CERRO GRANDE MINING CORPORATION

Report to Shareholders
for the
First Quarter Ending
December 31, 2017
(These statements have not been audited)

Listed on the Canadian Securities Exchange
Symbol: CEG
and
The OTCQB International
Symbol: CEGMF

The Company's auditors have not reviewed these condensed interim consolidated financial statements for the three month period ended December 31, 2017.

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2017
(Unaudited)

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

	December 31, 2017	September 30, 2017
	$	$
Current assets		
Cash and cash equivalents	6	6
Receivables and advances (Note 3)	25	61
Recoverable taxes	-	1
	31	**68**
Non-current assets		
Due from related parties (Note 9)	721	721
Mining properties, plant and equipment (Note 4)	-	-
	721	**721**
Total assets	**753**	**789**
Current liabilities		
Trade and other payables (Note 5)	500	408
Due to related parties (Note 9)	2,039	1,987
Current portion of long-term debt	1,924	1,899
	4,463	**4,294**
Non-Current liabilities		
Long-term debt (Note 6)	-	-
	-	**-**
Total liabilities	**4,463**	**4,294**
Shareholders' equity		
Share capital (Note 7)	88,434	88,434
Warrants (Note 8)	379	379
Contributed surplus	8,174	8,170
Convertible unsecured debenture	149	140
Deficit	(100,846)	(100,628)
Total shareholders' equity	**(3,710)**	**(3,505)**
Total liabilities and shareholders' equity	**753**	**789**

Approved by the Board of Directors

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

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

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss
For the three months ended December 31, 2017 and 2016
(Unaudited)

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

	Three months ended	
	Dec 31, 2017	**Dec 31, 2016**
Revenue	**$**	**$**
Sales	-	1,138
	-	1,138
Expenses		
Operating costs	-	1,895
Reclamation and remediation	-	6
General, sales and administrative	218	360
Foreign exchange	5	(53)
Share-based compensation	4	82
Interest	47	34
Other (income) and expenses (net)	(56)	-
	218	2,324
Loss before income taxes	(218)	(1,186)
Income taxes	-	-
Loss after income taxes	(218)	(1,186)
Loss and comprehensive loss for the period	**(218)**	**(1,186)**
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average number of shares outstanding	300,213,618	267,852,410

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

Cerro Grande Mining Corporation

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the three months ended December 31, 2017 and 2016
(Unaudited)

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

	Share capital		Warrants	Contributed	Convertible	Deficit	Total equity
	Number of shares	Amount	(Note 8)	surplus	unsecured debentures		
Balance - October 1, 2016	**267,852,410**	**87,119**	**379**	**8,129**	**65**	**(100,253)**	**(4,561)**
Convertible unsecured debenture	-	-	-	-	200	-	200
Net loss	-	-	-	-	-	(1,186)	(1,186)
Balance - December 31, 2016	**267,852,410**	**87,119**	**379**	**8,129**	**265**	**(101,439)**	**(5,547)**
Balance - October 1, 2017	**300,213,618**	**88,434**	**379**	**8,170**	**140**	**(100,628)**	**(3,505)**
Stock Options	-	-	-	4		-	4
Debentures	-	-	-	-	9	-	9
Net loss	-	-	-	-	-	(218)	(218)
Balance - December 31, 2017	300,213,618	88,434	379	8,174	149	(100,846)	(3,710)

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

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended December 31, 2017 and 2016
(Unaudited)

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

	Three months ended	
	December 31, 2017	**December 31, 2016**
Operating Activities	$	$
Net loss for the period	(218)	(1,186)
Items not involving cash:		
Amortization and depreciation	-	446
Stock based compensation	4	-
Acrcretion of interest on long term debt	-	36
Reclamation and remediation – accretion	-	6
Other gains and losses	-	(2)
Foreign Exchange	-	(53)
	(214)	(753)
Change in non-cash working capital	137	(37)
	(77)	(790)
Investing activities		
Additions to mining properties, plant and equipment	-	(20)
	-	(20)
Financing activities		
Due to related parties	52	866
Increase in long-term debt	25	-
Proceeds from gold loan (net of expenses)	-	(42)
Repayment of finance leases	-	(45)
	77	779
Decrease in cash	-	(31)
Cash - Beginning of period	6	149
Cash - End of period	**6**	**118**

1. Nature of the Company and Going concern assumption

Cerro Grande Mining Corporation (the Company or CEG) and its subsidiaries is a mining, exploration and development company which produces gold, silver and copper, with operations mainly in Chile. The Company was incorporated under the Canada Business Corporations Act, and its Common Shares are listed on the Canadian Securities Exchange ("CSE") trading under the symbol "CEG" and on the OTCQB trading under the symbol CEGMF. The Company is domiciled in Canada and the address of its records office is 1 King Street West, Suite 4009 Toronto Ontario M5H 1A1, Canada. The registered office is Royal Bank Plaza, South Tower, 200 Bay Street Suite 3800, Toronto, ON M5J 2Z4, Canada.

The company's significant subsidiary, Companía Minera Pimentón (Pimentón) was placed into bankruptcy in the prior year. The other subsidiaries of CEG, including Compañia Minera Til Til, Compañia Minera Catedral, Compañia Minera Tordillo, Compañia Minera Bandurrias and Compañia Minera Cal Norte are not affected by the bankruptcy of Compañia Minera Pimenton.

These consolidated financial statements have been prepared on a "going concern" basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2017, the Company has a negative working capital of $4,432 (September 30, 2017 – negative $4,226).

While the Company had operations generating revenue it continues to be reliant on financing from related parties to finance its operations and working capital. The availability of sources of additional financing if required in the future cannot be assured at this time and accordingly, these material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities and related revenues and expenses that would be necessary should the Company be unable to continue as a going concern and those adjustments may be material.

2. Basis of presentation

a. Statements of compliance

These unaudited condensed interim consolidated financial statements are expressed in thousands of US dollars and have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Standards Board ("IASB") including IAS34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2017 which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company's consolidated financial statements for the year ended September 30, 2017 except as described below.

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

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses.

All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Director on May 3, 2018.

b. 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 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.

3. Receivables and advances

	December 31, 2017	**September 30, 2017**
	$	**$**
Trade Receivable	-	-
Prepaid expenses, advances and other	25	61
Total receivables	**25**	**61**

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

4. Mining properties, plant and equipment

Cost	Building	Plant & equipment *	Mining property development	Others	Total
	$	$	$	$	$
Balance - October 1, 2017	-	-	-	-	-
Additions	-	-	-	-	-
Sales/Disposals	-	-	-	-	-
Balance - December 31, 2017	**-**	**-**	**-**	**-**	**-**

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
Balance - October 1, 2017	-	-	-	-	-
Depreciation and amortization expenses	-	-	-	-	-
Sales/Disposals	-	-	-	-	-
Balance - December 31, 2017	**-**	**-**	**-**	**-**	**-**
Net book value as at December 31, 2017	**-**	**-**	**-**	**-**	**-**

Cost	Building	Plant & equipment *	Mining property development	Others	Total
	$	$	$	$	$
Balance - October 1, 2016	5,769	13,909	21,396	658	41,732
Additions	3	-	17	-	20
Disposals	-	-	-	-	-
Changes in reclamation and remediation liability (Note 9)	-	-	-	-	-
Balance - December 31, 2016	**5,772**	**13,909**	**21,413**	**658**	**41,752**

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
Balance - October 1, 2016	3,565	12,132	18,395	255	34,347
Depreciation and amortization expenses	60	285	101	-	446
Impairment/Write offs	-	-	-	-	-
Balance - December 31, 2016	**3,625**	**12,417**	**18,496**	**255**	**34,793**
Net book value as at December 31, 2016	**2,147**	**1,492**	**2,917**	**403**	**6,959**

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

During the year ended September 30, 2017, the Company sold buildings and equipment for $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 held by the Company of $501 with the balance of $644 being settled as on offset to cash advances receivable from Minera Chañar Blanco (a company owned by Mario Hernandez, an officer and director of the Company).

5. Trade and other payables

	December 30, 2017	September 30, 2017
	$	$
Trade payables	500	319
Other payables and accrued liabilities	-	89
Total Payables	**500**	**408**

6. Long-term debt

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

Description	Interest rate	December 31, 2017 Principal $	September 30, 2017 Principal $
Convertible unsecured debenture (a)	0,00%	155	151
Convertible unsecured debenture (b)	8,00%	1,561	1,566
Bice Bank mortgage (d)	5,13%	-	-
Gold Loan debenture (c)	10 and 8 %	208	182
Sub total		1,924	1,899
Less: Current portion		(1,924)	(1,899)
Long-term debt		-	-

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 to up to 10,102,114 common shares of the Company. In the month of December 2013 the equivalent of $850 were exercised and converted into 8,500,000 common shares. This resulted in the reclassification of $518 from long-term debt and $362 from the equity component of convertible debentures to share capital. At September 30, 2014 the carrying value classified within long-term debt was $107 and within the equity component of convertible debentures was $65. The Debentures had been issued in payment of cash advances made in April and May 2013 by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director and officer of the Company and Compañía

Minera Auromín Ltda. a Company owned by David Thomson, who is also director and officer of the Company.

b) On December 7, 2016 the Company agreed in principle to extinguish certain outstanding indebtedness owed to David Thomson and Mario Hernandez (the "Related Parties"), both officers and directors of the Company. The Debt Settlement was completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing. Pursuant to the Debt Settlement, the Company extinguished outstanding indebtedness in the aggregate amount of US$ 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 interest rate on these Debentures is 8% to be paid semi-annually.

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 derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2017 is insignificant.

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 derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2017 is insignificant.

d) On November 7, 2011 the Company obtained a mortgage with Bice Bank of Unidad de Fomento (UF) 19,600 ($772). 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.

As of September 30, 2017 the mortgage was transferred to the buyer of the Sta. María 2224 property previously owned by Cia. Minera Til Til.

Due to the Pimenton Bankruptcy in fiscal 2017, the Company has classified all debt as current.

7. Share capital

a) Authorized capital

The authorized capital of the Company consists of an unlimited number of common shares, with no par value.

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

b) Issued and outstanding

	Number of shares	Amount
		$
Balance – September 30, 2016	267,852,410	87,119
Conversion of convertible debenture	32,361,208	1,315
Balance- September 30, 2017 and December 31, 2017	300,213,618	88,434

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.

d) Share option plan

A continuity schedule of outstanding stock options is as follows:

Options outstanding as at December 31, 2017 are as follows:

	Number of Options	Weighted Average Exercise Price CDN$
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**
Expired	(233,953)	0.15
Balance, Sept 30, 2017 and Dec 31, 2017	**11,687,000**	**0.04**

Exercise Price CDN$	Number of options	Weighted average remaining contractual life	Options exercisable
0.02	9,287,000	3.23	6,191,334
0.10	1,950,000	0.29	1,950,000
0.18	450,000	0.11	450,000
	11,687,000	**2.62**	**8,925,287**

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

8. Warrants

Equity	Number of warrants	$
Balance – December 31, 2017	15,743,000	379

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price
	years	CA$
15,743,000	1.82	0.07

9. Related party transactions

The Company has a net receivable from the CEO (who is also a Director) of $336 (2016 - $409) consisting of $18 (2016 - $91) of cash advances, net of salary and travel expenses, and two loans totaling $318 (2016 - $318). 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 December 31, 2017. The cash advances and loans bear no interest or specific terms of repayment.

As at December 31, 2017, the Company has a receivable from Cerro Del Medio in the amount of $120 (2016 - $120) included in due from related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed $nil to the Company for accounting and administration services rendered during the first quarter of 2017 (2016 - $6). Trade and other payables include $39 (2016 - $42), which includes the above mentioned nil (2016 - $6), in relation to such services at December 31, 2017.

Due to related parties included cash advances for $491 (2016 - $1,307) due to Mario Hernandez who is also a Director and Officer of the Company. As agreed to in the sale of the Til Til assets (Note 4), a portion of the sale was used to offset a portion of the prior year cash advances.

Due to related parties included cash advances for $1,324 (2016 - $1,285) due to David Thomson who is also a Director and Officer of the Company.

On June 21, 2011 the board approved a resolution that non-executive directors be paid $1 per meeting attended. Amounts due to the directors for these director fees as at December 31, 2017 were $165 (2016 - $137) and are included in due to related parties.

Directors* and Officers

Paul J. DesLauriers*(1),(2),(3),(4)
Toronto, ON, Canada
Chairman
Executive Vice President and Director
Loewen, Ondaatje, McCutcheon & Company
Limited, Toronto, Canada

Stephen W. Houghton*
Santiago, Chile
Chief Executive Officer
Founder of Cerro Grande Mining Corporation

Mario Hernandez A.*
Santiago, Chile
Executive Vice President and Director, Claims and
Land Management

William Hill*(1),(3),(4)
Rockwood, ON, Canada
Principal, William Hill Mining Consultants, Ltd.

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

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Davidson & Company
Vancouver, British Columbia, Canada

Stock Registrar and Transfer Agent
Computershare Investor Services
Toronto, Ontario, Canada