

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**  
**(Expressed in thousands of United States dollars, except per share amounts)**

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation and its consolidated subsidiaries (“CEG” or the “Company”) for the nine months ended June 30, 2016 together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of August 29, 2016. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2015, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company’s condensed interim consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS. All dollar amounts are expressed in thousands of United States dollars, except as otherwise indicated.

**Contents of the MD&A**

1. Forward Looking Statements
2. Overview
3. Highlights
4. Summary Financial Results
5. Operations at the Pimenton Mine
6. Exploration and Development Projects
7. Investing
8. Financing
9. Liquidity and Capital Resources
10. Off-Balance Sheet Arrangements
11. Related Party Transactions
12. Critical Accounting Estimates
13. Securities Outstanding
14. Controls

**1. FORWARD LOOKING STATEMENTS**

This management’s discussion and analysis contains or refers to forward-looking statements. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “may”, “could”, “potential”, “should” “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Such forward-looking information includes, without limitation, information regarding the Company’s expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the

Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, development and operational plans and objectives (including delineating additional mineral resources), expectations regarding cash flows, revenue and expenses, expectations regarding the timing for the calculation of mineral reserves, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital, the expected increase in concentration of gold in its Knelson concentrate resulting from the new gold table and gold furnace and the Company's expectations regarding its dividend policy.

The forward-looking statements in this management's discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking statements contained in this management discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to increase commercial mining operations at Pimenton, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labour or supplies; climatic conditions; inability to delineate additional mineral resources and other factors including, but not limited to, those listed under "Operations at the Pimenton Mine, Risks".

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this management's discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining

experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management's discussion and analysis are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

### **Non-IFRS financial measures**

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

## **2. OVERVIEW**

The Company is an exploration, development and mining corporation focused in Chile. The Company's primary asset is an operating gold and copper mine in Chile (the "Pimenton Mine"). The Pimenton mine is a narrow vein high-grade gold and copper mine located in the high mountain range of Chile and encompasses 3,121 hectares (7,708 acres).

The Company's other major projects are a porphyry copper deposit (the "Pimenton Porphyry") and other projects in various stages of exploration and development in Chile which include "Tordillo", and two limestone deposits "Catedral" and "Cal Norte".

## **3. HIGHLIGHTS**

### **Operational Highlights**

- Gold produced by the Pimentón Mine for the nine month period ended June 30, 2016 was 4,246 oz compared to 5,087 oz produced in the same period ended June 30, 2015.
- Pimenton's cash costs for the nine months ended June 30, 2016 was \$1,158 per ounce of gold produced net of by-product credits, compared to \$1,248 per oz in the same period for 2015.
- Pimenton's production costs, which include depreciation and amortization, for the nine months ended June 30, 2016 was \$1,555 per ounce of gold produced net of by-product credit, compared to \$ 1,148 per oz in the same period for 2015.

- The average gold recovery for the nine month period ended June 30, 2016 was 91.90% compared to 92.62 % in the same period ended June 30, 2015.
- The Company expects the mine to increase milling rates to 140 tons per day depending on the rate of conversion of its known resources to reserves.
- Currently the plant has been permitted to operate at an average of 166 tons per day. During the present quarter the plant has operated at an average of 105 tons per day. The Company has prepared but not yet submitted permits to take the mine up to 500 tons per day.

### **Financial Highlights**

- Loss before income taxes for the nine month period ended June 30, 2016 was \$3,980 compared to a loss of \$ 4,264 in the same period in 2016.
- Average price per ounce of gold for the nine month period ended June 30, 2016 was \$1,145 (2015 - \$ 1,185). Average price per ounce during the three months ended June 30, 2016 was \$1,209 (2015-1,155)
- Net loss after income taxes for the nine month period ended June 30, 2016 was \$3,980 compared to \$ 4,264 in the same period in 2016.
- Basic loss per share for the nine month period ended June 30, 2016 was a loss of 0.01 cents per share (2015 – loss of 0.02).
- At June 30 2016, the Company had cash and cash equivalents of \$37 compared to \$62 at June 30, 2015.
- Cash flow from operations for the nine month period ended June 30, 2016 was negative \$1,541 (2015 – negative \$1,433).

### **Other Highlights**

- Due to a snow storm at the beginning of the month of June 2016, during which approximately 4.50 meters of snow were accumulated at the mine site, production was interrupted and all the miners had to be evacuated. This interruption has caused severe financial problems as with no production no cash was available to pay suppliers and the worker's wages at month end. As no cash was available to clear the road and set up operations, the mine and plant has been closed down until external financing is obtained to cover our debts with suppliers and workers plus working capital to start up operations.
- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, Tordillo exploration and the Catedral/Rino and Cal Norte limestone deposits are not reflected in the Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.
- On November 6, 2015 the Company reported that it had agreed to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the "Related Parties"), both Directors 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 improve the financial position of the Company given the serious financial difficulties it was and 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 CND\$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. On a fully-diluted basis, the Related Parties now hold approximately 73.15% of the Common Shares.

#### 4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated loss for the three and nine month period ended June 30, 2016 and 2015.

	Three months ended		Nine months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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>
<b>Expenses</b>				
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>
<b>Loss and comprehensive loss before income taxes</b>	<b>(1,629)</b>	<b>(1,426)</b>	<b>(3,980)</b>	<b>(4,264)</b>
Income tax (expense)/recovery	-	-	-	-
<b>Loss and comprehensive loss for the period</b>	<b>(1,629)</b>	<b>(1,426)</b>	<b>(3,980)</b>	<b>(4,264)</b>
<b>Basic and diluted loss per share</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>

- 1) Consolidated statements for the three month period ended June 30, 2016 and 2015:
  - a) Revenue for the three month period ended June 30, 2016, decreased over the same period in 2015 due to a decrease in gold ounces sold and to no production during the month of June 2016. Sales decreased to 1,027 ounces compared to 1,392 ounces in the three month period ended June 30, 2015.
  - b) Operating expenses for the three months ended June 30, 2016 were \$2,522 compared to \$3,203 for the same period in 2015 which shows a continued effort by Management to reduce costs.
  - c) General sales and administrative costs for the three months ended June 30, 2016 were \$544 compared to \$557 for the same period in 2015.

- 2) Consolidated statements for the nine month period ended June 30, 2016 and 2015:
  - a) Revenue for the nine month period ended June 30, 2016 decreased over the same period in 2015 due to a decrease in gold ounces sold and to a month less of production. Sales decreased to 4,433 ounces compared to 6,866 ounces in the same period ended June 30, 2015.
  - b) Operating expenses for the nine months ended June, 2016 were \$5,546 compared to \$6,508 for the same period in 2015 which again shows a continued effort by Management to reduce costs.
  - c) General sales and administrative costs for the nine months ended June 30, 2016 were \$1,190 compared to \$1,172 for the same period in 2015.

- 3) Consolidated Cash flow for the nine month period ended June 30, 2016:

Cash generated by the Pimenton Mine decreased due to operational problems and the drop in the price and grade of gold added to the fact that during the month of June 2016 the plant was closed due to a snow storm. The operational problems relate to delays in reaching known and expected ore shoots below the existing levels. Capital expenditure at the Pimenton Mine was \$604 for the nine month period ended June, 2016 (2015 - \$1,332)

- 4) Consolidated Statement of Financial Position as at June 30, 2016:

As at June 30, 2016 the Company had a negative working capital of \$7,746 (2015—negative \$3,484). The increase of \$4,262 is mainly explained by the reclassification from long term debt of \$3,000 payable to related parties and new advances for working capital by the same individuals. As noted before, negotiations are taking place to extend this indebtedness.

The following information is provided for each of the eight most recent quarterly periods ending on the dates specified. The figures are extracted from underlying unaudited financial statements.

	<b>June 30, 2016</b>	<b>Mar 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Sept 30, 2015</b>
Sales	1,472	1,701	2,646	2,016
Net income (loss)	(1,629)	(1,314)	(1,040)	(8,706) *
Per share	(0.001)	(0.001)	(0.003)	(0.005)
Per share diluted	(0.001)	(0.001)	(0.003)	(0.005)

	<b>June 30, 2015</b>	<b>Mar 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Sept 30, 2014</b>
Sales	2,084	2,381	2,464	3,067
Net income (loss)	(1,426)	(1,372)	(1,466)	(1,355)
Per share	(0.001)	(0.001)	(0.001)	(0.012)
Per share diluted	(0.001)	(0.001)	(0.001)	(0.012)
Per share diluted	(0.001)	(0.001)	(0.001)	(0.012)

\*Of which \$6,737 was due to an impairment charge.

## 5. OPERATIONS AT THE PIMENTON MINE

### Safety, Health and Environment

The following safety statistics have been presented for the three and nine month period ended June 30, 2016 along with 2015 comparables:

<b>Pimenton Mine Safety Statistics</b>				
	<b>For the 3 months ended June 30,</b>		<b>For the 9 months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Lost time injury	1	1	9	4
Medical aid	0	3	10	6
<b>Total</b>	<b>1</b>	<b>4</b>	<b>19</b>	<b>10</b>
Total injury frequency rate	9	6	13	16
Total disabling injury frequency rate	207	248	465	553
Lost days for medical aid	18	48	100	161
Man - Hours worked	114,504	122,922	348,600	354,076

There were no adverse environmental issues during the periods ended June, 2016 and 2015.

## Gold Production

Gold produced in the third quarter of fiscal year 2016 was 999 ounces, a 53.27% decrease compared to the 2,138 ounces produced in Q1 of 2016 and a 10.80% decrease compared to 1,120 ounces produced in Q2 of 2016. The above taking into account that there was no production during the month of June 2016.

The following table shows the tonnes milled, average mill grade, gold plant recovery and gold produced during each of the last eight quarters to June 30, 2016:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q4-2015	7,639	6.83	92.40	1,546.10
Q1-2016	9,254	7.73	92.73	2,137.99
Q2-2016	7,715	4.96	90.90	1,119.60
Q3-2016	5,527	6.05	91.30	998.74
	30,135	6.48	91.92	5,802.43

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q4-2014	9,733	7.68	94.17	2,256.80
Q1-2015	9,601	6.36	92.70	1,822.04
Q2-2015	10,212	5.60	91.51	1,677.26
Q3-2015	8,764	5.99	93.75	1,587.97
	38,310	6.41	93.00	7,344.07

While the price and grade of gold continues to remain low, efforts are being focused on reaching higher grade veins. Drilling, drifting and a raise is also under way on the new Monica vein that has recently been discovered 100m to the west and parallel to the main Lucho vein.



## Operating Costs

The cash cost per ounce of gold produced during the quarters from July 2015 to June 30, 2016 are set out in the table below.

### *Reconciliation of Non-IFRS Measures Cost of Production:*

	<u>Q4-2015</u>	<u>Q1-2016</u>	<u>Q2-2016</u>	<u>Q3-2016</u>	<u>Total</u>
Gold ounces produced	1,546	2,138	1,120	999	5,802
Direct mine expenses	2,030	2,033	1,793	1,796	7,652
By product credits (deduct)	(273)	(279)	(223)	(203)	(978)
<b>Cash Costs</b>	<b>1,757</b>	<b>1,754</b>	<b>1,570</b>	<b>1,593</b>	<b>6,674</b>
<b>Cash cost/Oz</b>	<b>1,136.48</b>	<b>820.40</b>	<b>1,402.64</b>	<b>1,594.81</b>	<b>1,150.26</b>
Depreciation	361	365	360	358	1,444
Amortization	294	296	160	146	896
<b>Production costs</b>	<b>2,412</b>	<b>2,415</b>	<b>2,091</b>	<b>2,096</b>	<b>9,014</b>
<b>Production cost/Oz</b>	<b>1,560.16</b>	<b>1,129.57</b>	<b>1,867.18</b>	<b>2,099.04</b>	<b>1,553.50</b>
Net Smelter return	112	140	92	84	429
<b>Total costs</b>	<b>2,524</b>	<b>2,555</b>	<b>2,183</b>	<b>2,181</b>	<b>9,443</b>
<b>Total cost/Oz</b>	<b>1,632.60</b>	<b>1,195.05</b>	<b>1,949.62</b>	<b>2,183.63</b>	<b>1,627.39</b>

## Risks

Risks relating to the Pimenton Mine associated with mining operations (e.g. production, commodity prices, etc.) are set out below:

- Reserve replacement: As is normal with exploration/development in narrow veins, activities at Pimenton may not identify sufficient resources of an adequate grade to replace ore which has been depleted by mining activities.
- With the exception of the \$100 Gold Loan, the Company does not use financial instruments to mitigate the risks of either a change in the price of gold or currency fluctuations.
- All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and

penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

- The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.
- The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labour unrest could adversely affect the Company's exploration efforts and production plans.
- The Company's mine is located in an area that can experience severe winter weather conditions that could adversely affect mining operations. As noted above, a severe snowstorm shut down the mine in early June, a condition continuing to date.

## **Opportunities**

- Surplus capacity: The plant at the Pimenton Mine currently has a daily average milling capacity of over 150 tons per day. Any increased production arising from increased mining throughput could therefore be processed with little or no capital investment and incur only consumable costs to treat any increase throughput.
- Exploration success: Depending on future exploration success, Pimenton may be able to increase its production levels.

## **Outlook**

The Company achieved annualized production of 5,802 ounces of gold for the twelve months ended June 30, 2016. The Company achieved production of 7,344 ounces of gold for the same period in 2015.

The Company produces its own gold doré at the mine site allowing it to ship the gold doré bars directly to a gold refinery in Europe. 90% of the value of this gold shipment is paid during the week following delivery in Switzerland with the balance of payment received a month from the day of receipt of the initial payment. For the period ended June 30, 2016, 61% of the Company's sales have been to a gold refinery in Europe and 39% to the ENAMI smelter in Ventanas, Chile. ENAMI is owned by the State of Chile through its ownership of CODELCO. ENAMI pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment, subject to arbitration.

## **Changes to the Dore Processing Circuit**

The Company has improved several aspects of the gravity circuit from November 2014 to February 2015. The two main areas are the addition of a Falcon gravity concentrator and the increased security measures in the actual dore process.

The Falcon has had a significant learning process due to the wide variety of g forces that can be used. We have reached an average of 60% recovery of gold and we believe we can reach in excess of 75% with minor modifications to the ball mill screen discharge and general fine tuning of the system. Security with the Falcon is significantly better since it is a locked automatic system without any need of an operator. Currently, due to feed material size limitations of less than 2mm, we have had to return to a Knelson concentrator temporarily while we construct a new two tier ball mill screen system. The feed size of plus 4mm damaged the Falcon sealing mechanism which has since been repaired. The new screen system is now in place. The Knelson concentrator is recovering an average of 50% of the gold that passes the mill.

We have also made the entire dore process considerably more stringent with multiple weight checks with counter signed registries to make it more difficult to remove gold during the process. We have installed a Chinese induction furnace to upgrade our dore quality to higher than 80% Au.

The samples taken from the automatic sampler on the main belt in the plant now go to a locked cabinet where they are automatically split into two assays: one for an X ref assay Check, and the other to our conventional in house lab. A recent Audit by the PDI (Equivalent of the FBI in the USA), found that the increased measures were adequate in preventing possible future theft. These also include a vault room with video cameras.

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

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

## **6. EXPLORATION AND DEVELOPMENT PROJECTS**

### **Pimenton - porphyry copper**

The Company is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. A prior diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the porphyry copper deposit located within the Pimenton area provided the Company with an exploration report which, among other

things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project. Please see Report by Rio Tinto on the Company's web site, [www.cegmining.com](http://www.cegmining.com).

The Company has been continuing exploration and drilling on the Pimenton porphyry copper deposits during the 2015/2016 exploration seasons.

### **Tordillo**

The Company holds mining claims on Tordillo which is located 11.5 kilometers south-southwest of Pimenton and covers an area of 6,632 hectares (16,381 acres). Tordillo is in the early exploration stage and to date the Company has identified several gold/copper vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity and was acquired by the Company in 2006.

Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. During the nine month period ended June 30, 2016, the Company expensed a total of \$nil (2015 - \$nil) relating to mining property costs and exploration costs on Tordillo.

### **Bandurrias**

During the nine month period ended June 30, 2016 acquisition costs of \$nil were expensed (2015 - \$nil).

### **Limestone deposits**

The Company holds interest in two limestone deposits. Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry. While the changing economic situation will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

As at June, 2016, the Company had contributed a cumulative total of \$4,080 (2015 - \$4,080) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton

per day lime kiln on the Catedral property. During prior years the Company had written off \$4,080 in mining properties and exploration costs relating to Catedral/Rino.

As at June 30, 2016, the Company had contributed a total of \$1,556 (2015 - \$1,556) to Cal Norte, to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient exploration expenditures to maintain the Cal Norte property in good standing, the Company expensed this \$1,566 in prior years as it focused its efforts on the Pimenton gold mine.

## **7. INVESTING**

During the nine month period ended June 30, 2016 the Company invested \$54 (2015 - \$162) in mining plant, equipment, and mining properties

## **8. FINANCING**

The Company finances its operations using either funds on hand, funds generated by its operations, cash advances by related parties or equity sold to related parties. Due to continued negative cash flow both Auromin (Company owned by David Thomson) and Chañar Blanco (Company owned by Mario Hernandez), both Directors and Officers of the Company have made cash advances to cover the shortfalls. On November 6, 2015 the cash advances to September 30, 2015 were converted into shares in the company as payment of this debt as shown below.

Common stock issued during the first quarter was as follows:

Debt settlement of US \$3,466 owed to Messrs. David Thomson and Mario Hernandez, both Directors and Officers of the Company, for which a total of 92,875,400 Common shares were issued.

No common stock was issued during the third quarter.

### **Other Financing**

The Company's secured mortgage bears an interest rate of 5.13% and is secured by the building and land the Company uses for its office space.

During the month of November 2014, the Company signed a three year "Gold Loan" for US \$100 bearing an annual interest rate of 10%. The principal is to be repaid semi-annually at a gold price of \$1,057 per ounce or higher if the average price during the six month period prior to any repayment date exceeds the agreed price for the equivalent of 15.77 ounces of gold payment. During the nine month period ended June, 2016 repayments of principal of \$ 34 were made.

## 9. LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, the Company shows a negative working capital of \$7,746 (2015-negative \$3,484).

During the period November 1, 2014 to September 30, 2015 Mr. David Thomson and Mr. Mario Hernandez, both Directors and Officers of the Company, made cash advances totaling \$3,466 which, in November 2015, were repaid by issuing an aggregate of 92,875,400 Common shares as mentioned previously in this report.

Without these loans and cash advances, the Company would not have been able to continue its operations. During the nine month period ended June 30, 2016 the Company has required additional cash advances of \$946 from these two Directors and Offices of the Company.

As of June 30, 2016 the Company had potential liabilities for reclamation and remediation costs, if and when the Pimenton Mine is permanently closed, at an estimated present value cost of \$1,483 (2015 - \$1,822). The Company calculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$ 1,582 is expected to be incurred in 5 years. These estimated cash flows are discounted using a long term 5 year Chilean interest rate of 1.56 % as at June, 2016.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	2,868	2,868	-	-
Amount due to related parties	5,965	5,965	-	-
Long-term debt and finance leases	719	76	333	310
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>12,302</b>	<b>8,909</b>	<b>333</b>	<b>2,810</b>

Note (1). Two Officers and Directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to \$1,250 each or \$2,500 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totaling \$500, which was paid during 1997.

Note (2). As compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay \$250 within 50 days of first cash flow from the property.

The Company must make an additional capital contribution of \$239 in Cal Norte to earn its 60% equity interest.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on the common shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

## **10. OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

## **11. RELATED PARTY TRANSACTIONS**

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). As noted previously, this director has tendered 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 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.

## **12. CRITICAL ACCOUNTING ESTIMATES**

A summary of the critical accounting estimates are set out below:

### *Mining properties, plant and equipment*

Mining properties, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost included expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized separately, as appropriate, only when future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. All other repairs and maintenance costs are expensed during the period in which they are incurred.

Expenditures for the continued development of the mining property are capitalized as incurred. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

The major categories of property, plant and equipment are depreciated on a straight-line basis or units of production (UOP) as follow:

- Mining properties and development - UOP
- Building 5 years
- Plant and Equipment 1- 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. Changes to the estimated residual values or useful lives are accounted for prospectively.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and value in use. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such considerations.

### *Exploration and development costs*

Acquisition and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine



development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment.

#### *Revenue recognition*

Revenue from the sale of concentrates and gold doré are recognized following the transfer of title and risk of ownership and the determination of value in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of customers. Generally, the final settlement price is computed with reference to quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to customers and revenue from these by-products are recognized on the same criteria as those used for gold revenues.

Revenue from services includes management, drilling, machinery and equipment rent and is recognized as the services are rendered.

#### *Stock-based compensation*

The Company has a share option plan, as discussed in note 8 (c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the relevant Stock Exchange on the business day preceding the grant date.

#### *Reclamation and remediation*

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there are a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

### **13. SECURITIES OUTSTANDING**

As of August 29, 2016 the Company has issued one class of common shares of which total of 267,852,410 are outstanding.

At August 29, 2016, the Company has 17,345,114 common share purchase warrants outstanding which are exercisable into one common share at an exercise price of CA\$0.07.

Options granted under the stock option plan of the Company (each, an “Option”) as at August 29, 2016 totaled 2,633,953 of which 2,583,953 are exercisable into one common share at exercise prices of CA\$0.07 to CA \$0.18 through October 2019.

Options granted under the new stock option plan of the Company (each, an “Option”) as at August 29, 2016 totaled 9,287,000 of which 9,287,000 are exercisable into one common share at exercise prices of CA\$0.02 through March 2021.

“CEG” is the stock trading symbol for the Company on the CSE and CEGMF for the OTCQB International Symbol on the OTC market.

### **14. CONTROLS**

#### **National Instrument 52-109**

##### *Evaluation of disclosure controls and procedures*

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

Management has evaluated the effectiveness of the Company’s Disclosure Controls and Procedures as at June 30, 2016 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company’s disclosures are compliant with securities regulations.

### *Internal controls over financial reporting*

Management of the Company is responsible for evaluating the design of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS as of June 30, 2016, have not identified any changes to the Company's internal control over financial reporting in the latest reporting period that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.