

CERRO GRANDE MINING CORPORATION

**Report to Shareholders
for the
Third Quarter Ending
June 30, 2016
(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 nine month period ended June 30, 2016.**

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

August 29, 2016

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2016
(Unaudited)

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

| | June 30, 2016 | September 30, 2015 |
|---|------------------|-----------------------|
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | 37 | 252 |
| Accounts receivable (Note 3) | 454 | 509 |
| Recoverable taxes | 50 | 142 |
| Inventory (Note 4) | 622 | 787 |
| | 1,163 | 1,690 |
| Non-current assets | | |
| Receivable from a related party | 549 | 402 |
| Fixed assets, plant and equipment (Note 5) | 7,631 | 8,728 |
| | 8,180 | 9,130 |
| Total assets | 9,343 | 10,820 |
| Current liabilities | | |
| Trade and other payables (Note 6) | 2,868 | 1,967 |
| Due to related parties (Note 11) | 5,965 | 7,714 |
| Current portion of long-term debt (Note 7) | 76 | 209 |
| | 8,909 | 9,890 |
| Non-Current liabilities | | |
| Long-term debt (Note 7) | 643 | 637 |
| Due to related parties | - | - |
| Reclamation and remediation | 1,483 | 1,471 |
| | 2,126 | 2,108 |
| Total liabilities | 11,035 | 11,998 |
| Shareholders' equity | | |
| Share capital (Note 8) | 87,119 | 83,653 |
| Warrants (Note 9) | 379 | 379 |
| Contributed surplus | 8,042 | 8,042 |
| Convertible unsecured debenture | 65 | 65 |
| Deficit | (97,297) | (93,317) |
| Total shareholders' equity | (1,692) | (1,178) |
| Total liabilities and shareholders' equity | 9,343 | 10,820 |
| Going concern (Note 1) | | |

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 nine months ended June 30, 2016 and 2015
(Unaudited)

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

| | Three months ended | | Nine months ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Sales | 1,472 | 2,084 | 5,825 | 6,929 |
| | <u>1,472</u> | <u>2,084</u> | <u>5,825</u> | <u>6,929</u> |
| Expenses | | | | |
| Operating costs | 2,611 | 2,900 | 8,157 | 9,409 |
| Reclamation and remediation | 5 | 7 | 16 | 20 |
| General, sales and administrative | 508 | 580 | 1,698 | 1,742 |
| Foreign exchange | 36 | (4) | 15 | (63) |
| Interest | 52 | 52 | 172 | 157 |
| Other (income) and expenses (net) | (111) | (24) | (253) | (72) |
| | <u>3,101</u> | <u>3,511</u> | <u>9,805</u> | <u>11,193</u> |
| Loss and comprehensive loss before income taxes | (1,629) | (1,426) | (3,980) | (4,264) |
| Income tax (expense)/recovery | - | - | - | - |
| Loss and comprehensive loss for the period | <u>(1,629)</u> | <u>(1,426)</u> | <u>(3,980)</u> | <u>(4,264)</u> |
| Basic and diluted loss per share | <u>(0.01)</u> | <u>(0.01)</u> | <u>(0.01)</u> | <u>(0.02)</u> |
| Weighted average number of shares outstanding | 267,852,410 | 174,977,010 | 267,852,410 | 174,977,010 |

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

Cerro Grande Mining Corporation

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the nine months ended June 30, 2016 and 2015

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

| | Share capital (Note 8 (b)) | Warrants (Note 9) | Contributed surplus | Convertible unsecured debentures | Deficit | Total equity |
|---------------------------------|-------------------------------|----------------------|------------------------|--|----------|--------------|
| Balance - October 1, 2014 | 81,163 | 211 | 7,779 | 117 | (80,412) | 8,858 |
| Convertible unsecured debenture | - | 340 | - | - | - | 340 |
| Share-based compensation | - | - | - | - | - | - |
| Private placements | 2,863 | - | - | - | - | 2,863 |
| Net income | - | - | - | - | (4,264) | (4,264) |
| Balance - June 30, 2015 | 84,026 | 551 | 7,779 | 117 | (84,676) | 7,797 |
| Balance - October 1, 2015 | 83,653 | 379 | 8,042 | 65 | (93,317) | (1,178) |
| Convertible unsecured debenture | - | - | - | - | - | - |
| Private placements | 3,466 | - | - | - | - | 3,466 |
| Warrants | - | - | - | - | - | 0 |
| Net income | - | - | - | - | (3,980) | (3,980) |
| Balance - June 30, 2016 | 87,119 | 379 | 8,042 | 65 | (97,297) | (1,692) |

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 nine months ended June 30, 2016 and 2015

(Unaudited)

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

| | Three months ended | | Nine months ended | |
|---|--------------------|------------------|-------------------|------------------|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | \$ | \$ | \$ | \$ |
| Net loss for the period | (1,629) | (1,426) | (3,980) | (4,264) |
| Non-Cash items: | | | | |
| Amortization and depreciation | 508 | 587 | 1,701 | 1,804 |
| Accretion of interest on long-term debt | 40 | 23 | 145 | 125 |
| Foreign exchange gain | 36 | (4) | 15 | (63) |
| | (1,045) | (820) | (2,119) | (2,398) |
| Change in non-cash working capital relating to operations | 590 | (449) | 578 | 965 |
| Net cash provided/(used) by operating activities | (455) | (1,269) | (1,541) | (1,433) |
| Investing activities | | | | |
| Additions to mining properties, plant and equipment | 145 | 1,216 | 604 | 1,332 |
| Net cash provided/(used) in investing activities | 145 | 1,216 | 604 | 1,332 |
| Financing activities | | | | |
| Loan from related parties | 302 | 353 | 946 | 401 |
| Debt payment | - | (325) | - | (325) |
| Gold loan | (17) | (17) | (34) | (17) |
| | 285 | 11 | 912 | 59 |
| Increase (decrease) in cash and cash equivalents during the period | (25) | (42) | (25) | (42) |
| Cash and cash equivalents - Beginning of period | 62 | 104 | 62 | 104 |
| Cash and cash equivalents - End of period | 37 | 62 | 37 | 62 |

Cerro Grande Mining Corporation

Notes to the Consolidated Financial Statements

For the Nine Months Ended June 30, 2016

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

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 Compañía 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 June 30, 2016, the Company has a negative working capital of \$7,746 (September 30, 2015 – negative \$8,200).

While the Company has operations generating revenue it continues to be 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 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

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, 2015 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, 2015 except as described below.

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.

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

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 August 29, 2016.

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.

3. Receivables

| | June 30, 2016 | September 30, 2015 |
|---------------------------------------|--------------------------|-------------------------------|
| | \$ | \$ |
| Accounts receivable from customers | 52 | 216 |
| Advances and other sundry receivables | 402 | 293 |
| Total receivables | 454 | 509 |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

4. Inventory

| | June 30, 2016 | September 30, 2015 |
|--------------------------------|--------------------------|-------------------------------|
| | \$ | \$ |
| Ore and concentrate stockpiles | 150 | 404 |
| Materials and supplies | 471 | 383 |
| | 622 | 787 |

5. Mining property, plant and equipment

| Cost | Mining | | | | Total |
|--------------------------------|-----------------|------------------------------------|---------------------------------|---------------|---------------|
| | Building | Plant & equipment * | property development | Others | |
| | \$ | \$ | \$ | \$ | \$ |
| Balance - October 1, 2015 | 5,769 | 13,855 | 20,370 | 658 | 40,652 |
| Additions | - | 54 | 447 | 103 | 604 |
| Balance - June 30, 2016 | 5,769 | 13,909 | 20,817 | 761 | 41,256 |

| Accumulated depreciation | Mining | | | | Total |
|---|-----------------|----------------------------------|---------------------------------|---------------|---------------|
| | Building | Plant & equipment | property development | Others | |
| | \$ | \$ | \$ | \$ | \$ |
| Balance - October 1, 2015 | 3,325 | 10,946 | 17,418 | 235 | 31,924 |
| Depreciation and amortization expenses | 196 | 904 | 601 | - | 1,701 |
| Balance - June 30, 2016 | 3,521 | 11,850 | 18,019 | 235 | 33,625 |
| Net book value as at June 30, 2016 | 2,248 | 2,059 | 2,798 | 526 | 7,631 |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

| Cost | Mining property | | | | Total |
|--|-----------------|---------------------|---------------|------------|---------------|
| | Building | Plant & equipment * | development | Others | |
| | \$ | \$ | \$ | \$ | \$ |
| Balance - October 1, 2014 | 5,769 | 13,556 | 19,859 | 657 | 39,841 |
| Additions | - | 162 | 1,171 | - | 1,333 |
| Changes in reclamation and remediation liability | - | - | - | - | - |
| Balance - June 30, 2015 | 5,769 | 13,718 | 21,030 | 657 | 41,174 |

| 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 | - | 1,095 | 708 | - | 1,804 |
| Balance - June 30, 2015 | 3,305 | 10,560 | 10,445 | 216 | 24,527 |
| Net book value as at June 30, 2015 | 2,464 | 3,158 | 10,585 | 441 | 16,647 |

* The Company leases equipment and vehicles under finance lease contracts. As of June 30, 2016 the net book values of leased equipment and vehicles were \$nil and \$nil (2015- \$164 and \$59) respectively, as all lease contract have reached their due date. During the nine month period ended June 30, 2016, 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 – these options were taken and the equipment and vehicles now form part of the Company’s fixed assets.

** 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, 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 prices. 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 discounted 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.

6. Trade and other payables

| | June 30, 2016 | September 30, 2015 |
|--|------------------|-----------------------|
| | \$ | \$ |
| Accounts payable to suppliers Pimenton | 1,294 | 885 |
| Accounts payable Canada | 301 | 283 |
| Accounts payable Til Til | 12 | 11 |
| Staff holiday provision | 519 | 472 |
| Other sundry payables | 742 | 316 |
| Total Payables | 2,868 | 1,967 |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

7. Long-term debt

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

| Description | Interest rate | June 30, | September |
|---|----------------------|------------------|---------------------------|
| | | 2016 | 30, 2015 |
| | | Principal | Principal |
| | | \$ | \$ |
| Auromin and Chañar Blanco debenture (b) | 0.00% | 133 | 122 |
| Bice Bank mortgage (c) | 5.13% | 535 | 525 |
| Gold Loan debenture (d) | 10.00% | 40 | 57 |
| Other | 4% -5.2% | 11 | 142 |
| Sub total | | 719 | 845 |
| Less: Current portion | | (76) | (209) |
| Long-term debt | | 643 | 637 |

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

| | June 30, 2016 | Sept 30, 2015 |
|------------------------|----------------------|----------------------|
| 2017 | 194 | 154 |
| 2018 | 126 | 159 |
| 2019 | 85 | 156 |
| 2020 | 81 | 93 |
| 2021 | 81 | 91 |
| 2022 - 2026 | 284 | 414 |
| | 851 | 1,067 |
| Less: Future accretion | (132) | (222) |
| | 719 | 845 |

- a) 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

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

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 and officer of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director and officer of the Company. As of June 30, 2016 \$133 remains in debt and \$65 in equity related to these convertible unsecured debentures.

- b) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 (\$721). 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 \$840. The mortgage is payable in Chilean pesos (19,600 UF) and has been translated into US dollars using the closing exchange rate at June, 2016.
- c) 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 15.77 ounces of gold.

8. 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, 2014 | 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 |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

| | | |
|------------------------------|--------------------|---------------|
| Private placement (iii) | 15,743,000 | 321 |
| Private placement (iv) | 48,645,220 | 2,169 |
| Balance – September 30, 2015 | <u>174,977,010</u> | <u>83,653</u> |
| Private placement (v) | 92,875,400 | 3,466 |
| Balance – June 30, 2016 | <u>267,852,410</u> | <u>87,119</u> |

- i) On December 23, 2013 each of Chañar Blanco and Auromin which are owned by Mario Hernandez and David Thomson respectively, both officers and directors of the Company, 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) 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.

- iv) Pursuant to the Debt Settlement, the Company has extinguished, during the first quarter of 2015, outstanding indebtedness in the aggregate amount of US\$2,163, owed to these Directors and Officers, such indebtedness being made up of accrued but unpaid royalty payments, service fees owed to the Directors and Officers and cash advances made to the Company by the Directors and Officers 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.
- v) On November 6, 2015 the Company reported that it has agreed to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the “Related Parties”), both directors

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

and officers 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 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.

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.

Cerro Grande Mining Corporation 2015 Incentive Stock Option Plan

This Option Plan was approved in May of 2015 and is 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.

Granted March 2016 – 9,287,000 shares at CND\$ 0.02

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.

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

A summary of the Company's Plan at December 31, 2015 is presented as follow:

| | Number of options | average exercise price CA\$ |
|------------------------------|------------------------------|--|
| Balance – September 30, 2015 | <u>3,364,381</u> | 0.27 |
| Balance – December 31, 2015 | <u>3,364,381</u> | 0.27 |
| Expired | (730,428) | 0.79 |
| Issued New Incentive Plan | 9,287,000 | 0.02 |
| Balance – June 30, 2016 | <u>11,920,953</u> | 0.04 |

Options outstanding as at June 30, 2016 are as follows:

| Exercise price CA\$ | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price CA\$ | Options exercisable |
|--------------------------------|------------------------------|--|---|--------------------------------|
| 0.00 - 0.09 | 9,287,000 | 2.50 | 0.02 | 9,287,000 |
| 0.10 - 0.13 | 1,950,000 | 2.00 | 0.10 | 1,950,000 |
| 0.14 - 0.16 | 233,953 | 2.00 | 0.15 | 233,953 |
| 0.17 - 0.49 | 450,000 | 1.42 | 0.18 | 400,000 |
| | <u>11,920,953</u> | <u>2.47</u> | <u>0.26</u> | <u>11,870,953</u> |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

9. 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 |
| Balance – June 30, 2016 | 15,743,000 | 379 |
| Number of warrants outstanding | Weighted average remaining warrant life (years) | Weighted average exercise price |
| | years | CA\$ |
| <u>15,743,000</u> | <u>2.02</u> | <u>0.07</u> |

10. 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;

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at June 30, 2016 and 2015, segmented information is presented as follows:

| | Nine months ended June 30, 2016 | | |
|---|--|------------------|----------------|
| | Pimenton | Corporate | Total |
| | \$ | \$ | \$ |
| Sales revenue | 5,825 | - | 5,825 |
| Operating costs | 6,456 | - | 6,456 |
| Amortization and depreciation | 1,685 | 16 | 1,701 |
| Reclamation and remediation | 16 | - | 16 |
| General, sales and administrative | 980 | 718 | 1,698 |
| Foreign exchange | 62 | (47) | 15 |
| Interest | 115 | 57 | 172 |
| Other gains and losses (net) | (168) | (85) | (253) |
| Income tax recovery | - | - | - |
| Total other income expenses (income) | 2,690 | 659 | 3,349 |
| Loss and other comprehensive loss for the year | (3,321) | (659) | (3,980) |
| Mining property, plant and equipment | 6,119 | 1,512 | 7,631 |
| Total assets | 7,086 | 2,257 | 9,343 |

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
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(Expressed in thousands of U.S. dollars, except share and per share amounts)

| | Nine months ended June 30, 2015 | | |
|---|--|------------------|----------------|
| | Pimenton | Corporate | Total |
| | \$ | \$ | \$ |
| Sales revenue | 6,715 | - | 6,715 |
| Operating costs | 6,706 | - | 6,706 |
| Amortization and depreciation | 1,789 | 34 | 1,823 |
| Reclamation and remediation | 20 | - | 20 |
| General, sales and administrative | 1,614 | 792 | 2,406 |
| Foreign exchange | (62) | (1) | (63) |
| Interest | 127 | 29 | 156 |
| Other gains and losses (net) | 3 | (74) | (71) |
| Income tax recovery | - | - | - |
| Total other income expenses (income) | 3,492 | 780 | 4,272 |
| Loss and other comprehensive loss for the year | (3,484) | (780) | (4,264) |
| Mining property, plant and equipment | 14,938 | 1,709 | 16,647 |
| Total assets | 16,749 | 2,338 | 19,087 |

11. Related party transactions

The Company has a receivable from the CEO (who is also a Director) of \$457 (2015 - \$482) consisting of \$139 (2015 - \$164) of cash advances, net of salary and travel expenses, and two loans totaling \$318 (2015 - \$318). One of the loans is collateralized at June 30, 2016 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 \$64 to the Company for accounting and administration services rendered during the nine month period ended June 30, 2016 (2015 - \$34). Trade and other payables include \$68, which includes the above mentioned \$64, in relation to such services at June 30, 2016 (2015 - \$34).

A law firm, of which a director of the Company is a partner, billed the Company \$67 during the nine month period ended June 30, 2016 (2015 - \$105) for legal services. Trade and other payables include \$158, which include the above mentioned \$67, at June 30, 2016 (2015 - \$146). During the present quarter the director presented his resignation.

Due to related parties include \$415 accumulated to June 30, 2016 (2015 - \$195) for royalties due to Mario Hernández, who is also a Director and Officer of the Company, and the owner of a net smelter royalty on the

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Nine Months Ended June 30, 2016

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

Pimenton gold mine. Due to related parties also include cash advances for \$2,017 and salaries due of \$193 at June 30, 2016 (2015 - \$459).

Due to related parties include \$415 at June 30, 2016 (2015 - \$195) for royalties due to David Thomson, who is also a Director and Officer of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Due to related parties also include cash advances for \$1,930 and salaries due of \$525 at June 30, 2016 (2015 - \$1,511).

At the end of the month of July 2013, Pimenton, a subsidiary of the Company entered into a loan agreement of \$3,000, 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 and Officer of the Company and Compañía Minera Auromin Ltda. a Company owned by David Thomson, who is also a Director and Officer of the Company. The loan which will be paid at the end of a three year term bears a 5% interest rate – interest payable outstanding at June 30, 2016 \$262. The loan is secured by certain fixed assets and mining rights. As at June 30, 2016 the amount due is \$3,000 and a total of \$262 (2015 - \$56) of interest is payable to these companies. Negotiations are underway to extend this loan.

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 June 30, 2016 were \$114 (2015 - \$95) and are included in due to related parties.

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)

Rockwood, ON, Canada

Principal, William Hill Mining Consultants, Ltd.

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 Nomination
Committee

Corporate Information

Website: www.cegmining.com

Canadian Securities Exchange

Stock Symbol: CEG

OTCQB International

Stock Symbol: CEGMF

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Toronto Office

1 King Street West , Suite 4009

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Santiago Office:

Av. Santa María 2224

Providencia, Santiago, Chile

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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