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 condition of Cerro Grande Mining Corporation and its consolidated subsidiaries ("CEG" or the "Company") for the year ended September 30, 2014, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of January 26, 2015. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2014, which are available on SEDAR at www.sedar.com. The Company's consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS.

All dollar amounts are expressed in thousands of 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 Falcon gravity concentrator 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.

Non-IFRS financial measures

The Company has included certain non-IFRS financial measures in this document. These measures are not defined under IFRS and should not be considered in isolation. The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. The inclusion of these measures is meant to provide additional information and should not be used as a substitute for performance measures prepared in accordance with IFRS. These measures are not necessarily standard and therefore may not be comparable to other issues.

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 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 year ended September 30, 2014 was 9,220 oz compared to 10,835 oz in the prior year.
- The average gold recovery for the year ended September 30, 2014 was 93.73% compared to 94.28% in the prior year.
- The Company expects the mine to increase milling rates to 140 tons per day based on its known resources and reserves.
- Currently the plant has been permitted to operate at an average of 166 tons per day.
- Non-IFRS Measures:
  - Pimenton's cash cost for the year ended September 30, 2014 was $935 per ounce of gold produced net of by product credits, compared to $1,191 per oz in the prior year.
  - Pimenton's production cost including depreciation and amortization for the year ended September 30, 2014 was $1,223 per ounce of gold produced net of by product credit compared to $1,422 per oz in the prior year.

Financial Highlights

- Loss before income taxes for the year ended September 30, 2014 was $5,224 (2013 - $7,128 which included an impairment charge of $2,140). Loss before income taxes for the three months ended September 30, 2014 was $1,081 (2013- $806).
- Average price per ounce of gold during the year ended September 30, 2014 was $1,282 (2013 - $1,536). Average price per ounce of gold during the three months ended September 30, 2014 was $1,255 (2013 - $1,327).
- Net loss after income taxes for the year ended September 30, 2014 was $5,147 compared to $6,220 in the same period in 2013. Net loss after income taxes for the three months ended September 30, 2014 was $795 compared to $10 for the same period in 2013.
- Basic loss per share for the year ended September 30, 2014 was $0.05 per share compared to $0.06 per share in the same period 2013.
- At September 30, 2014, the Company had cash and cash equivalents of $87 compared to $53 at September 30, 2013.
- Cash flow from operations as at September 30, 2014 was negative $289 (2013- negative $2,338).

Other Highlights

- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, Santa Cecilia project, Tordillo exploration and the Catedral/Rino and Cal Norte limestone deposits are not currently reflected in the

Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.

- As mentioned in our second quarter filings, in March 2014 Loewen, Ondaatje, McCutcheon Limited, Toronto, Ontario, Canada ("LOM") completed a Valuation report for the Company which valued the Company at USD$14,880. This report was referred to in an April 14, 2014 press release filed on SEDAR. The LOM valuation may have been performed under different requirements to International Financial Reporting Standards ("IFRS") and consideration of any impairment under IFRS is under constant monitoring by the Board.
- On May 9, 2014 the Municipality of San Esteban, in which the Pimenton Mine and installations are located, ordered the mine shut down because the Mine lacked a proper municipal permit for the plant and camp buildings. The Company has undergone a long process of permitting with the municipality and all other relevant government authorities over a number of years which has resulted in all the appropriate permits being issued, except the final one for the plant and camp buildings which is based, to a large extent, on first receiving other permits or certificates dealing with water use, land use, health and safety and structural calculations, amongst others. The only missing document was a certificate relating to the structural calculations used in the construction of the plant and camp buildings. The Company presented the already completed structural calculations approved by a required third party specialist and successfully obtained the last remaining permit issued. As a consequence of the above, the mine obtained permission to restart its operations on June 16th.
- As informed in a press release dated July 4th, the company signed a Private Placement Debenture for up to US$3,000 of debentures to be issued. Westmount Capital is a Switzerland-based capital market firm and has been engaged to assist with identifying and introducing purchasers to the Company related to the placement which shall be repaid in 6 semi-annual instalments either in cash or in gold dore produced by the Pimenton Mine at a deemed price per ounce of gold of US$ 1,157. The Debentures will bear an annual interest rate of 6% to be paid in cash quarterly in arrears.

  As of this date this Private Placement has not occurred in the terms and amounts previously stated and only USD 100,000 have been raised. As of November 6, 2014 a subscription agreement for debentures was executed and the terms have changed as repayment in gold has been agreed at a price per ounce of gold of US$ 1,057 and the Debenture will bear an annual interest rate of 10% to be paid in cash quarterly in arrears.
- On July 28th, the Company was advised by the Toronto Stock Exchange (TSX) that the Continued Listing Committee of the TSX had decided to delist the Company effective August 25th primarily under Section 710 (a) (i) Financial condition. However, the Company applied for listing with the Canadian Security Exchange (CSE). This application was successful and the Company is now listed with the Canadian Security Exchange (CSE).
- Subsequent to year end, on October 24, 2014 Mr. David Thomson and Mr. Mario Hernandez, both Officers and Directors of the Company, through their respective companies have (i) Suscribed to a Private Placement of units of the Company for cash proceeds of US$700 (the "Placement"), and (ii) extinguish certain outstanding indebtedness owed to the Directors by issuing common shares of the Company (each,

a “Common Share”) in settlement of such debt (the “Debt Settlement”). The Placement and Debt Settlement has been completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing, and with a view of setting the Company on firm financial ground to carry out its mining business in Chile in the future.

Pursuant to the Placement the Company has issued an aggregate of 15,743,000 units of securities of the Company (each, a “Unit”) at CDN$0.05 per Unit, with each Unit comprising one Common Share and one Common Share purchase warrant (each, a “Warrant”), with each Warrant exercisable for a period of 5 years to purchase one Common Share at CDN$0.07. Proceeds of the Placement are expected to be used for general working capital purposes, including, but not limited to, corporate and administrative purposes.

Pursuant to the Debt Settlement, the Company has extinguished outstanding indebtedness in the aggregate amount of US$2,162, owed to these Directors, such indebtedness being made up of accrued but unpaid royalty payments and service fees owed to the Directors and cash advances made to the Company by the Directors and interest thereon, by issuing an aggregate of 48,645,220 Common Shares (representing an issue price of CDN$0.05 per share) in full and final settlement thereof. All dollar amounts have been converted at an exchange rate of CND$1.1245 per US$1.

- In January 2015 we were successful in extending our labour contract with the Union at the Pimenton mine by one year (February 2016 to February 2017). The agreed extension was due to the Pimenton mine’s management agreeing to a 7 by 7 shift compared to the actual 10 by 5 shift along with a 3% increase in base wages. The Company believes the small adjustment in wages will be more than offset through adjustments to plant and mine operations and an increased productivity of the mine workers

4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated loss for the fourth quarter and year ended September 30, 2014 and 2013.

	Three months ended		Twelve months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
Revenue	$	$	$	$
Sales	3,067	3,598	14,064	18,677
Services	-	-	-	101
	3,067	3,598	14,064	18,778
Expenses				
Operating costs	2,908	3,659	15,868	18,581
Operating costs for services	-	-	-	85
Reclamation and remediation	25	10	45	42
General, sales and administrative	1,276	529	3,138	3,499
Foreign exchange	(112)	50	(186)	16
Interest	86	80	324	315
Other gains and losses (net)	(40)	(5)	(96)	42
Impairment charges	-	-	-	2,140
Exploration costs	5	81	195	1,186
	4,148	4,404	19,288	25,906
Loss and comprehensive loss before income taxes	(1,081)	(806)	(5,224)	(7,128)
Income tax (expense)/recovery	-	(43)	77	(201)
Deferred income tax	-	839	-	1,109
Loss and comprehensive loss for the period	(1,081)	(10)	(5,147)	(6,220)

1) Consolidated statements of loss and other comprehensive loss for the three months ended September 30, 2014 and 2013:

   a) Revenue for the three months ended September 30, 2014 decreased over the same period in 2013 due to a decrease in gold production and sales to 2,068 oz compared to 3,031 oz in the three month period ended September 30, 2013. These factors, in combination with a drop in the gold price during the quarter ended September 30, 2014, have led to lower results.

   b) Operating expenses for the three months ended September 30, 2014 were $3,512 compared to $3,659 for the same period in 2013. The decrease of $147 is mainly a result of a decrease in direct labor cost considering the drop in the price of gold.

c) General and administrative costs for the three months ended September 30, 2014 were $411 compared to $529 for the same period in 2013. This $118 decrease was due mainly to a reduction in staff costs and overheads.

d) The Company expenses its exploration costs on properties until a NI 43-101 compliant resource has been established on a property. As a result during the three months ended September 30, 2014, the Company expensed $5 (2013 – $81).

2) Consolidated statements of loss and other comprehensive loss for the year ended September 30, 2014 and 2013:

a) Sales revenue for the year ended September 30, 2014 decreased by $ 4,613 compared to the same period in 2013 due to lower gold production and sales of 9,220 oz compared to 10,591 oz in the year ended September 30, 2013. The mine was shut down for a five week period during the third quarter and had no production during that time. These factors, in combination with a drop in the gold price and the grade for the year ended September 30, 2014, have led to lower results for this year.

b) Operating expenses for the year ended September 30, 2014 were $15,868 compared to $18,581 for the same period in 2013. The reduction of $2,713 is explained principally by a reduction in staff in order to compensate for the drop in production due to the mine closure as well as the drop in the price and grade of gold.

c) General and administrative costs for the year ended September 30, 2014 were $3,138 compared to $3,499 for the same period in 2013. The decrease of $361 can be attributed to a reduction of staff costs and overheads.

d) The Company expenses its exploration costs on properties until a NI 43-101 compliant resource has been established on a property. As a result during the year ended September 30, 2014, the Company expensed $195 (2013 – $1,186).

e) Other net (gains)/losses for the year ended September 30, 2014 were $96.

3) Consolidated Cash flow for the year ended September 30, 2014

Cash generated by the Pimenton Mine decreased due to operational problems, the mine closure and the drop in the price and grade of gold. The operational problems related to delays in a main drive to reach known ore shoots below the existing levels and the mine being forced to close for a 5 week period by the Municipality of San Esteban due to a missing permit.

4) Consolidated Statement of Financial Position as at September 30, 2014

As of September 30, 2014, the Company shows a negative working capital of $2,747 (2013–surplus $187). This reduction in working capital was mainly due to a reduction in both inventories and funds provided by David Thomson and Mario Hernandez.

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.

Summary of Quarterly Results

	Sept 30, 2014	**June 30, 2014**	**March 31, 2014**	**Dec-31 2013**
Sales	3,067	2,223	4,233	4,541
Net income (loss)	(1,355)	(1,514)	(1,248)	(1,030)
Per share	(0.012)	(0.013)	(0.009)	(0.009)
Per share diluted	(0.012)	(0.013)	(0.009)	(0.009)

	Sept 30, 2013	**June 30, 2013**	**March 31, 2013**	**Dec-31 2012**
Sales	3,598	2,423	6,225	6,532
Net income (loss) before extraordinary items	(600)	(3,185)	(561)	917
Per share	(0.006)	(0.031)	0.006	0.010
Per share diluted	(0.005)	(0.029)	0.005	0.009
Net income (loss) after extraordinary items	(878)	(4,148)	(1,082)	(112)
Per share	(0.009)	(0.041)	(0.011)	(0.001)
Per share diluted	(0.008)	(0.038)	(0.010)	(0.001)

5. OPERATIONS AT THE PIMENTON MINE

Safety, Health and Environment

The following safety statistics have been presented for the fourth quarter and fiscal year ended in 2014 along with 2013 comparables:

Pimenton Mine Safety Statistics				
	For the 3 months ended September 30,		**For the year ended September 30,**	
	2014	**2013**	**2014**	**2013**
Lost time injury	1	3	9	15
Medical aid	4	4	10	12
Total	**5**	**7**	**19**	**27**
Total injury frequency rate (i)	0	35	13	35
Total disabling injury frequency rate (ii)	39	153	39	153
Lost days for medical aid	3	25	176	471
Man - Hours worked	116,532	128,046	483,000	570,492

(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 year ended September 30, 2014 Pimenton's accident record has improved compared to the year ended September 30, 2013. The Company had 9 lost time injuries with 10 lost days for medical aid for the year ended September 30, 2014 compared to 15 lost time injury and 12 lost days for medical aid in the same period in 2013. For the last quarter of 2014 Pimenton's accident record was lower if compared to the same quarter 2013. The Company had 1 lost time injury and 4 lost days for medical aid for the last quarter 2014 compared to 3 lost time injuries and 4 lost days for medical aid in the same period 2013. The Company has made significant changes to its safety staff including personnel changes and certified training programs.

There were no adverse environmental issues during the year ended September 30, 2014 and September 30, 2013.

Gold Production

Gold produced in Q4 of 2014 was 2,257 ounces, a 79% increase compared to the 1,260 ounces produced in Q3 of 2014 and a 14% decrease compared to 2,614 ounces produced in Q4 of 2013. The Q4 over Q3 2014 improvement was mainly due to the forced five week mine shut down that occurred during Q3.

The following table shows the tonnes milled, average mill grade, plant gold recovery and gold produced during each of the last eight quarters to September 30, 2014:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2014	10,128	9.98	94.10	3,060.96
Q2-2014	8,806	9.74	95.80	2,641.96
Q3-2014	5,114	8.05	95.00	1,260.30
Q4-2014	9,733	7.80	90.00	2,256.80
	33,781	8.89	93.73	9,220.02

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q1-2013	10,089	12.71	92.92	3,819.95
Q2-2013	9,356	11.43	93.10	2,676.65
Q3-2013	8,665	7.85	94.30	1,736.19
Q4/2013	8,673	10.07	94.60	2,614.43
	36,783	11.48	93.85	12,001.71

The drop in production in Q3-2014 was mainly as a result of the closure of the mine for 5 weeks during the months of May and June. While the grade of gold continues to drop, efforts are being focused on reaching higher grade veins.

Operating Costs

The cash cost per ounce of gold produced during the quarters from October 2013 to September 30, 2014 are set out in the table below.

Reconciliation of Non-IFRS Measures Cost of Production:

	Q1-2014	**Q2-2014**	**Q3-2014**	**Q4-2014**	**Total**
Gold ounces produced	3,060.96	2,641.96	1,260.30	2,256.80	9,220.02
Direct mine expenses	2,983	2,867	2,396	2,697	10,943
By-product credits (deduct)					

	(632)	(796)	(433)	(460)	(2,321)
Cash Costs	2,351	2,071	1,963	2,237	8,622
Cash cost/Oz	**768.06**	**783.89**	**1,557.57**	**991.23**	**935.14**
Depreciation	364	379	364	362	1,469
Amortization	351	335	195	300	1,181
Production costs	3,066	2,785	2,522	2,899	11,272
Production cost/Oz	**1,001.48**	**1,054.18**	**2,001.59**	**1,284.56**	**1,222.58**
Net Smelter return	262	253	129	175	819
Total costs	3,328	3,038	2,651	3,074	12,091
Total cost/Oz	**1,087.08**	**1,149.98**	**2,103.47**	**1,362.11**	**1,311.35**

Mineral Reserves and Resources

The Company has received a NI-43-101 Technical Report entitled "A Technical Report on the Pimenton Mine, The Surrounding Pimenton Property and the Nearby Tordillo Property in Central Chile", dated December 17, 2013, which provide Pimenton with the following reserves:

	Tonnes	g Au/t	Contained oz Au	% Cu
Proven Reserves	28,000	11.0	9,600	1.2
Probable Reserves	110,000	11.1	38,000	1.2
Proven + Probable Reserves	138,000	11.1	47,600	1.2

The 43-101 reserve grades of 11 g/t Au and 1.2% Cu include a significant section of high grade that is at the moment inaccessible. Most of the high grade stopes we have are projected 30m down from the existing Esperanza 4 level ("Esp 4") (3195). As of January 23, 2015, the 600 meter ramp down to the Esperanza N° 5 level had been completed We are currently developing Lucho at the 3140 (approx.) Esperanza 5 level and will shortly begin preparing it for production with raises etc. Once we accomplish this, our reserve grade and volume will increase as we add a significant amount of potentially high grade stopes. As we develop the Lucho vein on the new lower level, we will be adding to the reserves 30m above and 30m below, thereby leaving a 50 to 60m block of accessible ore to develop above the lowest level.

While we developed the ramp towards the lower Lucho level, we have continued working on adding a number of the more difficult lower grade stopes to the inventory, some of which were not in the previous reserve reports. These have had erratic grades due to faulting, pinching or splitting of the vein. Currently the plant is attempting to maintain 140 tpd with a grade of 6 to 9 g/t Au and 0.6 to 1.0% Cu.

In an effort to minimize the chance that we do not have another geological setback like we had in Esp4 with the flat fault pinching out the vein at the same level as the cross cut, we have been drilling ahead with diamond drill holes to try to increase the measure of certainty as much as possible. All the drill holes to date have encountered ore within meters of forecasted positions for Lucho with positive grades. We are drilling the projected Lucho Vein level on 20m by 40m centers, above and below where the next level will be on the Lucho Vein.

Not included are inferred resources of 162,000 tonnes at a grade of 12.3 g Au/t and 1.3% Cu. Proven and probable reserves are sufficient to operate the mine for in excess of three years at its current rate of production of 120 tonnes per day. The Company also believes it will be successful in converting inferred resources into reserves.

Exploration and development are ongoing at the Pimenton mine. The rate of exploration and development at Pimenton is expected to increase during the 2015 fiscal year.

The above Technical Report dated December 17, 2013 shows a decrease in both reserves and grades when compared to the Technical Report dated January 31, 2011 shown below:

	Tonnes	g Au/t	Contained oz Au	% Cu
Proven Reserves	26,000	12.8	10,351	1.4
Probable Reserves	113,000	13.7	49,772	1.5
Proven + Probable Reserves	139,000	12.9	60,123	1.4

Not included are inferred resources of approximately 189,000 tons at an average grade of 12.9 Au/t and 1.4% Cu.

These two Technical Reports demonstrate that the Pimenton Mine has replaced its Proven and Probable Reserves annually for the past three years though the grades have declined approximately 15%.

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 currently 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.
- 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 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.
- Exploration success: Depending on future exploration success, Pimenton may be able to increase its production levels.

Outlook

During the year ended September 30, 2014 the Company's production was 9,220 ounces of gold. The Company achieved production of 10,835 ounces of gold in 2013. The production was lower due to operational problems, the mine closure and lower head grade of ore into the mill.

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.

The Company produces 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 year ended September 30, 2014, 58% of the Company's sales have been to a gold refinery in Europe and 42% to the ENAMI smelter in Ventanas, 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.

Changes to the Dore Processing Circuit

We have improved several aspects of our gravity circuit from November 2014 to January 2015. The two main areas are the addition of a Falcon gravity concentrator and the increased security measures on the actual dore process.

The Falcon has had a significant learning process due to the wide variety of g forces you can use. We currently have reached an average of 60% and we believe we can reach in excess of 75% with minor modifications to the ball mill screen discharge and general fine tuning of the system. Security with the Falcon is significantly better since it is a locked automatic system without any need of an operator. Concentrate grades are higher allowing for quicker processing and water consumption is down allowing more through put in the ball mill and flotation circuit.

We have also made the entire dore process considerably more stringent with multiple weight checks with counter signed registries to make it more difficult to remove gold during the process. We are quoting a Chinese induction furnace to upgrade our dore quality to higher than 90% Au. At present we are shipping dore at over 85% Au. The security review of our dore process has detected that we can greatly simplify our dore process and cut out several unnecessary steps. The current process takes 72 hours to process from super concentrate to dore bar. We believe we can bring that down to 24 hours.

The samples taken from the automatic sampler on the main belt in the plant now go to a locked cabinet where they are automatically split into two assays: one for an external lab, and the other to our lab. Manipulation of the head grades would be important step if someone wanted to steal gold and cover up the theft in the metallurgical balance. We are making all the changes we can to make it as difficult as possible to steal gold from the gold room.

Apart from the small induction furnace, we are quoting a truck scale so we can increase the control of ore that goes to the plant. Again this would be to allow us greater accuracy in knowing what went into the plant and what should be coming out, including the gold copper concentrate.

It will be difficult to quantify how these changes affect the actual gold sales until all have been implemented.

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 2015 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 year ended September 30, 2014, the Company expensed a total of $114 (2013 - $308.) relating to mining property costs and exploration costs on Tordillo.

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.

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. AtSeptember 30, 2013 3,335 meters had been drilled at a total contribution to CDM of $4,149 which includes $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 year ended September 30, 2014, the Company expensed a total of $nil (2013 - $343) relating to mining property costs and exploration costs on CDM.

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 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.

The Company has postponed any further major expenditure on Santa Cecilia.

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 the relevant Stock Exchange approval.

Bandurrias

During the year ended September 30, 2014 acquisition costs of $23 were expensed (2013-$28).

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 September 30, 2014, the Company had contributed a cumulative total of $4,080 (2013 - $4,027) 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 $4,027 in mining properties and exploration costs relating to Catedral/Rino. For the year ended September 30, 2014 the Company expensed $53 (2013 - $58) relating to mining property costs on Catedral/Rino.

As at September 30, 2014, the Company had contributed a total of $1,565 (2013 - $1,561) 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, has focused its efforts on the Pimenton gold mine in the year ended September 30, 2014. The Company expensed $1,561 in prior years. For the year ended September 30, 2014 (2013-$5) related to mining property costs on Cal Norte.

7. INVESTING

During the year ended September 30, 2014 the Company invested $397 (2013 - $3,153) 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, convertible debentures and share issuances (Related party advances). The common stock issuance that took place during the year ended September 30, 2014 were 8,500,000 common shares from an early conversion of part of the July 30, 2013 convertible debentures issued to David Thomson and Mario Hernandez and 500,000 issued to Westmount Capital as a one-time payment for their participation in obtaining investors in a gold loan which as of this date has not occurred. 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 in Santiago.

9. LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2014, the Company shows a negative working capital of $2,747 (2013 – positive $187).

As of September 30, 2014 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 $1,868 (2013 - $2,113). The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $2,107 is expected to be incurred over 5 years. These estimated cash flows are discounted using a long term 10 year Chilean interest rate of 1.55% as at September 30, 2014.

Contractual Obligations	Total	Less than 1 year	1-3 years	Over 4 years
	$	$	$	$
Accounts payable and accrued liabilities	2,693	2,693	-	-
Amount due to related parties	5,383	2,383	3,000	-
Debt and finance leases	1,587	732	337	518
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
Total Contractual Obligations	**12,413**	**5,808**	**3,337**	**3,268**

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 $nil to the Company at September 30, 2014 (2013- $8) in relation to office space and services used by the Company. In addition, the Company has a receivable of $210 (2013 - $196) consisting of $158 (2013 - $132) of cash advances, net of salary and travel expenses, and two loans totaling $52 (2013 - $64), net of the market value at September 30, 2014 of 653,200 common shares of the Company, owned by him, which collaterizes one of the loans . The cash advances and loans bear no interest rate or specific repayment terms.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed $48 to the Company for accounting and administration services rendered at September 30, 2014 (2013 - $52). Accounts payable and accrued liabilities include $ 27 in relation to such services at September 30, 2014 (2013 - $12).

A law firm, of which a director of the Company is a partner, billed the Company $184 at September 30, 2014 (2013 - $196) for legal services. Accounts payable and accrued liabilities include $130 at September 30, 2014 (2013- $134).

Accounts payable and accrued liabilities include $ 359 at September 30, 2013 (2013-$36) for 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 $87 in royalties during 2014 (2013 - $589). Accounts payable and accrued liabilities also include cash advances of $1,873 at September 30, 2014 (2013 - $36).

Accounts payable and accrued liabilities include $ 359 at September 30, 2014 (2013-$36) for royalties due to David Thomson, 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 $ 87 in royalty payments in 2014 (2013 - $589). Accounts payable and accrued liabilities further include cash advances of $ 1,766 at September 30, 2014 (2013 - $0).

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, has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at September 30, 2014 the amount due is $3,000.

In October 2011 Pimenton entered into a services contract with CDM (note 13). The services to be provided by Pimenton include management, machinery and equipment rental. In the year ended September 30, 2014 Pimenton recognized revenue of $nil (2013 - $101). The costs related to these services amounted to $nil (2013 - $85). As at September 30, 2014 account payable include $ nil (2013 – payable $266) related to this contract.

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 years
- Plant and Equipment 1- 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 relevant Stock Exchange 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 January 26, 2015, the Company has issued one class of common shares of which a total of 174,977,010 common shares. As of January 26, 2015, 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$0.50 through May, 2015. On October 20, 2014 the Company issued an additional 15,743,000 common share purchase warrants exercisable into one common share at a price of CA$ 0.07 (11,245,000 shares for a private placement of USD 500,000 by a company owned by Mr. Mario Hernandez and 4,498,000 shares for a private placement of USD 200,000 by a company owned by Mr. David Thomson). Options granted under the stock option plan of the Company (each, an "Option") outstanding as of January 26, 2015, totaled 5,604,952 of which 5,289,952, are currently exercisable into one common share at prices of CA$0.10 to CA$0.84 per common share expiring at various dates through to April, 2018.

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

14. CONTROLS

National Instrument 52-109

Evaluation of disclosure controls and procedures

Public companies are required to perform an evaluation of disclosure controls and procedures annually and to disclose management's conclusions about the effectiveness of these disclosure controls and procedures in its annual Management's Discussion and Analysis. The Company has established, and is maintaining, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is disclosed in annual filings, interim filings or other reports, and is recorded, processed, summarized and reported within the time periods specified as required by securities regulations.

Management has evaluated the effectiveness of the Company's Disclosure Controls and Procedures as at September 30, 2014 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

Internal controls over financial reporting

Management of the Company is responsible for evaluating the design of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS as of September 30, 2014, have not identified any changes to the Company's internal control over financial reporting in the latest reporting period that would materially affect, 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 December 17, 2013. These reports are filed on SEDAR at www.sedar.com.