

**CERRO GRANDE MINING CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

**(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 statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years 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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the 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.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

May 3, 2018

# CERRO GRANDE MINING CORPORATION

Consolidated Statements of Financial Position

As at September 30, 2017, and 2016

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

	Notes	September 30, 2017	September 30, 2016
<b>ASSETS</b>			
Current assets:			
Cash		\$ 6	\$ 118
Receivables and advances	4	61	379
Recoverable taxes		1	13
Inventory	5	-	707
		<b>68</b>	<b>1,217</b>
<b>Non-current assets</b>			
Due from related parties	16	721	852
Mining properties, plant and equipment	6	-	7,385
<b>Total assets</b>		<b>\$ 789</b>	<b>\$ 9,454</b>
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	7	\$ 408	\$ 4,241
Due to related parties	16	1,987	7,072
Current portion of long-term debt	8	1,899	156
		<b>4,294</b>	<b>11,469</b>
<b>Non-current liabilities</b>			
Long term debt	8	-	740
Reclamation and remediation	11	-	1,806
<b>Total liabilities</b>		<b>4,294</b>	<b>14,015</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	9	88,434	87,119
Warrants	10	379	379
Contributed surplus		8,170	8,129
Convertible unsecured debentures		140	65
Deficit		(100,628)	(100,253)
		<b>(3,505)</b>	<b>(4,561)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 789</b>	<b>\$ 9,454</b>

Nature of operations and going concern assumption (Note 1)

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 Comprehensive Loss

For the years ended September 30, 2017 and 2016

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

	Note	2017	2016
<b>Revenue</b>			
Sales		\$ 3,325	\$ 5,887
		3,325	5,887
<b>Expenses</b>			
Operating costs	12	6,620	10,616
Reclamation and remediation – accretion	11	19	21
General, sales and administrative	12	1,076	1,871
Foreign exchange		(74)	64
Share-based compensation	9	41	87
Interest		359	211
Other (income) and expenses (net)		161	(47)
		(8,202)	(12,823)
		(4,877)	(6,936)
Gain on deconsolidation of Pimentón	17	4,838	-
Loss on sale of fixed assets	6	(336)	-
<b>Loss and comprehensive loss for the year</b>		<b>(375)</b>	<b>(6,936)</b>
<b>Basic and diluted loss per share</b>		<b>(0.00)</b>	<b>(0.03)</b>
<b>Weighted average number of shares outstanding</b>		<b>284,209,851</b>	<b>256,687,061</b>

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

## CERRO GRANDE MINING CORPORATION

Consolidated Statements of Changes in Shareholders' Deficiency

For the years ended September 30, 2017 and 2016

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

	Share capital		Warrants (Note 10)	Contributed surplus	Convertible unsecured debentures	Deficit	Total shareholders' deficiency
	Number of shares	Amount					
<b>Balance, September 30, 2015</b>	<b>174,977,010</b>	<b>\$ 83,653</b>	<b>\$ 379</b>	<b>\$ 8,042</b>	<b>\$ 65</b>	<b>\$ (93,317)</b>	<b>\$ (1,178)</b>
Debt settlement	92,875,400	3,466	-	-	-	-	3,466
Share-based compensation	-	-	-	87	-	-	87
Net loss	-	-	-	-	-	(6,936)	(6,936)
<b>Balance, September 30, 2016</b>	<b>267,852,410</b>	<b>87,119</b>	<b>379</b>	<b>8,129</b>	<b>65</b>	<b>(100,253)</b>	<b>(4,561)</b>
Share-based compensation	-	-	-	41	-	-	41
Equity portion of convertible debentures	-	-	-	-	138	-	138
Conversion of debenture	32,361,208	1,315	-	-	(63)	-	1,252
Net loss	-	-	-	-	-	(375)	(375)
<b>Balance, September 30, 2017</b>	<b>300,213,618</b>	<b>\$ 88,434</b>	<b>\$ 379</b>	<b>\$ 8,170</b>	<b>\$ 140</b>	<b>\$ (100,628)</b>	<b>\$ (3,505)</b>

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, 2017 and 2016

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

	Notes	2017	2016
<b>Operating Activities</b>			
Net loss for the year		\$ (375)	\$ (6,936)
Items not involving cash:			
Amortization and depreciation	6	1,828	2,423
Stock-based compensation	9	41	87
Accretion and interest accrued on long term debt		139	32
Reclamation and remediation - accretion	11	19	21
Loss on sale of fixed assets	6	336	-
Deconsolidation of Pimentón	17	(4,840)	-
Foreign exchange		(16)	93
		(2,868)	(4,280)
Changes in non-cash working capital:	18	1,295	2,613
		<b>(1,573)</b>	<b>(1,667)</b>
<b>Investing Activities</b>			
Additions to mining properties, plant and equipment		-	(766)
		-	<b>(766)</b>
<b>Financing Activities</b>			
Due to related parties		1,461	2,374
Proceeds from gold loan (net of expenses)		-	186
Repayment of long-term debt		-	(117)
Repayment of finance leases		-	(144)
		1,461	2,299
Decrease in cash		(112)	(134)
Cash, beginning of the year		118	252
Cash, end of the year		\$ 6	\$ 118

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, 2017 and 2016

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

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## 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 produced 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, ON, M5H 1A1, Canada. The registered office is Royal Bank Plaza, South Tower, 200 Bay Street Suite 3800, Toronto, ON M5J 2Z4, Canada.

During the year ended September 30, 2017, the Company’s only significant subsidiary Compañía Minera Pimentón (“Pimentón”) was placed into bankruptcy. See Note 17. The other subsidiaries of CEG, including Compañía Minera Til Til, Compañía Minera Catedral, Compañía Minera Tordillo, Compañía Minera Bandurrias and Compañía Minera Cal Norte are not affected by the bankruptcy of 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, 2017, the Company has a working capital deficit of \$4,226 (2016 - \$10,252).

While the Company had operations generating revenue, in the last two fiscal years it has not achieved profitable operations and incurred a net loss for the year of \$375 (2016 – net loss of \$6,936) and an operating cash outflow of \$1,573 (2016 – operating cash outflow of \$ 1,667) and has been reliant on financing from related parties to finance its operations and working capital. With the bankruptcy of its only cash generating entity (Pimentón), 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 May 3, 2018.



# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 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, 2017 and 2016

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

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## 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.

### e) Deconsolidation of Pimentón

As at September 30, 2016, the Company held and controlled a 100% interest in Pimentón. The Company has determined that effective, May 31, 2017, it has lost control of Pimentón, and the resulting ability to exercise any power or significant influence over Pimentón.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 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.

These consolidated financial statements include the revenues, expenses and results of operations of Pimentón up to the date of voluntary bankruptcy (May 31, 2017). All assets and liabilities of Pimentón were deconsolidated effective May 31, 2017, the date on which the Company determined it had lost control of Pimentón.

### 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, 2017 and 2016, 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, 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, 2017 and 2016

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

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## 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, 2017 and 2016

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

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## 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) 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.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

### i) Revenue recognition

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

### j) 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.

### k) Share-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.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

### m) Reclamation and remediation

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

The periodic unwinding of the discount applied in establishing the net present value of provisions over time is recognized in the consolidated statement of 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.

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

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 16 'Leases' was issued to bring most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contract with Customers' has also been applied. The Company does not expect the adoption of this standard will have a material impact on the Company.
- 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 does not expect the adoption of this standard will have a material impact on the Company.
- 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 does not expect the adoption of this standard will have a material impact on the Company.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 4. RECEIVABLES AND ADVANCES

	September 30, 2017	September 30, 2016
Trade receivables	\$ -	\$ 2
Prepaid expenses, advances and other	61	377
<b>Total receivables and advances</b>	<b>\$ 61</b>	<b>\$ 379</b>

## 5. INVENTORY

	September 30, 2017	September 30, 2016
Ore and concentrate stockpiles	\$ -	\$ 328
Materials and supplies	-	379
<b>Total inventory</b>	<b>\$ -</b>	<b>\$ 707</b>

As at September 30, 2017, there is no inventory as Pimentón filed for bankruptcy (Note 17).

## 6. MINING PROPERTIES, PLANT AND EQUIPMENT

	Building	Plant and Equipment	Mining Property Development	Others	Total
<b>Cost</b>					
Balance at September 30, 2015	\$ 5,769	\$ 13,855	\$ 20,370	\$ 658	\$ 40,652
Additions	-	54	712	-	766
Changes in reclamation and remediation liability	-	-	314	-	314
Balance at September 30, 2016	\$ 5,769	\$ 13,909	\$ 21,396	\$ 658	\$ 41,732
Sales and disposals	(1,583)	(121)	-	-	(1,704)
Deconsolidation of Pimentón	(4,014)	(13,788)	(21,396)	(658)	39,856
Balance at September 30, 2017	\$ 172	\$ -	\$ -	\$ -	\$ 172
<b>Accumulated depreciation</b>					
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
Depreciation and amortization	178	743	907	-	1,828
Sales and disposals	(102)	(121)	-	-	(223)
Deconsolidation of Pimentón	(3,469)	(12,754)	(19,302)	(255)	(35,780)
Balance at September, 2017	\$ 172	\$ -	\$ -	\$ -	\$ -
<b>Net Book Value</b>					
Balance at September 30, 2016	\$ 2,204	\$ 1,777	\$ 3,001	\$ 403	\$ 7,385
Balance at September 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -

During the year ended September 30, 2017, the Company sold buildings and equipment with a net book value of \$1,481 for consideration of \$1,145 to a Company controlled by Mario Hernandez, a director and officer of the Company. As consideration, the purchaser assumed the Bice bank mortgage (Note 8) held by the Company in the amount of \$501 with the balance of \$644 being settled as an offset to cash advances receivable from Minera Chañar Blanco (a company owned by Mario Hernandez, an officer and director of the Company).



# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 7. TRADE AND OTHER PAYABLES

Details are as follows:

	September 30, 2017	September 30, 2016
Trade payables	\$ 319	\$ 1,430
Salaries and wages payable	-	2,317
Other payables and accrued liabilities	89	494
<b>Total trade and other payables</b>	<b>\$ 408</b>	<b>\$ 4,241</b>

## 8. LONG TERM DEBT

Description	Interest Rate	September 30, 2017	September 30, 2016
		Balance	Balance
Convertible unsecured debentures (a)	0.00%	\$ 151	\$ 136
Bice Bank mortgage (b)	5.13%	-	529
Gold Loan debentures (c & d)	8 - 10.00%	182	231
Convertible unsecured debentures (e)	10%	1,566	-
		<b>1,899</b>	<b>896</b>
Less: current portion		-	(156)
<b>Long term debt</b>		<b>\$ 1,899</b>	<b>\$ 740</b>

A summary of long-term debt is as follows:

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

	September 30, 2017
2018	517
2019	195
2020	1,540
	2,252
Less: Future accretion and interest	(353)
	1,899

Interest paid by the Company was \$42 (Note 18) for the year ended September 30, 2017 (2016 - \$36).

- 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, 2017 the carrying value classified within long-term debt was \$151 (2016 - \$136) and within the equity component of convertible debentures was \$65 (2016 - \$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.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 8. LONG TERM DEBT – (Continued)

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

The mortgage bore 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 was secured by the Company's office property located in Santiago, Chile until it was sold.

The office property was sold in July 2017 to a real estate company controlled by Mario Hernandez, an officer, and director of the Company (Note 6).

- 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, 2017 is \$17. The derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2017 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 principal balance of the Gold Loan at September 30, 2017 is \$165 and unpaid interest amounts to \$12. The derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2017 is insignificant.

- e) In December 2016 the Company issued \$2,771 of convertible unsecured debentures to David Thomson and Mario Hernandez (the "Related Parties"), to settle 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. The maturity date of these debentures is December 2019. The interest rate on these Debentures is 8% to be paid semi-annually. The Company recorded \$138 as the equity portion of the convertible debenture. The conversion price of the debentures is CA\$0.05 per share convertible into up to 71,538,374 common shares of the Company. During the year ended September 30, 2017 an equivalent of \$1,315 was converted into 32,361,208 common shares. This resulted in the reclassification of \$1,252 from long-term debt and \$63 from the equity component of convertible debentures to share capital. At September 30, 2017 the carrying value classified within long-term debt was \$1,556 (2016 - \$nil) and within the equity component of convertible debentures was \$75 (2016 - \$nil).

Due to the Pimenton Bankruptcy (Note 17), the Company has classified all debt as current.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 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) 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). All dollar amounts have been converted at an exchange rate of CDN\$1.34 per US\$1.00
- ii) During the year ended September 30, 2017 the company extinguished a convertible debenture for the amount of \$1,252 by issuing an aggregate of 32,361,208 common shares (representing an issue price of CDN\$0.05 per share). All dollar amounts have been converted at an exchange rate of CDN\$1.2913 per US\$1.00. See Note 8(e).

### c) Share option plan

The Company has a share option plan (the "Plan") whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees, certain consultants and service providers. The maximum number of common shares issuable under the Plan is 12,578,754 common shares and 5,000,000 common shares issuable under the share bonus plan, within the Plan, to eligible participants.

The 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.

A continuity schedule of outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price CDN\$
<b>Balance, September 30, 2015</b>	<b>3,364,381</b>	<b>0.27</b>
Expired	(730,428)	0.79
Granted	9,287,000	0.02
<b>Balance, September 30, 2016</b>	<b>11,920,953</b>	<b>0.04</b>
Expired	(233,953)	0.15
<b>Balance, September 30, 2017</b>	<b>11,687,000</b>	<b>0.04</b>

Options outstanding as at September 30, 2017 are as follows:

Exercise Price CDN\$	Number of options	Weighted average remaining contractual life	Options exercisable
0.02	9,287,000	3.48	6,191,334
0.10	1,950,000	0.54	1,950,000
0.18	450,000	0.36	450,000
	<b>11,687,000</b>	<b>2.87</b>	<b>8,925,287</b>

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 9. SHARE CAPITAL – (Continued)

During the year ended September 30, 2017, the Company recognized a total of \$41 (2016 - \$87) related to the vesting of options granted in 2016.

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

## 10. WARRANTS

A continuity of outstanding share purchase warrants is as follows:

	Number of outstanding	Equity	Weighted Average Exercise Price CDN\$
<b>Balance, September 30, 2015</b>	1,608,254	\$ 211	\$ 0.50
Expired	(1,608,254)	(211)	(0.50)
Issued	15,743,000	379	0.07
<b>Balance, September 30, 2016, and 2017</b>	15,743,000	\$ 379	\$ 0.07

The following table summarizes information about the warrants outstanding as at September 30, 2017:

Number of warrants outstanding and exercisable	Weighted Average Remaining Warrant Life (years)	Weighted Average Exercise Price CDN\$
<b>15,743,000</b>	<b>2.07</b>	<b>\$ 0.07</b>

## 11. RECLAMATION AND REMEDIATION

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

	September 30, 2017	September 30, 2016
<b>Balance, beginning of year</b>	\$ 1,806	\$ 1,471
Accretion	19	21
Effects of changes in estimates	-	314
Deconsolidation of Pimentón	(1,825)	-
<b>Balance, end of year</b>	\$ -	\$ 1,806

During the year ended September 30, 2017, Pimenton filed for bankruptcy (Note 17) and the Company no longer has any legal obligation for reclamation and remediation costs.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 12. EXPENSES BY NATURE

Operating costs are composed of the following:

	September 30, 2017	September 30, 2016
Direct labor costs	\$ 3,047	\$ 5,011
Other direct mining and mill costs (i)	1,745	2,854
Depreciation, depletion and amortization	1,828	2,423
Royalties	-	328
<b>Total operating costs</b>	<b>\$ 6,620</b>	<b>\$ 10,616</b>

(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, 2017	September 30, 2016
Office and overhead costs	\$ 473	\$ 834
Salaries and wages	305	551
Professional fees	205	208
Sales expenses	93	278
<b>Total general, sales and administrative expenses</b>	<b>\$ 1,076</b>	<b>\$ 1,871</b>

## 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:

<b>September 30, 2017</b>	Canada	Chile	United States	<b>Total</b>
Due from related parties	\$ 318	\$ 120	\$ 283	\$ 721
<b>Total Non-Current Assets</b>	<b>\$ 318</b>	<b>\$ 120</b>	<b>\$ 283</b>	<b>\$ 721</b>
<b>Sales</b>		Chile \$ 1,241	Europe \$ 2,084	<b>Total</b> \$ 3,325
<b>September 30, 2016</b>	Canada	Chile	United States	<b>Total</b>
Due from related parties	\$ 439	\$ 130	\$ 283	\$ 852
Mining properties, plant and equipment	-	7,385	-	7,385
<b>Total Non-Current Assets</b>	<b>\$ 439</b>	<b>\$ 7,515</b>	<b>\$ 283</b>	<b>\$ 8,237</b>
<b>Sales</b>		Chile \$ 2,314	Europe \$ 3,573	<b>Total</b> \$ 5,887

All of the Company's revenues are earned in Chile. The Company has two significant customers which account for 63% and 37% of revenues respectively (2016 – 60% and 40% respectively).

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

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## 14. INCOME TAXES (PENDING)

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:

	2017	2016
Loss before taxes	\$ (375)	\$ (6,936)
Expected income tax recovery	(99)	(1,838)
Difference in foreign tax rates	(110)	66
Non-deductible amounts	(625)	1,420
Deconsolidation of subsidiary	4,518	-
Change in deferred tax assets not recognized	(3,684)	352
<b>Income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

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

	2017	2016
Deferred income tax liabilities:		
Property, plant and equipment, net	-	(1,526)
Non-capital losses	-	1,526
<b>Net deferred income tax liabilities</b>	<b>\$ -</b>	<b>\$ -</b>

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	2017	2016
Mine closure provision	None	\$ -	\$ 1,526
Non-capital losses available	2026-2037	9,635	21,728
Canada		\$ 7,648	\$ 6,905
Chile		564	13,400
United States		1,423	1,423

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

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## 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		Year ended	
	September 30, 2017		September 30, 2016	
Salaries and short-term director benefits (iii)	\$	110	\$	110
Directors fees (iv)		28		39
Share-based compensation		41		51
Services contract (i), (ii)		-		273
	\$	179	\$	473

- 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, 2017 the Company incurred \$nil related to this contract (2016 - \$200). During the months of June through to September 2016 the plant was closed and no fees were charged for the period. On May 31, 2017 Pimentón filed for bankruptcy (Note 17) and due to this, no fees were paid or accrued for the year ended September 30, 2017.
- 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, 2017 the Company incurred \$nil related to this contract (2016 - \$73). During the months of June through to September 2016 the Plant was closed and no fees were considered. On May 31, 2017 Pimentón filed for bankruptcy (Note 17) and due to this no fees were paid or accrued for the year ended September 30, 2017.
- 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, 2017, the Company recorded \$28 (2016 - \$39) in directors fees.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

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## 16. RELATED PARTY TRANSACTIONS

The Company has a receivable from the CEO (who is also a director) of \$601 (2016 - \$391) consisting of \$283 (2016 - \$72) of cash advances, net of salary and travel expenses, and two loans totaling \$318 (2016 - \$318). The cash advances and loans bear no interest and have no specific terms of repayment. As at September 30, 2017, the Company has salaries and expenses payable to the CEO in the amount of \$132 (2016 - \$211), which is included in due to related parties.

During the year ended September 30, 2017, the Company provided services in the amount of \$nil (2016 - \$409) to Cerro del Medio, a company with common directors. This amount, less direct costs of \$nil (2016 - \$289), was recorded in other income on the statement of loss and comprehensive loss during previous years. As at September 30, 2017, the Company has a receivable from Cerro Del Medio in the amount of \$120 (2016 - \$250) included in due from related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$49 to the Company for accounting and administration services rendered during the year ended September 30, 2017 (2016 - \$56). Trade and other payables include \$51, which includes the above mentioned \$49, in relation to such services at September 30, 2017 (2016 - \$19).

Due to related parties include \$nil accumulated to September 30, 2017 (2016 - \$416) 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 Pimentón gold mine. Due to related parties included cash advances for \$464 at September 30, 2017 (2016 - \$1,307). As agreed to in the sale of the Til Til assets (Note 6), a portion of the sale was used to offset a portion of the cash advances during the year.

Due to related parties include \$nil at September 30, 2017 (2016 - \$416) 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 Pimentón gold mine. Due to related parties also include cash advances for \$1,224 at September 30, 2017 (2016 - \$1,285).

In July 2013, the Company entered into a loan agreement of \$3,000, which was 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 would have been paid at the end of a three-year term had a 5% interest rate. The loan was secured by certain fixed assets and mining rights. As at September 30, 2017, the amount due was \$nil (2016 - \$3,000) due to the Pimenton bankruptcy (Note 17). As of September 30, 2017 there was a total of \$nil (2016 - \$300) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda., which was included in due to related parties.

As at September 30, 2017, the Company owes a total of \$167 (2016 - \$137) to directors for director's compensation. This amount is included in due to related parties.



# CERRO GRANDE MINING CORPORATION

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## 17. DECONSOLIDATION OF SUBSIDIARY

The Company's only significant subsidiary Pimentón, filed for voluntary bankruptcy on May 31, 2017. In accordance with Chilean law, the court appointed a bankruptcy Liquidator (the "Liquidator") and has taken possession of Pimentón and all of its assets and liabilities. The Liquidator is also responsible for all ongoing costs of Pimentón until they are successful in obtaining the sale or liquidation of Pimentón. Any profits obtained, or losses incurred by the Liquidator in the bankruptcy process have no impact on the Company since all financial assets and obligations transfer to the liquidator.

The consolidated statement of loss and comprehensive loss includes the operations of Pimentón from October 1, 2016 to May 31, 2017. The consolidated statement of financial position as at September 30, 2017 does not include any balances of Pimentón's as these have been deconsolidated as at May 31, 2017, the date the Company transferred control of Pimentón to the court.

As a result of the bankruptcy and the appointment of a Liquidator, the Company has derecognized the assets and liabilities of Pimentón. The Company has received no consideration in the deconsolidation of Pimentón.

<b>Analysis of assets and liabilities derecognized</b>	<b>\$</b>
Current assets	
Cash	2
Receivables and advances	170
Recoverable taxes	57
Inventories	306
Non-current assets	
Mining properties, plant and equipment	4,076
Current liabilities	
Trade and other payables	(4,624)
Non-current liabilities	
Long term payables	(3,000)
Reclamation and remediation	(1,825)
Net assets on deconsolidation	(4,838)

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Changes in non-cash working capital relating to operations:	\$	\$
Receivables and advances	148	130
Inventory	401	80
Recoverable taxes	(45)	129
Trade and other payables, excluding interest in accrued liabilities	791	2,274
	\$ 1,295	\$ 2,613
Total interest paid (note 8)	\$ 42	\$ 36
Total income tax paid	\$ -	\$ -

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 19. FINANCIAL INSTRUMENTS

### (a) Financial Assets and Liabilities

The Company's financial instruments at September 30, 2017 and 2016 consist of cash, receivables and advances, 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, 2017, 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	<u>\$ 6</u>
	<b>\$ 6</b>

At September 30, 2017 there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as level 3 in the fair value hierarchy above.

At September 30, 2017 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.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

## 19. FINANCIAL INSTRUMENTS - (Continued)

### (b) Management of Financial Risk

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

#### Credit Risk

Receivables and advances consist of:

		2017		2016
Accounts receivable from customers	\$	-	\$	2
Advances and other sundry receivables		61		377
<b>Total receivables and advances</b>	<b>\$</b>	<b>61</b>	<b>\$</b>	<b>379</b>

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

Advances and other sundry receivable are subject to normal credit risks and are considered low risk.

#### 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, 2017, the Company had a negative working capital of \$2,740. At September 30, 2017 the Company's accumulated deficit was \$100,628 and shareholders' deficiency was approximately \$3,505.

The following are the maturities of the Company's liabilities as of September 30, 2017:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	\$	\$	\$	\$
Trade and other payables	408	408	-	-
Due to related parties	1,987	1,987	-	-
Long-term debt	1,899	413	1,486	-
<b>Total Contractual Obligations</b>	<b>4,294</b>	<b>2,808</b>	<b>1,486</b>	<b>-</b>

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 19. 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. Due to the Pimentón bankruptcy, the Company no longer has commodity price risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash earns interest at short-term rates. The risk of the Company's future interest income exposure to these rates is trivial. The Company's loans and convertible debentures are not subject to interest rate risk as it is not subject to a variable interest rate.

#### Currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's cash, receivables and advances, recoverable taxes, due from related parties, trade and other payables, due to related parties, and long term debt are held in USD, CAD and CLP; therefore, CDN and CLP accounts are subject to fluctuation against the US dollar. Assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and COP by 10% would be trivial.

## 20. CAPITAL MANAGEMENT

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

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

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time. There were no changes to the Company's capital management in the current year.

# CERRO GRANDE MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended September 30, 2017 and 2016

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

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## 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.*

### 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](http://www.cegmining.com)

### Canadian Securities Exchange

Stock Symbol: CEG

### OTCQB International

Stock Symbol: CEGMF

### Registered Office:

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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