesLauriers <sup>(3)(4)(5)(6)</sup> Ontario, Canada	Chairman and Director	Executive Vice President, Loewen, Ondaatje, McCutcheon Limited (brokerage firm)	February 5, 2002	235,606 <sup>(7)</sup>
Mario Hernandez Santiago, Chile	Executive Vice President, Claims and Land Management and Director	Executive Vice President, Claims and Land Management and a director of the Company	March 13, 1997	14,268,618 <sup>(8)</sup>
Stephen W. Houghton New York, U.S.A.	Chief Executive Officer and Director	Chief Executive Officer and a director of the Company	May 12, 1994	2,874,963
Frederick D. Seeley <sup>(3)(4)(5)</sup> Massachusetts, U.S.A.	Director	Chairman Givens Hall Bank and Trust Ltd., Cayman Islands, BVI	May 12, 1994	37,750
David R.S. Thomson Santiago, Chile	Executive Vice-President, Exploration and Director	Executive Vice-President, Exploration and a director of the Company	March 13, 1997	14,081,156 <sup>(9)</sup>
William Hill <sup>(3)(5)(6)</sup> Ontario, Canada	Director	President of Wm. Hill Associates, a mining consulting firm	May 15, 2007	Nil
Juan Proaño <sup>(6)</sup> Maryland, U.S.A.	Director	Director of Minera Poderosa S.A., a gold company located in Peru	May 31, 2007	Nil
Richard J. Lachcik <sup>(5)(6)</sup> Ontario, Canada	Secretary and Director	Partner of the law firm of Norton Rose Canada LLP, Toronto, Canada	March 11, 2008	Nil
Fernando Saenz Poch Concepcion, Chile	Director	General Manager, Inversiones FERSA S.A., Concepcion, Chile <sup>(11)</sup>	April 19, 2010	6,334,428 <sup>(10)</sup>

Notes:

- (1) Information respecting the principal occupation of each proposed director has been provided by such proposed director.
- (2) Information respecting holdings of Common Shares has been provided by individual proposed directors.
- (3) Member of the Audit Committee.
- (4) Member of the Compensation Committee.
- (5) Member of the Corporate Governance and Nominating Committee.
- (6) Member of the Technical Committee.
- (7) Held by a company of which Mr. DesLauriers owns all of the issued and outstanding shares.
- (8) Of such Common Shares, 13,721,285 Common Shares are held by three companies of which Mr. Hernandez owns all of the issued and outstanding shares. The remaining 547,333 Common Shares are held by Mr. Hernandez personally.
- (9) Of such Common Shares, 8,765,642 are held by a company which is controlled by another company of which Mr. Thomson owns 66% of the issued and outstanding shares, 4,865,514 are held by a company controlled by Mr. Thomson. The remaining 450,000 Common Shares are held by Mr. Thomson personally.
- (10) Of said Common Shares, 2,309,468 and 3,865,560 are held by Inversiones FERSA S.A. and Lyss Investments C.V., respectively, both of which are companies wholly-owned by Mr. Poch's father, and 159,400 registered in the name of Maria Soledad Poch.
- (11) Mr. Poch's other principal occupation, business, or employment within the five preceding years is as follows: Development Manager at Urupanel S.A., Tacuarembro, Uruguay (2007 to 2009).

Except as described below, no proposed director of the Company is, as at the date of this Circular, or has been, within ten years before the date of this Circular, a director, chief executive officer or chief financial officer of any company that,

1. was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the proposed director was acting in such capacity; or
2. was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the proposed director ceased to act in such capacity and which resulted from an event that occurred while that person was acting in such capacity.

As a result of not filing its audited financial statements for the year ended December 31, 2004 by the filing deadline, Eurasia Gold Inc. (which was then named Eurasia Gold Corp.) ("**Eurasia**") was made subject to an issuer cease trade order issued by the British Columbia, Alberta and Ontario securities commissions which was revoked on June 29, 2005 (following the filing of the required records). Mr. Richard J. Lachcik, a director of the Company, was a director of Eurasia during the time such cease trade order was in effect.

No proposed director of the Company is, as at the date of this Circular, or has been within 10 years before the date of this Circular, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No proposed director of the Company or any personal holding company of such person has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director or personal holding company, as the case may be.

No proposed director of the Company or any personal holding company of such person has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a security holder in deciding whether to vote for a proposed director.

### ***Majority Voting Policy***

The Toronto Stock Exchange (the "**TSX**") has adopted amendments to the TSX Company Manual which require listed companies to disclose whether they have adopted a majority voting policy for the election of directors for non-contested meetings and if not, (i) explain their practices for electing directors, and (ii) why they have not adopted a majority voting policy. A majority voting policy generally provides that a director who has received a majority of withhold votes must tender his or her resignation immediately after the meeting, to be effective upon acceptance of the board of directors. The board of directors will consider whether to accept the resignation and disclose its decision within a limited time period after receipt. Given the recent adoption of the amendment to the TSX Company Manual, and given the traditional low voter turn out for the Company's shareholder meetings, the Board has not yet determined whether to adopt a majority voting policy. Directors are elected at each annual general meeting of shareholders. Nominations are called for at the meeting. If the number of nominees for election as director exceeds the number fixed for such election, the persons with the most "for" votes will be elected. If the number of persons nominated for election as director at the meeting is the same as or less than the number of directors fixed, then the persons nominated will be elected by acclamation.

## **Appointment of Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants, are the current auditors of the Company and were first appointed auditors of the Company in 1994. Shareholders of the Company will be asked at the Meeting to reappoint PricewaterhouseCoopers LLP as the Company's auditors, to hold office until the close of the next annual meeting of shareholders of the Company at such remuneration as may be approved by the directors of the Company. **The resolution approving such reappointment must be passed by a majority of the votes cast by shareholders at the Meeting in respect of such resolution. Unless otherwise specified, the persons named in the enclosed form of proxy will vote FOR the said reappointment of PricewaterhouseCoopers LLP.**

## **Amendments to the Share Option Plan**

### ***Overview of the Share Option Plan***

The Company's share option plan, dated March 31, 1994, (the "**Share Option Plan**") was initially approved by shareholders of the Company on May 12, 1994. The Share Option Plan was amended on January 28, 1997, subject to the approval of shareholders of the Company which was received on March 13, 1997. The Share Option Plan was further amended, as approved by the shareholders of the Company, on March 29, 2001, on March 27, 2002, on March 27, 2003, on March 30, 2004, on April 16, 2006, on March 6, 2008, on March 26, 2009 and on March 28, 2011.

In addition, on March 29, 2001, the shareholders of the Company approved the creation of a share bonus plan embedded within the Share Option Plan (the "**Bonus Plan**"). The Bonus Plan was created to allow the Board to issue Common Shares to eligible participants under the Share Option Plan, in consideration of such participants' contributions to the success of the Company. The Bonus Plan was further amended on March 27, 2002, on March 27, 2003, on March 30, 2004, on April 16, 2006, on March 6, 2008, on March 26, 2009, and on March 28, 2011. The determination regarding the number of Common Shares issued pursuant to the Bonus Plan (the "**Bonus Shares**") to each Eligible Employee (as defined below) will take into consideration the Eligible Employee's present and potential contribution to the success of the Company and shall be determined from time to time by the Board.

The purpose of the Share Option Plan is to enable the Company during the period of time up until it has profits to compensate officers, directors, full or part time employees and other persons who perform services for the Company or any subsidiary of the Company (collectively, the "**Eligible Employees**" and individually, an "**Eligible Employee**") and thereafter to promote the profitability and growth of the Company by encouraging Eligible Employees to extend greater efforts and to become shareholders in the Company.

The Share Option Plan is administered by the Board or, in the Board's discretion, by a committee appointed by the Board for that purpose.

Subject to the provisions of the Share Option Plan, in the event that options granted under the Share Option Plan are surrendered, terminate or expire without being exercised in whole or in part, new options may be granted covering the Common Shares not purchased under such lapsed options. No option may be granted to any Eligible Employee which would have the effect of increasing the aggregate number of shares of any class of shares of the Company subject to all options granted under the Share Option Plan or otherwise with respect to such class to such Eligible Employee to more than five per cent (5%) of the then issued and outstanding shares of such class.

The purchase price per Common Share subject to each option shall be determined by the Board or committee, as applicable. The price at which an Eligible Employee may purchase shares of the Company pursuant to an option granted to such employee under the Share Option Plan shall not be less than the closing price on the TSX for a board lot on the last day immediately preceding the day of the grant that the TSX is open for business (or if the Common Shares of the Company are not listed on the TSX, on such stock exchange in Canada on which the Common Shares are listed and posted for trading as may be selected for such purpose by the Board). In the event that such Common Shares did not trade on such business day, the purchase price shall be the average of the bid and ask prices in respect of such Common Shares at the close of trading on such date. In the event that such Common Shares are

not listed and posted for trading on the TSX or any stock exchange, the purchase price shall be the fair market value of such Common Shares as determined by the Board in its sole discretion.

Options shall not be granted for a term exceeding ten years (the “**Option Period**”). Options may be exercised by an Eligible Employee in whole at any time, or in part from time to time, during the Option Period, subject to the provisions of the Share Option Plan. Options granted under the Share Option Plan may not be assigned or otherwise transferred by a participant other than pursuant to a will, by the laws of descent and distribution or under certain limited circumstances as set out in the Share Option Plan. Options granted under the Share Option Plan may vest at the discretion of the Board or committee, as applicable.

An option granted pursuant to the Share Option Plan may give to the Eligible Employee to whom it is granted the right, in lieu of exercising the option in part or in full and obtaining Common Shares, to receive from the Company a cash payment in an amount determined by deducting from the fair market value of the shares with respect to which the right is exercised the amount that the Eligible Employee would have had to pay for such shares if he or she had exercised the option. If such right is exercised, then the number of shares subject to such option shall be reduced accordingly. For this purpose, the fair market value shall be the weighted average trading price of shares of the Company traded on the TSX during the five consecutive trading days immediately preceding the day on which the right is exercised and a “trading” day shall be a day during which the said TSX is open for normal business.

The right to purchase shares of the Company pursuant to any option granted under the Share Option Plan shall expire on the earlier of the expiry date of the option and the 30<sup>th</sup> day following the day of the termination of employment by the Company of such Eligible Employee but if: (a) the Eligible Employee is given a payment in lieu of a notice of termination of employment, then such employee shall be informed of the period of time with respect to which such payment is made and the said period of 30 days shall expire at the end of such period, or (b) if the Eligible Employee dies while still in the employment of the Company, such right to purchase shall continue for a period being the lesser of 12 months following the day of death or such period as may be determined by any law or administrative body, including a stock exchange to which the Company is subject, or (c) if the Eligible Employee retires from employment by the Company at normal retirement age as determined by the Board or at such earlier age but without thereafter assuming other full-time or part-time employment, such right to purchase shall continue for a period being the lesser of three years following the day of retirement or such period as may be determined by any law or administrative body, including a stock exchange to which the Company is subject.

The Board has the power and authority to make certain amendments to the Share Option Plan or the options granted thereunder, without having to obtain shareholder approval, to the extent such amendments relate to:

- (a) complying with the requirements of any applicable regulatory authority;
- (b) complying with the rules, policies and notices of the TSX or of any stock exchange on which the Company’s securities are listed;
- (c) altering, extending or accelerating the terms and conditions of vesting of any options;
- (d) extending the term of options held by a person other than a person who, at the time of the extension, is an Insider (as such term is defined in the *Ontario Securities Act*) of the Company that is subject to insider reporting requirements pursuant to National Instrument 51-101 - *Insider Reporting Exemptions* and associates and affiliates of such person;
- (e) determining, subject to all applicable regulatory requirements, that the provisions of the Share Option Plan concerning the effect of termination of an optionee’s status as an Eligible Employee shall not apply to an optionee for any reason acceptable to the Board;
- (f) accelerating the expiry date of any options;

- (g) amending the definitions contained within the Share Option Plan;
- (h) amending the categories of persons who are Eligible Employees and entitled to be granted options pursuant to the Share Option Plan;
- (i) allowing the grant of short-term financial assistance to optionees for the purpose of exercising options granted under the Share Option Plan, subject to compliance with all applicable regulatory requirements;
- (j) authorizing the addition or modification of a cashless exercise feature, payable in cash or Common Shares, which provides for a full deduction of the number of underlying securities from the Share Option Plan reserve;
- (k) the assignability or transferability of options, with respect to Eligible Employees generally and/or with respect to any participant under the Share Option Plan;
- (l) amending or modifying the mechanics of exercise of options; and
- (m) amendments of a “housekeeping” nature, including, without limitation, amending the wording of any provisions of the Share Option Plan for the purpose of clarifying the meaning of existing provisions or to correct or supplement any provision of the Share Option Plan that is inconsistent with any other provision of the Share Option Plan.

The Company has not provided any financial assistance to Eligible Employees to facilitate the purchase of Common Shares under the Share Option Plan.

#### **Securities Authorized For Issuance Under Equity Compensation Plans**

A maximum of 18,000,000 Common Shares are issuable under the Share Option Plan **since inception** of the Share Option Plan (i.e., since May 1994). Unlike “evergreen” share option plans implemented by certain other TSX issuers, under the Share Option Plan, options which are exercised are **not** available for future grants. The following table sets out the number of securities to be issued upon exercise of outstanding options and rights, the weighted average exercise price of outstanding options and rights and the number of securities remaining available for future issuance under the Share Option Plan (excluding the Bonus Shares issuable under the Share Option Plan):

	<b>As at September 30, 2012</b>	<b>As at February 21, 2013</b>
Number of shares to be issued upon exercise of outstanding options and rights outstanding under equity compensation plans approved by shareholders <sup>(1)</sup>	7,615,999 <sup>(2)</sup> (representing approximately 8.02% of the currently issued and outstanding Common Shares)	8,020,999 <sup>(2)</sup> (representing approximately 8.45% of the currently issued and outstanding Common Shares)
Weighted-average exercise price of outstanding options and rights outstanding under equity compensation plans approved by shareholders <sup>(1)</sup>	\$0.59	\$0.55



	As at September 30, 2012	As at February 21, 2013
Number of Common Shares issued under the Share Option Plan <u>since inception</u> of the Share Option Plan (i.e., since May 1994)	7,433,448 <sup>(2)(3)</sup> (representing approximately 7.83% of the currently issued and outstanding Common Shares)	7,433,448 <sup>(2)(3)</sup> (representing approximately 7.83% of the currently issued and outstanding Common Shares)
Number of shares remaining available for future issuance under the Company's Share Option Plan	2,504,308 <sup>(2)(4)</sup> (representing approximately 2.64% of the currently issued and outstanding Common Shares)	2,099,308 <sup>(2)(4)</sup> (representing approximately 2.21% of the currently issued and outstanding Common Shares)

## Notes:

- (1) The only equity compensation plan of the Company approved by shareholders is the Company's Share Option Plan.
- (2) After giving effect to the consolidation of the Common Shares which took place on March 31, 2011, whereby each one of the issued and outstanding Common Shares was changed into one-tenth of one Common Share (the "**Consolidation**").
- (3) Includes an aggregate of 4,974,019 Bonus Shares previously issued pursuant to the Bonus Plan (on a post-Consolidation basis).
- (4) Includes Bonus Shares available for issuance under the Bonus Plan and excludes (i) 421,302 options (on a post-Consolidation basis) which were removed from the Share Option Plan in December 2001 and May 2002, and (ii) 25,000 Bonus Shares (on a post-Consolidation basis) which were removed from the Bonus Plan in June 2004.

**Proposed Amendments**

By resolution passed effective February 7, 2013, the Board approved the proposed amendments to the Share Option Plan (the "**Amendments**") subject to receipt of regulatory and shareholder approval, to, among other things:

1. increase the maximum number of Common Shares issuable under the Share Option Plan by 2,000,000 Common Shares (representing approximately 2.11% of the total outstanding Common Shares as of the date hereof) from 18,000,000 Common Shares to 20,000,000 Common Shares; and
2. increase the maximum number of Bonus Shares issuable under the Bonus Plan by 750,000 Bonus Shares (representing approximately 0.79% of the total outstanding Common Shares as of the date hereof) from 5,000,000 Bonus Shares to 5,750,000 Bonus Shares (which maximum number shall be included within the 20,000,000 Common Shares issuable under the Share Option Plan).

The Amendments have been conditionally approved by the TSX and such approval is subject, in part, to shareholder approval of the Amendments as described herein.

### **Approval by Shareholders**

The text of the resolution to be voted on by shareholders in respect of the Amendments is as follows:

**“BE IT RESOLVED THAT:**

1. the amendments to the share option plan of the Company described in the information circular of the Company dated February 21, 2013 (the “**Circular**”) be and are hereby approved, confirmed and ratified; and
2. any one director or officer of the Company, is hereby authorized, for and on behalf of the Company, to execute and deliver all such documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action.”

The resolution must be passed, with or without amendment, by not less than a majority of votes cast by Shareholders who vote in person or by proxy in respect of the resolution at the Meeting.

Under the TSX’s rules, all insiders of the Company and the associates and affiliates of such persons (“**Interested Parties**”) must refrain from voting their Common Shares, whether held directly or indirectly, on the resolution to approve the amendments to the Share Option Plan discussed above. Therefore, in order to be effected, the resolution must be passed by a majority of the votes cast in respect thereof, excluding any votes cast by Interested Parties.

As of the date of this Circular a total of 37,832,521 Common Shares were held by Interested Parties, representing approximately 39.85% of the total outstanding Common Shares at such date. Accordingly, the votes by reporting insiders (as defined in the National Instrument 55-104 - *Insider Reporting Requirements and Exemptions*), representing 37,832,521 votes, will be excluded in counting the votes cast to approve the Amendments.

Based upon the recommendation of the Company’s compensation committee (the “**Compensation Committee**”) to the Board, the directors recommend that the shareholders vote in favour of the Amendments.

**Unless the shareholder has specified in the enclosed form of proxy that the shares represented by such proxy are to be voted against the proposed amendments to the Share Option Plan, the persons named in the enclosed form of proxy intend to vote FOR the Amendments.**

### **Approval of Amendment to By-law No. 1**

#### **Introduction**

The Company wishes to confirm By-law No. 1A of the Company, a copy of which is attached as **Schedule “A”** to this Circular, which will amend By-law No. 1 of the Company. By-law No. 1A is being presented for confirmation by shareholders of the Company to provide for advance notice of nominations of directors (the “**Advance Notice Provision**”) in circumstances where nominations for election to the Board are made by shareholders other than pursuant to: (a) a requisition of a meeting made pursuant to the provisions of the CBCA, or (b) a shareholder proposal made pursuant to the provisions of the CBCA.

The purpose of the Advance Notice Provision to provide shareholders, directors and management of the Company with direction on the procedure for shareholder nomination of directors. The Advance Notice Provision is the framework by which the Company now fixes a deadline by which holders of record of Common Shares must submit director nominations to the Company prior to any annual or

special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Company for the notice to be in a proper written form.

### ***Effect of the Advance Notice Provision***

Subject only to the CBCA and the Company's by-laws, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of persons for election to the Board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors: (a) by or at the direction of the Board, including pursuant to a notice of meeting; (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the CBCA, or a requisition of the shareholders made in accordance with the provisions of the CBCA; or (c) by any person (a "**Nominating Shareholder**"): (A) who, at the close of business on the date of the giving of the notice provided for below in the Advance Notice Provision and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth in the Advance Notice Provision.

In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the corporate secretary of the Company at the principal executive offices of the Company.

To be timely, a Nominating Shareholder's notice to the secretary of the Company must be made: (a) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the "**Notice Date**") on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10<sup>th</sup>) day following the Notice Date; and (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15<sup>th</sup>) day following the day on which the first public announcement of the date of the special meeting of shareholders was made. The Board may, in its sole discretion, waive any requirement in (b) above. In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.

To be in proper written form, a Nominating Shareholder's notice to the corporate secretary of the Company must set forth: (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director: (i) the name, age, business address and residential address of the person; (ii) the principal occupation or employment of the person; (iii) the class or series and number of shares in the capital of the Company which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (iv) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the CBCA and Applicable Securities Laws (as defined below); and (b) as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Company and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the CBCA and Applicable Securities Laws. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

No person shall be eligible for election as a director of the Company unless nominated in accordance with the provisions of the Advance Notice Provision; provided, however, that nothing in the

Advance Notice Provision shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the CBCA. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

For purposes of the Advance Notice Provision: (a) “**public announcement**” shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Company under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com); and (b) “**Applicable Securities Laws**” means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.

Notwithstanding any other provision of the Advance Notice Provision, notice given to the Secretary of the Company pursuant to the Advance Notice Provision may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the corporate secretary of the Company for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the corporate secretary at the address of the principal executive offices of the Company; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Toronto time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

### ***Shareholder Confirmation***

Under the CBCA, the directors may by resolution alter the Company's by-laws, subject to the requirement for shareholder confirmation by ordinary resolution thereof at the next meeting of shareholders. Accordingly, shareholders will be asked at the Meeting to vote on an ordinary resolution, as set out below, to ratify, confirm and approve By-law No. 1A.

Shareholders will be asked at the Meeting to consider, and, if deemed advisable, to adopt the following resolution to ratify, confirm and approve By-law No. 1A:

“RESOLVED THAT:

1. By-law No. 1A, substantially in the form attached as Schedule “A” to the information circular of the Circular, is hereby ratified, confirmed and approved as a by-law of the Company;
2. any one director or officer of the Company, is hereby authorized, for and on behalf of the Company, to execute and deliver all such documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action.”

The resolution must be passed, with or without amendment, by not less than a majority of votes cast by Shareholders who vote in person or by proxy in respect of the resolution at the Meeting.

The Board has concluded that the Advance Notice Provision is in the best interests of the Company and shareholders. **Accordingly, the Board unanimously recommends that the Shareholders ratify, confirm and approve By-law No. 1A by voting FOR the foregoing resolution.**

**Unless the shareholder has specified in the enclosed form of proxy that the shares represented by such proxy are to be voted against the approval of By-law No. 1A, the persons named in the enclosed form of proxy intend to vote FOR the foregoing resolution.**

## **EXECUTIVE COMPENSATION**

Applicable securities law requires that a "Statement of Executive Compensation" in accordance with Form 51-102F6 be included in this Circular. Form 51-102F6 prescribes the disclosure requirements in respect of the compensation of certain executive officers and directors of reporting issuers. The following addresses the applicable items identified in Form 51-102F6. As the Company is engaged in mineral exploration and development and until recently had no material income, cash compensation to executives is kept to a minimum. Directors receive options under the Share Option Plan and Common Shares under the Bonus Plan embedded within the Share Option Plan but no directors' fees.

The purpose of this Compensation Discussion and Analysis ("**CD&A**") is to provide information about the Company's executive compensation philosophy, objectives, and processes and to discuss compensation decisions relating to the Company's senior leaders, being the identified named executive officers (the "**NEOs**") during the fiscal year ended September 30, 2012. The NEOs who are the focus of the CD&A and who appear in the compensation tables of this Circular are Stephen W. Houghton, Chief Executive Officer of the Company (the "**CEO**"), Peter W. Hogg, Chief Financial Officer of the Company (the "**CFO**"), David R.S. Thomson, Executive Vice-President, Exploration of the Company (the "**EVP Exploration**") and Mario Hernandez, Executive Vice-President, Claims and Land Management (the "**EVP CLM**").

### **Compensation Committee**

In order to assist the Board in fulfilling its oversight responsibilities with respect to executive compensation and the Company's equity compensation plans, the Board has established a compensation committee (the "**Compensation Committee**"). During the most recently completed financial year, the Compensation Committee was comprised of two directors, both of whom are independent within the meaning of National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("**NI 58-101**"), namely Paul DesLauriers and Frederick Seeley.

The Compensation Committee's purpose is to: (i) establish the philosophy and objectives that will govern the Company's compensation program; (ii) oversee and approve the compensation and benefits paid to the CEO and other senior officers; (iii) recommend to the Board for approval executive and other compensation and benefits plans and arrangements; (iv) oversee the Company's stock option plan and all other compensation plans; and (v) promote the clear and complete disclosure to shareholders of material information regarding executive compensation. In performing its duties, the Compensation Committee has the authority to engage such advisors, including executive compensation consultants, as it considers necessary.

### **Compensation Program**

The primary goal of the Company's executive compensation program is to retain top quality individuals at the executive level. The program is designed to ensure that the compensation provided to the Company's senior officers is determined with regard to the Company's business strategy and objectives and financial condition, such that the financial interests of the senior officers are matched with the financial interests of the Company's shareholders. The Company strives to ensure that the Company's senior officers are compensated fairly and commensurately with their contributions to furthering the Company's strategic direction and objectives.

Neither the Company nor the Compensation Committee currently has any contractual arrangement with any executive compensation consultant who has a role in determining or recommending the amount or form of senior officer or director compensation. The Compensation Committee relies on the knowledge and experience of the members of the Compensation Committee and the recommendations of the CEO to set appropriate levels of compensation for senior officers.

## **Compensation Program Design**

The total compensation mix was designed on the basis of the Company's compensation objectives. Standard compensation arrangements for the Company's senior officers are composed of the following elements, which are linked to the Company's compensation and corporate objectives.

### ***Base Salary***

Base salary is determined for each of the Company's executive officers on an individual basis, taking into consideration the individual's experience, performance and contributions to the Company's success and competitive industry pay practices for comparable positions with the primary goal of retaining highly qualified executives in a competitive market environment.

### ***Stock Options and Bonus Shares***

The Compensation Committee believes that stock options and the Bonus Shares under the Bonus Plan which forms part of the Share Option Plan encourage the Company's executive officers to own and hold shares in the Company which aligns their long-term interests directly to those of the shareholders and helps to achieve the Company's objective of retaining highly qualified executives. Under the terms of the Share Option Plan, the Compensation Committee may propose and the Board may designate employees, including executive officers, eligible to receive options to acquire such numbers of Common Shares as the Board determines at an exercise price not less than the market price determined in accordance with the terms of the Share Option Plan and to receive Bonus Shares.

When granting options pursuant to the Share Option Plan, consideration is given to the exercise price of the aggregate options that would be held by an individual after the award. In determining the individual grants, the Board considers the following factors: the executive officer's relative position and performance as well as past equity grants.

Since the Company does not grant incentive stock options at a discount to the prevailing market price of the Common Shares, the incentive stock options granted to executive officers accrete value only if, and to the extent that, the market price of the Common Shares increases, thereby linking equity-based executive compensation to shareholder returns.

The Compensation Committee regularly assesses the individual performance of the Company's executive officers and makes recommendations to the Board. Based on these recommendations, the Board makes decisions concerning the nature and scope of the equity-based compensation to be paid to the Company's executive officers. The criteria upon which these recommendations are based reflect the Compensation Committee's views as to the nature and value of the contributions made by the executive officers to the achievement of the Company's corporate plans and objectives. The Compensation Committee considers option grants at regularly scheduled intervals following the end of each quarter, except in exceptional circumstances.

## **Compensation Process**

The Board has ultimate responsibility for the Company's compensation program and compensation decisions and receives recommendations from the Compensation Committee. The Compensation Committee seeks the advice of the CEO and confers with the Company's legal counsel on matters that fall within their realm of responsibility in preparing its recommendations.

The compensation of the Company's senior officers is based, in substantial part, on industry compensation practices, trends in the mining industry as well as achievement of our business objectives. Such objectives are established and modified as necessary to reflect changes in market conditions. The Compensation Committee did not establish any quantifiable criteria with respect to the level of equity compensation granted during its fiscal year ended September 30, 2012.

The Compensation Committee uses all the data available to it to ensure that the Company is maintaining a level of compensation that is both commensurate with the size of the Company and

sufficient to retain personnel it considers essential to the success of the Company. Given the stage of development of the Company, the use of traditional performance standards, such as corporate profitability is considered by the Compensation Committee to be inappropriate in the evaluation of corporate and NEO performance. In reviewing comparative data, the Compensation Committee does not engage in benchmarking for the purpose of establishing compensation levels relative to any predetermined level. A periodic informal survey of compensation paid to persons occupying similar positions with mining exploration companies of comparable size and stage of development provides the Compensation Committee with insight into what is considered fair compensation.

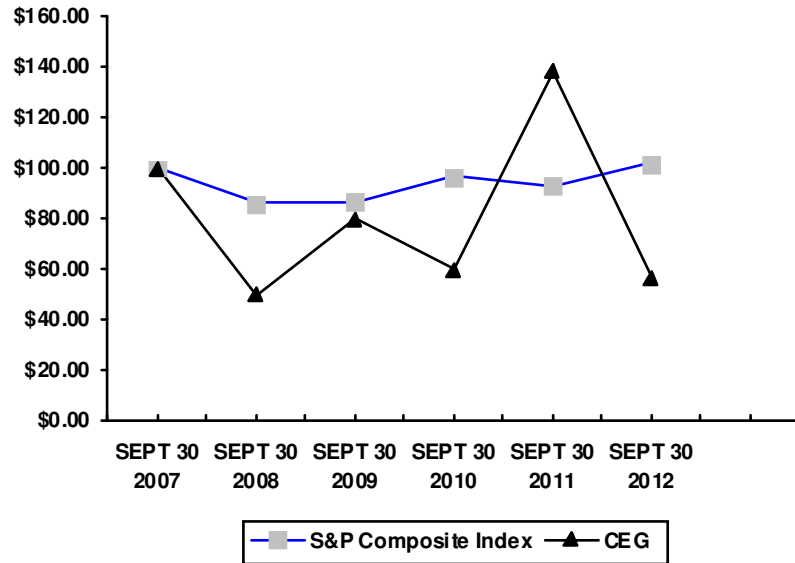
In addition, when considering senior officer compensation, the Compensation Committee evaluates the CEO's performance, including reviewing the Company's performance relative to corporate objectives and strategic and annual business plans and the CEO's achievements during the fiscal year, and reviews the performance of other senior officers (as evaluated by the CEO based on their performance relative to their achievements during the fiscal year). The Compensation Committee reviews the various elements of the NEOs' compensation in the context of the total compensation package (including base salary and stock option and Bonus Share grants) and recommends the NEOs' compensation packages. The Compensation Committee's recommendations regarding NEO compensation are presented to the Board for their consideration and approval.

### ***Option Granting***

Typically, the Compensation Committee considers option grants at regularly scheduled intervals following the end of each quarter except in exceptional circumstances. The Board determines individual grants including the particulars with respect to all options granted to senior officers in accordance with the terms of the Share Option Plan. In determining the nature and scope of such grants the Board considers the recommendations of the Compensation Committee and the senior officer's relative position, performance and past equity grants. See "*Business of the Meeting - Amendments to the Share Option Plan*" above and "*Securities Authorized for Issuance Under Equity Compensation Plans*" below for more information regarding the Share Option Plan.

### **Performance Graph**

The chart below compares the change in cumulative total shareholder return for \$100 invested in the Common Shares against the change in cumulative total shareholder return of the S&P/TSX Composite Index Gold (Sub Industry) (including dividends reinvested) for the five fiscal year periods beginning September 30, 2007 and ending September 30, 2012. The information contained in the chart relating to the period from September 30, 2006 to September 30, 2010 (inclusive) has been adjusted to give effect to the Consolidation on a ten-for-one basis which occurred on March 31, 2011.



	Sept. 30 2007	Sept. 30 2008	Sept. 30 2009	Sept. 30 2010	Sept. 30 2011	Sept. 30 2012
<b>S&amp;P/TSX : 15104030-Gold (Sub Industry) Trading Price (including dividends reinvested)(\$)</b>	2555.64	2465.4	3061.66	3579.87	3578.07	3174.75
<b>S&amp;P/TSX: 15104030-Gold (Sub Industry) Number of Units/% Change</b>	100	96.15	119.40	139.61	139.54	123.82
<b>SAG Share Price (\$)</b>	0.50 <sup>(1)</sup>	0.25 <sup>(1)</sup>	0.40 <sup>(1)</sup>	0.30 <sup>(1)</sup>	0.69	0.285
<b>SAG Number of Units/ % Change</b>	100	50	80	60	138	57

Note:

(1) These share prices have been adjusted to give effect to the Consolidation.

The Company operates in a commodity business and the Common Share price is directly impacted by the market prices of gold, copper and silver, which fluctuate widely and are affected by numerous factors that are difficult to predict and beyond the Company's control. The Compensation Committee evaluates financial performance by reference to the Company's operating performance rather than short-term changes in Common Share price based on its view that the Company's long-term operating performance will be reflected by stock price performance over the long-term, which is especially important when the current stock price may be temporarily depressed by short-term factors, such as economic downturns.

### Summary Compensation Table

The following table provides a summary of the compensation earned by the NEOs (being the CEO and the CFO of the Company), for services rendered in all capacities during the financial years ended September 30, 2010, 2011 and 2012:



Name and Principal Position	Year	Salary (US\$)	Share-based awards (US\$)	Option-based awards (US\$)	Non-equity incentive plan compensation (US\$)		Pension Value (US\$)	All other Compensation (US\$)	Total Compensation (US\$)
					Annual Incentive Plans	Long-Term Incentive Plans			
Stephen W. Houghton CEO	2012	110,000	Nil	Nil	Nil	Nil	Nil	59,804 <sup>(7)</sup>	169,804
	2011	110,000	Nil	158,093 <sup>(5)</sup>	Nil	Nil	Nil	Nil	268,093
	2010	110,000 <sup>(6)</sup>	Nil <sup>(6)</sup>	422,192 <sup>(4)</sup>	Nil	Nil	Nil	Nil	532,192
Peter W. Hogg CFO	2012	51,121 <sup>(1)</sup>	Nil	Nil	Nil	Nil	Nil	Nil	51,121
	2011	52,000 <sup>(1)</sup>	Nil	Nil	Nil	Nil	Nil	Nil	52,000
	2010	40,712 <sup>(1)</sup>	Nil	29,984 <sup>(4)</sup>	Nil	Nil	Nil	Nil	70,696
David R.S. Thomson EVP Exploration	2012	110,000	Nil	Nil	Nil	Nil	Nil	Nil	110,000
	2011	110,000	Nil	Nil	Nil	Nil	Nil	Nil	110,000
	2010	110,000 <sup>(2)</sup>	Nil <sup>(2)</sup>	134,928 <sup>(4)</sup>	Nil	Nil	Nil	Nil	244,928
Mario Hernandez EVP CLM	2012	110,000	Nil	Nil	Nil	Nil	Nil	Nil	110,000
	2011	110,000	Nil	Nil	Nil	Nil	Nil	Nil	110,000
	2010	110,000 <sup>(3)</sup>	Nil <sup>(3)</sup>	134,928 <sup>(4)</sup>	Nil	Nil	Nil	Nil	244,928

## Notes:

- (1) These amounts were paid to Palmer Services Inc., a company controlled by Mr. Hogg.
- (2) On September 9, 2010, the Company issued Mr. Thomson 4,473,040 Bonus Shares in lieu of 92% of the portion of the service fees payable to Auromin (as defined below) under the Auromin Agreement (as defined below) for the period beginning January 1, 2009 to March 31, 2010 which was attributable to Mr. Thomson. The grant date fair value of such Bonus Shares is US\$126,500 calculated based on the closing price of the Common Shares on the TSX of Cdn\$0.03 on September 8, 2010, being the date immediately preceding the day on which the Board approved such grant. The balance of the portion of the service fees payable to Auromin under the Auromin Agreement in respect of the financial years ended September 30, 2009 and 2010 was paid in cash to Auromin, a company controlled by him, pursuant to the Auromin Agreement. See "Termination and Change of Control Benefits" below for a description of the Auromin Agreement.
- (3) On September 9, 2010, the Company issued Mr. Hernandez 4,473,040 Bonus Shares in lieu of 92% of the service fees payable to Chanar (as defined below) under the Chanar Agreement (as defined below) for the period beginning January 1, 2009 to March 31, 2010. The grant date fair value of such Bonus Shares is US\$126,500 calculated based on the closing price of the Common Shares on the TSX of Cdn\$0.03 on September 8, 2010, being the date immediately preceding the day on which the Board approved such grant. The balance of the service fees payable to Chanar under the Chanar Agreement in respect of the financial years ended September 30, 2009 and 2010 was paid in cash to Chanar, a company wholly-owned by Mr. Hernandez, pursuant to the Chanar Agreement. See "Termination and Change of Control Benefits" below for a description of the Chanar Agreement.
- (4) Includes the dollar amount of options granted based on the grant date fair value. The grant date fair value of the stock options issued during the year ended September 30, 2010 has been calculated using the Black-Scholes option pricing model, based on the following assumptions: risk-free interest rate of 2.54; expected life of 5 years; weighted expected volatility of 130% and expected dividend yield of zero.
- (5) Includes the dollar amount of options granted based on the grant date fair value. The grant date fair value of the stock options issued during the year ended September 30, 2011 has been calculated using the Black-Scholes option pricing model, based on the following assumptions: risk-free interest rate of 1.96; expected life of 5 years; weighted expected volatility of 17.0% and expected dividend yield of zero.
- (6) On September 9, 2010, the Company issued Mr. Houghton 3,217,945 Bonus Shares in lieu of 92% of Mr. Houghton's salary for the period beginning January 1, 2009 to March 31, 2010. The grant date fair value of such Bonus Shares is US\$91,005 calculated based on the closing price of the Common Shares on the TSX of \$0.03 on September 8, 2010, being the date immediately preceding the day on which the Board approved such grant. The balance of Mr. Houghton's salary under the Houghton Agreement in respect of the financial year ended September 30, 2010 was paid in cash.
- (7) This amount reflects a Company vehicle purchased by the Company for Mr. Houghton at a cost of US\$41,804 plus reimbursement of maintenance, insurance and gas costs incurred by Mr. Houghton.

## Incentive Plan Awards

The following table provides details regarding outstanding NEO option based awards as at September 30, 2012.

<b>Outstanding option-based awards</b>				
<b>Name</b>	<b>Number of securities underlying unexercised (#)</b>	<b>Option exercise price (\$)</b>	<b>Option expiration date</b>	<b>Aggregate value of unexercised in-the-money options (\$)<sup>(1)</sup></b>
Stephen W. Houghton CEO	600,000 <sup>(2)</sup>	0.90 <sup>(2)</sup>	April 2, 2013	Nil
	800,000 <sup>(2)</sup>	0.45 <sup>(2)</sup>	October 19, 2015	Nil
	437,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
	200,000	0.79	April 29, 2016	Nil
Peter W. Hogg CFO	300,000 <sup>(2)</sup>	0.40 <sup>(2)</sup>	March 14, 2014	Nil
	100,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
David R.S. Thomson EVP Exploration	650,000 <sup>(2)</sup>	0.90 <sup>(2)</sup>	April 2, 2013	Nil
Mario Hernandez EVP CLM	650,000 <sup>(2)</sup>	0.90 <sup>(2)</sup>	April 2, 2013	Nil

Notes:

- (1) Based on the closing price of the Common Shares on the TSX of \$0.285 on September 28, 2012.  
(2) Adjusted to give effect to the Consolidation.

The following table provides details regarding option and share-based awards vested, and the non-equity incentive plan compensation provided to the NEOs, during the fiscal year ended September 30, 2012.

<b>Incentive plan awards - value vested or earned during the year</b>			
<b>Name</b>	<b>Option-based awards - Value vested during the year (\$)<sup>(1)</sup></b>	<b>Share-based awards - Value vested during the year (\$)<sup>(2)</sup></b>	<b>Non-equity incentive plan compensation - Value earned during the year (\$)</b>
Stephen W. Houghton CEO	Nil	Nil	Nil
Peter W. Hogg CFO	Nil	Nil	Nil
David R.S. Thomson EVP Exploration	Nil	Nil	Nil
Mario Hernandez EVP CLM	Nil	Nil	Nil

Notes:

- (1) Calculated as the aggregate dollar value that would have been realized if the options which vested during the fiscal year ended September 30, 2012 were exercised on the vesting date thereof. None of the options granted to the NEOs which vested during the fiscal year ended September 30, 2012 were in-the-money at the time of vesting.  
(2) Calculated as the aggregate dollar value realized upon vesting of the share-based awards by multiplying the number of Bonus Shares vested by the closing price of the Common Shares on the TSX on the day the Bonus Shares vested.

## Termination and Change of Control Benefits

The Company and Mr. Stephen W. Houghton entered into an employment agreement (the **"Houghton Agreement"**). Under the terms of the Houghton Agreement, Mr. Houghton is employed as the CEO and carries out the normal duties performed by a chief executive officer. Mr. Houghton reports directly to the Board.

The Houghton Agreement was made effective as of October 7, 2009 for a two-year term, which will automatically renew at the end of each year for an additional two years at a base salary rate of US\$110,000. The base salary will be reviewed by the Compensation Committee of the Company at the end of each year to determine if an increase to the base salary is warranted. Mr. Houghton may be paid by a subsidiary of the Company.

Pursuant to the terms of the Houghton Agreement, Mr. Houghton is entitled to a severance payment from the Company of 36 months' salary, plus the greater of three times the bonus received by him in the previous bonus year (paid in cash or Common Shares), to be paid if (a) his employment is terminated without cause, or (b) there is a "change of control" of the Company and within 12 months of such "change of control" (i) the Company gives notice of its intention to terminate his employment for any reason other than just cause, or (ii) a "triggering event" occurs and he elects to terminate his employment. Any stock options granted which have not vested at the time of termination will immediately vest and shall remain exercisable until the earlier of (i) the normal expiry date of such option, or (ii) the date which is 36 months from the date of such termination. In addition he shall continue to be entitled to participate, at the expense of the Company, in the Company's health and medical plans (or the Company will pay for equivalent coverage if he is not covered under the Company's current plan), until the earlier of obtaining alternate coverage under the terms of any new employment or the third anniversary of the date of such termination.

Mr. Houghton's estate shall also be paid one year's salary in the event of his death during the term of the Houghton Agreement.

In addition, during the term of the Houghton Agreement, Mr. Houghton is entitled to be provided with a Toyota or Nissan 4x4 diesel truck or its equivalent with all expenses paid by the Company.

For the purposes of the Houghton Agreement,

1. a "change of control" occurs when: (a) less than 50% of the Board is composed of (i) directors of the Company at the time the relevant agreement was entered into, or (ii) any director who subsequently becomes a director with the agreement of at least a majority of the members of the Board at the time the relevant agreement was entered into; (b) the acquisition by any person or persons acting jointly or in concert of 40% or more of the Common Shares; (c) the sale by the Company of property or assets aggregating more than 50% of its consolidated assets or which aggregates more than 50% of its consolidated operating income of cash flows during the most recently completed financial year or during the current financial year; or (d) the Company becoming insolvent or the like; and

2. a "triggering event" includes: (a) an adverse change in any of the officer's duties, powers, rights, discretion, prestige, salary, benefits, perquisites or financial entitlements; (b) a diminution of title and/or responsibilities; (c) a change in the person or body to whom the officer reports, except if such person or body is of equivalent rank of stature or such change is a result of the resignation or removal of such person or the persons comprising such body; (d) a change in the hours during or location at which the officer is regularly required to carry out the terms of this employment; or (e) an increase in the amount of travel the officer is required to conduct on behalf of the Company.

The following are estimates of the incremental amounts payable to Mr. Houghton upon termination of the Houghton Agreement by the Company without cause, termination of the Houghton Agreement by the Company within twelve months of a change of control or termination of the Houghton

Agreement by Mr. Houghton if within twelve months of a change of control, a triggering event occurs, assuming each such event took place on September 30, 2012:

Salary/Severance	US\$330,000
Benefits	US\$Nil
Perquisites	US\$Nil
<b>Total Compensation</b>	<b>US\$330,000</b>

The Company and Minera Auromin Limitada (“**Auromin**”) entered into a services contract on October 19, 2009 (the “**Auromin Agreement**”). The services of Auromin under the Auromin Agreement are provided by, among others, David Thomson who acts as EVP Exploration of the Company. Auromin reports to the CEO and the Board.

The Auromin Agreement is effective for a two year term beginning January 1, 2009 and will be renewed every two years for a subsequent two year term unless terminated by the Company for justified cause. Pursuant to the Auromin Agreement, the Company will pay to Auromin aggregate service fees of US\$300,000 per year. Auromin, at its sole option, may request that all or a portion of such payment be made through the issuance of Common Shares.

Pursuant to the terms of the Auromin Agreement, Auromin is entitled to a payment from the Company equal to three year’s of service fees if (a) the Auromin Agreement is unilaterally terminated by the Company, in advance or without cause, or (b) there is a “change of control” of the Company.

The Company and Minera Chanar Blanco S.A. (“**Chanar**”) entered into a services contract on October 19, 2009 (the “**Chanar Agreement**”). The services of Chanar under the Chanar Agreement are provided by Mario Hernandez who acts as EVP CLM. Chanar reports to the CEO and the Board.

The Chanar Agreement is effective for a two year term beginning January 1, 2009 and will be renewed every two years for a subsequent two year term unless terminated by the Company for justified cause. Pursuant to the Chanar Agreement, the Company will pay to Chanar aggregate service fees of US\$110,000 per year. Chanar, at its sole option, may request that all or a portion of such payment be made through the issuance of Common Shares.

Pursuant to the terms of the Chanar Agreement, Chanar is entitled to a payment from the Company equal to three year’s of service fees if (a) the Chanar Agreement is unilaterally terminated by the Company, in advance or without cause, or (b) there is a “change of control” of the Company.

For the purposes of the Auromin Agreement and the Blanco Agreement, a “change of control” occurs when any person or entity other than the shareholders at the date of the respective agreements acquires more than 40% of the Common Shares or if assets representing more than 50% of the assets or the cash flow of the Company are sold.

The following are estimates of the incremental amounts payable to Auromin and Chanar upon unilateral termination of the Auromin Agreement and Chanar Agreement, respectively, in advance and without cause or change of control as defined under the Auromin Agreement or Chanar Agreement, as the case may be, assuming each such event took place on September 30, 2012:

	<u><b>Auromin</b></u>	<u><b>Chanar</b></u>
Salary/Severance	US\$900,000	US\$330,000
Benefits	US\$Nil	US\$Nil
Perquisites	US\$Nil	US\$Nil
<b>Total Compensation</b>	<b>US\$900,000</b>	<b>US\$330,000</b>

## DIRECTOR COMPENSATION

The director compensation program is designed to achieve the following goals: (i) compensation should attract and retain the most qualified people to serve on the Board; (ii) compensation should align directors' interests with the long-term interests of shareholders; (iii) compensation should fairly pay directors for risks and responsibilities related to being a director of an entity of the Company's size and scope; and (iv) the structure of the compensation should be simple, transparent and easy for shareholders to understand.

Directors may receive options as compensation for their services as recommended by the Compensation Committee and determined by the Board. The exercise price of such options is determined by the Board, but shall in no event be less than the market price of the Common Shares at the time of the grant of the options. During the fiscal year ended September 30, 2011, other than as described herein, there were no standard or other arrangements pursuant to which the Company compensated the directors for their services in their capacity as directors, and there were no amounts paid for special assignments.

### Summary of Director Compensation in 2011

The following compensation table sets out the compensation paid to each of the Corporation's directors in the year ended September 30, 2012, other than the compensation paid to Messrs. Stephen Houghton, David R.S. Thomson and Mario Hernandez which is set out under "*Executive Compensation*".

Name	Fees Earned (US\$)	Share- Based Awards (US\$)	Option- based Awards (US\$)	Non-equity Incentive Plan Compensation (US\$)	All Other Compensation (US\$)	Total (US\$)
Paul J. DesLauriers	10,000	Nil	Nil	Nil	Nil	10,000
Frederick D. Seeley	10,000	Nil	Nil	Nil	Nil	10,000
William Hill	9,000	Nil	Nil	Nil	Nil	9,000
Juan Proaño	8,000	Nil	Nil	Nil	Nil	8,000
Richard J. Lachcik	Nil <sup>(1)</sup>	Nil	Nil	Nil	Nil	Nil <sup>(1)</sup>
Fernando Saenz Poch	4,000	Nil	Nil	Nil	Nil	4,000

Note:

(1) During the fiscal year ended September 30, 2012, the Company incurred legal expenses of \$169,600 to Norton Rose Canada LLP (formerly Macleod Dixon LLP), which acts as legal counsel to the Company. Mr. Richard J. Lachcik is a partner of Norton Rose Canada LLP.

### Incentive Plan Awards to Directors

The following table provides details regarding the outstanding option-based awards held by directors as at September 30, 2012, other than the outstanding option-based awards held by Messrs. Stephen Houghton, David R.S. Thomson and Mario Hernandez which are set out under "*Executive Compensation*".

<b>Outstanding option-based awards</b>				
<b>Name</b>	<b>Number of securities underlying unexercised (#)</b>	<b>Option exercise price (\$)</b>	<b>Option expiration date</b>	<b>Aggregate value of unexercised in-the-money options (\$)<sup>(1)</sup></b>
Paul J. DesLauriers	75,000 <sup>(2)</sup>	0.90 <sup>(2)</sup>	April 2, 2013	Nil
	300,000 <sup>(2)</sup>	0.45 <sup>(2)</sup>	March 7, 2013	Nil
	228,571 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
	271,428	0.79	April 29, 2018	Nil
Frederick D. Seeley	75,000 <sup>(2)</sup>	0.90 <sup>(2)</sup>	April 2, 2013	Nil
	300,000 <sup>(2)</sup>	0.45 <sup>(2)</sup>	March 3, 2013	Nil
	400,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
	100,000	0.79	April 29, 2018	Nil
William Hill	300,000 <sup>(2)</sup>	0.45 <sup>(2)</sup>	March 7, 2013	Nil
	100,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
Juan Proaño	300,000 <sup>(2)</sup>	0.45 <sup>(2)</sup>	March 7, 2013	Nil
	100,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
Richard J. Lachcik	233,953 <sup>(2)</sup>	0.50 <sup>(2)</sup>	April 30, 2013	Nil
	66,046 <sup>(2)</sup>	0.40 <sup>(2)</sup>	May 14, 2014	Nil
	100,000 <sup>(2)</sup>	0.35 <sup>(2)</sup>	April 19, 2015	Nil
Fernando Saenz Poch	Nil	Nil	Nil	Nil

## Notes:

- (1) Based on the closing price of the Common Shares on the TSX of \$0.285 on September 28, 2012.  
(2) Adjusted to give effect to the Consolidation.

The following table provides details regarding the option and share-based awards vested, and the non-equity incentive plan compensation provided to the NEOs, during the fiscal year ended September 30, 2012.

<b>Incentive plan awards - value vested or earned during the year</b>			
<b>Name</b>	<b>Option-based awards - Value vested during the year (\$)<sup>(1)</sup></b>	<b>Share-based awards - Value vested during the year (\$)</b>	<b>Non-equity incentive plan compensation - Value earned during the year (\$)</b>
Paul J. DesLauriers	Nil	Nil	Nil
Frederick D. Seeley	Nil	Nil	Nil
William Hill	Nil	Nil	Nil
Juan Proaño	Nil	Nil	Nil
Richard J. Lachcik	Nil	Nil	Nil
Fernando Saenz Poch	Nil	Nil	Nil

## Note:

- (1) Calculated as the aggregate dollar value that would have been realized if the options which vested during the fiscal year ended September 30, 2012 were exercised on the vesting date thereof.

## INDEBTEDNESS OF DIRECTORS AND OFFICERS

The following table (presented in accordance with Form 51-102F5) sets out the aggregate indebtedness of all directors, executive officers, employees and former directors, executive officers and employees of the Company and its subsidiaries outstanding as at February 21, 2013.

Aggregate Indebtedness		
Purpose	To the Company or its subsidiaries	To Another Entity
Share purchases	Nil	Nil
Other	US\$269,000	Nil

No director, executive officer or proposed director of the Company and no associate of the foregoing persons is or has been indebted to the Company (including its subsidiaries) at any time since the beginning of the most recently completed financial year of the Company except Mr. Stephen W. Houghton, the Chief Executive Officer and director of the Company, as described in the table below.

Name and Principal Position	Involvement of Company or Subsidiary	Largest Amount Outstanding During the Period Between September 30, 2011 and September 30, 2012	Amount Outstanding as at February 21, 2013	Financially Assisted Securities Purchases During the Period Between September 30, 2011 and September 30, 2012	Security for Indebtedness	Amount Forgiven During the Period Between September 30, 2011 and September 30, 2012
Stephen W. Houghton, Chief Executive Officer and Director	Lender	US\$387,000	US\$269,000 <sup>(1)</sup>	Nil	653,200	Nil

Note:

- (1) Such amount is a non-interest-bearing note receivable without specific repayment terms and is secured by 653,000 Common Shares owned by Mr. Houghton. Such funds were advanced to Mr. Houghton over a twelve-year period during which time he received no salary from the Company. There have been no adjustments to the terms of such indebtedness during the Company's most recently completed financial year.

## CORPORATE GOVERNANCE

The Board believes in the importance of maintaining sound corporate governance practices. The statement of corporate governance practices addresses the Company's compliance with National Policy 58-201 - *Corporate Governance Guidelines* and National Instrument 58-101 - *Disclosure of Corporate Governance Practices* (collectively, the "**Guidelines**").

### General Statement of Corporate Governance Practices

The Board has considered the foregoing and have concluded that, while the Company is not in full compliance with all provisions of the Guidelines, given the size of the Company, certain of the Guidelines would be too costly or inappropriate to implement at this time. Currently, the Board has six independent members and four members who are not independent. In addition, no member of management is a member of the Company's audit committee (the "**Audit Committee**") or the Compensation Committee, and the Company will continue to attempt to fulfill the Guidelines as resources become available.

The Company conducts all of its business through subsidiary companies which are active in Chile. Messrs. Hernandez and Thomson are residents of Chile and Mr. Houghton spends substantially all of his time in Chile, with the result that the affairs of the Company are closely supervised.

### **The Board of Directors**

A director is considered "independent" if he has no direct or indirect material relationship with the Company. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment.

The Board currently consists of ten individuals. Messrs. DesLauriers, Seeley, Hill, Proaño, Selters and Poch are independent directors. Messrs. Houghton, Thomson and Hernandez are not considered to be independent as they are members of the Company's management team. Mr. Lachcik is not considered to be independent as he is a partner of Norton Rose Canada LLP which acts as counsel to the Company. The majority of the directors are therefore independent. The independent directors do not hold regularly scheduled meetings but do meet frequently. The Board believes that its current size and composition facilitate effective decision-making but intends to review these characteristics periodically.

The following table sets out details of directorships held by each director in other public issuers as of the date hereof:

<b>Name of Director</b>	<b>Name of Issuer</b>
Richard J. Lachcik	Banro Corporation, Loncor Resources Inc.

The Chairman of the Board is Paul J. DesLauriers, an independent director. The responsibilities of the Chairman include, but are not limited to, the following:

- (a) preside at, call and schedule each meeting of the Board;
- (b) manage the affairs of the Board to ensure that the Board is organized properly and functions effectively;
- (c) communicate with each Board member to ensure that each director has the opportunity to be heard and participate in decision making and is accountable to the Board and to each Board committee on which he or she serves; and
- (d) coordinate with management and the secretary of the Company to ensure that the Board has an opportunity to question executive officers, management, employees, external auditors, experts and advisors regarding any and all matters of importance to the Board.

### **Meetings of the Board**

The frequency of Board meetings and the nature of the meeting agendas depend upon the nature of the business and affairs of the Company from time to time. Since the beginning of the Company's financial year ended September 30, 2012 until the date of this Circular, the Board, its Audit Committee, its Compensation Committee, its Corporate Governance and Nominating Committee and its Technical Committee met 14, 7, 2, 1 and 1 times, respectively. The following is the record of attendance for each director at Board, Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Technical Committee meetings since the beginning of the Company's financial year ended September 30, 2012 until the date of this Circular:



Director	Board Meetings	Audit Committee Meetings	Compensation Committee Meetings	Corporate Governance and Nominating Committee Meetings	Technical Committee Meetings
Paul J. DesLauriers	14	7	2	1	1
Mario Hernandez	12	N/A	N/A	N/A	N/A
Stephen W. Houghton	14	N/A	N/A	N/A	N/A
Frederick Seeley	14	7	2	1	N/A
David R.S. Thomson	14	N/A	N/A	N/A	N/A
William Hill	12	6	N/A	1	1
Juan Proaño	12	N/A	N/A	N/A	1
Richard J. Lachcik	13	N/A	N/A	1	1
Fernando Saenz Poch	6	N/A	N/A	N/A	N/A

### Board Mandate

The Board does not have a written mandate. The Board is responsible for the supervision of the management of the Company's business and affairs. Under its governing statute, the CBCA, the Board is required, in carrying out its duties, to act honestly and in good faith with a view to the best interests of the Company. To assist it in fulfilling this responsibility, the Board has recognized its responsibility for the following areas:

- (a) adoption of a strategic planning process;
- (b) identification of the principal risks of the Company's business and monitoring the implementation of appropriate systems to manage these risks;
- (c) implementation of a communication policy to facilitate communications with shareholders and others involved with the Company; and
- (d) integrity of the Company's internal control and management information systems.

### Position Descriptions

The Board has developed written position descriptions for the Chairman of the Board, the chair of each of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee and the CEO. The Board has not yet developed a written position description for the chair of the Technical Committee. The chairman of the Technical Committee calls and chairs the meetings of the Technical Committee.

### Orientation and Continuing Education

Given that the Board is small, that three of the current directors are also members of management and that the other seven current directors have considerable experience in areas related to the Company's business, it has not been necessary to this point for the Company to provide a formal continuing education program to its directors. The Corporate Governance and Nominating Committee coordinates an orientation program for new directors which includes, but is not limited to, a director manual regarding the duties of the Board, individual directors, each Committee, the chairman of the Board, the chairman of each committee of the Board and the executive officers of the Company, information regarding the nature and operation of the Company's business and organizational structure and copies of any mandates of the committees of the Board and any position descriptions of the chairman of the Board

and the chairman of each committee of the Board. New directors also conduct site visits to the Company's operating facilities. Directors of the Company receive continuous background information and are provided with updates on the Company's current and future plans. The Board also keeps the directors apprised of corporate governance requirements.

### **Ethical Business Conduct**

The Company has adopted a written business conduct policy (the "**Code**"). A copy of the Code is available under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). Pursuant to the Code, each employee of the Company must complete a certificate of compliance to certify compliance with the Code annually and employees whose positions may include involvement with foreign operations may be asked to complete such certificate of compliance on a more frequent basis. A director with a material interest in transactions and agreements considered by the Company are required to declare their interest and abstain from voting on the resolutions respecting such matters. The Corporate Governance and Nominating Committee reviews such conflicts of interest and any departures from the Code and makes recommendations to the Board regarding such conflicts and departures.

### **Nomination of Directors**

The Corporate Governance and Nominating Committee is comprised of three directors, two of which are considered to be independent. None of the members of the Corporate Governance and Nominating Committee are members of management of the Company. The Corporate Governance and Nominating Committee is responsible for reviewing the Board's composition, having regard to the size of the Board with a view to facilitating effective decision making and, when applicable, recommending nominees for election as directors and appointments as members of the committees of the Board and the chairmen thereof.

### **Compensation**

The Company has a Compensation Committee which determines the compensation of directors, officers and employees in light of the Company's current financial circumstances. The Compensation Committee consists solely of independent directors. No members of the Compensation Committee are officers or employees of the Company.

Additional information regarding the Compensation Committee and the compensation of the Company's directors and officers is set out under "*Director Compensation*" and "*Executive Compensation*" herein.

### **Other Board Committees**

In addition to the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee, the Board also has a Technical Committee which is responsible for reviewing any potential acquisitions for the Company. Other than the Audit Committee, the Compensation Committee, Corporate Governance and Nominating Committee, and the Technical Committee the Board does not have any standing committees. It is the view of the Board that its current size is small enough to make such additional committees counter-productive. In addition to regularly scheduled meetings of the Board, its members are in continuous contact with one another and with the members of senior management. If the size of the Board were to be enlarged, consideration would at that point be given to the appropriateness and cost-effectiveness of forming additional committees.

### **Assessments**

Board members are in continual communications, often daily, regarding Company matters and are able to assess each others' effectiveness and contributions. Individual assessments are not performed.

## AUDIT COMMITTEE INFORMATION

The information about the audit committee of the Company (the “**Audit Committee**”) required under section 5.1 of National Instrument 52-110 *Audit Committees* can be found in the Company’s annual information form for the year ended September 30, 2012 in the section entitled “Audit Committee Information”, a copy of which is available for review on SEDAR at [www.sedar.com](http://www.sedar.com).

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, no proposed director of the Company, no person or company who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares (a “**10% Shareholder**”) and no director or executive officer of a 10% Shareholder or of a subsidiary of the Company and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction since the beginning of the Company’s most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

## INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No person who has been a director or executive officer of the Company at any time since the beginning of the Company’s last financial year, no proposed director of the Company and no associate or affiliate of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities of the Company or otherwise in any matter to be acted upon, except as disclosed in this Circular.

## MANAGEMENT CONTRACTS

No management functions of the Company or any of its subsidiaries are, to any substantial degree, performed other than by the directors and officers of the Company or its subsidiaries.

## GENERAL

The audited consolidated financial statements of the Company as at and for the financial year ended September 30, 2012, together with the auditors’ report thereon, will be placed before the Meeting.

Additional information relating to the Company is available electronically on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Company’s consolidated financial statements and management’s discussion and analysis for its most recently completed financial year. Shareholders may contact the Chief Financial Officer of the Company at 416-369-9359 to request copies of the Company’s consolidated financial statements and management’s discussion and analysis.

## SHAREHOLDER PROPOSALS

A shareholder intending to submit a proposal at the Company’s next annual meeting of shareholders must comply with the applicable provisions of the CBCA. The Company will include a shareholder proposal in management’s information circular prepared for such annual meeting of shareholders provided such proposal is received by the Company at its head office on or before November 23, 2013 and provided such proposal is required by the CBCA to be included in management’s information circular.

**DIRECTORS' APPROVAL**

The Board has approved the contents and sending of this Circular.

**BY ORDER OF THE BOARD OF DIRECTORS**

February 21, 2013

*"Stephen W. Houghton" (signed)* \_\_\_\_\_

Stephen W. Houghton  
Chief Executive Officer

**Schedule "A"**

# CERRO GRANDE MINING CORPORATION

(the “Corporation”)

## BY-LAW NO. 1A

BE IT ENACTED as a by-law of the Corporation as follows:

### ADVANCE NOTICE OF NOMINATION OF DIRECTORS

1. By-law No. 1 of the Corporation is hereby amended by adding thereto, following Section 4.19 thereof and preceding Article 5 thereof, the following:

#### “Section 4.20 Nomination of Directors.

- (a) Subject only to the Act and the articles of the Corporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:
  - (i) by or at the direction of the board or an authorized officer of the Corporation, including pursuant to a notice of meeting,
  - (ii) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Act or a requisition of the shareholders made in accordance with the provisions of the Act, or
  - (iii) by any person (a “**Nominating Shareholder**”) (A) who, at the close of business on the date of the giving of the notice provided for below in this Section 4.20 and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting, and (B) who complies with the notice procedures set forth below in this Section 4.20:
- (b) In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the corporate secretary of the Corporation at the principal executive offices of the Corporation in accordance with this Section 4.20.
- (c) To be timely, a Nominating Shareholder’s notice to the corporate secretary of the Corporation must be made
  - (i) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders, provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the “**Notice Date**”) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the 10<sup>th</sup> day following the Notice Date; and
  - (ii) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the 15<sup>th</sup> day following the

day on which the first public announcement of the date of the special meeting of shareholders was made. Notwithstanding the foregoing, the board may, in its sole discretion, waive any requirement in this paragraph (ii).

- (iii) In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.
- (d) To be in proper written form, a Nominating Shareholder's notice to the corporate secretary of the Corporation must set forth
- (i) as to each person whom the Nominating Shareholder proposes to nominate for election as a director (A) the name, age, business address and residential address of the person, (B) the principal occupation or employment of the person, (C) the class or series and number of shares in the capital of the Corporation which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, and (D) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below); and
  - (ii) as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Corporation and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws.

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

- (e) No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 4.20; provided, however, that nothing in this Section 4.20 shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Act. The chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.
- (f) For purposes of this Section 4.20
- (i) **"public announcement"** shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com); and
  - (ii) **"Applicable Securities Laws"** means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time,

the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.

- (g) Notwithstanding any other provision of By-law No. 1, notice given to the corporate secretary of the Corporation pursuant to this Section 4.20 may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the corporate secretary of the Corporation for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the corporate secretary at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Toronto time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.”
2. By-law No. 1, as amended from time to time, of the by-laws of the Corporation and this by-law shall be read together and shall have effect so far as practicable, as though all the provisions thereof were contained in one by-law of the Corporation. All terms contained in this by-law which are defined in By-law No. 1, as amended from time to time, of the by-laws of the Corporation shall, for all purposes hereof, have the meanings given to such terms in the said By-law No. 1 unless expressly stated otherwise or the context otherwise requires.



Any questions and requests for assistance may be directed to Cerro Grande Mining Corp.'s  
Proxy Solicitation Agent:



**North American Toll Free Phone:**

**1-866-822-1243**

Banks, Brokers and collect calls: 201-806-2222

Toll Free Facsimile: 1-888-509-5907

Email: [inquiries@phoenixadvisorscst.com](mailto:inquiries@phoenixadvisorscst.com)