

CERRO GRANDE MINING CORPORATION

**Report to Shareholders
for the
First Quarter Ending
December 31, 2014
(These statements have not been audited)**

**Listed on the Canadian Securities Exchange
Symbol: CEG
and
The OTCQB International
Symbol: CEGMF**

The Company's auditors have not reviewed these condensed interim consolidated financial statements for the three month period ended December 31, 2014.

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 27, 2015

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
	2014	2014
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	245	87
Accounts receivable (Note 4)	1,100	1,265
Recoverable taxes	101	649
Inventory (Note 3)	939	1,060
	2,385	3,061
Non-current assets		
Receivable from a related party (Note 11)	208	210
Fixed assets, plant and equipment (Note 5)	17,226	17,118
	17,434	17,328
Total assets	19,819	20,389
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	2,231	2,693
Due to related parties (Note 11)	874	2,383
Current portion of long-term debt (Note 6)	856	732
	3,961	5,808
Non-Current liabilities		
Long-term debt (Note 6)	732	855
Due to related parties (Note 11)	3,000	3,000
Reclamation and remediation	1,879	1,868
	5,611	5,723
Total liabilities	9,572	11,531
Shareholders' equity		
Share capital (Note 7)	84,026	81,163
Warrants (Note 8)	211	211
Contributed surplus	7,779	7,779
Convertible unsecured debenture	58	117
Deficit	(81,827)	(80,412)
Total shareholders' equity	10,247	8,858
Total liabilities and shareholders' equity	19,819	20,389

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, 2014 and 2013
(Unaudited)

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

	Three months ended	
	Dec 31,	Dec 31,
	2014	2013
	\$	\$
Revenue		
Sales	2,464	4,541
Services	-	-
	<u>2,464</u>	<u>4,541</u>
Expenses		
Operating costs	3,285	4,790
Operating costs for services	-	-
Reclamation and remediation	19	11
General, sales and administrative	564	770
Foreign exchange	(20)	(50)
Interest	53	95
Other gains and losses (net)	(23)	9
Exploration costs	-	2
	<u>3,879</u>	<u>5,627</u>
Loss and comprehensive loss before income taxes	(1,415)	(1,086)
Income tax (expense)/recovery	-	-
Deferred income tax	-	-
Loss and comprehensive loss for the period	<u>(1,415)</u>	<u>(1,086)</u>
Basic and diluted loss per share	<u>(0.008)</u>	<u>(0.011)</u>
Weighted average number of shares outstanding	174,977,010	98,585,517

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

Cerro Grande Mining CorporationCondensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the three months ended December 31, 2014 and 2013

(Unaudited)

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

	Share capital (Note 9 (b))	Warrants (Note 10)	Contributed surplus	Convertible unsecured debentures	Deficit	Total equity
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
Balance - October 1, 2014	81,163	211	7,779	117	(80,412)	8,858
Convertible unsecured debenture	-	-	-	(59)	-	(59)
Share-based compensation	-	-	-	-	-	-
Private placements	2,863	-	-	-	-	2,863
Net income	-	-	-	-	(1,415)	(1,415)
Balance - December 31, 2014	84,026	211	7,779	58	(81,827)	10,247

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, 2014 and 2013

(Unaudited)

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

	December 31, 2014	December 31, 2013
	\$	\$
Net loss for the year	(1,415)	(1,086)
Non-Cash items:		
Amortization and depreciation	597	724
Accretion of interest on long-term debt	65	95
ARO accretion	-	11
Foreign exchange gain	(20)	(50)
Gain on disposal of assets	-	-
Deferred income tax	-	-
Stock-based compensation	-	6
	<u>(773)</u>	<u>(300)</u>
Change in non-cash working capital relating to operations (Note 18)	975	1,050
	<u>202</u>	<u>750</u>
Investing activities		
Additions to mining properties, plant and equipment	(475)	(184)
	<u>(475)</u>	<u>(184)</u>
Financing activities		
Loan from related parties	432	134
Debt payment	-	(148)
Gold loan	100	-
Capital leases	(101)	(117)
	<u>431</u>	<u>(131)</u>
Effect of foreign exchange on cash held in foreign currency	<u>(3)</u>	<u>(8)</u>
Increase (decrease) in cash and cash equivalents during the year	158	427
Cash and cash equivalents - Beginning of year	87	53
Cash and cash equivalents - End of year	<u><u>245</u></u>	<u><u>480</u></u>

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(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 Canadian Securities Exchange (“CSE”) trading under the symbol “CEG” and on the OTCQB 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 79 Wellington Street West, Suite 2300, Toronto, Ontario M5K 1H1, Canada.

The company’s only significant subsidiary is Compañía Minera Pimentón (Pimentón).

These consolidated financial statements have been prepared on a basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2014, the Company had a negative working capital of \$1,576 (September 30, 2014 – \$2,747).

While the Company has operations generating revenue it has been reliant on financing from related parties to finance its operations and working capital. While the Company continues to seek to reduce operating costs, the certainty of future profitability expectations and availability of sources of additional financing if required in the future cannot be assured at this time and accordingly, these material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that might be necessary should the Company be unable to continue as a going concern and those adjustments may be material.

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, 2014 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, 2014 except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective October 1, 2014.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

IFRIC 21 Levies (“IFRIC 21”) was issued in May 2013 and is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. There was no impact on the Company’s financial statements upon adoption of IFRIC 21 on October 1, 2014.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) was issued to clarify the principles for recognizing revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. There was no impact on the Company’s financial statements upon adoption of IFRS 15 on October 1, 2014.

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 27, 2015.

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 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.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

3. Inventory

	December 31, 2014	September 30, 2014
	\$	\$
Ore and concentrate stockpiles	282	405
Materials and supplies	656	655
	939	1,060

4. Accounts receivable

	December 31, 2014	September 30, 2014
	\$	\$
Accounts receivable from customers	494	608
Advances and other sundry receivables	606	657
Total receivables	1,100	1,126

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(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, 2014	5,769	13,556	19,859	657	39,841
Additions	-	63	-	412	475
Disposals	-	-	-	-	0
Changes in reclamation and remediation liability (Note 9)	-	-	-	-	0
Balance - December 31, 2014	5,769	13,619	19,859	1,069	40,316

Accumulated depreciation	Mining property				Total
	Building	Plant & equipment	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2014	3,305	9,465	9,737	216	22,723
Depreciation and amortization expenses	66	301	-	-	367
Balance - December 31, 2014	3,371	9,766	9,737	216	23,090
Net book value as at December 31, 2014	2,398	3,853	10,122	853	17,226

Cost	Mining property				Total
	Building	Plant & equipment *	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	5,767	13,413	20,105	408	39,693
Additions	2	146	-	249	397
Disposals	-	(3)	-	-	(3)
Changes in reclamation and remediation liability (Note 9)	-	-	(246)	-	(246)
Balance - September 30, 2014	5,769	13,557	19,859	657	39,841

Accumulated depreciation	Mining property				Total
	Building	Plant & equipment	development	Others	
	\$	\$	\$	\$	\$
Balance - October 1, 2013	2,822	8,449	8,550	216	20,037
Depreciation and amortization expenses	483	1,016	1,187	-	2,686
Balance - September 30, 2014	3,305	9,465	9,737	216	22,723
Net book value as at September 30, 2014	2,464	4,092	10,122	441	17,118

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(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 September 30, 2014, the net book values of leased equipment and vehicles were \$845 and \$385, respectively. (2013- \$887 and \$509). During 2014, the Company did not acquire equipment under finance leases. All leases provide the Company with the option to buy the equipment at a beneficial price. The recoverable amount in the prior year 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%
- ** Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the year ended September 30, 2013 the Company recorded an impairment charge of \$2,140 related to the Pimenton project, primarily as a result of the decrease in the future gold and copper price. The recoverable amount in the prior year 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%.

6. Long-term debt

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

Description	Interest rate	December 30,	September 30,
		2014	2014
		Principal	Principal
		\$	\$
C and D debentures (a)	6.00%	361	361
Auromin and Chañar Blanco debenture (b)	0.00%	107	107
Bice Bank mortgage (c)	5.13%	631	640
Gold Loan debenture (d)	10.00%	100	-
Finance Leases	4% -5.2%	389	479
Sub total		1,588	1,587
Less: Current portion		(856)	(732)
Long-term debt		732	855

- 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 with the C Debenture, 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 separately presented 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

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

payments at an estimated borrowing rate to the Company of 20%. As a result, the Company had allocated \$112 to equity (2014 - \$112), \$114 to warrants (2014 - \$114) and \$271 to debt (2014 - \$271).

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 into 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 separately presented 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 (2014 - \$43), \$97 to warrants (2014 - \$97) and \$90 to debt (2014 - \$90).

- b) 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. In the month of December 2013 the equivalent of \$ 850 were exercised and converted into 8,500,000 common shares. This resulted in the reclassification of \$518 from long-term debt and \$362 from the equity component of convertible debentures to share capital. At September 30, 2014 the carrying value classified within long-term debt is \$107 and within the equity component of convertible debentures is \$65. The Debentures had 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. Under the term of the debentures, the maximum amount convertible into Common Shares is such that each of Hernandez and Thomson 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 and therefore \$160 remain as convertible unsecured debentures.
- c) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$790). 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 (\$4) and interest until 2027. The mortgage is secured by certain fixed assets with an approximate value of \$1,540.
- d) On November 5, 2014 the company issued a Debenture for \$100 with a maturity date of November 5, 2017 related to a "Gold Loan" agreed to by the parties for an equivalent amount. The debenture bears a fixed annual interest rate of 10% on the outstanding principal amount and is payable on a quarterly basis on the 5th day of February, May, August and November of each year. The payment of the principal is semi-annually on May 6 and November 6 of each year plus the difference in the average gold price per ounce in excess of US\$ 1.057 per ounce calculated on 15.77ounces of gold.

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

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

	Number of shares	Amount
		\$
Balance – October 1, 2013	101,528,790	80,256
Private placement (i)	8,500,000	880
Options exercised 9(c)(i)	60,000	2
Private placement (ii)	500,000	25
Balance – September 30, 2014	110,588,790	81,163
Private placement (iii)	15,743,000	700
Private placement (iv)	48,645,220	2,163
Balance – December 31, 2014	174,977,010	84,026

- i) 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. As a result, \$511 of debt was extinguished and \$880 was credited to Common Shares.
- ii) On July 17, 2014 the Company entered a Corporate Advisories Agreement with Westmount Capital. A Swiss Public Relations and Investor Relations Advisory Firm, for a Private Placement by the way of a Gold Loan with a nominal value of \$ 2,500 whereby Cerro Grande agreed to pay Westmount a one-time retainer fee of 500,000 common shares at a price of CAD \$0.05.
- iii) 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) agreed to

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

extinguish certain outstanding indebtedness owed to the Directors by receipt of 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.

- iv) Pursuant to the Debt Settlement, the Company has extinguished outstanding indebtedness in the aggregate amount of US\$2,163, owed to these Directors, such indebtedness being made up of accrued but unpaid royalty payments, 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\$1.00.

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 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 for each award granted under the plans at its discretion.

A summary of the Company’s Plan at December 31, 2014 is presented as follow:

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

	Number of options	Weighted average exercise price CA\$
Balance – October 1, 2013	6,090,999	0.32
Expired	(426,047)	0.43
Granted (i)	60,000	0.03
Exercised (i)	(60,000)	0.03
Balance – September 30, 2014	5,664,952	0.32
Balance – December 30, 2014	5,664,952	0.32

- i) On June 25, 2014 a former employee exercised 60,000 options granted on January 31, 2014 at a price of CA\$ 0.03 per share for net proceeds of \$2. The carrying amount of \$2 assigned to these options was transferred to share capital.

During the three month period ended December 31, 2014 and 2013 the Company recognized total stock based compensation expense of \$nil and \$6 respectively.

Options outstanding as at December 30, 2014 are as follows:

Exercise price CA\$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA\$	Options exercisable
0.10 - 0.30	4,134,524	2.04	0.20	4,134,524
0.31 - 0.50	800,000	0.01	0.44	800,000
0.51 - 0.84	730,428	0.88	0.84	730,428
0.10 - 0.84	5,664,952	1.55	0.32	5,664,952

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

8. Warrants

Equity	Number of warrants	\$
Balance – September 30, 2014	<u>1,608,254</u>	211
Balance – December 30, 2014	<u>1,608,254</u>	211

The following table summarizes information about the warrants outstanding as at December 31, 2014:

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price CA\$
<u>1,608,254</u>	<u>0.45</u>	<u>0.50</u>

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

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, 2014 and 2013, segmented information is presented as follows:

	Three months ended December 30, 2014		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	2,464	-	2,464
Operating costs	2,688	-	2,688
Amortization and depreciation	597	-	597
Operating costs - services	-	-	-
Reclamation and remediation	-	19	19
General, sales and administrative	284	280	564
Foreign exchange	(19)	(1)	(20)
Interest	45	9	54
Other gains and losses (net)	(23)	-	(23)
Exploration costs	-	-	-
Income tax recovery	-	-	-
Total other income expenses (income)	884	307	1,191
Loss and other comprehensive loss for the year	(1,108)	(307)	(1,415)
Mining property, plant and equipment	14,828	2,398	17,226
Total assets	17,663	2,105	19,768

Cerro Grande Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2014 and September 30, 2014

(Unaudited)

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

	Three months ended December 30, 2013		
	Pimenton	Corporate	Total
	\$	\$	\$
Sales revenue	4,541	-	4,541
Operating costs	4,067	-	4,067
Amortization and depreciation	716	8	724
Operating costs - services	-	-	-
Reclamation and remediation	11	-	11
General, sales and administrative	404	366	770
Foreign exchange	(25)	(25)	(50)
Interest	42	52	94
Other gains and losses (net)	9	-	9
Exploration costs	-	2	2
Income tax expense	-	-	-
Deferred income tax	-	-	-
Total other income expenses (income)	1,157	403	1,560
Loss and other comprehensive loss for the year	(683)	(403)	(1,086)
Mining property, plant and equipment	17,380	1,827	19,207
Total assets	20,690	2,078	22,768

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, 2014 and for the three months ended December 31, 2014 was 20%.

11. Related party transactions

A company owned by the CEO (who is also a director) billed \$nil to the Company at December 31, 2014 (2013-\$2) in relation to office space and services used by the Company. In addition, the Company has a receivable of \$208 (2013 - \$185) consisting of \$167 (2013 - \$138) of cash advances, net of salary and travel expenses, and two loans totaling \$41 (2013 - \$47), net of the market value at December 30, 2014 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

December 31, 2014 and September 30, 2014

(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 \$17 to the Company for accounting and administration services rendered at December 31, 2014 (2013 - \$19). Accounts payable and accrued liabilities include \$31 in relation to such services at December 31, 2014 (2013 - \$28).

A law firm, of which a director of the Company is a partner, billed the Company \$31 at December 31, 2014 (2013 - \$26) for legal services. Accounts payable and accrued liabilities include \$130 at December 31, 2014 (2014- \$74).

Accounts payable and accrued liabilities include \$ 71 at December 31, 2014 (2014-\$131) 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. Amounts payable to related parties also include cash advances and salaries due of \$343 at December 31, 2014 (2013 - \$26).

Accounts payable and accrued liabilities include \$ 71 at December 31, 2014 (2014-\$131) 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. Amounts payable to related parties also include cash advances of \$ 390 at December 31, 2014 (2014 - \$41).

In 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 which 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. As of december 30, 2014 there is a total of \$38 (2014 - \$158) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda. The amount outstanding as of this date is USD 3,000.

In October 2011 Pimenton entered into a services contract with CDM (Note 15). 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). For the three month period ended December 31, 2014 there is no revenue or payments.

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, 2014 were \$80 (2013 - \$39).

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