

CERRO GRANDE MINING CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015

(expressed in thousands of U.S. dollars)

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 statement of financial position as at September 30, 2016, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' deficiency, and cash flows for the year then ended, and 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 audits. We conducted our audits 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 the auditors' 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, the auditor considers 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Cerro Grande Mining Corporation as at September 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Cerro Grande Mining Corporation's ability to continue as a going concern.

Other Matters

The consolidated financial statements of Cerro Grande Mining Corporation for the year ended September 30, 2015, were audited by another auditor, who presented an unmodified opinion on those statements on March 4, 2016.

“DAVIDSON & COMPANY LLP”

Chartered Professional Accountants

Vancouver, Canada

January 27, 2017

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Financial Position

As at September 30, 2016, and 2015

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

	Notes	September 30, 2016	September 30, 2015
ASSETS			
Current assets:			
Cash		\$ 118	\$ 252
Receivables and advances	4	379	509
Recoverable taxes		13	142
Inventory	5	707	787
		1,217	1,690
Non-current assets			
Due from related parties	16	852	402
Mining properties, plant and equipment	6	7,385	8,728
Total assets		\$ 9,454	\$ 10,820
LIABILITIES			
Current liabilities			
Trade and other payables	7	\$ 4,241	\$ 1,967
Due to related parties	16	7,072	7,714
Current portion of long-term debt	8	156	209
		11,469	9,890
Non-current liabilities			
Long term debt	8	740	637
Reclamation and remediation	11	1,806	1,471
Total liabilities		14,015	11,998
SHAREHOLDERS' DEFICIENCY			
Share capital	9	87,119	83,653
Warrants	10	379	379
Contributed surplus		8,129	8,042
Convertible unsecured debenture		65	65
Deficit		(100,253)	(93,317)
		(4,561)	(1,178)
Total liabilities and shareholders' deficiency		\$ 9,454	\$ 10,820

Nature of operations and going concern assumption (Note 1)

Subsequent events (Note 20)

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, 2016 and 2015

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

	Note	2016	2015
Revenue			
Sales		\$ 5,887	\$ 8,995
		5,887	8,995
Expenses			
Operating costs	12	10,616	12,088
Reclamation and remediation – accretion	11	21	27
General, sales and administrative	12	1,871	2,765
Foreign exchange		64	(154)
Share-based compensation	9	87	-
Interest		211	283
Other (income) and expenses (net)		(47)	(43)
Impairment charges	6	-	6,737
Exploration costs		-	21
		(12,823)	(21,724)
Loss and comprehensive loss before income taxes			
		(6,936)	(12,729)
Income tax expense	14	-	(176)
Loss and comprehensive loss for the year			
		(6,936)	(12,905)
Basic and diluted loss per share			
		(0.03)	(0.08)
Weighted average number of shares outstanding			
		256,687,061	170,743,264

- The accompanying notes are an integral part of these consolidated financial statements –

CERRO GRANDE MINING CORPORATION

Consolidated Statements of changes in Shareholder's Equity (Deficiency)

For the years ended September 30, 2016 and 2015

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

	Share Capital		Warrants (Note 10)	Contributed surplus	Convertible unsecured debentures	Deficit	Total shareholder's equity (deficiency)
	Number of shares	Amount					
Balance, September 30, 2014	110,588,790	\$ 81,163	\$ 211	\$ 7,779	\$ 117	\$ (80,412)	\$ 8,858
Convertible unsecured debenture	-	-	-	52	(52)	-	-
Warrant expire	-	-	(211)	211	-	-	-
Private placement	15,743,000	321	379	-	-	-	700
Debt settlement	48,645,220	2,169	-	-	-	-	2,169
Net loss	-	-	-	-	-	(12,905)	(12,905)
Balance, September 30, 2015	174,977,010	83,653	379	8,042	65	(93,317)	(1,178)
Debt settlement	92,875,400	3,466	-	-	-	-	3,466
Share-based compensation	-	-	-	87	-	-	87
Net loss	-	-	-	-	-	(6,936)	(6,936)
Balance, September 30, 2016	267,852,410	\$ 87,119	\$ 379	\$ 8,129	\$ 65	\$ (100,253)	\$ (4,561)

- The accompanying notes are an integral part of these consolidated financial statements -

CERRO GRANDE MINING CORPORATION

Consolidated Statements of Cash Flows

For the years ended September 30, 2016 and 2015

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

	Notes	2016	2015
Operating Activities			
Net loss for the year		\$ (6,936)	\$ (12,905)
Items not involving cash:			
Amortization and depreciation	6	2,423	2,464
Stock-based compensation	9	87	-
Income tax expense	14	-	176
Impairment charges	6	-	6,737
Accretion and interest accrued on long term debt		32	54
Reclamation and remediation - accretion		21	27
Other gains and losses		-	(43)
Foreign exchange		93	(154)
		(4,280)	(3,644)
Changes in non-cash working capital:	18	2,613	810
		(1,667)	(2,834)
Investing Activities			
Additions to fixed assets, plant and equipment		(766)	(1,236)
		(766)	(1,236)
Financing Activities			
Proceeds from private placements		-	700
Due to related parties		2,374	4,269
Proceeds from gold loan (net of expenses)		186	67
Repayment of long-term debt		(117)	(17)
Repayment of debenture		-	(400)
Repayment of finance leases		(144)	(384)
		2,299	4,235
Increase (decrease) in cash		(134)	165
Cash, beginning of the year		252	87
Cash, end of the year		\$ 118	\$ 252

Supplemental cash flow information (Note 18)

- The accompanying notes are an integral part of these consolidated financial statements -

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

1. Nature of Operations 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 operations 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, 2016, the Company has a working capital deficit of \$ 10,252 (2015 - \$8,200).

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 \$ 6,936 (2015 – net loss of \$12,905) and an operating cash outflow of \$ 1,667 for the year ended September 30, 2016 (2015 – operating cash outflow of \$2,834) and has been reliant on financing from related parties to finance its operations and working capital. Subsequent to September 30, 2016, the Company settled \$2,771 owed to related parties and reflected in current liabilities through the issuance of a convertible debenture for the same amount (note 20). While the Company continues to seek to reduce operating costs, the certainty of future profitability 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 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 consolidated financial statements on January 27, 2017.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

2. Basis of Presentation – (Continued)

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.

c) Use of estimates and judgements

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, depletion, 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, depletion, 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:

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

2. Basis of Presentation – (Continued)

a) Mineral Reserves

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

Mining property and development costs 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

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. As at September 30, 2016 and 2016 and 2015, the Company does not hold any cash equivalents.

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 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. Cash is classified as fair value through profit or loss.
- (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 receivables and advances, recoverable taxes, and due 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

3. Summary of Significant Accounting Policies – (Continued)

d) Financial instruments – (Continued)

- (iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, due 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.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

3. Summary of Significant Accounting Policies – (Continued)

f) Mining properties, plant and equipment – (Continued)

The major categories of mining properties, plant and equipment are depreciated on a straight-line basis or UOP as follows:

- Mining property 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.

g) Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

h) 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

3. Summary of Significant Accounting Policies – (Continued)

i) 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 loss and other comprehensive loss 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.

j) 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

k) Income taxes

Income tax is comprised of current and deferred tax. Income tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in other comprehensive loss or directly in equity, in which case the income tax is also recognized directly in other comprehensive loss 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

3. Summary of Significant Accounting Policies – (Continued)

l) Stock-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

m) 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.

n) 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 loss and other comprehensive loss 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

3. Summary of Significant Accounting Policies – (Continued)

o) Changes in accounting standards and recent accounting pronouncements

Effective October 1, 2015, the following standards were adopted but did not have a material impact on the financial statements.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9.

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.

4. Receivables and Advances

	September 30,		September 30,	
	2016		2015	
Trade receivables	\$	2	\$	216
Prepaid expenses and advances		377		293
Total receivables and advances	\$	379	\$	509

5. Inventory

	September 30,		September 30,	
	2016		2015	
Ore and concentrate stockpiles	\$	328	\$	404
Materials and supplies		379		383
Total inventory	\$	707	\$	787

As at September 30, 2016, inventory was written-down to net realizable value. The write-down of inventory of \$377, is included in operating costs on the statement of loss and comprehensive loss for the year ended September 30, 2016.

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6. Mining Properties, Plant and Equipment

	Building	Plant and Equipment	Mining Property Development	Others	Total
Cost					
Balance at September 30, 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 at September 30, 2015	\$ 5,769	\$ 13,855	\$ 20,370	\$ 658	\$ 40,652
Additions	-	54	712	-	766
Changes in reclamation and remediation liability (Note 11)	-	-	314	-	314
Balance at September 30, 2016	\$ 5,769	\$ 13,909	\$ 21,396	\$ 658	\$ 41,732
Accumulated depreciation					
Balance at September 30, 2014	\$ 3,305	\$ 9,465	\$ 9,737	\$ 216	\$ 22,723
Depreciation and amortization	20	1,481	944	19	2,464
Impairment*	-	-	6,737	-	6,737
Balance at September 30, 2015	\$ 3,325	\$ 10,946	\$ 17,418	\$ 235	\$ 31,924
Depreciation and amortization	240	1,186	977	20	2,423
Balance at September, 2016	\$ 3,565	\$ 12,132	\$ 18,395	\$ 255	\$ 34,347
Net Book Value					
Balance at September 30, 2015	\$ 2,444	\$ 2,909	\$ 2,952	\$ 423	\$ 8,728
Balance at September 30, 2016	\$ 2,204	\$ 1,777	\$ 3,001	\$ 403	\$ 7,385

*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 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 for that year relates to the Til Til project and represented a full write down of the mining properties.

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7. Trade and Other Payables

Details are as follows:

	September 30, 2016	September 30, 2015
Trade payable	\$ 1,430	\$ 1,179
Salaries and wages payable	2,317	472
Other payables and accrued liabilities	494	316
Total trade and other payables	\$ 4,241	\$ 1,967

8. Long Term Debt

A summary of long-term debt is as follows:

Description	Interest Rate	September 30, 2016	September 30, 2015
		Balance	Balance
Convertible unsecured debenture (a)	0.00%	\$ 136	\$ 122
Bice Bank mortgage (b)	5.13%	529	525
Gold Loan debentures (c & d)	8 - 10.00%	231	57
Other leaseings	4% -5.2%	-	142
		896	846
Less: current portion		(156)	(209)
Long term debt		\$ 740	\$ 637

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

	September 30, 2016
2017	196
2018	333
2019	143
2020	76
2021	62
2022 - 2026	305
	1,115
Less: Future accretion and interest	(219)
	896

Interest paid by the Company was \$36 for the year ended September 30, 2016 (2015 - \$225).

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8. Long Term Debt – (Continued)

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 reclassification of \$518 from long-term debt and \$362 from the equity component of convertible debentures to share capital. At September 30, 2016 the carrying value classified within long-term debt was \$136 (2015 - \$122) and within the equity component of convertible debentures was \$65 (2015 - \$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 a director and officer of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also a director and officer of the Company.

b) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) of 19,600 (\$780). The mortgage is payable in Chilean pesos and has been translated into US dollars using the closing exchange rate at September 30, 2016.

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 November 2026. The mortgage is secured by the Company's office property located in Santiago, Chile.

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 \$ 1,057 per ounce multiplied by 15.77 ounces of gold.

The balance of the Gold Loan at September 30, 2016 is \$43. The derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2016 is insignificant.

d) On August 22, 2016 the Company issued a second debenture for \$200 with a maturity date of August 22, 2019 related to a "Gold Loan" agreed to by the parties for an equivalent amount. The Company incurred transaction costs on this loan of \$14. The debenture bears a fixed annual interest rate of 8% on the outstanding principal amount and is payable on a quarterly basis on the 25th day of February, May, August and November of each year. The payment of the principal is semi-annually on Feb 25 and August 25 of each year plus the difference in the average gold price per ounce in excess of US\$ 1,260 per ounce multiplied by 26.455 ounces of gold.

The balance of the Gold Loan at September 30, 2016 is \$188. The derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2016 is insignificant.

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Notes to the Consolidated Financial Statements

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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

- i) 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").

Pursuant to the Placement, the Company has issued an aggregate of 15,743,000 units of securities of the Company (each, a "Unit") at CDN\$0.05 per Unit, with each Unit comprising one Common Share and one Common Share purchase warrant (each, a "Warrant"), with each Warrant exercisable for a period of 5 years to purchase one Common Share at CDN\$0.07.

- ii) During the year ended September 30, 2015, the Company has extinguished outstanding indebtedness in the aggregate amount of US\$2,169, by issuing an aggregate of 48,645,220 Common Shares (representing an issue price of CDN\$0.05 per share) pursuant to the Debt Settlement. The indebtedness was made up of accrued but unpaid royalty payments, service fees, cash advances, and interest. All dollar amounts have been converted at an exchange rate of CDN1.1245 per US\$1.00.
- iii) During the year ended September 30, 2016, the Company extinguished outstanding indebtedness in the aggregate amount of \$3,466, by issuing an aggregate of 92,875,400 Common Shares (representing an issue price of CDN\$0.05 per share) pursuant to the Debt Settlement. All dollar amounts have been converted at an exchange rate of CDN\$1.34 per US\$1.00

b) 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 aggregate number of shares which may be issued pursuant to stock options which remain outstanding shall not exceed 10% of the issued and outstanding shares. The Board of Directors determines the vesting period for each award granted under the plans at its discretion.

The maximum number of shares which may be issued pursuant to the share bonus plan cannot exceed 2% of the aggregate number of shares issued and outstanding shares.

CERRO GRANDE MINING CORPORATION

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

9. Share Capital – (Continued)

b) Share option plan – (Continued)

A continuity schedule of outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price CDN\$
Balance, September 30, 2014	5,664,952	0.32
Expired	(2,300,571)	0.37
Balance, September 30, 2015	3,364,381	0.27
Expired	(730,428)	0.79
Granted	9,287,000	0.02
Balance, September 30, 2016	11,920,953	0.04

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

Exercise Price CDN\$	Number of options	Weighted average remaining contractual life	Options exercisable
0.02	9,287,000	4.48	3,095,667
0.10	1,950,000	1.54	1,950,000
0.15	233,953	1.61	233,953
0.18	450,000	1.36	450,000
	11,920,953	3.77	5,729,620

The fair value of incentive stock options granted during the year ended September 30, 2016 were measured using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	0.56%
Expected dividend yield	0.00%
Share price	\$0.02
Expected stock price volatility	378%
Average expected option life	3 years
Weighted average fair value per option	\$0.02

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10. Warrants

A continuity of outstanding share purchase warrants is as follows:

	Number of outstanding	Equity	Weighted Average Exercise Price CDN\$
Balance, September 30, 2014	1,608,254	\$ 211	\$ 0.50
Expired	(1,608,254)	(211)	(0.50)
Issued	15,743,000	379	0.07
Balance, September 30, 2015, and 2016	15,743,000	\$ 379	\$ 0.07

The following table summarizes information about the warrants outstanding as at September 30, 2016:

Number of warrants outstanding and exercisable	Weighted Average Remaining Warrant Life (years)	Weighted Average Exercise Price CDN\$
15,743,000	3.07	\$ 0.07

11. Reclamation and Remediation

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

	September 30, 2016	September 30, 2015
Balance, beginning of year	\$ 1,471	\$ 1,868
Accretion	21	28
Effects of changes in estimates	314	(425)
Balance, end of year	\$ 1,806	\$ 1,471

- (i) During the year ended September 30, 2016, the Company changed the estimated mine closure costs in line with the Company's new pillar replacement mine plan. The reclamation and remediation costs are expected to be incurred in 2019 in line with the Company's reserve estimates. As such, the Company estimated the future costs using an inflation rate of 3%. The discounted remediation of \$1,806 as at September 30, 2016 (2015 - \$1,471) was calculated using a risk-free interest rate of 3.96% as at September 30, 2016 (2015 - 1.46%). The effect was an increase in the mine closure provision and development cost of \$314 (2015 - decrease of \$425).

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12. Expenses by Nature

Operating costs are composed of the following:

	September 30, 2016		September 30, 2015	
	\$		\$	
Direct labor costs		5,011		4,873
Other direct mining and mill costs (i)		2,854		4,268
Depreciation, depletion and amortization		2,423		2,445
Royalties		328		502
Total operating costs	\$	10,616	\$	12,088

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

General, sales and administrative costs consist of the following:

	September 30, 2016		September 30, 2015	
	\$		\$	
Office and overhead costs		834		886
Salaries and wages		551		563
Listing fees		-		210
Professional fees		208		750
Sales expenses		278		356
Total general, sales and administrative expenses	\$	1,871	\$	2,765

13. Segment Information

In determining reportable operating segments, management reviews various factors, including geographic location, quantitative thresholds, and managerial structure.

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties.

Geographic information is as follows:

December 31, 2016	Canada		Chile		United States		Total
Due from related parties	\$	439	\$	130	\$	283	\$ 852
Mining properties, plant and equipment		-		7,385		-	7,385
Total Non-Current Assets	\$	439	\$	7,515	\$	283	\$ 8,237
Sales				Chile		Europe	Total
			\$	2,314	\$	3,573	\$ 5,887

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13. Segment Information – (Continued)

December 31, 2015	Canada	Chile	United States	Total
Due from related parties	\$ 120	\$ -	\$ 282	\$ 402
Mining properties, plant and equipment	-	8,728	-	8,728
Total Non-Current Assets	\$ 120	\$ 8,728	\$ 282	\$ 9,130

Sales	Chile	Europe	Total
	\$ 3,598	\$ 5,397	\$ 8,995

All of the Company's revenues are earned in Chile. The Company has two significant customers which account for 60% and 40% of revenues respectively (2015 – 60% and 40% respectively).

14. Income Taxes

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:

	2016	2015
Loss before taxes	\$ (6,936)	\$ (12,729)
Combined Canadian tax rate	26.50%	26.50%
Income tax recovery at combined rate	(1,838)	(3,420)
Difference in foreign tax rates	66	479
Non-deductible amounts	1,420	14
Adjustment for prior years	-	176
Change in deferred tax assets not recognized	352	2,927
Income tax expense	\$ -	\$ 176

The Company's income tax recovery in 2015 relates solely to current income tax due to taxes received from the Chilean government.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2016	2015
Deferred income tax liabilities:		
Property, plant and equipment, net	(1,526)	(1,713)
Non-capital losses	1,526	1,713
Net deferred income tax liabilities	\$ -	\$ -

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14. Income Taxes – (Continued)

The significant components of the Company's temporary differences, unused tax credits, and tax losses that have been included on the consolidated statements of financial position are as follow:

	Expiry Date	2016	2015
Mine closure provision	None	\$ 1,526	\$ 1,231
Non-capital losses available	2026-2036	21,728	22,148
Canada		\$ 6,905	\$ 6,065
Chile		13,400	14,660
United States		1,423	1,423

15. Compensation of Key Management

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

	Year ended September 30, 2016	Year ended September 30, 2016	Year ended September 30, 2015
Salaries and short-term director benefits (iii)	\$ 110	\$ 110	\$ 110
Directors fees (iv)	39	39	28
Share-based compensation	51	51	-
Services contract (i), (ii)	273	273	300
	\$ 473	\$ 473	\$ 438

- 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. During the year ended September 30, 2016 the Company incurred \$200 related to this contract (2015 - \$300). During the months of June through to September 2016 the plant was closed and no fees were considered for that period which explains the reduction of \$100 in contract fees.
- 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. During the year ended September 30, 2016 the Company incurred \$73 related to this contract (2015 - \$110). During the months of June through to September 2016 the Plant was closed and no fees were considered for that period which explains the reduction of \$37 in contract fees.

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15. Compensation of Key Management – (continued)

- 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.
- iv. On June 21, 2011 the Board of Directors approved a resolution that non-executive directors be paid \$1 per meeting attended. During the year ended September 30, 2016, the Company recorded \$39 (2015 - \$28) in directors fees.

16. Related Party Transactions

As at September 30, 2016, the Company has salaries and expenses payable to the CEO in the amount of \$211 which is included in due to related parties. Cash advances, and loans receivable from the CEO in the amount of \$602 included in due from related parties. One of the loans receivable from the CEO is secured by 653,200 common shares of the Company owned by him valued at \$16 as at September 30, 2016. The cash advances and loans bear no interest or specific terms of repayment.

During the year ended September 30, 2016, the Company provided services in the amount of \$409 to Cerro del Medio, a company with common directors. This amount, less direct costs of \$238, was recorded in other income on the statement of loss and comprehensive loss during the year. As at September 30, 2016, the Company has a receivable from Cerro Del Medio in the amount of \$250 included in due from related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$56 to the Company for accounting and administration services rendered during the year ended September 30, 2016 (2015 - \$34). Trade and other payables include \$19 in relation to such services at September 30, 2016 (2015 - \$27).

A law firm, of which an ex- director of the Company is a partner, billed the Company \$71 during the year ended September 30, 2016 (2015 - \$100) for legal services. Trade and other payables includes \$126 at September 30, 2016 (2015- \$147).

Due to related parties include \$416 at September 30, 2016 (2015- \$251) 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 and salaries due of \$1,307 at September 30, 2016 (2015 - \$1,870).

Due to related parties include \$ 416 at September 30, 2016 (2015 - \$251) 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 and salaries due of \$1,285 at September 30, 2016 (2015 - \$2,159).

In July 2013, 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 a director and officer of the Company and Compañía Minera Auromín 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 has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at September 30, 2016 the amount due is \$3,000, and is included in due to related parties (2015 - \$3,000). As of September 30, 2016 there is a total of \$300 (2015 - \$150) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda., which is included in due to related parties.

As at September 30, 2016, the Company owes a total of \$137 (2015 - \$98) owing to directors for director's compensation. This amount is included in due to related parties.

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17. Supplemental Cash Flow Information

	September 30, 2016	September 30, 2015
Changes in non-cash working capital relating to operations:	\$	\$
Receivables and advances	130	756
Inventories	80	273
Recoverable taxes	129	507
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	2,274	(726)
	\$ 2,613	\$ 810
Total interest paid (note 8)	\$ 36	\$ 225
Total income tax paid	\$ -	\$ -

18. Financial Instruments

(a) Financial Assets and Liabilities

The Company's financial instruments at September 30, 2016 and 2015 consist of cash, receivables and advances, recoverable taxes, due from related parties, trade and other payables, due to related parties, 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;

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, 2016, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the statement of financial position at fair value are categorized are as follows:

	<u>Level 1</u>
Cash	\$ 118
	<u>\$ 118</u>

At September 30, 2016 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.

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18. Financial Instruments – (Continued)

At September 30, 2016 the carrying amounts of receivables and advances, recoverable taxes and trade and other payables, are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

Long-term debt has been classified as other financial liabilities which is accounted for on an amortized cost basis using the effective interest rate method. The carrying amount of these liabilities is a reasonable approximation of fair value due to their current nature or interest rates approximating market rates, which is the amount recorded on the statement of financial position.

(b) Management of Financial Risk

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

Credit Risk

Accounts receivable consist of:

		2016		2015
Accounts receivable from customers	\$	2	\$	216
Advances and other sundry receivables		377		293
Total receivables	\$	379	\$	509

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, 2016 approximately 60% (2015 – 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 at the Refinery in Switzerland 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 the remaining 40% (2015 – 42%) of the Company's sales were to Empresa Nacional de Minería (ENAMI) to smelter its gold and copper concentrate. ENAMI is owned by the State of Chile through its ownership of Corporación Nacional del Cobre (CODELCO). ENAMI pays for approximately 70% of the value of shipments the week following delivery and the balance is paid one to two months following the initial payment.

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, 2016, the Company had a negative working capital of \$10,252. At September 30, 2016 the Company's accumulated deficit was \$100,253 and a negative shareholders' equity was approximately \$4,561.

The following are the maturities of the Company's liabilities as of September 30, 2016:

Contractual Obligations		Total		Less than 1 year		1 – 3 years		Over 4 years
Trade and other payables	\$	4,241	\$	4,241	\$	-	\$	-
Due to related parties		7,072		7,072		-		-
Long-term debt		1,115		196		552		367
Total Contractual Obligations	\$	12,428	\$	11,509	\$	552	\$	367

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18. Financial Instruments – (Continued)

(b) Management of Financial Risk - (Continued)

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.

19. 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.

20. Subsequent Events

Subsequent to September 30, 2016 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").

Pursuant to the Debt Settlement, the Company extinguished outstanding indebtedness in the aggregate amount of \$2,771 owed to the Related Parties, such indebtedness being made up of net smelter royalty, management fees, cash advances and interest thereon made to the Company by the Related Parties, by issuing a Convertible Debenture 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.

CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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

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 Nominating
Committee

Corporate Information

Website: www.cegmining.com

Canadian Securities Exchange

Stock Symbol: CEG

OTCQB International

Stock Symbol: CEGMF

Registered Office:

Royal Bank Plaza

South Tower

200 Bay Street

Suite 3800

Toronto, ON M5J 2Z4

Toronto Office

1 King Street West , Suite 4009

Toronto, Ontario M5H 1A1, Canada

Santiago Office:

Av. Santa María 2224

Providencia, Santiago, Chile

Telephone: 56-2-569-6200

Solicitors:

Norton Rose Fulbright LLP

Toronto, Ontario, Canada

Auditors:

Davidson & Company

Vancouver, British Columbia, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services

Toronto, Ontario, Canada