CERRO GRANDE MINING CORPORATION

Report to Shareholders
for the
First Quarter Ending
December 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 three month period ended December 31, 2018.

CERRO GRANDE MINING CORPORATION

Condensed Interim Consolidated Statement of Financial Position
As at December 31, 2018
(Expressed in thousands of U.S. dollars, except per share amounts)

	Notes	December 31, 2018	September 30, 2018
		$	$
ASSETS			
Current assets			
Cash		59	56
Receivables and advances	**4**	2	13
Recoverable taxes		1	4
		62	**73**
Non-current assets			
Due from related parties	**11**	601	601
		601	**601**
Total assets		**663**	**674**
LIABILITIES			
Current liabilities			
Trade and other payables	**6**	189	171
Due to related parties	**11**	3,226	3,103
Current portion of long-term debt	**7**	207	2,044
Total liabilities		**3,622**	**5,318**
SHAREHOLDES' DEFICIENCY			
Share capital	**8**	90,092	88,434
Warrants	**9**	379	379
Contributed surplus		8,515	8,189
Convertible unsecured debenture		0	140
Deficit		(101,945)	(101,786)
Total shareholders' deficiency		**(2,959)**	**(4,644)**
Total liabilities and shareholders' deficiency		**663**	**674**

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

CERRO GRANDE MINING CORPORATION

Condensed Interim Consolidated Statement of Loss and Other Comprehensive Loss
For the three months ended December 31, 2018 and 2017
(Expressed in thousands of U.S. dollars, except per share amounts)

	Three months ended	
	December 31, 2018	December 31, 2017
	$	$
Revenue		
Sales	-	-
	-	-
Expenses		
General, sales and administrative	144	218
Foreign exchange	9	5
Share-based compensation	1	4
Interest	5	47
Other (income) and expenses (net)	-	(56)
Loss before income taxes	(159)	(218)
Income taxes	-	-
Loss and comprehensive loss for the period	(159)	(218)
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average number of shares outstanding	339,390,784	300,213,618

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

CERRO GRANDE MINING CORPORATION

Condensed Interim Consolidated Statement of Changes in Shareholders' Deficiency
For the three months ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share amounts)

	Share capital		Warrants	Contributed	Convertible	Deficit	Total equity
	Number of shares	Amount	(Note 9)	surplus	unsecured debentures		
Balance - October 1, 2017	300,213,618	88,434	379	8,170	140	(100,628)	(3,505)
Debentures	-	-	-	-	9	-	9
Share-based compensation	-	-	-	4	-	-	4
Net loss	-	-	-	-	-	(218)	(218)
Balance - December 31, 2017	300,213,618	88,434	379	8,174	149	(100,846)	(3,710)
Balance – October 1, 2018	**300,213,618**	**88,434**	**379**	**8,189**	**140**	**(101,786)**	**(4,644)**
Share-based compensation	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Equity portion of convertible debentures	**39,177,166**	**1,658**	**-**	**-**	**(140)**	**-**	**1,518**
Conversion of debentures	**-**	**-**	**-**	**325**	**-**	**-**	**325**
Net loss	**-**	**-**	**-**	**-**	**-**	**(159)**	**(159)**
Balance - December 31, 2018	**339,390,784**	**90,092**	**379**	**8,515**	**-**	**(101,945)**	**(2,959)**

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

CERRO GRANDE MINING CORPORATION

Condensed Interim Consolidated Statements of Financial Position
For the three months ended December 31, 2018 and 2017
(Expressed in thousands of U.S. dollars, except per share amounts)

	Three months ended	
	December 31, 2018	December 31, 2017
	$	$
Operating Activities		
Net loss for the period	(159)	(218)
Items not involving cash:		
Stock-based compensation	1	4
	(158)	(214)
Change in non-cash working capital	37	137
	(121)	**(77)**
Financing activities		
Due to related parties	124	52
Increase in long-term debt	-	25
	124	77
Increase in cash	3	-
Cash and cash equivalents - Beginning of period	56	6
Cash and cash equivalents - End of period	**59**	**6**

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

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 is 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 Companía Minera Pimentón (“Pimentón”) was placed into bankruptcy. See Note 16. 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 Pimentón.

These consolidated financial statements have been prepared on a going concern basis, which contemplates, that the Company will continue in operations for the near future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2018, the Company has a working capital deficit of $3.560 (September 30, 2018 - $5,245).

With the bankruptcy of its only cash generating entity (Pimentón) during the year ended September 30, 2017, 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, liabilities, 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 February 28, 2019.

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) 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:

a) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation. The Company consolidates subsidiaries where they have the ability to exercise control. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

b) Foreign currency translation and transactions

The Company presents its financial statement in U.S. dollars. This is also the functional currency of CEG and its subsidiaries.

The Company's foreign currency transactions and balances denominated in foreign currencies are translated into the Company's functional currency, the U.S. dollar, as follows:

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and year-end translation of monetary items are recognized in the statement of loss and comprehensive loss under "Foreign exchange".

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term 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 December 31, 2018 and September 30, 2018, the Company does not hold any cash equivalents.

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

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 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.

(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.

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

4. RECEIVABLES AND ADVANCES

	December 31, 2018	September 30, 2018
	$	$
Prepaid expenses, advances and other	2	13
Total receivables and advances	**2**	**13**

The Company has no trade receivables for the periods presented.

5. MINING PROPERTIES, PLANT AND EQUIPMENT

Cost	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
Balance at October 1, 2017	172	-	-	-	172
Balance at December 31, 2017	172	-	-	-	172
Balance at September 30 and December 31, 2018	172	-	-	-	172

Accumulated depreciation	Building	Plant & equipment	Mining property development	Others	Total
	$	$	$	$	$
Balance at October 1, 2017	172	-	-	-	172
	-	-	-	-	-
Balance at December 31, 2017	172	-	-	-	172
Balance at September 30 and December 31, 2018	172	-	-	-	172

	Building	Plant & equipment	Mining property development	Others	Total
Net Book Value					
Balance at December 31, 2017 and September 30, 2018	-	-	-	-	-
Balance at December 31, 2018	-	-	-	-	-

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

6. TRADE AND OTHER PAYABLES

Details are as follows:

	December 31, 2018	September 30, 2018
	$	$
Trade payables	181	163
Other payables and accrued liabilities	8	8
Total trade and other payables	**189**	**171**

7. LONG TERM DEBT

Description	Interest rate	December 31, 2018	September 30, 2018
		$	$
Auromin and Chañar Blanco 2013 debenture (a)	0.00%	-	164
Auromin and Chañar Blanco 2016 debenture (d)	8.00%	-	1,678
Gold Loan debenture (b) and (c)	10 and 8%	207	202
Sub total		207	2,044
Less: Current portion		(207)	(2,044)
Long-term debt		-	-

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

	Dec 31, 2018	Sept 30, 2018
2019	211	707
2020	-	1,540
2021	-	-
2022	-	-
2023 - 2026	-	-
	211	2,247
Less: Future accretion	(4)	(203)
	207	2,044

a) On July 30, 2013 the Company issued $1,010 of convertible unsecured debentures. The maturity date of these debentures was December 31, 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.

7. LONG TERM DEBT – *(Continued)*

b) 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 principal at December 31, 2018 is $17and unpaid interest amounts to $3. The derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2018 is insignificant.

c) 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, 2018 is $167 and unpaid interest amounts to $21. The derivative liability associated with the fluctuation of the price of gold in the contract as at December 31, 2018 is insignificant.

d) 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 $1,253 was converted into 32,361,208 common shares in name of Mario Hernandez. During the period ended December 31, 2018 an equivalent of $1,518 was converted into 39,177,166 common shares in name of David Thomson.

Due to the Pimenton Bankruptcy (Note 1), the Company has classified all debt as current.

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

8. SHARE CAPITAL

a) Authorized capital

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

As at December 31, 2018, 204,208 common shares were held in escrow (September 30, 201 – 204,208).

b) Issued and outstanding

i) During the year ended September 30, 2017 the Company extinguished a convertible debenture for the amount of $1,315 by issuing an aggregate of 32,361,208 common shares.
ii) During the period ended December 31, 2018 the Company extinguished a convertible debenture for the amount of $1,658 by issuing an aggregate of 39,177,166 common shares.

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 CA$
Balance – September 30, 2016	**11,920,953**	0.04
Expired	(233,953)	0.15
Balance – September 30, 2017	**11,687,000**	0.04
Expired	(5,200,000)	0.06
Granted	2,562,000	0.05
Balance – September 30, 2018	**9,049,000**	0.03
Balance – December 31, 2018	**9,049,000**	0.03

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

8. SHARE CAPITAL – *(Continued)*

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

Exercise price CA$	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price CA$	Options exercisable
0.00 - 0.02	6,487,000	2.23	0.02	6,487,000
0.03 - 0.05	2,562,000	4.66	0.05	854,000
	9,049,000	**2.92**		**7,341,000**

During the three month period ended December 31, 2018, the Company recognized a total of $1 (September 30, 2018 - $19) related to the vesting of options granted.

9. WARRANTS

As at December 31, 2018 and September 30, 2018 there were a total of 15,743,000 warrants outstanding. There were no changes to the number of warrants during the three month period ended December 31, 2018.

The following table summarizes information about the warrants outstanding as at December 31, 2018:

Number of warrants outstanding	Weighted average remaining warrant life (years) Remaining Warrant life years	Weighted average exercise price Excercise price CDN$
15,743,000	**0.82**	**0.07**

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

10. SEGMENT INFORMATION

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

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

Geographic information is as follows:

December 31, 2018	Canada	Chile	United States	**Total**
Due from related parties	$ 318	$ -	$ 283	$ **601**
Total Non-Current Assets	**$ 318**	**$ -**	**$ 283**	**$ 601**

September 30, 2018	Canada	Chile	United States	**Total**
Due from related parties	$ 318	$ -	$ 283	$ **601**
Total Non-Current Assets	**$ 318**	**$ -**	**$ 283**	**$ 601**

11. RELATED PARTY TRANSACTIONS

The Company has a receivable from the CEO (who is also a director) of $601 (2017 - $601) consisting of $283 (2017 - $283) of cash advances, net of salary and travel expenses, and two loans totaling $318 (2017 - $318). The cash advances and loans bear no interest and have no specific terms of repayment. As at December 31, 2018, the Company has salaries and expenses payable to the CEO in the amount of $294 (2018 - $294), which is included in due to related parties.

A company controlled by the Chief Financial Officer of the Company (the “CFO”) billed $3 to the Company for accounting and administration services rendered during the three month period ended December 31, 2018 (2017 - $nil). Trade and other payables include $6, which includes the above mentioned $3, in relation to such services at December 31, 2018 (2017 - $39).

As at December 31, 2018, due to related parties includes cash advances of $526 from Mario Hernández, who is also a director and officer of the Company (2017 - $491). The cash advances bear no interest and have no specific terms of repayment.

Due to related parties includes cash advances of $2,223 from David Thomson, who is also a director and officer of the Company at December 31, 2018 (2017 - $1,324). The cash advances bear no interest and have no specific terms of repayment.

As at December 31, 2018, the Company owes a total of $182 (2017 - $165) to directors for director’s compensation. This amount is 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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