

CERRO GRANDE MINING CORPORATION

**Report to Shareholders
for the
Second Quarter Ending
March 31, 2018
(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 six months period ended March 31, 2018.**

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2018
(Unaudited)

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

	March 31,	September 30,
	2018	2017
	\$	\$
Current assets		
Cash and cash equivalents	16	6
Receivables and advances (Note 3)	13	61
Recoverable taxes	1	1
	30	68
Non-current assets		
Due from related parties (Note 9)	721	721
Mining properties, plant and equipment (Note 4)	-	-
	721	721
Total assets	751	789
Current liabilities		
Trade and other payables (Note 5)	194	408
Due to related parties (Note 9)	2,513	1,987
Current portion of long-term debt (Note 6)	1,961	1,899
	4,668	4,294
Non-Current liabilities		
Long-term debt (Note 6)	-	-
	-	-
Total liabilities	4,668	4,294
Shareholders' equity		
Share capital (Note 7)	88,434	88,434
Warrants (Note 8)	379	379
Contributed surplus	8,185	8,170
Convertible unsecured debenture	140	140
Deficit	(101,056)	(100,628)
Total shareholders' equity	(3,918)	(3,505)
Total liabilities and shareholders' equity	751	789

Going concern (Note 1)

Approved by the Board of Directors

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

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

Cerro Grande Mining Corporation
Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss
For the six months ended March 31, 2018 and 2017
(Unaudited)

	Three months ended		Six months ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Revenue	\$	\$	\$	\$
Sales	-	1,367	-	2,505
	-	1,367	-	2,505
Expenses				
Operating costs	-	2,300	-	4,195
Reclamation and remediation	-	6	-	12
General, sales and administrative	199	435	414	795
Foreign exchange	(76)	(6)	(82)	(59)
Share-based compensation	11	-	15	-
Interest	84	101	80	183
Other expenses (net)	1	16	1	50
	219	2,852	428	5,176
Loss and comprehensive loss before income taxes	(219)	(1,485)	(428)	(2,671)
Income taxes	-	-	-	-
Loss and comprehensive loss for the period	<u>(219)</u>	<u>(1,485)</u>	<u>(428)</u>	<u>(2,671)</u>
Basic and diluted loss per share	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.00)</u>	<u>(0.01)</u>
Weighted average number of shares outstanding	300,213,618	267,852,410	300,213,618	267,852,410

Cerro Grande Mining Corporation

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the six months ended March 31, 2018 and 2017

(Unaudited)

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

	Share capital		Warrants (Note 8)	Contributed surplus	Convertible unsecured debentures	Deficit	Total equity
	Number of shares	Amount					
Balance - October 1, 2016	267,852,410	87,119	379	8,129	65	(100,253)	(4,561)
Convertible unsecured debenture	-	-	-	-	184	-	184
Net loss	-	-	-	-	-	(2,671)	(2,671)
Balance - March 31, 2017	267,852,410	87,119	379	8,129	249	(102,924)	(7,048)
Balance - October 1, 2017	300,213,618	88,434	379	8,170	140	(100,628)	(3,505)
Share-based compensation	-	-	-	15	-	-	15
Equity portion of convertible debentures	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(428)	(428)
Balance - March 31, 2018	300,213,618	88,434	379	8,185	140	(101,056)	(3,918)

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 six months ended December 31, 2018 and 2017

(Unaudited)

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

	Three months ended		Six months ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Operating Activities	\$	\$	\$	\$
Net loss for the period	(210)	(1,485)	(428)	(2,671)
Items not involving cash:				
Amortization and depreciation	4	748	-	1,506
Stock-based compensation	11	-	15	-
Accretion of interest on long-term debt	-	154	-	256
Foreign exchange gain	-	(25)	-	(59)
Reclamation and remediation - accretion	-	-	-	-
	(195)	(608)	(413)	(968)
Change in non-cash working capital	(143)	95	(165)	48
	(338)	(513)	(578)	(920)
Investing activities				
Additions to mining properties, plant and equipment	-	5	-	70
	-	5	-	70
Financing activities				
Due to related parties	348	557	587	1,417
Proceeds from gold loan (net of expenses)	-	(30)	-	(40)
Repayment of finance leases	-	-	-	(508)
	348	527	587	869
Increase in cash	10	19	10	19
Cash - Beginning of period	6	46	6	46
Cash - End of period	16	65	16	65

Cerro Grande Mining Corporation

Notes to the Consolidated Financial Statements

For the Six Months Ended March 31, 2018

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

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, Compañía Minera Pimentón (Pimentón) was placed into bankruptcy in the prior year. 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.

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 March 31, 2018, the Company has a negative working capital of \$4,638 (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.

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

(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 29, 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

	March 31,	September 30,
	2018	2017
	\$	\$
Trade Receivable	-	-
Prepaid expenses, advances and other	13	61
Total receivables	13	61

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

(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 - March 31, 2018	-	-	-	-	-

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	\$	\$	\$	\$	\$
Balance - October 1, 2017	-	-	-	-	-
Depreciation and amortization expenses	-	-	-	-	-
Sales/Disposals	-	-	-	-	-
Balance - March 31, 2018	-	-	-	-	-
Net book value as at March 31, 2018	-	-	-	-	-

Cost	Building	Plant & equipment	Mining property development	Others	Total
	\$	\$	\$	\$	\$
Balance - October 1, 2016	5,769	13,909	21,396	658	41,732
Additions	-	13	54	-	67
Balance - March 31, 2017	5,769	13,922	21,450	658	41,799

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	129	559	818	-	1,506
Impairment/Write offs	-	-	-	-	-
Balance - March 31, 2017	3,694	12,691	19,213	255	35,853
Net book value as at March 31, 2017	2,075	1,231	2,237	403	5,946

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

(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 \$507 with the balance of \$637 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).

5. Trade and other payables

	March 31, 2018	September 30, 2017
	\$	\$
Trade payables	187	319
Other payables and accrued liabilities	7	89
Total Payables	194	408

6. Long-term debt

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

Description	Interest rate	March 31, 2018 Principal \$	September 30, 2017 Principal \$
Auromin and Chañar Blanco 2013 debenture (a)	0,00%	159	151
Auromin and Chañar Blanco 2016 debenture (b)	8,00%	1,599	1,566
Gold Loan debenture (c)	10 and 8%	203	182
Bice Bank mortgage (d)	5.13%	-	-
Sub total		1,961	1,899
Less: Current portion		(1,961)	(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

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

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

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. The outstanding principal at the end of the period is \$17.

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. The outstanding principal at the end of the quarter is \$165.

- 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 a inflation based unit of account used in Chile.

As at 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.

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

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

7. 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

	<u>Number of</u> <u>shares</u>	<u>Amount</u>
		\$
Balance – September 30, 2016	267,852,410	87,119
Conversion of convertible debenture	32,361,208	1,315
Balance – September 30, 2017	300,213,618	88,434
Balance – March 31, 2018	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.

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

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

d) Share option plan

A continuity schedule of outstanding stock options is as follows:

Options outstanding as at March 31, 2018 are as follows:

	Number of options	Weighted average exercise price CA\$
Balance – September 30, 2015	3,364,381	0.27
Expired	(730,428)	0.79
Granted	9,287,000	0.2
Balance – September 30, 2016	11,920,953	0.04
Expired	(233,953)	0.15
Balance – September 30, 2017	11,687,000	0.04
Expired	(2,400,000)	0.18
Expired	(400,000)	0.02
Balance – March 31, 2018	8,887,000	0.02

8. Warrants

Equity	Number of warrants	\$
Balance – September 30, 2017	15,743,000	379
Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price CA\$
15,743,000	1.57	0.07

Cerro Grande Mining Corporation
Notes to the Consolidated Financial Statements
For the Six Months Ended March 31, 2018

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

9. Related party transactions

The Company has a net receivable from the CEO (who is also a Director) of \$329 (2017 - \$390) consisting of \$11 (2017 - \$72) of cash advances, net of salary and travel expenses, and two loans totaling \$318 (2017 - \$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 March 31, 2018. The cash advances and loans bear no interest or specific terms of repayment.

As at March 31, 2018, the Company has a receivable from Cerro Del Medio in the amount of \$120 (2017 - \$120) included in due from related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$7 to the Company for accounting and administration services rendered during the six months of 2018 (2017 - \$28). Trade and other payables include \$8 (2017 - \$47), which includes the above mentioned \$7 (2017 - \$28), in relation to such services at March 31, 2018.

Due to related parties included cash advances for \$500 (2017 - \$1,174) 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 \$1,575 (2017 - \$945) 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 March 31, 2017 were \$167 (2017 - \$145) 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

Registered Office:

Royal Bank Plaza

South Tower

200 Bay Street

Suite 3800

Toronto, ON M5J 2Z4

Toronto Office

1 King Street West , Suite 4009

Toronto, Ontario M5H 1A1, Canada

Santiago Office:

Av. Santa María 2224

Providencia, Santiago, Chile

Telephone: 56-2-569-6200

Auditors:

Davidson & Company

Vancouver, British Columbia, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services

Toronto, Ontario, Canada