

**EARLY WARNING REPORT
UNDER
NATIONAL INSTRUMENT 62-103**

1. *Name and address of the offeror.*

Mario Hernandez
c/o Compania Minera Chanar Blanco S.A.
380 Los Carreras, Of, 425
La Serena, Chile

(“**Hernandez**”)

and

Compania Minera Chanar Blanco S.A.
380 Los Carreras, Of, 425
La Serena, Chile

(“**Chanar Blanco**”)

2. *The designation and number or principal amount of securities and the offeror’s securityholding percentage in the class of securities of which the offeror acquired ownership or control in the transaction or occurrence giving rise to the obligation to file the news release, and whether it was ownership or control that was acquired in those circumstances.*

On July 30, 2013, Chanar Blanco, a company controlled by Hernandez, a director and officer of Cerro Grande Mining Corporation (the “**Company**”), was issued a convertible debenture (the “**Debenture**”) in the principal amount of US\$505,105.70 (or CDN\$505,105.70 converted using an exchange ratio of US\$1.00 to CDN\$1.00). The outstanding amount of principal under the Debenture is convertible at any time at the option of Chanar Blanco (the “**Conversion Right**”) into common shares of the Company (“**Common Shares**”) at a rate of CDN\$0.10 per Common Share (the “**Conversion Price**”). On this basis, Chanar Blanco may convert the Debenture on the basis of 1,000 Common Shares for each US\$100 of outstanding principal up to an aggregate of 5,051,057 Common Shares. The Debenture also provides that the Company may, at its option, require the conversion (the “**Acceleration Right**”) of all of the outstanding principal under the Debenture at the Conversion Price, if the closing price of the Common Shares on the Toronto Stock Exchange equals or exceeds CDN\$0.15 per Common Share for a period of 20 consecutive trading days (the “**Acceleration Period**”) and provided further that such Acceleration Right is exercised within 20 business days after the end of the Acceleration Period. However, under the terms of the Debenture, the maximum amount of Common Shares into which Chanar Blanco can convert the Debenture at any time is limited to that number which, when added to Hernandez’

beneficial holdings at such time, does not exceed 19.99% of the issued and outstanding Common Shares as at the date of conversion.

For purposes of applicable Canadian securities laws, Hernandez currently beneficially owns 17,266,761 Common Shares, representing 17.01% of the issued and outstanding Common Shares. Assuming the conversion of the Debenture in full, and assuming that the 19.99% ownership threshold is not triggered, Hernandez would beneficially hold an additional 5,051,057 Common Shares. The 5,051,057 Common Shares represent approximately 4.74% of the issued and current outstanding Common Shares. However, as noted above, the maximum amount of Common Shares into which Chanar Blanco can convert the Debenture at any time is limited to that number which, when added to Hernandez' beneficial holdings at such time, does not exceed 19.99% of the issued and outstanding Common Shares as at the date of conversion. Beneficial ownership and control of the Common Shares will be acquired by Hernandez upon conversion of the Debenture.

3. *The designation and number or principal amount of securities and the offeror's securityholding percentage in the class of securities immediately after the transaction or occurrence giving rise to obligation to file the news release.*

As detailed in Item 2 above.

4. *The designation and number or principal amount of securities and the percentage of outstanding securities of the class of securities referred to in paragraph 3 over which:*

- (i) *the offeror, either alone or together with any joint actors, have ownership and control.*

As detailed in Item 2 above.

- (ii) *the offeror, either alone or together with any joint actors, has ownership but control is held by other persons or companies other than the offeror or any joint actor.*

Not applicable.

- (iii) *the offeror, either alone or together with any joint actors, has exclusive or shared control but do not have ownership.*

Not applicable.

5. *The name of the market in which the transaction or occurrence that gave rise to the news release took place.*

Not applicable.

6. *The value, in Canadian dollars, of any consideration offered per security if the offeror acquired ownership of a security in the transaction or occurrence giving rise to the obligation to file a news release.*

The value for the issuance of the Common Shares upon conversion of the Debenture (representing the outstanding principal amount due to Chanar Blanco) is US\$505,105.70 (or CDN\$505,105.70 converted using an exchange ratio of US\$1.00 to CDN\$1.00) or CDN\$0.10 per Common Share.

7. *The purpose of the offeror and any joint actors in effecting the transaction or occurrence that gave rise to the news release, including any future intention to acquire ownership of, or control over, additional securities of the reporting issuer.*

The Debenture was issued to Chanar Blanco to evidence a cash advance made by Chanar Blanco to the Company totalling US\$505,105.70, to be used for working capital and to fund capital expenditures on the Company's Pimenton Mine. Chanar Blanco may in the future increase or decrease its ownership of securities of the Company from time to time depending upon the business and prospects of the Company and future market conditions.

8. *The general nature and material terms of any agreement, other than lending arrangements, with respect to securities of the reporting issuer entered into by the offeror, or any joint actor, and the issuer of the securities or any other entity in connection with the transaction or occurrence giving rise to the news release, including agreements with respect to the acquisition, holding, disposition or voting of any of the securities.*

As detailed in Item 2 above.

9. *The names of any joint actors in connection with the disclosure required by this report.*

Not applicable.

10. *In the case of a transaction or occurrence that did not take place on a stock exchange or other market that represents a published market for the securities, including an issuance from treasury, the nature and value, in Canadian dollars of the consideration paid by the offeror.*

As detailed in Item 6 above.

11. *If applicable, a description of any change in any material fact set out in a previous report by the entity under the early warning requirements or Part 4 of National Instrument 62-103 in respect of the reporting issuer's securities.*

Not applicable.

12. *If applicable, a description of the exemption from securities legislation being relied on by the offeror and the facts supporting the reliance.*

Not applicable.

13. *Other information.*

Concurrent with the issuance of the Debenture, a wholly owned subsidiary of the Company, Compañía Minera Pimenton (“**Pimenton**”), has today entered into an agreement (the “**Loan Agreement**”) with Chanar Blanco pursuant to which Pimenton may draw down up to US\$1,500,000 to cover operating expenses at the Pimenton Mine. Amounts drawn down under the Loan Agreement bear interest at a rate of 5% per annum, payable quarterly following an initial grace period of 15 months. In order to guarantee the payment obligations of Pimenton under the Loan Agreement, Pimenton has granted a first security interest in the mining concessions it holds in favour of Chanar Blanco. All amounts outstanding under the Loan Agreement are to be repaid by Pimenton to Chanar Blanco on or before July 30, 2016.

In this report, for purposes of calculating the percentages of Common Shares owned, directly or indirectly, by Chanar Blanco and Hernandez, Chanar Blanco has assumed that there were 101,528,790 Common Shares outstanding at July 30, 2013.

Neither the filing of this report, nor the issuance of the associated news release, is an admission that an entity named in this news report or the associated new release, owns or controls any described securities or is a joint actor with another named entity.

DATED this 31st day of July, 2013.

“Mario Hernandez”

MARIO HERNANDEZ

**COMPANIA MINERA CHANAR
BLANCO S.A.**

“Mario Hernandez”

Name: Mario Hernandez

Title: Authorized Signatory