

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

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation and its consolidated subsidiaries (“CEG” or the “Company”) for the three months ended December 31, 2017, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of May 3, 2018. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company’s condensed interim consolidated financial statements and financial data have been prepared using accounting policies consistent with IFRS. All dollar amounts are expressed in thousands United States dollars, except as otherwise indicated.

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**1. FORWARD LOOKING STATEMENTS**

This management’s discussion and analysis contains or refers to forward-looking statements. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “may”, “could”, “potential”, “should” “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance.

The forward-looking statements in this management’s discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently

available to the Company. With respect to forward-looking statements contained in this management discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters.

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

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

The mineral resource figures referred to in this management's discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management's discussion and analysis are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

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

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

## **2. OVERVIEW**

The Company is an exploration, development and mining corporation focused in Chile.

The Company's only significant subsidiary was Compañía Minera Pimentón (Pimenton), which filed for voluntary bankruptcy on May 31, 2017. The Court approved this bankruptcy filing and named a Liquidator on July 18, 2017.

The consolidated statement of income includes the three months of operations of Pimentón before the bankruptcy filing.

In accordance with Chilean law, the Court appointed bankruptcy Liquidator has taken possession of Pimenton and of all its assets and liabilities. They are also responsible for all ongoing costs of Pimentón until the successful sale or liquidation of Pimentón.

Any profits obtained or losses incurred by the Liquidator in the bankruptcy process have no impact in these consolidated financial statements as both financial assets and obligations are by law transferred to the Liquidator.

The Company's other projects, which are in various stages of exploration and development in Chile include "Tordillo" and two limestone deposits "Catedral" and "Cal Norte".

## **3. HIGHLIGHTS**

### **Operational Highlights**

- Gold produced by the Pimentón Mine for the three month period ended December 31, 2017 was nil oz compared to 932 oz produced in the first quarter ended December 31, 2016 when the Pimenton mine was in operations and had not filed for voluntary bankruptcy.
- The average gold recovery for the quarter ended December 31, 2017 was nil compared to 91.50% in the same quarter ended December 31, 2016 when the Pimenton mine was in operations and had not filed for voluntary bankruptcy.

### **Financial Highlights**

All December 2016 figures include revenue and production of the Pimenton mine which filed for bankruptcy on May 31, 2017

- Loss before income taxes for the quarter ended December 31, 2017 was \$218 compared to a loss of \$1,186 in the same period in 2016.
- Average price per ounce of gold sold for the quarter ended December 31, 2017 was nil (2016 - \$ 1,165).
- Net loss after income taxes for the quarter ended December 31, 2017 was \$218 compared to \$ 1,186 in the same period in 2016.

- Basic loss per share for the quarter ended December 31, 2017 was a loss of \$0.00 per share (2016 – loss of \$0.00).
- At December 2017, the Company had cash and cash equivalents of \$6 compared to \$181 at December 31, 2016.
- Cash flow from operations for the quarter ended December 31, 2017 was negative \$86 (2016 – negative \$790).

### Other Highlights

- Management believes that the values of Tordillo exploration and the Catedral/Rino and Cal Norte limestone deposits are not reflected in the Company's market capitalization. The Company will continue its effort to enhance the underlying values of its assets.

## 4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated loss for the first quarter ended December 31, 2017 and 2016.

	<b>Three months ended</b>	
	<b>Dec 31,</b>	<b>Dec 31,</b>
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Sales	-	1,138
	-	1,138
<b>Expenses</b>		
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
<b>Loss before income taxes</b>	(218)	(1,186)
<b>Loss after income taxes</b>	(218)	(1,186)
<b>Loss and comprehensive loss for the period</b>	<b>(218)</b>	<b>(1,186)</b>
<b>Basic and diluted loss per share</b>	<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of shares outstanding</b>	300,213,618	267,852,410

1) Consolidated statements of loss and other comprehensive loss for the three months period ended December 31, 2017 and 2016:

- a) Revenue for the three months period ended December 31, 2017 were nil due to Pimenton's bankruptcy. Sales were nil ounces compared to 857 ounces in the three months period ended December 31, 2016.
- b) Operating expenses for the three months ended December 31, 2017 were nil due to Pimenton's bankruptcy compared to \$1,895 for the same period in 2016.
- c) General sales and administrative costs for the three months ended December 31, 2017 were \$218 compared to \$360 for the same period in 2016.

2) Consolidated Cash flow for the three months period ended December 31, 2017:

Capital expenditure was nil for the three months period ended December 31, 2017 (2016 - \$20)

3) Consolidated Statement of Financial Position as at December 31, 2017:

As at December 31, 2017 the Company had a negative working capital of \$4,432 (2016 – negative \$8,059).

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

#### Summary of Quarterly Results

	<b>Dec 31, 2017</b>	<b>Sept 30, 2017</b>	<b>June 30, 2017</b>	<b>Mar 31, 2017</b>
Sales	-	89	572	1,367
Net income (loss)	(218)	(625)	2,921	(1,485)
Per share	(0.00)	(0.00)	0.01	(0.01)
Per share diluted	(0.00)	(0.00)	0.01	(0.01)

	<b>Dec 31, 2016</b>	<b>Sept 30, 2016</b>	<b>June 30, 2016</b>	<b>Mar 31, 2016</b>
Sales	1,138	62	1,478	1,701
Net income (loss)	(1,186)	(2,956)	(1,629)	(1,314)
Per share	(0.00)	(0.00)	(0.01)	(0.01)
Per share diluted	(0.00)	(0.00)	(0.01)	(0.01)

## 5. OPERATIONS AT THE PIMENTON MINE

### Gold Production

Gold produced in the first quarter of fiscal year 2018 was nil ounces (due to Pimenton bankruptcy) compared to the 932 ounces produced in Q1 of 2017.

The following table shows the tonnes milled, average mill grade, gold plant recovery and gold produced during each of the last eight quarters to December 31, 2017:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q2-2017	4,187	8.13	91.30	1,017.96
Q3-2017	400	7.50	90.00	100.00
Q4-2017	-	0.00	0.00	0.00
Q1-2018	-	0.00	0.00	0.00
	4,587	8.08	91.19%	1,117.96

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q2-2016	7,715	4.96	90.90	1,119.60
Q3-2016	5,527	6.05	91.30	998.74
Q4-2016	-	0.00	0.00	0.00
Q1-2017	3,808	8.17	91.50	931.96
	17,050	6.03	91.23	3,050.30

### Operating Costs

The cash cost per ounce of gold produced during the quarters from January 2017 to December 31, 2017 are set out in the table below.

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

	<u>Q2-2017</u>	<u>Q3-2017</u>	<u>Q4-2017</u>	<u>Q1-2018</u>	<u>Total</u>
Gold ounces produced	1,018	100	-	-	1,118
Direct mine expenses	1,301	1,500	-	-	2,801
By product credits (deduct)	(208)	(55)	-	-	(263)
<b>Cash Costs</b>	<b>1,093</b>	<b>1,445</b>	<b>-</b>	<b>-</b>	<b>2,538</b>
<b>Cash cost/Oz</b>	<b>1,073.67</b>	<b>1,445.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,270.13</b>
Depreciation	337	300	-	-	637
Amortization	499	325	-	-	824
<b>Production costs</b>	<b>1,929</b>	<b>2,070</b>	<b>-</b>	<b>-</b>	<b>3,999</b>
<b>Production cost/Oz</b>	<b>1,894.89</b>	<b>20,700.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3,576.92</b>
Net Smelter return	77	-	-	-	77
<b>Total costs</b>	<b>2,006</b>	<b>2,070</b>	<b>-</b>	<b>-</b>	<b>4,076</b>
<b>Total cost/Oz</b>	<b>1,970.53</b>	<b>20,700.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3,645.80</b>

**Risks**

- With the exception of the Gold Loan, the Company does not use financial instruments to mitigate the risks of either a change in the price of gold or currency fluctuations.
- All phases of the Company's operations were subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.
- The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.

## **Opportunities**

### **Outlook**

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 Compañía Minera Pimenton. At this time management is determining the best course of action.

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

### **Tordillo**

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

Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. During the first quarter ended December 31, 2017, the Company expensed a total of \$nil (2016 - \$nil) relating to mining property costs and exploration costs on Tordillo.

### **Bandurrias**

During the quarter ended December 31, 2017 acquisition costs of \$nil were expensed (2016 - \$nil).

### **Limestone deposits**

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

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



As at December 31, 2017, the Company had contributed a cumulative total of \$4,080 (2016 - \$4,080) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton per day lime kiln on the Catedral property. During prior years the Company had written off \$4,080 in mining properties and exploration costs relating to Catedral/Rino.

As at December 31, 2017, the Company had contributed a total of \$1,556 (2016 - \$1,556) to Cal Norte, to finance a bankable feasibility study on the project, environmental permitting, and further mine development. Although the Company has incurred sufficient exploration expenditures to maintain the Cal Norte property in good standing, the Company expensed these \$1,566 in prior years as it focused its efforts on the Pimenton gold mine.

## **7. INVESTING**

During the quarter ended December 31, 2017 the Company invested \$nil (2016 - \$20) in mining plant, equipment, and mining properties

## **8. FINANCING**

The Company finances its operations using either funds on hand, funds generated by its operations, cash advances by related parties or equity sold to related parties. Due to negative cash flow both Auromin (a company owned by David Thomson) and Chañar Blanco (a company owned by Mario Hernandez), both Directors and Officers of the Company, have made cash advances to cover the shortfalls.

### **Other Financing**

The Company's secured 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 partly owned by Mario Hernandez, an office and director of the Company.

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

The outstanding principal at the end of the quarter is \$17. During the first quarter ended December 31, 2017 repayments of principal of \$nil were made due to lack of funds.

On August 22, 2016 the company issued a second Gold Loan Debenture for \$200 with a maturity date of August 22, 2019. The debenture bears a fixed annual interest rate of 8% on

the outstanding principal amount and is payable on a quarterly basis on the 25<sup>th</sup> day of February, May, August and November of each year. The payment of the principal is semi-annually on February 25 and August 25 of each year plus the difference in the average gold price per ounce in excess of \$1,260 per ounce calculated on 26.455 ounces of gold.

The outstanding principal at the end of the quarter is \$165. During the first quarter ended December 31, 2017 the Company has repaid \$nil of principal due to lack of funds.

## 9. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, the Company shows a negative working capital of \$4,432 (2016-negative \$8,059).

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	500	500	-	-
Amount due to related parties	2,247	2,247	-	-
Long-term debt and finance leases	1,716	-	1,716	-
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>7,213</b>	<b>2,747</b>	<b>1,716</b>	<b>2,750</b>

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

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

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

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

## 10. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

## **11. RELATED PARTY TRANSACTIONS**

The Company has a 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 \$167 (2016 - \$137) and are included in due to related parties.

## **12. CRITICAL ACCOUNTING ESTIMATES**

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

### *Exploration and development costs*

Acquisition and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

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

### *Stock-based compensation*

The Company has a share option plan, as discussed in note 7 (c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of granted options or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered equal to the closing price of the Company's stock on the relevant Stock Exchange on the business day preceding the grant date.

## **13. SECURITIES OUTSTANDING**

As of May 3, 2018 the Company has issued one class of common shares of which a total of 300,213,618 are outstanding.

On May 3, 2018, the Company had 15,743,000 common share purchase warrants outstanding which are exercisable into one common share at an exercise price of CA\$0.07.

Options granted under the stock option plan of the Company (each, an "Option") outstanding as of May 3, 2018 totaled 11,687,000 of which 11,687,000 are exercisable into one common share at exercise prices of CA\$0.02 to CA \$0.18 through March 2021.

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

## **14. CONTROLS**

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

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

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

Management has evaluated the effectiveness of the Company's Disclosure Controls and Procedures as at December 31, 2017 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer,

believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

*Internal controls over financial reporting*

Management of the Company is responsible for evaluating the design of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS as of December 31, 2017, have not identified any changes to the Company's internal control over financial reporting in the latest reporting period that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.