MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS
(Expressed in thousands of United States dollars, except per share amounts)

The following discussion is a review of the activities, results of operations and financial situation of Cerro Grande Mining Corporation and its consolidated subsidiaries ("CEG" or the "Company") for the six month period ended March 31, 2013, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of May 9, 2013. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2012, which are available on SEDAR at www.sedar.com. The Company's interim consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS.
All dollar amounts are expressed in thousands United States dollars, except as otherwise indicated.

Contents of the MD&A

1. FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

2. OVERVIEW

The Company is an exploration, development and mining corporation focused in Chile. The Company’s primary asset is an operating gold and copper mine in Chile (the “Pimenton Mine”). The Pimenton gold/copper mine is a narrow high-grade gold and copper mine located in the high mountain range of Chile and encompasses 3,121 hectares (7,708 acres).

The Company’s other major assets are a porphyry copper deposit (the “Pimenton Porphyry”) and other projects in various stages of exploration and development in Chile which include “Santa Cecilia”, “Tordillo”, and two limestone deposits “Catedral” and “Cal Norte”.

3. HIGHLIGHTS

Operational Highlights

- Gold produced by the Pimenton Mine for the six months ended March 31, 2013 was 6,543 oz compared to 4,997 in the preceding same period.
- Pimenton’s cash cost for the six months ended March 31, 2013 was $1,067 per ounce of gold produced compared to $1,142 in the preceding same period.
- Pimenton’s cash production cost for the six months ended March 31, 2013 was $1,259 per ounce of gold produced compared to $1,342 in the preceding same period.
- The average gold recovery for the six months ended March 31, 2013 was 93.7% compared to 93.61% in the preceding same period.
- The total fleet of available mining and related equipment has been increased. The Company expects the mine to gradually increase milling rates above the current 110

tons per day to 120 ton per day depending on the rate of conversion of its known resources to reserves.

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

Financial Highlights

- Loss before income taxes for the six month period ended March 31, 2013 was $1,072 (2012 - $909). Loss before income taxes for the three months ended March 31, 2013 was $1,201 (2012- $951).
- Average price per ounce during the six months ended March 31, 2013 was $1,649 (2012 - $1,668). Average price per ounce during the three months ended March 31, 2013 was $1,613 (2012 - $1,660).
- Net loss after income taxes for the six months ended March 31, 2013 was $1,194 compared to $953 in the same period in 2012. Net loss after income taxes for the three months ended March 31, 2013 was $1,082 compared to $995 in the same period in 2012.
- Basic earnings per share for the second quarter ended March 31, 2013 was nil per share compared to nil per share in the same period 2012.
- At March 31, 2013, the Company had cash and cash equivalents of $604 compared to $537 at March 31, 2012.
- Cash flow from operations as at March 31, 2013 before capital investment was $162 (2012- negative $384).

Other Highlights

- During 2012 the Company started the drilling program on the Santa Cecilia property as outlined in the Letter of Agreement signed July 11, 2011.
- Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and as it continues to develop its indicated resources into proven and probable reserves.
- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral/Rino and Cal Norte limestone deposits, Santa Cecilia project and Tordillo exploration are not currently reflected in the Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.
- In December 2012, the Company has made the decision not to renew its claims on La Bella prospect. This prospect has now been abandoned.

4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated profit and loss for the six and three month period ended March 31, 2013 and 2012.

	Three months ended		Six months ended	
	March 31, 2013	**March 31, 2012**	**March 31, 2013**	**March 31, 2012**
Revenue	**$**	**$**	**$**	**$**
Sales	6,199	5,331	12,656	10,620
Services	26	951	101	951
	6,225	6,282	12,757	11,571
Expenses				
Operating costs	5,841	4,892	10,538	8,985
Operating costs for services	24	828	77	828
Reclamation and remediation	11	14	22	41
General, sales and administrative	910	710	1,764	1,459
Foreign exchange	(4)	52	39	43
Interest	95	27	144	54
Other gains and losses (net)	43	99	44	57
Exploration costs	506	611	1,201	1,013
	7,426	7,233	13,829	12,480
Loss and comprehensive loss before income taxes	(1,201)	(951)	(1,072)	(909)
Income tax expense	189	(44)	-	(44)
Deferred income tax	(70)	-	(122)	-
Loss and comprehensive loss for the period	(1,082)	(995)	(1,194)	(953)

1) Consolidated statements of income and other comprehensive (loss) income for the three month period ended March 31, 2013 and 2012:

   a) Revenue for the three month period ended March 31, 2013 increased over the same period 2012 due to increased gold sales of 3,373 oz compared to 2,763 oz in the three month period ended March 31, 2012.

   b) Operating expenses for the three months ended March 31, 2013 were $5,841 compared to $4,892 for the same period in 2012. The increase of $949 consisted of increased direct costs of $400; net smelter return of $48; indirect costs of $115, of which $123 related to mine insurance, this was offset by a reduction of $8 in other miscellaneous costs. In addition depreciation and amortization increased by $70, refining and metallurgical charges increased by $19, inventory variation increased by $457. This was off set by a reduction of labor costs of $138 and expansion costs of $22.

   c) General and administrative costs for the three months ended March 31, 2013 were $910 compared to $710 for the same period in 2012. This $200 increase was due to an increase of $164 in salaries; an increase in sales expenses of $25; an increase in listing fees $37; an increase in professional fees of $12 and an increase in patents, notary, licenses and office expenses of $24. This was offset by a reduction in stock based compensation of $29 and a reduction in overhead expenses of $33.

d) The Company expenses its exploration expenditures on properties until a NI 43 - 101 compliant resource has been established on a property. As a result during the three month period ended March 31, 2013, the Company expensed $506 (2012 – $611) of exploration costs as follows: La Bella $31 (2012 – $203); Bandurrias $18 (2012 – $16); Santa Cecilia $179 (2012 - $209); Tordillo $160 (2012- $67); Catedral $43 (2012 – $41); Cal Norte $5 (2012 – $5); and other $70 (2012 -$70).

2) Consolidated statements of income and other comprehensive (loss) income for the six month period ended March 31, 2013 and 2012:

a) Revenue for the six month period ended March 31, 2013 increased over the same period 2012 due to increased gold sales of 6,737 oz compared to 5,655 oz in the six month period ended March 31, 2012.

b) Operating expenses for the six months ended March 31, 2013 were $10,538 compared to $8,985 for the same period in 2012. The increase of $1,553 consisted of increased labor costs of $220; direct costs of $651; net smelter return of $120; indirect costs of $259, of which $268 related to mine insurance, this was offset by a reduction of $9 in other miscellaneous costs. In addition depreciation and amortization increased by $212, refining and metallurgical charges increased by $46, inventory variation increased by $74. This was off set by a reduction of; expansion costs of $29.

c) General and administrative costs for the six months ended March 31, 2013 were $1,764 compared to $1,459 for the same period in 2012. This $305 increase was due to an increase of $347 in salaries; an increase in listing fees $60; an increase in sale expense of $41 and an increase in patents, notary, licenses and office expenses of $63. This was offset by a reduction stock based compensation of $57; professional fees of $87 and a reduction in overhead expenses of $62.

d) The Company expenses its exploration expenditures on properties until a NI 43 - 101 compliant resource has been established on a property. As a result during the six month period ended March 31, 2013, the Company expensed $1,201 (2012 – $1,013) of exploration costs as follows: La Bella $162 (2012 – $532); Bandurrias $21 (2012 – $18); Santa Cecilia $599 (2012 - $209); Tordillo $231 (2012- $68); Catedral $43 (2012 – $41); Cal Norte $5 (2012 – $5); and other $140 (2012 - $140).

3) Consolidated Cash flow for the six months ended March 31,2013

Cash generated by the Pimenton Mine decreased due to an increase in unit cash operating expenses and exploration costs, despite higher gold sales and gold prices realized. The Company's working capital requirements increased because of the increase in operating production levels and in particular, higher consumables and labour costs. Capital expenditures related primarily to expenditures at the Pimenton Mine were $2,889 for the six month period ended March 31, 2013 (2012 - $1,908).

4) Consolidated Statement of Financial Position as at March 31, 2013

The decrease in payables to related parties consisted principally in the issuance of convertible unsecured debentures on November 15, 2012 of $1,568, of which $341 were in payment of service fees and $1,227 were in payment of cash advance by Compañía Minera Auromin Ltda. a Company owned by David R.S. Thomson, Executive-Vice President-Director of Exploration of the Company and Minera Chañar Blanco S.A. a Company owned by Mario Hernández, Executive-Vice President-Director of Claims and Administration. The maturity date of these debentures is November 15, 2017. The conversion price of the Debentures is CA$0.30 per share convertible into up to 5,228,042 common shares of the Company. Interest rate on the Debentures is 6% payable quarterly. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 15%. As a result, the Company has allocated $474 to equity and $1,130 to debt, of which $36 were accreted.

The following information is provided for each of the eight most recent quarterly periods ending on the dates specified. The figures are extracted from underlying unaudited financial statements that have been prepared using accounting policies consistent with IFRS.

Summary of Quarterly Results

	March 31, 2013	**December 31 2012**	**September 30 2012**	**June 30, 2012**
Sales	6,225	6,532	7,675	8,199
Net income (loss) before extraordinary items	(561)	917	1,057	(157)
Per share	(0.006)	0.010	0.011	(0.002)
Per share diluted	(0.005)	0.009	0.010	(0.001)
Net income (loss) after extraordinary items	(1,082)	(112)	(432)	(2,328)
Per share	(0.011)	(0.001)	(0.005)	(0.025)
Per share diluted	(0.010)	(0.001)	(0.004)	(0.022)

	March 31, 2012	December 31 2011	September 30 2011	June 30, 2011
Sales	6,282	5,289	5,574	7,695
Net income (loss) before extraordinary items	(162)	420	652	2,437
Per share	(0.002)	0.004	0.007	0.026
Per share diluted	(0.002)	0.004	0.006	0.023
Net income (loss) after extraordinary items	(995)	42	400	2,304
Per share	(0.010)	0.000	0.004	0.025
Per share diluted	(0.009)	0.000	0.004	0.022

5. OPERATIONS AT THE PIMENTON MINE

Safety, Health and Environment

The following safety statistics have been recorded from October 1, 2012 and 2011 to March 31, 2013 and 2012:

Pimenton Mine Safety Statistics				
	For the 3 months ended March 31,		**For the 6 months ended March 31,**	
	2013	**2012**	**2013**	**2012**
Lost time injury	3	3	8	4
Medical aid	3	3	8	9
Total	**6**	**6**	**16**	**13**
Total injury frequency rate (i)	20.30	20.23	26.71	13.54
Total disabling injury frequency rate (ii)	765	904	955	836
Lost days for medical aid	113	134	286	247
Man - Hours worked	147,768	148,272	299,460	295,434

(i) A measurement of lost time injury multiplied by 1,000,000 man-hours worked
(ii) A measurement of the total number of shifts lost multiplied by 1.000.000 per total of number of man-hours worked

Overall, for the six months ended March 31, 2013 Pimenton's accident record has increased compared to the six months ended March 31, 2012. The Company had 8 Lost Time Injuries with 286 Lost Days for Medical Aid for the six months ended March 31, 2013 compared to 4 Lost Time Injury and 247 Lost Days for Medical Aid in the same period in 2012. For the second quarter of 2013 Pimenton's accident record was closely comparable to the second quarter 2012. The Company had 6 Lost Time Injuries and 113 Lost Days for Medical Aid for the second quarter 2013 compared 6 Lost Time Injury and

134 Lost Days for Medical Aid in the same period 2012. The Company has made significant changes to its Safety staff including personal changes and certified training programs.

There were no adverse environmental issues during the six months ended March 31, 2013.

Gold Production

Gold produced in Q2 of 2013 was 2,723 ounces, a 28.72% decrease compared to the 3,820 ounces produced in Q1 of 2013 and a
4.82% decrease compared to 2,861 ounces produced in Q2 of 2012.

The following table shows the tonnes milled, average mill grade, plant gold recovery and gold produced during each quarter from April 2011 to March 31, 2013:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q3-2012	8,665	13.88	93.82	3,817.03
Q4/2012	9,045	13.65	95.08	3,768.92
Q1-2013	10,089	12.71	92.92	3,819.95
Q2-2013	9,356	11.43	93.10	2,722.87
	37,156	12.92	93.73	14,128.78

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q3-2011	7,610	19.07	94.91	3,889.09
Q4/2011	7,970	13.18	94.41	4,032.51
Q1-2012	7,229	11.39	94.86	2,135.88
Q2-2012	9,397	9.73	92.93	2,861.43
	32,206	13.34	94.28	12,918.91

The drop in production in Q2-2013 is directly related to delays in completing the 3195 level crosscut (Esperanza 4). Lower grade stopes had to be used for mill feed without the input of the high grade Lucho vein ore that was not accessible from the delayed crosscut. The lower 3195 level was scheduled to reach the Lucho vein in January 2013, but due to bad ground conditions, it was not reached until April, 2013. The cross cut reached Lucho after 934 meters of tunneling. This combined with a decrease in the grade, lead to a production drop from 3,820 Oz for the quarter ended December 31, 2012 to 2,723 Oz for the quarter ended March 31, 2013.

The main reason for the drop in Q1 of 2012 was a production stoppage for approximately three weeks while a fatigued Ball Mill crown gear was replaced by a new one. During the three month fabrication time of the crown gear, production was lowered to less then 100 tpd so as not to cause a major failure during the build time. During the down time a new 600 kva generator was installed as well as a new ball mill electric motor and a Hydraulic clutch. The new generator has led to a 10% drop in fuel consumption despite an increase in plant production. This combined with a decrease in the grade, lead to a production drop from 4,033 Oz for the quarter ended September 30, 2011 to 2,136 Oz for the quarter ended December 31, 2011.

Operating Costs

The cash cost per ounce of gold produced during the quarters from April 2012 to March 31, 2013 are set out in the table below.

Reconciliation of Non-IFRS Measures Cost of Production:

	Q3-2012	Q4-2012	Q1-2013	Q2-2013	Total
Gold ounces produced	**3,817.03**	**3,768.92**	**3,819.95**	**2,722.87**	**14,128.77**
Direct mine expenses	4,404	4,745	4,190	4,292	17,631
By product credits (deduct)	(929)	(1,021)	(718)	(783)	(3,451)
Cash Costs	3,475	3,724	3,472	3,509	14,180
Cash cost/Oz	**910.39**	**988.08**	**908.91**	**1,288.71**	**1,003.63**
Depreciation	341	339	358	386	1,424
amortization	303	227	296	218	1,044
Production costs	4,119	4,290	4,126	4,113	16,648
Production cost/Oz	**1,079.11**	**1,138.26**	**1,080.12**	**1,510.54**	**1,178.30**
Net Smelter return	421	439	376	358	1,594
Total costs	4,540	4,729	4,502	4,471	18,242
Total cost/Oz	**1,189.41**	**1,254.74**	**1,178.55**	**1,642.02**	**1,291.12**

Mineral Reserves and Resources

As of January 31, 2011, the date of the last NI-43-101 Technical Review, Pimenton had sufficient Proven and Probable reserves to operate the mine at its current average rate of production of 110 tons per day for 3 years. The Company believes that it can continue to be successful in converting its existing resource of 189,000 tons into reserves and plans to complete a new NI-43-101 reserves and resources Technical Report in the near future. The Company expects to increase production from its current rate of 110 to 120 tons per day to 150 tons per day as its reserve base grows.

Exploration and development are ongoing at the Pimenton mine. The rate of exploration and development at Pimenton is expected to increase during calendar year 2013.

Risks

Risks relating to the Pimenton Mine associated with mining operations (e.g. production, commodity prices, etc.) are set out below:

- Increasing costs: Pimenton and other Chilean miners continue to experience significant upward cost pressures from labour and the costs associated with generating its own electricity at the mine.
- Reserve replacement: As is normal with exploration/development in narrow veins, activities at Pimenton may not identify sufficient resources of an adequate grade to replace ore which has been depleted by mining activities. Pimenton has embarked on development and exploration programs as set out under "Mineral Reserves and Resources" above.
- The Company does not use financial instruments to mitigate the risks of either change in the price of gold or currency fluctuations.
- The mining industry is intensely competitive in all of its phases. The Company competes with many companies possessing larger technical facilities and financial resources which results in higher labour costs.
- All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.
- The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.

- The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labour unrest could adversely affect the Company's exploration efforts and production plans.
- The Company's mine is located in an area that can experience severe winter weather conditions that could adversely affect mining operations.

Opportunities

- Increased production: Pimenton's existing reserves and resources would support a further increase in production provided the necessary investments in the resource development can be made.
- Surplus capacity: The plant at the Pimenton Mine currently has a daily average milling capacity of over 150 tons per day. Any increased production arising from increased mining throughput could therefore be processed with little or no capital investment and incur only consumable costs to treat any increase throughput.
- Exploration success: Depending on future exploration success, Pimenton may be able to increase its production levels.

Outlook

The Company has achieved production of 12,583 ounces of gold in 2012, which is expected to be sustained and increased this year. During the six months ended March 31, 2013 the Company's production was 6,543 ounces of gold. As a result of upgrades made to the plant during the shut down that occurred during Q1of 2012, the plant has surplus capacity and can process additional ore.

In May 2010 the Company started to produce its own gold doré at the mine site allowing it to ship the gold doré bars directly to a gold refinery in Europe. 90% of the value of this gold shipment is paid during the week following delivery with the balance of payment received a month from the day of receipt of the initial payment. For the period of six months ended March 31, 2013, 67% of the Company's sales have been to a gold refinery in Europe and 33% to the Enami smelter in Ventana, Chile. Enami is owned by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment.

6. EXPLORATION AND DEVELOPMENT PROJECTS

Pimenton - porphyry copper

The Company is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. A prior diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the porphyry copper deposit located within the Pimenton area provided the Company with an exploration report which among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project. Please see Report by Rio Tinto on the Company's web site, www.cegmining.com.

The Company will continue exploration and drilling on the Pimenton porphyry copper deposits during the 2013 exploration seasons.

Tordillo

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

Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. During the six months ended March 31, 2013, the Company expensed a total of $231 (2012 - $68) relating to mining property costs and exploration costs on Tordillo. The Company started to do further exploration at Tordillo during this quarter.

La Bella

In December 2012, the Company made the decision not to renew its claims on La Bella prospect. This prospect has now been abandoned.

During the six months period ended March 31, 2013, the Company expensed a total of $162 (2012 - $532) relating to mining property costs and exploration costs on La Bella. All these costs were incurred in the first quarter of the year.

Santa Cecilia

On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio (CDM), the 100% owner of the Santa Cecilia project which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement, between July 31, 2011 and July 31, 2013 CEG must fund the CDM majority shareholders, and any option shareholders, the pro rata of a drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, at an aggregate cost of approximately $4,000. CEG is committed to fund an estimated $2,624 or 65.6% of this drilling campaign. Mario Hernandez Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are owners of 65.6% of CDM. At March 31, 2013 3,335 meters had been drilled at a total costs to CDM of $4,439 which include $448 related to a geophysical study. Please see News Releases dated March 22, 2012, June 19, 2012 and March 20, 2013 for drill hole results on the Company's web site, www.cegmining.com.

During the six month period ended March 31, 2013, the Company expensed a total of $599 (2012 - $209) relating to mining property costs and exploration costs on CDM, the majority of which was expended in the first quarter of the year.

In October 2012, the Company began an Orian 3D geophysical study by Quantec Geoscience Toronto, Canada on Santa Cecilia. Based on the study, Quantec recommends twenty-three DC/IP/MT anomalies for future drilling, nearly all of which are located within the previously established five MMI (mobile metal ion) gold and copper anomalies at Santa Cecilia. One of the most interesting DC/IP/MT anomalies sighted for drilling lies 1,000 meters to the south west of Exeter Resources Caspiche orebody.

Under the terms of the Letter of Agreement dated July, 2011 CEG has engaged a qualified engineering firm to supervise the drilling campaign on Santa Cecilia. This firm will also update NI 43-101 technical reports on CEG's other projects and Santa Cecilia on completion of the drilling campaign.

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

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

Pending a full review of the Quantec geophysical study, the Company has postponed any further expenditures on Santa Cecilia until its next fiscal year.

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

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

Bandurrias

During the six month period ended March 31, 2013 acquisition costs of $21 were expensed (2012- $18).

Limestone deposits

The Company holds interest in two limestone deposits. Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry. While the changing economic situation will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

As at March 31, 2013, the Company had contributed a cumulative total of $4,012 (2011 - $3,953) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton per day lime kiln on the Catedral property. During prior years the Company had written off $3,969 in mining properties and exploration costs relating to Catedral/Rino. For the six months ended March 31, 2013 and 2012 the Company expensed $43 (2012 - $41) relating to mining property costs on Catedral/Rino.

As at March 31, 2013, the Company had contributed a total of $1,561 (2012 - $1,556) to Cal Norte, to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient exploration expenditures to maintain the Cal Norte property in good standing, the Company expensed $1,556 in prior years as it focused its efforts on the Pimenton gold mine. For the six months ended March 31, 2013 the Company expensed $5 (2012-$5) related to mining property costs on Cal Norte.

7. INVESTING

During the six month period ended March 31, 2013 the Company invested $2,889 (2012 - $1,908) in mining property, plant and equipment.

8. FINANCING

The Company financed all its operations using either funds on hand, funds generated by its operations, lease financing or convertible debentures. No common stock issuance took place during the second quarter ended March 31, 2013 and none is currently planned. The Company's secured mortgage bears an interest rate of 5.13% and is secured by the building and land the Company uses for its office space.

9. LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2013, the Company shows a negative working capital of $218 (2012 – positive $1,692).

As of March 31, 2013 the Company had potential liabilities for reclamation and remediation costs, if and when the Pimenton Mine is permanently closed, at an estimated present value cost of $1,732 (2012 - $2,139). The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $1,988 is expected to be incurred over 5.5 years. These estimated cash flows are discounted using a long term 10 year Chilean interest rate of 2.54% as at March 31, 2013.

Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**Over 4 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	3,784	3,784	-	-
Amount due to related parties	493	493	-	-
Long term debt and finance leases	3,151	539	807	1,805
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
Santa Cecilia agreement	228	228	-	-
Total Contractual Obligations	**10,406**	**5,044**	**807**	**4,555**

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

Note (2). As compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay $250 within 50 days of first cash flow from the property.

The Company must make an additional capital contribution of $239 in Cal Norte to earn its 60% equity interest.

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

10. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

11. RELATED PARTY TRANSACTIONS

A company owned by the CEO (who is also a director) billed $4 to the Company at March 31, 2013 (2012- $2) in relation to the office space and services used by the Company. In addition, the Company has a receivable from such officer and director of the Company for $214 as at March 31, 2013 (2012 - $409) of which $96 (2012 - $286) is a non-interest-bearing note receivable without specific repayment terms and is secured by collateral represented by 653,200 common shares of the Company owned by the CEO, $32 (2012 - $32) was a loan in August 2011, and $86 (2012 -$91) was net of cash advances, salary and for the truck and its expenses.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed $38 to the Company for accounting and administration services rendered for the six months ended March 31, 2013 (2012 - $33). Accounts payable and accrued liabilities for $15 include payables to this officer in relation to such services at March 31, 2013 (2012 - $15).

A law firm, of which a director of the Company is a partner, billed the Company $76 for the six months ended March 31, 2013 (2012 - $83) for legal services. Accounts payable and accrued liabilities include $43 at March 31, 2013 (2011- $30).

Accounts payable and accrued liabilities also include $66 at March 31, 2013 (2012-$106) related to royalties due to Mario Hernández, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid $359 in royalty payment for six month period ended March 31, 2013 (2012 - $317). Also accounts payable include $106 of cash advance provided on March 27, 2013, which was repaid during the first week of April.

Accounts payable and accrued liabilities include $66 at March 31, 2013 (2012-$106) for royalties due to David Thomson who is the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid $359 in royalty payment for six month period ended March 31, 2013 (2012 - $317). Also accounts payable include $9 (2012 - $9) for interest not paid on the Debenture issued to him in 2006 and which was converted on June 9, 2009. Also accounts payable include $106 of cash advance provided on March 28, 2013, which was repaid during the first week of April.

In October 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rent. For the six months ended March 31, 2013 Pimenton has recognized revenue of $101 (2012 - $951). The costs related to these services amounted $77 (2012 - $838). As at March 31, 2013 account payable include $228 (2012– receivable $762).

On June 21, 2011 the board approved a resolution that non-executive directors be paid $1 per meeting attended. As at March 31, 2013 amounts due to the directors for these director fees were $17 (2012 - $18); these fees were paid during April.

On April 1, 2010, Compañía Minera Auromin Ltda a Company owned by David Thomson, entered into a services contract with the Company for a period of two years, which is being renewed for an additional two years period at the end of each year. Under the term of the contract, the Company will pay $300 per year to Compañía Minera Auromin Ltda. The services to be provided by Compañía Minera Auromin Ltda. include, seeking new mining projects, performing geological studies and designing drill programs for the Company on exploration projects, conducting preliminary design of the mining plan for designated project and providing other services related to the exploration and development of mining projects. As of March 31, 2013 accounts payable and accrued liabilities included $25 related to this contract (2012 - $75).

On April 1, 2010 Compañía Minera Chañar Blanco S.A a Company owned by Mario Hernández, entered into a services contract with the Company for a period of two years, which is being renewed for an additional two years period at the end of each year. Under the term of the contract, the Company will pay $110 per year to Compañía Minera Chañar Blanco S.A. The services to be provided by Minera Chañar Blanco S.A. include, maintaining title and ownership of mining properties acquired by the Company, acquiring water rights or request concessions of water rights on the properties acquired by the Company and negotiating the acquisition of new mining properties for the Company. As of March 31, 2013 accounts payable and accrued liabilities included $9 related to this contract (2012- $28).

On April 1, 2010, the Chief Executive Officer (CEO), and Director of the Company, entered into a management contract for a period of two years, which is being renewed for an additional two year period at the end of each year. Under the terms of the contract, the Company will pay $110 per year to the CEO plus truck and medical expenses. As of

March 31, 2013 the Corporation paid $9 (2012 - $10) for the truck and its expenses and $55 (2012- $55) for salary.

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

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

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

12. CRITICAL ACCOUNTING ESTIMATES

A summary of the critical accounting estimates are set out below:

Mining properties, plant and equipment

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

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

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

- Mining properties and development - UOP
- Building 5.5 years
- Plant and Equipment 1- 5.5 years

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

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

Exploration and development costs

Acquisition and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

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

Revenue recognition

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

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

Stock-based compensation

The Company has a share option plan, as discussed in note 7 (c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

Reclamation and remediation

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there are a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

13. SECURITIES OUTSTANDING

As of May 9, 2013, the Company has issued one class of common shares of which a total of 94,925,714 common shares were outstanding. As of May 9, 2013, the Company had 1,608,254 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA$0.50 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of May 9, 2013, totaled 7,615,999 of which 6,737,999, are currently exercisable into one common share at prices of CA$0.10 to CA$0.79 per common share expiring at various dates through April, 2018.

"CEG" is the stock trading symbol on the TSX for the Company and the OTCQX International Symbol CEGMF on the OTC market.

14. CONTROLS

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

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

Internal Control Over Financial Reporting

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

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

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

15. QUALIFIED PERSON

Mineral Reserves and Mineral Resources Estimates

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