# CERRO GRANDE MINING CORPORATION

Consolidated Financial Statements
September 30, 2015 and 2014
(expressed in thousands of U.S. dollars)

## Management's responsibility for financial reporting

The 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.

Management is responsible for the preparation of the 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 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.

KPMG LLP were confirmed and continue as the Company's independent auditor for the present year. Their report outlines the scope of their examination and their opinion.

"Stephen W. Houghton"
Chief Executive Officer

"Peter W. Hogg"
Chief Financial Officer

March 4, 2016.

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cerro Grande Mining Corporation

We have audited the accompanying consolidated financial statements of Cerro Grande Mining Corporation, which comprise the consolidated statements of financial position as at September 30, 2015 and September 30, 2014, the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cerro Grande Mining Corporation as at September 30, 2015 and September 30, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that the Company has prepared the consolidated financial statements applicable for a going concern. For the year ended September 30, 2015, the Company incurred a net loss of $12.9 million, had net operating cash outflows of $2.8 million and has been reliant on debt financing from third parties and related parties to finance its operations and working capital. These conditions along with other matters as set forth in Note 1 indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 4, 2016
Toronto, Canada

**Cerro Grande Mining Corporation**
**Consolidated Statements of Financial Position**
**As at September 30, 2015**
(Expressed in thousands of U.S. dollars, except per share amounts)

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **Current assets** | | |
| Cash and cash equivalents | 252 | 87 |
| Accounts receivable (Note 4) | 509 | 1,265 |
| Recoverable taxes | 142 | 649 |
| Inventory (Note 5) | 787 | 1,060 |
| | **1,690** | **3,061** |
| **Non-current assets** | | |
| Receivable from a related party (Note 17) | 402 | 210 |
| Fixed assets, plant and equipment (Note 6) | 8,728 | 17,118 |
| | **9,130** | **17,328** |
| **Total assets** | **10,820** | **20,389** |
| **Current liabilities** | | |
| Trade and other payables (Note 7) | 1,967 | 2,693 |
| Due to related parties (Note 17) | 7,714 | 2,383 |
| Current portion of long-term debt (Note 8) | 209 | 732 |
| | **9,890** | **5,808** |
| **Non-Current liabilities** | | |
| Long-term debt (Note 8) | 637 | 855 |
| Due to related parties (Note 17) | - | 3,000 |
| Reclamation and remediation (Note 11) | 1,471 | 1,868 |
| | **2,108** | **5,723** |
| **Total liabilities** | **11,998** | **11,531** |
| **Shareholders' equity** | | |
| Share capital (Note 9) | 83,653 | 81,163 |
| Warrants (Note 10) | 379 | 211 |
| Contributed surplus | 8,042 | 7,779 |
| Convertible unsecured debenture | 65 | 117 |
| Deficit | (93,317) | (80,412) |
| **Total shareholders' equity** | **(1,178)** | **8,858** |
| **Total liabilities and shareholders' equity** | **10,820** | **20,389** |

Going concern (Note 1)
Commitments (Note 15)
Subsequent events (Note 21)

Approved by the Board of Directors

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

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

## Cerro Grande Mining Corporation

Consolidated Statements of Loss and Other Comprehensive Loss
For the years ended September 30, 2015 and 2014

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

| | September 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Revenue** | **$** | **$** |
| Sales | 8,995 | 14,064 |
| | 8,995 | 14,064 |
| **Expenses** | | |
| Operating costs (Note 12) | 12,088 | 15,868 |
| Reclamation and remediation (Note 11) | 27 | 45 |
| General, sales and administrative (Note 12) | 2,765 | 3,138 |
| Foreign exchange | (154) | (186) |
| Interest | 283 | 324 |
| Other (income) and expenses (net) (Note 12) | (43) | (96) |
| Impairment charges (Note 6) | 6,737 | - |
| Exploration costs (Note 12) | 21 | 195 |
| | 21,724 | 19,288 |
| **Loss and comprehensive loss before income taxes** | (12,729) | (5,224) |
| Income tax (expense)/recovery (Note 14) | (176) | 77 |
| Deferred income tax (Note 14) | - | - |
| **Loss and comprehensive loss for the period** | (12,905) | (5,147) |
| **Basic and diluted loss per share** (Note 9 (d)) | (0.08) | (0.05) |
| **Weighted average number of shares outstanding** | 170,743,264 | 108,005,009 |

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

**Cerro Grande Mining Corporation**
Consolidated Statement of Changes in Shareholders' Equity
For the years ended September 30, 2015 and 2014

(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 | 880 | - | - | (362) | - | 518 |
| Share-based compensation | 2 | - | (2) | - | - | - |
| Private placements | 25 | - | - | - | - | 25 |
| Net loss | - | - | - | - | (5,147) | (5,147) |
| Balance - September 30, 2014 | 81,163 | 211 | 7,779 | 117 | (80,412) | 8,858 |
| Balance - October 1, 2014 | 81,163 | 211 | 7,779 | 117 | (80,412) | 8,858 |
| Convertible unsecured debenture | - | - | 52 | (52) | - | - |
| Warrant expiry | - | (211) | 211 | - | - | - |
| Private placement | 321 | 379 | - | - | - | 700 |
| Debt settlement | 2,169 | - | - | - | - | 2,169 |
| Net loss | - | - | - | - | (12,905) | (12,905) |
| Balance - September 30, 2015 | 83,653 | 379 | 8,042 | 65 | (93,317) | (1,178) |

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

**Cerro Grande Mining Corporation**
Consolidated Statements of Cash Flows
For the years ended September 30, 2015 and 2014

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

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| **Net loss for the year** | (12,905) | (5,147) |
| | | |
| **Non-Cash items:** | | |
| Amortization and depreciation | 2,464 | 2,686 |
| Income Tax Expense | 176 | - |
| Impairment charges | 6,737 | - |
| Accretion of interest on long term debt | 54 | 85 |
| Reclamation and remediation | 27 | 35 |
| Other gains and losses | (43) | (96) |
| Foreign exchange gain | (154) | 186 |
| | (3,644) | (2,251) |
| Change in non-cash working capital relating to operations (Note 18) | 810 | 1,194 |
| | (2,834) | (1,057) |
| **Investing activities** | | |
| Additions to mining properties, plant and equipment | (1,236) | (397) |
| | (1,236) | (397) |
| **Financing activities** | | |
| Shares issued on options | - | 2 |
| Proceeds from private placement | 700 | - |
| Cash loans from related parties | 4,269 | 1,840 |
| Proceeds received from gold loan (net of expenses) | 67 | - |
| Gold loan repayments | (17) | - |
| Debenture payment | (400) | - |
| Finance leases | (384) | (354) |
| | 4,235 | 1,488 |
| **Increase in cash and cash equivalents during the year** | 165 | 34 |
| **Cash and cash equivalents - Beginning of year** | 87 | 53 |
| **Cash and cash equivalents - End of year** | **252** | **87** |

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

## 1. Nature of the Company and Going concern assumption

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 Royal Bank Plaza, South Tower, 200 Bay Street Suite 3800, Toronto, ON M5J 2Z4, Canada.

The company's only significant subsidiary is Companía Minera Pimentón (Pimentón).

These consolidated financial statements have been prepared on a going concern 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 September 30, 2015, the Company has negative working capital of $8,200 (2014 - $2,747).

While the Company has operations generating revenue, in the last two fiscal years it has not achieved profitable operations and incurred a net loss for the year of $ 12,905 (2014 – net loss of $5,147) and an operating cash outflow of $2,834 for the year ended September 30, 2015 (2014 – operating cash outflow of $1,057) and has been reliant on financing from related parties to finance its operations and working capital. Subsequent to year end, the Company settled $3,465,501 owed to related parties and reflected in current liabilities through the issuance of 92,875,400 common shares (representing an issue price of CDN$0.05 per share). While the Company continues to seek to reduce operating costs, the certainty of future profitability expectations and availability of sources of additional financing cannot be assured at this time and accordingly, these material uncertainties 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 would 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*

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretation of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for the incorporation into Part I of the handbook of CPA Canada. The consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in the preparation of these consolidated financial statements throughout all the periods presented. The preparation of consolidated financial statements requires managements to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses.

The Board of Directors approved the statements on March 4, 2016.

*b. Basis of preparation*

These consolidated financial statements have been prepared under the historical cost basis, except for the certain financial assets and liabilities that are measured at fair value through profit and loss including derivative instruments. All amounts are expressed in thousands of US dollars, except share and per share amounts.

*a. Use of estimates and judgments*

The preparation of 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 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.

i) Significant judgments in applying accounting policies

The areas which require management to make significant judgments in applying the Company's accounting policies in determining carrying values include, but are not limited to:

a) Mineral Reserves

The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of property, plant and equipment, reclamation and remediation obligations, recognition of deferred tax amounts and depreciation and amortization.

b) Depreciation, depletion and amortization

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

c) Taxes

The Company is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

ii) Significant Accounting Estimates and Assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) Mineral Reserves

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study. The Company estimates its proven and probable mineral reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The estimation of future cash flows related to proven and probable mineral reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of property, plant and equipment, reclamation and remediation obligations, recognition of deferred tax amounts and depreciation and amortization.

b) Depreciation, depletion and amortization

Plants and other facilities used directly in mining activities are depreciated using the units of production ("UOP") method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves. Mobile and other equipment is depreciated, net of residual value, on a straight-line basis, over the useful life of the equipment but does not exceed the related estimated life of the mine based on proven and probable reserves.

The calculation of the UOP rate, and therefore the annual depreciation and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

c) Provision for reclamation and remediation

The Company assesses its provision for reclamation and remediation on an annual basis. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the

Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

d) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred income tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the balance sheet date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

## 3. Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

### a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation. The Company consolidates subsidiaries where they have the ability to exercise control. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

### b) Foreign currency translation and transactions

The Company presents its financial statement in U.S. dollars. This is also the functional currency of CEG and its subsidiaries.

The Company's foreign currency transactions and balances denominated in foreign currencies are translated into the Company's functional currency, the U.S. dollar, as follows:

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and year-end translation of monetary items are recognized in the statement of loss and comprehensive loss under "Foreign exchange".

**c) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, which are subject to an insignificant risk of changes in value except for foreign exchange risk (note 19(b)).

**d) Financial instruments**

At initial recognition, the company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. All derivatives have been classified as held-for-trading. All financial instruments in this category are recognized initially and subsequently at fair value, transaction costs are expensed in the consolidated statement of loss and other comprehensive loss, and gains and losses arising from changes in fair value are presented in the consolidated statement of loss within "other gains and losses (net)" in the period in which they arise.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise accounts receivable, and accounts receivable from related parties that are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, accounts payable to related parties, and long term debt. Trade payables are initially recognized at the amount required to be paid at the trade date, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(iv) Compound financial instruments: Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued is fixed. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

### e) Inventory

Doré, concentrate, materials and supplies inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. Doré and concentrate inventory costs include direct labour, direct material costs, mine site overhead, depreciation and depletion. Cost is allocated to the various doré and concentrate inventories based on the relative net revenues of each. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. Net realizable value is determined with reference to relevant market prices less estimated costs of completion and estimated costs necessary to make the inventory saleable. If the circumstances that caused a write-down no longer exist, the write-down is reversed.

### f) Mining properties, plant and equipment

Mining properties, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes 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 UOP as follows:

- Mining properties and development - UOP
- Building 5 years on a straight line basis (which does not exceed the expected life of the mine)
- Plant and Equipment 1- 5 years on a straight line basis (which does not exceed the expected life of the mine)

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 estimated 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.

### g) Leased assets

Leases, the terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt. The finance cost is charged to the consolidated statement of income and other comprehensive income over the lease period.

### h) Exploration and development costs

Acquisition and exploration costs of resource properties are expensed as incurred until resources have been determined and then the development costs are capitalized. Upon reaching commercial production, these capitalized development costs are transferred from exploration properties to mining properties, plant and equipment and are amortized in the statement of income and other comprehensive income using the UOP 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, such as declining grades at the mine and both current and projected declines in the price of gold.

Expenditures related to extensions of mineral deposits which are already being mined or developed, are capitalized as a mine development cost when the Company is able to conclude that a future economic benefit is probable.

### i) Revenue recognition

Revenue from the sale of concentrates and gold doré is recognized following the transfer of title and risk of ownership in accordance with contractual arrangements with customers. Risk and title is transferred when the gold doré is picked up at the mine site and, in the case of the concentrate, when 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 based on the currently prevailing metals prices, quantities delivered and provisional assays as agreed between the Company and customers for each shipment. Doré and 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 doré and concentrates shipped to customers and revenue from these by-products are recognized on the same criteria as those used for gold revenues.

The terms of these contracts result in embedded derivatives because of the timing difference between the prevailing metal prices for provisional payments and the actual contractual metal prices used for final settlement. These embedded derivatives are adjusted to fair value at the end of each reporting period through to the date of final price determination with any adjustments recognized in revenue.

### j) Income taxes

Income tax is comprised of current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects either accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets and liabilities are presented as non-current.

### k) Stock-based compensation

The Company has a share option plan, as discussed in note 9 (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. Stock-based compensation granted 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 and the expense is recognized over the vesting period of the options with a corresponding increase in shareholder’s equity. The exercise price is the share price at the grant date which is considered to be equal to the closing price of the Company’s stock on the CSE on the business day preceding the grant date.

When the options are exercised, any consideration paid is credited to share capital and the contributed surplus resulting from stock-based compensation is transferred to share capital.

### l) Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants and on the if - converted method for convertible securities.

### m) Reclamation and remediation

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, restoration and reclamation. The obligation is attributable to mining properties when the asset is installed or the environment is disturbed at the production location. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore.

The periodic unwinding of the discount applied in establishing the net present value of provisions over time is recognized in the consolidated statement of income and other comprehensive income as accretion. Changes in rehabilitation estimates attributable to development will be recognized as additions or charges to the corresponding asset and rehabilitation liability when they occur.

### n) Changes in accounting standards and recent accounting pronouncements

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 was effective for annual periods commencing on or after January 1, 2014 and there was no impact on the Company’s financial statements upon adoption of IFRIC 21 on October 1, 2014

The following new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company have been set out below.

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 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of this standard on the consolidated financial statements.

IFRS 9 Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. IFRS 9 is effective for annual periods commencing on or after January 1, 2018 with early adoption permitted. The Company has not yet assessed the impact of this new standard, if any, on the consolidated financial statements.

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

## 4. Receivables

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Accounts receivable from customers | 216 | 608 |
| Advances and other sundry receivables | 293 | 657 |
| **Total receivables** | **509** | **1,265** |

## 5. Inventory

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Ore and concentrate stockpiles | 404 | 405 |
| Materials and supplies | 383 | 655 |
| | **787** | **1,060** |

During the year there were no inventory write-downs.

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

## 6. Mining property, plant and equipment

| Cost | Building | Plant & equipment | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance - October 1, 2014 | 5,769 | 13,556 | 19,859 | 657 | 39,841 |
| Additions | - | 378 | 857 | 1 | 1,236 |
| Reclassification | - | (79) | 79 | - | - |
| Changes in reclamation and remediation liability (Note 11) | - | - | (425) | - | (425) |
| **Balance - September 30, 2015** | **5,769** | **13,855** | **20,370** | **658** | **40,652** |

| Accumulated depreciation | Building | Plant & equipment | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance - October 1, 2014 | 3,305 | 9,465 | 9,737 | 216 | 22,723 |
| Depreciation and amortization expenses | 20 | 1,481 | 944 | 19 | 2,464 |
| Impairment ** | - | - | 6,737 | - | 6,737 |
| **Balance - September 30, 2015** | **3,325** | **10,946** | **17,418** | **235** | **31,924** |
| **Net book value as at September 30, 2015** | **2,444** | **2,909** | **2,952** | **423** | **8,728** |

| Cost | Building | Plant & equipment * | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| 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 11) | - | - | (246) | - | (246) |
| **Balance - September 30, 2014** | **5,769** | **13,556** | **19,859** | **657** | **39,841** |

| Accumulated depreciation | Building | Plant & equipment | Mining property development | Others | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| 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** | **4,091** | **10,122** | **441** | **17,118** |

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

* The Company leases equipment and vehicles under finance lease contracts. As of September 30, 2015, the net book values of leased equipment and vehicles were $499 and $170, respectively (2014- $738 and $424). During 2015, 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.

** Non-current assets are tested for impairment when events or changes in circumstance suggest that the carrying amount may not be recoverable. During the period ended September 30, 2015 the Company has recorded an impairment charge of $ 6,556 related to the Pimenton project, primarily as a result of the decrease in the grade and future gold and copper price. The recoverable amount was calculated using the value-in-use method, which is the expected present value of future cash flows from the asset, using a pre-tax discount rate of 7.9%. The remaining $181 impairment charge relates to the Til Til project and represents a full write down of the mining properties.

## 7. Trade and other payables

| | **September 30, 2015** | **September 30, 2014** |
|---|---|---|
| | **$** | **$** |
| Accounts payable to suppliers Pimenton | 885 | 1,338 |
| Accounts payable Canada | 283 | 375 |
| Accounts payable Til Til | 11 | - |
| Staff holiday provision | 472 | 515 |
| Other sundry payables | 316 | 465 |
| **Total Payables** | **1,967** | **2,693** |

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

## 8. Long-term debt

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

| Description | Interest rate | September 30, 2015 Principal $ | September 30, 2014 Principal $ |
|---|---|---|---|
| C and D debentures (a) | 6.00% | - | 361 |
| Auromin and Chañar Blanco debenture (b) | 0.00% | 122 | 107 |
| Bice Bank mortgage (c) | 5.13% | 525 | 640 |
| Gold Loan debenture (d) | 10.00% | 57 | - |
| Finance Leases | 4% -5.2% | 142 | 479 |
| Sub total | | 846 | 1,587 |
| Less: Current portion | | (209) | (732) |
| Long-term debt | | 637 | 855 |

The maturities of long term debt and interest payments are as follows for the year ended September 30, 2015

| | |
|---|---|
| 2017 | 447 |
| 2018 | 143 |
| 2018 - 2026 | 633 |
| | 1,223 |
| Less: Future accretion | (222) |
| | 1,001 |

Interest paid by the company was $225 for the year ended September 30, 2015 (2014 - $342)

a) On April 21, 2010 the Company issued $300 of convertible unsecured debentures (the "C Debentures"). The maturity date of these debentures was 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 had 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 was allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was determined using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As of September 30, 2014, the carrying value of the C Debentures was $112 within equity, $114 within warrants, and $271 within debt.

On May 11, 2010 the Company issued $330 of convertible unsecured debentures (the "D Debentures"). The maturity date of these debentures was 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 had 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 was 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 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 of September 30, 2014, the carrying value of the D Debentures was $43 within equity, $97 within warrants, and $90 within debt.

As of September 30, 2015 both these Debentures, have matured and been repaid as the creditors did not exercise their conversion option or warrants.

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 was $107 and within the equity component of convertible debentures was $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. As of September 30, 2015, $122 remains in debt and $65 in equity related to these convertible unsecured debentures.

c) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) of 19,600 ($941). The mortgage is payable in Chilean pesos (19,600 unidades de foment) and has been translated into US dollars using the closing exchange rate at September 30, 2015.

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

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) plus interest until the year 2027. The mortgage is secured by certain fixed assets with an approximate value of $1,000.

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 $5^{th}$ 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 15.77 ounces of gold.
As of September 30, 2015 the Company paid the May 6, 2015 semi-annual installment and quarterly interest scheduled for February and May 2015. Due to a cash flow deficit the August quarterly interest was not paid until October $5^{th}$. Included in this payment was 2/3 of the interest payment due on November $5^{th}$.

## 9. 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 | 321 |
| Private placement (iv) | 48,645,220 | 2,169 |
| Balance – September 30, 2015 | 174,977,010 | 83,653 |

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 as a Gold Loan with a maximum value of $ 2,500, Cerro Grande agreed to pay Westmount a one-time retainer fee of 500,000 common shares at a price of CAD $0.05. No gold loan was realized.

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) Subscribed to a Private Placement of units of the Company for cash proceeds of US$700 (the "Placement"), and (ii) agreed to 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 Private Placement and Debt Settlement has been completed in order to immediately improve the financial position of the Company.

Pursuant to the Private 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, during the first quarter of 2015, outstanding indebtedness in the aggregate amount of US$2,169, 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 CDN1.1245 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. As of this date this Option Plan has been frozen and the remaining 3,364,381 share options can be exercised by the holders before their maturity date at which time they will expire if not exercised.

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

A summary of the Company's Plan at September 30, 2015 is presented as follow:

| | **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 |
| Expired | (2,300,571) | 0.37 |
| Balance – September 30, 2015 | 3,364,381 | 0.27 |

Cerro Grande Mining Corporation 2015 Incentive Stock Option Plan

This new Option Plan was approved by the Board of Directors on May 29th, 2015 and can be summarized as follows:

a) Shares Reserved under the Plan – the aggregate number of shares which may be issued shall not exceed 10% of the issued and outstanding shares.

b) Share Bonus Plan – the maximum number of shares cannot exceed 2% of the issued and outstanding shares. These shares are included in the maximum indicated in a) above

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.

ii) During the year ended September 30, 2015 and 2014 the Company recognized total stock based compensation expense of $nil and $nil respectively.

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

Options outstanding as at September 30, 2015 are as follows:

| Exercise price CA$ | Number of options granted | Weighted average remaining contractual life (years) | Weighted average exercise price CA$ | Options exercisable |
|---|---|---|---|---|
| 0.10 - 0.13 | 1,950,000 | 2.65 | 0.10 | 1,950,000 |
| 0.14 - 0.16 | 233,953 | 2.61 | 0.15 | 233,953 |
| 0.17 - 0.49 | 450,000 | 2.36 | 0.18 | 450,000 |
| 0.50 - 0.79 | 730,428 | 0.58 | 0.79 | 730,428 |
| | **3,364,381** | **2.10** | **0.26** | **3,364,381** |

**d) Basic and diluted loss per share**

| | September 30, 2015 $ | September 30, 2014 $ |
|---|---|---|
| Loss for the period | (12,905) | (5,417) |
| Weighted average number of shares outstanding | 170,743,264 | 108,005,009 |
| Basic loss per share | (0.08) | (0.05) |
| Diluted loss per share | (0.08) | (0.05) |

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

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

## 10. Warrants

| **Equity** | **Number of warrants** | **$** |
|---|---|---|
| Balance – September 30, 2014 | 1,608,254 | 211 |
| Expired | (1,608,254) | (211) |
| Issued - October 2014 | 15,743,000 | 379 |
| Balance – September 30, 2015 | 15,743,000 | 379 |

The following table summarizes information about the warrants outstanding as at September 30, 2015:

| **Number of warrants outstanding** | **Weighted average remaining warrant life (years)** | **Weighted average exercise price** |
|---|---|---|
| | **years** | **CA$** |
| **15,743,000** | **4.08** | **0.07** |

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

## 11. Reclamation and remediation

The Company's reclamation and remediation liability is summarized as follows:

| | **September 30, 2015 $** | **September 30, 2014 $** |
|---|---|---|
| Balance - beginning of year | 1,868 | 2,113 |
| Change in interest rate | 1 | 62 |
| Accretion | 27 | 35 |
| Reclamation and remediation provision adjustment | (425) | (342) |
| Balance end of year | 1,471 | 1,868 |

(i) The Company recalculated the cash flow estimation under updated parameters. The expected undiscounted remediation of $1,582 as at September 30, 2015 (2014 - $2,017) is expected to be incurred in 5 years. These new estimated cash flows are discounted using a long term Chilean interest rate of 1.46% as at September 30, 2015 (2014 – 1.55%). The effect was a decrease in the mine closure provision and development cost of $425 (2014 – decrease $342).

## 12. Expenses by nature

Operating costs are composed of the following:

| | **September 30, 2015 $** | **September 30, 2014 $** |
|---|---|---|
| Direct labour costs | 4,873 | 5,801 |
| Other direct mining and mill costs (i) | 4,268 | 6,562 |
| Depreciation, depletion and amortization | 2,445 | 2,686 |
| Royalties | 502 | 819 |
| Total operating costs | 12,088 | 15,868 |

(i) Other direct mining and mill costs consistent of direct mining and milling costs; which include fuel and electricity, maintenance and repair costs as well as operating supplies, external services and third party smelting and refining fees.

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

General, sales and administrative costs consist of the following:

| | **September 30, 2015 $** | **September 30, 2014 $** |
|---|---|---|
| Office and overhead costs | 886 | 733 |
| Salaries and wages | 563 | 862 |
| Listing fees | 210 | 324 |
| Professional fees | 750 | 781 |
| Sales expenses | 356 | 438 |
| Total general, sales and administrative expenses | **2,765** | **3,138** |

Other income and expenses are composed of the following:

| | **September 30, 2015 $** | **September 30, 2014 $** |
|---|---|---|
| Other expenses | 94 | 56 |
| Other income | (137) | (152) |
| Total other ( income)/expenses | (43) | (96) |

Exploration costs by project are composed of the following:

| | **September 30, 2015 $** | **September 30, 2014 $** |
|---|---|---|
| Til Til | 21 | - |
| Catedral | - | 53 |
| La Bella | - | 1 |
| Cal Norte | - | 4 |
| Tordillo | - | 114 |
| Bandurrias | - | 23 |
| Total exploration costs | **21** | **195** |

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

Exploration costs by category are composed of the following:

| | September 30, 2015 $ | September 30, 2014 $ |
|---|---|---|
| Claims costs | - | 185 |
| Professional fees | 21 | 7 |
| Others | - | 3 |
| Total exploration costs | **21** | **195** |

## 13. 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 September 30, 2015 and 2014, segmented information is presented as follows:

| | September 30, 2015 | | |
|---|---|---|---|
| | **Pimenton $** | **Corporate $** | **Total $** |
| Sales revenue | 8,995 | - | 8,995 |
| Operating costs | 9,624 | - | 9,624 |
| Amortization and depreciation | 2,425 | 39 | 2,464 |
| General, sales and administrative | 1,487 | 1,278 | 2,765 |
| Foreign exchange | (136) | (18) | (154) |
| Interest | 168 | 115 | 283 |
| Other (income) and expenses (net) | 82 | (125) | (43) |
| Reclamation and remediation | 27 | - | 27 |
| Impairment | 6,556 | 181 | 6,737 |
| Exploration costs | 21 | - | 21 |
| Income tax | 176 | - | 176 |
| Total other income expenses (income) | 10,806 | 1,470 | 12,276 |
| **Loss and other comprehensive loss for the year** | (11,435) | (1,470) | (12,905) |
| **Mining property, plant and equipment** | 7,383 | 1,345 | 8,728 |
| **Total assets** | 10,262 | 558 | 10,820 |

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

| | September 30, 2014 | | |
|---|---|---|---|
| | **Pimenton** | **Corporate** | **Total** |
| | **$** | **$** | **$** |
| Sales revenue | 14,064 | - | 14,064 |
| Operating costs | 13,182 | - | 13,182 |
| | | | |
| Amortization and depreciation | 2,651 | 35 | 2,686 |
| Operating costs - services | - | - | - |
| Reclamation and remediation | 45 | - | 45 |
| General, sales and administrative | 1,730 | 1,408 | 3,138 |
| Foreign exchange | (128) | (58) | (186) |
| Interest | 178 | 146 | 324 |
| Other gains and losses (net) | (38) | (58) | (96) |
| Exploration costs | - | 195 | 195 |
| Income tax recovery | (77) | - | (77) |
| Total other income expenses (income) | 4,361 | 1,668 | 6,029 |
| | | | |
| **Loss and other comprehensive loss for the year** | (3,479) | (1,668) | (5,147) |
| | | | |
| **Mining property, plant and equipment** | 15,744 | 1,374 | 17,118 |
| **Total assets** | 19,532 | 857 | 20,389 |

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

## 14. Income taxes

The income tax expense (recovery) balance consists of:

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Current income tax: | | |
| Based on taxable income for the period | 176 | (77) |
| | 176 | (77) |
| Deferred income tax: | | |
| Original/reversal of temporary differences | - | - |
| | - | - |
| Income tax expense (recovery) | 176 | (77) |

The Company operates in multiple industries and jurisdictions, and the related income is subject to varying rates of taxation. The combined Canadian tax rate reflects the federal and provincial tax rates in effect in Ontario, Canada for each applicable year. A reconciliation of the combined Canadian effective rate of income tax is as follows:

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Income (loss) before taxes | (12,905) | (5,224) |
| Combined Canadian tax rate | **26.50%** | **26.50%** |
| Income tax (recovery) expense at combined rate | (3,420) | (1,384) |
| Difference in foreign tax rates | 479 | 227 |
| Non-deductible amounts | 14 | 25 |
| Previously unrecognized future tax assets | - | - |
| Adjustment for prior years | 176 | (152) |
| Change in deferred tax assets not recognized | 2,927 | 1,207 |
| Income tax expense (recovery) | 176 | (77) |

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

The deferred income tax assets (liabilities) balance reported on the balance sheet is comprised of the temporary differences as presented below:

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Deferred income tax assets: | | |
| Property, plant and equipment, net | - | - |
| Reclamation and remediation obligations | 320 | 486 |
| Other long-term liabilities | 111 | 113 |
| Tax loss carry forwards | 1,282 | 1,505 |
| Deferred income tax assets-gross | 1,713 | 2,104 |
| Set-off against deferred income tax liabilities | (1,713) | (2,104) |
| Deferred income tax assets-per balance sheet | - | - |
| Deferred income tax liabilities: | | |
| Property, plant and equipment, net | (1713) | (1,992) |
| Convertible unsecured debenture | - | (112) |
| Other | - | - |
| Deferred income tax liabilities-gross | (1,713) | (2,104) |
| Set-off of deferred income tax assets | 1,713 | 2,104 |
| Deferred income tax liabilities-per balance sheet | - | - |

The deferred income tax liability continuity summary is as follows:

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| | $ | $ |
| Balance - September 30, 2014 | - | - |
| Recognized in profit/loss | - | - |
| Balance - September 30, 2015 | - | - |

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

A Geographic split of the Company's tax losses not recognized and the associated expiry dates of those losses and credits are as follows:

| | **Expiry Date** | **September 30, 2015** | **September 30, 2014** |
|---|---|---|---|
| | | **$** | **$** |
| Tax losses - gross | | | |
| Canada | **2018-2034** | 6,065 | 6,387 |
| Chile | **None** | 14,660 | 9,119 |
| United States | **2028-2034** | 1,423 | 1,423 |
| Tax losses - gross | | 22,148 | 16,929 |
| Set-off against taxable temporary differences | | (5,567) | (5,874) |
| Total deductible temporary differences not recognized | | 16,581 | 11,055 |

## 15. Commitments

a) Project commitments

| **Project** | **Description** | **Total potential commitment** $ | **Paid to date** $ |
|---|---|---|---|
| Catedral and Rino | A loan for development costs | up to 2,500 | 250 |
| Cal Norte | Capital contribution of $1,800 to earn 60% equity interest | 1,800 | 1,565 |
| Tordillo | 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. | 250 | - |
| Cerro del Medio | On June 15, 2014 an amendment agreement was signed which extended the term of the original agreement to June 12, 2015. Negotiations are currently being undertaken to renew its term. | | |

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

b) Lease commitments

The Company is committed to future minimum lease payments under finance lease arrangements:

| | September 30, 2015 $ |
|---|---|
| 2015 | 144 |
| 2016 | - |
| 2017 | - |
| | 144 |
| Interest | (2) |
| | 142 |

## 16. Compensation of key management

Key management includes directors (executive and non-executive) and senior executives. The compensation paid or payable to key management for employee services is presented below:

| Year ended September 30, | 2015 $ | 2014 $ |
|---|---|---|
| Salaries and short-term director benefits (iii) | - | - |
| Directors fees (iv) | 28 | 39 |
| Other long - term director benefits (Options) | - | - |
| Services contract (i), (ii) | 410 | 405 |
| | **438** | **444** |

(i) On April 1, 2010, Compañía Minera Auromin Ltda a Company owned by David Thomson, both a Director and Officer of the Company, entered into a management contract with the Company for renewable two year periods. The contract is automatically renewable for two year periods if none of the parties express their intent to end the contract on its expiration date. Under the terms of the contract, the Company will pay $300 per year to Compañía Minera Auromin Ltda. The services to be provided by Compañía Minera Auromin Ltda. include, seeking new mining projects, performing geological studies and designing drill programs for the Company on exploration projects, conducting preliminary design of the mining plan for designated project and providing other services related to the exploration and development of mining projects. As of September 30, 2015 amounts due to related parties included $300 related to this contract (2014 - $506).

(ii) On April 1, 2010 Compañía Minera Chañar Blanco S.A a Company owned by Mario Hernández, both a Director and Officer of the Company, entered into a management contract with the Company for renewable two year periods. The contract is automatically renewable for two year periods if none of the parties express their intent to end the contract on its expiration date. Under the terms of the contract, the Company will pay $110 per year to Compañía Minera Chañar Blanco S.A. The services to be provided by Minera Chañar Blanco S.A. include, maintaining title and ownership of mining properties acquired by the Company, acquiring water rights or request concessions of water rights on the properties acquired by the Company and negotiating the acquisition of new mining properties for the Company. As of September 30, 2015 amounts due to related parties included $110 related to this contract (2014 - $200).

(iii) On April 1, 2010, the Chief Executive Officer (CEO), who is also a Director of the Company, entered into a management contract with the Company for renewable two year periods. The contract is automatically renewable for two year periods if none of the parties express their intent to end the contract on its expiration date. Under the terms of the contract, the Company will pay $110 per year to the CEO plus a travel allowance. As of September 30, 2015 the Corporation paid $ 24 (2014 - $15) for travel expenses and $85 (2014 - $110) for salary.

(iv) On June 21, 2011 the Board of Directors approved a resolution that non-executive directors be paid $1 per meeting attended. As at September 30, 2015 amounts due to the directors for these director fees were $98 (2014- $70).

## 17. Related party transactions

The Company has a receivable from the CEO (who is also a Director) of $282 (2014 - $210) consisting of $238 (2014 - $158) of cash advances, net of salary and travel expenses, and two loans totaling $44 (2014 - $52). One of the loans is collaterized at September 30, 2015 by 653,200 common shares of the Company, owned by him. 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 $34 to the Company for accounting and administration services rendered at September 30, 2015 (2014 - $48). Trade and other payables include $27 in relation to such services at September 30, 2015 (2014 - $27).

A law firm, of which a director of the Company is a partner, billed the Company $100 at September 30, 2015 (2014 - $164) for legal services. Trade and other payables include $147 at September 30, 2015 (2014- $130).

Due to related parties include $251 at September 30, 2015 (2014 - $359) 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. Due to related parties also include cash advances and salaries due of $1,870 at September 30, 2015 (2014 - $1,873).

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

Due to related parties include $ 251 at September 30, 2015 (2014 - $359) 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. Due to related parties also include cash advances and salaries due of $ 2,159 at September 30, 2015 (2014 - $1,766).

In July 2013, Pimenton, a subsidiary of the Company entered into a loan agreement of $3,000, which is included in due to related parties, 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 Compañíá 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, 2015 the amount due is $3,000. As of September 30, 2015 there is a total of $150 (2014 - $158) of interest payable to Compañia Minera Chañar Blanco S.A. and Compañíá Minera Auromin Ltda.

## 18. Supplemental cash flow information

| | September 30, 2015 $ | September 30, 2014 $ |
|---|---|---|
| Changes in non-cash working capital relating to operations: | | |
| Receivables | 756 | (139) |
| Inventories | 273 | 1,541 |
| Recoverable taxes | 507 | (548) |
| Accounts payable and accrued liabilities, excluding interest in accrued liabilities | (726) | 244 |
| | 810 | 1,098 |
| Total interest paid (note 8) | 225 | 342 |
| Total income tax paid | - | - |

## 19. Financial instruments

### (a) Financial assets and liabilities

The Company's financial instruments at September 30, 2015 and 2014 consist of cash and cash equivalents, accounts receivable, account receivable from related parties, trade and other payable, payables to related parties, warrant liabilities and current and long-term debt.

**Fair value measurements of financial assets and liabilities recognized in the balance sheet**

Fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At September 30, 2015, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

| | Level 2 |
|---|---|
| Accounts receivable arising from sales of metal concentrates | $216 |

At September 30, 2015, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as level 3 in the fair value hierarchy above.

**Fair values of financial assets and liabilities not measured at fair value in the balance sheet**

At September 30, 2015 the carrying amounts of accounts receivable not arising from sales of metal concentrates and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

**(b) Management of Financial Risk**

The Company's financial instruments are exposed to financial risks as summarized below:

**Credit Risk**

Accounts receivable consist of:

| | **September 30, 2015** | **September 30, 2014** |
|---|---|---|
| | **$** | **$** |
| Accounts receivable from customers | 216 | 608 |
| Advances and other sundry receivables | 293 | 657 |
| **Total receivables** | **509** | **1,265** |

The Company, in the normal course of business, is exposed to credit risk from its two customers: a gold refinery in Europe and an entity owned by the State of Chile.

Accounts receivable are subject to normal industry credit risks and are considered low as we have only two clients as mentioned below.

During the year ended September 30, 2015 approximately 58% (2014 – 58%) of the Company's sales were to a gold refinery in Europe. The refinery pays for 90% of the value of gold shipment the week following delivery and the balance of the payment is made less than a month from the day of receipt of the initial payment. During the same period 42% (2013 – 42%) of the Company's sales were to Empresa Nacional de Mineria (ENAMI) to smelter its gold and copper concentrate. ENAMI is owned by the State of Chile through its ownership of Corporacion Nacional del Cobre (CODELCO). ENAMI pays for approximately 60% of the value of shipments the week following delivery and the balance is paid one to two months following the initial payment.

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

**Liquidity Risk**

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. At September 30, 2015, the Company had a negative working capital of approximately $8,200. At September 30, 2015 the Company's accumulated deficit was approximately $93,317 and a negative shareholders' equity was approximately $1,178.

The following are the maturities of the Company's liabilities as of September 30, 2015:

| Contractual Obligations | Total | Less than 1 year | 1-3 years | Over 4 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Trade and other payables | 1,967 | 1,967 | - | - |
| Amount due to related parties | 7,714 | 7,714 | - | - |
| Long-term debt and finance leases (Note 8) | 846 | 209 | 215 | 422 |
| **Total Contractual Obligations** | **10,527** | **9,891** | **215** | **422** |

**Foreign currency risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Canadian Dollar and Chilean Peso.

The Company's risk management objective is to manage cash flow risk related to foreign denominated cash flows.

The Company is exposed to currency risk related to changes in rates of exchange between the US$ and Chilean Pesos. The Company's revenues and certain debt are denominated in US dollars, while most of the Company's operating and capital expenditures are denominated in the Chilean Pesos. A significant change in the currency exchange rates between the US dollar and foreign currencies could have a material effect on the Company's net earnings and on other comprehensive income.

The following table summarizes, in U.S. dollar equivalents, the Company's major currency exposures as at September 30, 2015:

| | Canadian Dollars | Chilean Pesos |
|---|---|---|
| Cash and cash equivalents | - | 159 |
| Accounts receivable | - | 492 |
| Trade and other payables | 283 | 799 |
| Long-term debt | - | 667 |
| Total as at September 30, 2015 | 283 | 2,117 |

The impact of the US dollar strengthening or weakening by 10% at September 30, 2015 against the Company's foreign currencies with all other variables held constant would result in a $65 increase or decrease in the Company's other comprehensive income.

**Commodity price risk**

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of gold, silver, and copper.

The Company is particularly exposed to the risk of movements in the price of gold. Declining market prices for gold could have a material effect on the Company's profitability, and the Company's policy is not to hedge its exposure to gold.

## 20. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

The acquisition, exploration, financing and development of natural resources require significant expenditure before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes and debentures, bank debt and extended terms from creditors.

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 its 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.

## 21. Subsequent Events

### Related Parties

On November 6, 2015 the Company reported that it has agreed in principle to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the "Related Parties"), both directors of the Company, by issuing common shares of the Company (each, a "Common Share") in settlement of such debt (the "Debt Settlement"). The Debt Settlement was completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing.

Pursuant to the Debt Settlement, the Company extinguished outstanding indebtedness in the aggregate amount of US$3,465,501 owed to the Related Parties, such indebtedness being made up of cash advances made to the Company by the Related Parties, by issuing an aggregate of 92,875,400 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 CDN$1.34 per US$1.00.

With the completion of the Debt Settlement on November 12, 2015, the Related Parties hold 200,516,530 Common Shares representing approximately 74.86% of the issued and outstanding Common Shares.

**Directors* and Officers**

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*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)**
Rockwood, 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

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**Canadian Securities Exchange**
Stock Symbol: CEG

**OTCQB International**
Stock Symbol: CEGMF

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