

CERRO GRANDE MINING CORPORATION

**Report to Shareholders
for the
First Quarter Ending
December 31, 2013
(These statements have not been audited)**

**Listed on the Toronto Stock Exchange
Symbol: CEG
And
The OTCQX International
Symbol: CEGMF**

The Company's auditors have not reviewed these condensed interim consolidated financial statements for the three month period ended December 31, 2013.

Management's responsibility for financial reporting

Under National instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The condensed interim unaudited consolidated financial statements and other information in this report were prepared by the management of **Cerro Grande Mining Corporation**, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Management is responsible for the preparation of the condensed interim consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management has included amounts in the Company's condensed interim consolidated financial statements based on estimates, judgments and policies that it believes reasonable under the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

"Stephen W. Houghton"
Chief Executive Officer

"Peter W. Hogg"
Chief Financial Officer

February 5, 2014

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

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

	December 31	September 30
	2013	2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	480	53
Accounts receivable (note 4)	997	1,126
Recoverable taxes	84	101
Inventory (note 3)	1,815	2,601
	<u>3,376</u>	<u>3,881</u>
Non-current assets		
Receivable from a related party (note 11)	185	196
Mining properties, plant and equipment (note 5)	19,207	19,656
Total assets	<u><u>22,768</u></u>	<u><u>23,733</u></u>
Liabilities and Shareholders' equity		
Current liabilities		
Trade and other payables	2,314	2,449
Payable to related parties (notes 11)	706	432
Current portion of long-term debt (note 6)	810	813
	<u>3,830</u>	<u>3,694</u>
Non-Current liabilities		
Long-term debt (note 6)	1,227	1,879
Due to related parties (notes 11)	2,719	2,585
Reclamation and remediation	2,098	2,113
Total liabilities	<u><u>9,874</u></u>	<u><u>10,271</u></u>
Shareholders' equity		
Share capital (note 7)	81,041	80,256
Warrants (note 8)	211	211
Contributed surplus	7,787	7,781
Convertible unsecured debenture	206	479
Deficit	(76,351)	(75,265)
Total shareholders' equity	<u><u>12,894</u></u>	<u><u>13,462</u></u>
Total liabilities and shareholders' equity	<u><u>22,768</u></u>	<u><u>23,733</u></u>

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman Stephen W. Houghton Director

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

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss
For the three months ended December 31, 2013 and 2012
(Unaudited)

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

	Three months ended	
	December 31,	December 31,
	2013	2012
	\$	\$
Revenue		
Sales	4,541	6,457
Services	-	75
	<u>4,541</u>	<u>6,532</u>
Expenses		
Operating costs	4,790	4,690
Operating costs for services	-	60
Reclamation and remediation	11	11
General, sales and administrative	770	854
Foreign exchange	(50)	43
Interest	95	49
Other gains and losses (net)	9	1
Exploration costs	2	695
	<u>5,627</u>	<u>6,403</u>
Income (loss) and comprehensive income (loss) before income taxes	(1,086)	129
Income tax expense	-	(189)
Deferred income tax	-	(52)
	<u>-</u>	<u>(241)</u>
Loss and comprehensive loss for the period	<u>(1,086)</u>	<u>(112)</u>
Basic and diluted (loss) income per share (note 7 (d))	(0.01)	(0.00)
Weighted average number of shares outstanding	98,585,517	94,925,714

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

Cerro Grande Mining Corporation

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

	<i>Share capital (note 7 (b))</i>	<i>Warrants (note 8)</i>	<i>Contributed surplus</i>	<i>Convertible unsecured debenture</i>	<i>Deficit</i>	<i>Total equity</i>
Balance - October 1, 2012	78,496	211	7,493	154	(69,045)	17,309
Convertible unsecured debenture	-	-	-	474	-	474
Share-based compensation	-	-	12	-	-	12
Net loss	-	-	-	-	(112)	(112)
Balance - December 31, 2012	78,496	211	7,505	628	(69,157)	17,683
Balance - October 1, 2013	80,256	211	7,781	479	(75,265)	13,462
Convertible unsecured debenture	785	-	-	(273)	-	512
Share-based compensation	-	-	6	-	-	6
Net income	-	-	-	-	(1,086)	(1,086)
Balance - December 31, 2013	81,041	211	7,787	206	(76,351)	12,894

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

Cerro Grande Mining Corporation

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

	December 31, 2013	December 31, 2012
	\$	\$
Net loss for the period	(1,086)	(112)
Adjustments for:		
Amortization and depreciation	724	662
Accretion of interest on long-term debt	95	30
ARO accretion	11	11
Foreign exchange gain	(50)	6
Deferred income tax	0	52
Stock-based compensation	6	-
	<u>(300)</u>	<u>649</u>
Change in non-cash working capital relating to operations	1,050	383
Net cash provided by operating activities	<u>750</u>	<u>1,032</u>
Investing activities		
Additions to mining properties, plant and equipment	(184)	(1,045)
Net cash (used in) investing activities	<u>(184)</u>	<u>(1,045)</u>
Financing activities		
Loan From related parties	134	-
Debt payments	(148)	-
Capital leases	(117)	(82)
Net cash provided by financing activities	<u>(131)</u>	<u>(82)</u>
Effect of foreign exchange on cash held in foreign currency	<u>(8)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents during the period	427	(95)
Cash and cash equivalents - Beginning of the period	53	1,336
Cash and cash equivalents - End of the period	<u>480</u>	<u>1,241</u>

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

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

1. Nature of the Company

Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries is a mining, exploration and development company which produces gold, silver and copper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Toronto Stock Exchange (“TSX”) trading under the symbol “CEG” and on the OTCQX trading under the symbol CEGMF. The Company is domiciled in Canada and the address of its records office is 1 King Street West, Suite 4009 Toronto Ontario M5H 1A1, Canada. The registered office is 200 Bay Street, Suite 3800, Toronto, Ontario M5J 2Z4, Canada.

The company’s only significant subsidiary is Compania Minera Pimenton (Pimenton).

2. Basis of presentation

a. *Statements of compliance*

These unaudited condensed interim consolidated financial statements are expressed in thousands of US dollars and have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Standards Board (“IASB”) including IAS34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2013 which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company’s consolidated financial statements for the year ended September 30, 2013 except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective October 1, 2013.

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on October 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

each investor that jointly controls the arrangement. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 Disclosure of *Interests in Other Entities*. In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). The Company has adopted IFRS 12 effective October 1, 2013. The adoption of IFRS 12 will result in incremental disclosures in the annual consolidated financial statements.

IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on October 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at October 1, 2013.

The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective October 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

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

All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Director on February 5, 2014.

b. Use of estimates and judgments

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

The more significant areas requiring the use of management estimates and assumptions relate to future cash flow estimates for asset impairments/reversals, any asset retirement obligation, estimation of useful

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

lives of mining properties, plant and equipment, stock-based compensation and the provision for income taxes and composition of future income tax assets and liabilities. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period.

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

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

3. Inventory

	December 31, 2013	September 30, 2013
	<u>\$</u>	<u>\$</u>
Ore and concentrate stockpiles	1,001	1,664
Materials and supplies	814	937
	<u>1,815</u>	<u>2,601</u>

4. Accounts receivable

	September 30, 2013	September 30, 2013
	<u>\$</u>	<u>\$</u>
Accounts receivable from customers	387	494
Other sundry receivables	610	632
Total receivables	<u>997</u>	<u>1,126</u>

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

5. Mining property, plant and equipment

Cost	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	5,767	13,413	20,105	408	39,693
Additions	-	48	253	-	301
Reclamation	-	-	(26)	-	(26)
Balance - December 31, 2013	5,767	13,461	20,332	408	39,968

Accumulated depreciation	Mining property				Total
	Building	Equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	2,822	8,449	8,550	216	20,037
Depreciation and amortization expenses	61	297	356	10	724
Balance - December 31, 2013	2,883	8,746	8,906	226	20,761
Net book value as at December 31, 2013	2,884	4,715	11,426	182	19,207

Cost	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2012	5,464	11,900	18,021	365	35,750
Additions	303	1,513	1,748	43	3,607
Disposals	-	-	(8)	-	(8)
Reclamation	-	-	344	-	344
Balance - September 30, 2013	5,767	13,413	20,105	408	39,693

Accumulated depreciation	Mining property				Total
	Building	equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2012	2,530	6,429	6,223	177	15,359
Depreciation and amortization expenses	292	1,323	884	39	2,538
Impairment charges **	-	697	1,443	-	2,140
Balance - September 30, 2013	2,822	8,449	8,550	216	20,037
Net book value as at September 30, 2013	2,945	4,964	11,555	192	19,656

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

- * The Company leases equipment and vehicles under finance leases contracts. As of December 31, 2013, the net carrying value of leased equipment and vehicles was \$1,337. (September 2013- \$1,396).
- ** Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the quarter ended December 31, 2013 there were no indicators of impairment. During the year ended September 30, 2013, there were potential indicators of impairment. The recoverable amount was calculated using the value-in-use method, which is the expected present value of future cash flows from the asset, using a pre-tax discount rate of 10.8%, consequently the Company recorded an impairment charge of \$2,140 related to the Pimenton project, primarily as a result of the decrease in long-term gold and copper prices.

6. Long-term debt

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

Description	Interest rate	December 31,	September 30,
		2013	2012
		Principal	Principal
		\$	\$
C and D debentures (a)	6.00%	321	307
Auromin and Chañar blanco debenture (7 b(ii))	0.00%	97	588
Bice Bank mortgage (b)	5.13%	750	790
Lease	4% -5.2%	869	1,007
Sub total		2,037	2,692
Less: Current portion		(810)	(813)
Long-term debt		1,227	1,879

- a) On April 21, 2010 the Company issued \$300 of convertible unsecured debentures (the "C Debentures"). The maturity date of these debentures is April 21, 2015. The conversion price of the C Debentures is CA\$0.40 per share convertible into up to 782,100 common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition to the C debentures, the Company issued 782,100 common share purchase warrants exercisable for 60 months from the date of issuance at CA\$0.50 per share. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are presented separately in the consolidated statement of financial position. The \$300 face value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determined using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, the Company had allocated \$112 to equity, \$114 to warrants and \$241 to debt.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

On May 11, 2010 the Company issued \$330 of convertible unsecured debentures (the “D Debentures”). The maturity date of these debentures is May 11, 2015. The conversion price of the D Debentures is CA\$0.40 per share convertible up to 826,155 common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition with the D Debenture, the Company issued 826,155 common share purchase warrants per common share exercisable for 60 months from the date of issuance at CA\$0.5 per share. On August 20, 2010 \$230 of the D Debentures were converted into 575,805 common shares. For accounting purposes, the convertible unsecured debentures have a liability component and an equity component, which are presented separately in the consolidated statement of financial position. The value of the convertible unsecured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determine using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.93%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, the Company allocated \$43 to equity, \$97 to warrants and \$80 to debt.

- b) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$941). The mortgage bears interest at a fixed rate of 5.13% per annum. The UF is an inflation based unit of account used in Chile. The mortgage is repayable in monthly installments of principal UF 109 (\$24) and interest until 2026. The mortgage is secured by certain fixed assets with an approximate value of \$1,309.

7. Share capital

a) Authorized capital

The authorized capital of the Company consists of an unlimited number of common shares, with no par value.

b) Issued and outstanding

	<u>Number of shares</u>	<u>Amount</u>
		\$
Balance – October 1, 2012	94,925,714	78,496
Options exercised 7(c(g))	650,000	118
Options exercised 7(c(h))	725,000	132
Private placement (i)	5,228,076	1,510
Balance – September 30, 2013	<u>101,528,790</u>	<u>80,256</u>
Private placement (ii)	8,500,000	785
Balance – December 31, 2013	<u>110,028,790</u>	<u>81,041</u>

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

- i) On November 15, 2012 the Company issued \$1,568 in convertible unsecured debentures. 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 5,228,076 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 Debentures have been issued in payment of cash advances by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also a director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also a director of the Company. On June 26, 2013 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company elected to convert the \$1,568 convertible unsecured debentures into 5,228,076 common shares at a conversion price of CA\$0.30 per share. These shares were recorded at the carrying amount of the equity and liability components of the debentures on the date of conversion, resulting in an amount of \$1,626 recorded as capital stock.

- ii) On July 30, 2013 the Company issued \$1,010 of convertible unsecured debentures. The maturity date of these debentures is July 30, 2018. The conversion price of the Debentures is CA\$0.10 per share convertible into up to 10,102,114 common shares of the Company. The debentures do not bear interest. 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 interest and principal payments at an estimated borrowing rate to the Company of 12%. As a result, the Company had allocated \$437 to the equity component and \$588 to the liability component. The Debentures have been issued in payment of cash advances made in April and May 2013 by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director of the Company. On December 23, 2013 each of Chañar Blanco and Auromin partially converted the debentures on the basis of 1,000 Common Shares for each \$100 of outstanding principal up to an aggregate of 8,500,000 Common Shares. These shares were value at \$160 using the TSX closing price of CA\$0.02 on December 23, 2013. As a result, the Company allocated \$97 to the liability component, \$52 to the equity component and \$785 to Capital stock. Under the term of the debenture, the maximum amount convertible into Common Shares is such that each do not hold directly or indirectly, more than 19,99% of the issued and outstanding Common Shares of the Company as at the date of conversion.

c) Share option plan

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

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

and 5,000,000 common shares issuable under the share bonus plan, within the Plan, to eligible participants. The Board of Directors determines the vesting period at its discretion.

A summary of the Company's Plan at December 31, 2013 is presented as follow:

	Number of options	Weighted average exercise price CA\$
Balance – October 1, 2012	7,615,999	0.58
Granted (a)	195,000	0.18
Granted (b)	150,000	0.18
Granted (c)	250,000	0.18
Granted (d)	3,325,000	0.10
Granted (e)	233,953	0.15
Exercised (f)	(650,000)	0.10
Exercised (g)	(725,000)	0.10
Expired	<u>(4,303,953)</u>	0.45/0.90
Balance – September 30, 2013	<u>6,090,999</u>	0.32
Balance – December 31, 2013	<u>6,090,999</u>	0.32

- a) On February 7, 2013 seven employees who are not officers of the Company were granted 195,000 Common Stock Options to replace 195,000 options which expired on January 9, 2013. These new options have a five year life with immediate vesting at a price of CA\$0.18 per share. These options were fair valued at \$32 using the Black –Scholes valuation model, assuming a risk-free rate of 0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation.
- b) On February 7, 2013 150,000 Common Stock Options to an employee who is not an officer of the Company at an exercise price of CA\$0.18 per share, exercisable for a period of five years, 30,000 to vest one year from the date of grant, 30,000 to vest two years from the date of grant, 30,000 to vest three years from the date of grant, 30,000 to vest four years from the date of grant and the balance of 30,000 to vest on the fifth anniversary of the date of grant. These options were fair valued at \$16 using the Black –Scholes valuation model, assuming a risk-free rate of 0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation over the appropriate period.
- c) On February 7, 2013, 250,000 Common Stock Options to an employee who is an officer of the Company at an exercise price of CA\$0.18 per share, exercisable for a period of five years, 50,000 to vest immediately, 50,000 to vest one year from the date of grant, 50,000 to vest two year from

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

the date of grant, 50,000 to vest three year from the date of grant and the balance of 50,000 to vest on the fourth anniversary of the date of grant. These options were fair valued at \$31 using the Black –Scholes valuation model, assuming a risks-free rate of 0.78%, no dividend, and volatility factor of 152% and expensed as stock-based compensation over the appropriate period..

- d) The Company renewed 3,325,000 options that were due to expire on March 7, 2013 and on April 2, 2013. The new grant of stock options were issued on April 16, 2013 exercisable at CA\$0.10 per share for a period of five years from the date of issuance with immediate vesting and 3,250,000 options were issued to Directors of the Company and 75,000 options were issued to an employee. These options were fair valued at \$284, using the Black –Scholes valuation model, assuming a risk-free rate of return of 0.58%, no dividend and volatility factor of 146% and expensed as stock-based compensation over the appropriate period.
- e) The Company renewed 233,953 options that were due to expire on April 30, 2013. The new grant of stock options were issued on May 9, 2013 exercisable at CA\$0.15 per share for a period of five years from the date of issuance with immediate vesting and were issued to a Director of the Company. These options were fair valued at \$32, using the Black –Scholes valuation model, assuming a risk-free rate of return of 0.75%, no dividend and volatility factor of 162% and expensed as stock-based compensation.
- f) On May 23, 2013 Mr. Mario Hernández, who is a director of the Company exercised 650,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$118. The carrying amount of \$56 assigned to these options, along with the cash proceeds received, were transferred to share capital.
- g) On June 20, 2013 Mr. David Thomson, who is a director of the Company exercised 650,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$118. The carrying amount of \$56 assigned to these options was transferred to share capital. In addition an employee of the Company exercised 75,000 options granted on April 16, 2013 at a price of CA\$0.10 per share for net proceeds of \$14. The carrying amount of \$6 assigned to these options, along with the cash proceeds received, were transferred to share capital.

During the period ended December 31, 2013 and 2012 the Company has recognized a total stock based compensation expense of \$6 and \$12 respectively.

Cerro Grande Mining Corporation
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended December 31, 2013 and 2012

(Unaudited)

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

Options outstanding as at December 31, 2013 are as follows:

Exercise price CA\$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Options exercisable
0.40-0.60	1,226,046	0.63	0.44	1,211,046
0.35-0.35	1,505,572	1.30	0.35	1,505,572
0.79-0.79	730,428	2.33	0.79	730,428
0.10-0.18	<u>2,628,953</u>	4.26	0.12	<u>2,428,953</u>
0.35-0.90	<u>6,090,999</u>	2.57	0.32	<u>5,875,999</u>

d) Basic and diluted loss per share as at :

	December 31, 2013 \$	December 31, 2012 \$
Loss for the period	(1,086)	(112)
Weighted average number of shares outstanding	<u>98,585,517</u>	<u>94,925,714</u>
Basic loss per share	<u>(0.01)</u>	<u>(0.00)</u>
Diluted loss per share	<u>(0.01)</u>	<u>(0.00)</u>

The effect of convertible debentures, notes, options and warrants is not included in computing the diluted per share amounts, since in the context of reported losses for the years, such effect would be anti-dilutive.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

8. Warrants

Equity	Number of warrants	\$
Balance – October 1, 2011	1,608,254	211
Balance – September 30, 2012	1,608,254	211
Balance – December 31, 2013	1,608,254	211

The following table summarizes information about the warrants outstanding as at December 31, 2013:

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price CA\$
<u>1,608,254</u>	<u>1.29</u>	<u>0.50</u>

9. Segment information

In order to determine reportable operating segments, the Chief Executive Officer reviews various factors, including geographical location, quantitative thresholds and managerial structure. The Company has one operating segment, which is the exploration and development of mineral properties. The Company's principal operations are carried out in Chile. The Company's geographic segments are located as follows:

- i) Company's mineral properties in Chile
- ii) Corporate offices in Chile and Canada;

The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at December 31, 2013 and 2012, segmented information is presented as follows:

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

	Three months ended December 31, 2013		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	4,541	-	4,541
Operating costs	(4,067)	-	(4,067)
Amortization and depreciation	(715)	(8)	(723)
Operating costs - services	-	-	-
Reclamation and remediation	(11)	-	(11)
General, sales and administrative	(404)	(366)	(770)
Foreign exchange	25	25	50
Interest	(43)	(52)	(95)
Other gains and losses (net)	(9)	-	(9)
Exploration costs	-	(2)	(2)
Total other income (expenses)	(1,157)	(403)	(1,560)
Loss and other comprehensive loss for the period	(683)	(403)	(1,086)
Mining property, plant and equipment	17,380	1,827	19,207
Total assets	20,690	2,078	22,768

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

	Three months ended December 31, 2012		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	6,457	-	6,457
Services revenue	75	-	75
Operating costs	(4,028)	-	(4,028)
Amortization and depreciation	(660)	(2)	(662)
Operating costs - services	(60)	-	(60)
Reclamation and remediation	(11)	-	(11)
General, sales and administrative	(487)	(367)	(854)
Foreign exchange	(48)	5	(43)
Interest	(4)	(45)	(49)
Other gains and losses (net)	-	(1)	(1)
Exploration costs	-	(695)	(695)
Income tax expense	(189)	-	(189)
Deferred income tax	(52)	-	(52)
Total other income (expenses)	(1,511)	(1,105)	(2,616)
Income (loss) and other comprehensive income (loss) for the period	993	(1,105)	(112)
Mining property, plant and equipment	18,874	1,900	20,774
Total assets	24,553	2,287	26,840

10. Income taxes

Income tax expense is recognized based on management's estimated of the weighted annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended September 30, 2013 and for the three months ended December 31, 2012 was 20%.

11. Related party transactions

A company owned by the CEO (who is also a director) billed \$1 to the Company at December 31, 2013 (2012-\$2) in relation to office space and services used by the Company. In addition, the Company has a receivable of \$185 (2012 - \$269) consisting of \$138 of cash advances, net of salary and travel expenses, and two loans totaling \$47, net of the market value at December 31, 2013 of 653,200 common shares of the Company, owned by him, which collateralizes one of the loans. The cash advances and loans bear no interest rate or specific repayment terms.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended December 31, 2013 and 2012

(Unaudited)

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

A company controlled by the Chief Financial Officer of the Company (the “CFO”) billed \$19 to the Company for accounting and administration services rendered for the three months ended December 31, 2013 (2012 - \$25). Accounts payable and accrued liabilities for \$28 include payables to this officer in relation to such services at December 31, 2013 (2012 - \$26).

A law firm, of which a director of the Company is a partner, billed the Company \$26 for the three months ended December 31, 2013 (2012 - \$38) for legal services. Accounts payable and accrued liabilities include \$74 at December 31, 2013 (2012- \$30).

Accounts payable and accrued liabilities also include \$131 at December 31, 2013 (2012 - \$66) 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 \$36 in royalty payments for the three month period ended December 31, 2013 (2012 - \$210). Accounts payable also include \$26 (2012 - \$nil) for interest not paid on the debenture issued on November 15, 2012 and converted on June 26, 2013.

Accounts payable and accrued liabilities include \$131 at December 31, 2013 (2012 - \$65) for royalties due to David Thomson who is the owner of a net smelter royalty on the Pimenton gold mine. This officer was paid \$36 in royalty payments in 2013 (2012 - \$210). Accounts payable also include \$41 (2012 - \$9) for interest not paid on the debenture issued on November 15, 2012 and converted on June 26, 2013 and a debenture issued in 2006 and converted on June 9, 2009.

At the end of July 2013, Pimenton, a subsidiary of the Company entered into a loan agreement of \$3,000 in lieu of repayment of advances provided by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director of the Company. The loan will be paid at the end of a three year term and has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at December 31, 2013 the amount outstanding is \$2,719.

In April 2013, Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company entered into a rent contract with Compañía Minera Pimentón for a Los Andes office. For the three month period ended December 31, 2013 Pimenton has recognized expenses of \$9 (2012 - \$nil).

In October 2011 Pimenton entered into a services contract with CDM. The services to be provided by Pimenton include management, machinery and equipment rent. As at December 31, 2013, receivable include \$4 from related third parties (2012 – payable \$133).

On June 21, 2011 the board approved a resolution that non-executive directors be paid \$1 per meeting attended. Amounts due to the directors for these director fees as at December 31, 2013 were \$39 (2012 - \$8).

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 year period at the end of each contract term. Under the terms 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

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2013 and 2012

(Unaudited)

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

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 December 31, 2013 accounts payable and accrued liabilities included \$250 related to this contract (2012 - \$25).

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 year period at the end of each contract term. Under the terms 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 December 31, 2013 accounts payable and accrued liabilities included \$92 related to this contract (2012- \$9).

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 contract term. Under the terms of the contract, the Company will pay \$110 per year to the CEO plus truck and medical expenses. As of December 31, 2013 the Corporation paid \$3 (2012 - \$2) for truck expenses and \$28 (2012- \$28) for salary.

Directors* and Officers

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

Toronto, ON, Canada

Chairman

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

Stephen W. Houghton*

Santiago, Chile

Chief Executive Officer

Founder of Cerro Grande Mining Corporation

Mario Hernandez A.*

Santiago, Chile

Executive Vice President and Director, Claims and
Land Management

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

Rock wood, ON, Canada

Principal, William Hill Mining Consultants, Ltd.

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

Toronto, ON, Canada

Fernando Saenz Poch*

Concepción, Chile

Juan A Proaño*(3)

Washington Crossing,

Pennsylvania, USA

Director of Minera Poderosa S.A.

a gold mining company located in Peru

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

West Falmouth, Massachusetts, USA

Chairman, Givens Hall Bank and Trust Limited

David R. S. Thomson*

Santiago, Chile

Executive Vice President and Director of
Exploration

Peter W. Hogg

Toronto, ON, Canada

Chief Financial Officer

(1) Member, Audit Committee

(2) Member, Compensation Committee

(3) Technical Committee

(4) Corporate Governance and Nominating
Committee

Corporate Information

Website: www.cegmining.com

Toronto Stock Exchange

Stock Symbol: CEG

OTCQX International

Stock Symbol: CEGMF

Registered Office:

Royal Bank Plaza

South Tower

200 Bay street

Suite 3800

Toronto, ON M5J 2Z4

Toronto Office

1 King Street West , Suite 4009

Toronto, Ontario M5H 1A1, Canada

Santiago Office:

Av. Santa María 2224

Providencia, Santiago, Chile

Telephone: 56-2-569-6200

Solicitors:

Norton Rose Fulbright LLP

Toronto, Ontario, Canada

Auditors:

KPMG LLP

Toronto, Ontario, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services

Toronto, Ontario, Canada