

**CERRO GRANDE MINING CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

**For the Year Ended September 30, 2020**

**(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 year ended September 30, 2020, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of January 27, 2021. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2020, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company's 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 and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's needs.

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.

### **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.

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 Pimenton until the successful sale or liquidation of Pimenton.

Any profits or losses incurred by the Liquidator in the bankruptcy process have no impact in the Company's 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**

- There were no operations for the year ended September 30, 2020 and September 30, 2019.
- On July 15, 2020, the Company announced that it had entered into a non-binding letter of intent (the "**LOI**") with Minera Tamidak Limitada ("**Tamidak**"), a private Chilean company owned by David Thomson and his family, to acquire from Tamidak certain assets, rights and obligations of Tamidak relating to the Pimentón Copper Gold Mining Project, all as further described below. Pursuant to the LOI, management of the Company conducted certain confirmatory due diligence investigations in relation to the Pimentón Copper Gold Mining Project and advancing the matters set forth in the LOI, including having negotiated the terms of the final execution ready form of APA.

Pursuant to an asset purchase agreement negotiated by the parties (the "**APA**"), the Company's Chilean subsidiary Minera Til Til SpA would acquire from Tamidak the mining concessions and other assets covering the Pimentón Mining Project as well as Tamidak's rights and obligations under the Exploration and Option to Joint Venture Agreement (the "**FQM Agreement**") entered into on or about April 27, 2020 between Tamidak and FQM Exploration (Chile) S.A. ("**FQM**"), a Chilean subsidiary of First Quantum Minerals Ltd.

In summary, the FQM Agreement provides that:

- a) during the 12-month period following execution of the FQM Agreement (extensible up to 18 months), subject to permitting, FQM will proceed with a 3D deep penetrating geophysical survey, upon the completion of which FQM will have the right to continue to earn a 49% equity interest in a joint venture company (the "**JV Company**") to be incorporated by the parties;
- b) after the completion of the 3D survey, FQM will, among other things and subject to certain conditions (including termination rights), (i) work towards completing a resource report concerning the Pimentón properties in

accordance with reporting standards set out in National Instrument 43-101 - Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators; and (ii) complete an in-house feasibility study sufficient to lead to a decision to mine, in each case at the expense of FQM. If such 43-101 report is timely completed and other conditions are met, FQM may elect to form the JV Company (49% FQM and 51% Tamidak) upon payment to Tamidak of US\$5 million. If FQM timely completes such feasibility study, and upon payment to Tamidak of an additional US\$5 million, FQM will increase its equity interest in the JV Company to up to 70% (70% FQM and 30% Tamidak).

- c) If a Decision to Mine, as such concept is defined in the FQM Agreement is made, Tamidak may elect to request that FQM fund its capital contributions until commercial production of the mine has started, through a loan to Tamidak, diluting Tamidak's participation in the JV Company to 25% and providing FQM with an extra 5% interest (75% FQM and 25% Tamidak).
- d) Tamidak has the right to resume the exploitation of the existing Pimenton mine subject to the terms described in the FQM Agreement.

On September 14, 2020, the Company announced that it had reached agreement on the form of APA and the purchase price payable thereunder and also announced the special meeting of shareholders to be held on November 10, 2020 to approve the APA. The meeting was held and the APA was duly approved.

The total purchase price (the "**Purchase Price**") payable under the APA for the acquisition of Tamidak's assets relating to the Pimentón Copper Gold Mining Project and the rights and obligations of Tamidak under the FQM Agreement will be \$3,900,000,000 Chilean Pesos (approximately CDN\$6,713,142 based on the nominal exchange rate of the Chilean peso to the Canadian dollar determined on September 11, 2020 as published by the Central Bank of Chile), will not be subject to adjustment after the execution of the APA, and will be payable in three equal installments as follows (i) \$1,300,000,000 Chilean Pesos (approximately CDN\$2,237,714) upon execution of the APA (the "**Execution Date**"), payable in common shares of CEG at a price per share equal to the greater of (A) the simple average of the closing price per CEG common share on the Canadian Securities Exchange ("**CSE**") for the 10 consecutive trading days ending on the date immediately prior to the date of execution of the APA; and (B) CDN\$0.05 per share (or such other minimum price per share as may be in effect pursuant to the policies and rules of the CSE at the relevant time); (ii) \$1,300,000,000 Chilean Pesos (approximately CDN\$2,237,714) on the date that is not more than 18 months following the Execution Date, payable in cash or its equivalent in common shares of CEG, as Tamidak may elect in its sole and absolute discretion, at a price per share equal to the greater of (A) the simple average of the closing price per CEG Common Share on the CSE for the 10 consecutive trading days ending on the date immediately prior to such payment

being made; and (B) CDN\$0.05 per share (or such other minimum price per share as may be in effect pursuant to the policies and rules of the CSE at the relevant time); and (iii) \$1,300,000,000 Chilean Pesos (approximately CDN\$2,237,714) on the date that is not more than 36 months following the Execution Date, payable in cash or its equivalent in common shares of CEG, as Tamidak may elect in its sole and absolute discretion, at a price per share equal to the greater of (A) the simple average of the closing price per CEG Common Share on the CSE for the 10 consecutive trading days ending on the date immediately prior to such payment being made; and (B) CDN\$0.05 per share (or such other minimum price per share as may be in effect pursuant to the policies and rules of the CSE at the relevant time). In case of payments to be made in shares of CEG as aforementioned, the number of CEG shares issuable shall be determined based on the nominal exchange rate of the Chilean peso to the Canadian dollar determined on the day before the applicable payment as published by the Central Bank of Chile.

If any of the Purchase Price installments indicated in (ii) and (iii) above is not timely and fully paid to Tamidak, the APA will be automatically terminated and CEG must return all the Assets and the rights and obligations under the FQM Agreement to Tamidak. In such case Tamidak shall retain all payments previously made to it under the APA as compensatory damages, without prejudice to any other damages that Tamidak may be entitled to by law.

The execution of the APA and the completion of the transactions thereunder remains subject to following conditions precedent: (i) satisfactory completion of legal and technical due diligence by CEG in its sole discretion; (ii) there being no material adverse change in the business, results of operations, prospects, condition (financial or otherwise), as applicable, relating to the assets and the mining concessions to be purchased according to the APA and the FQM Agreement and (iii) obtaining all applicable corporate, legal, shareholder and/or stock exchange approvals or permits, including minority approval of shareholders for the transaction in accordance with Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“**MI 61-101**”). Pursuant to MI 61-101, the transaction would not be subject to the formal valuation requirement because the common shares of the Company are not listed on a specified market being those markets described in section 5.5(b) of MI 61-101.

The APA agreement was duly signed on December 1, 2020

### **Financial Highlights**

- Loss before and after income taxes for the year ended September 30, 2020 was \$1,731 compared to a loss of \$817 in the same period in 2019. The increase is related to the February debenture accretion \$45 and the loss in revaluation of the derivative liability of \$ 1,100 generated by the increase in the share price from CND\$ 0.005 in February to CND\$ 0.020 at September closing.

- Loss before and after income taxes for the three months ended September 30, 2020 was \$1,274 compared to a loss of \$44 in the same period in 2019. The increase is explained in the above paragraph.
- Basic loss per share for the year ended September 30, 2020 was a loss of \$0.00 per share (2019 – loss of \$0.00).
- At September 30, 2020, the Company had cash of \$15 compared to \$37 at September 30, 2019.
- Cash used in operations for the year ended September 30, 2020 was \$453 (2019 – \$844).

### 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 fourth quarter and years ended September 30, 2020 and 2019.

	Three months ended		Twelve months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Expenses</b>				
General, sales and administrative	141	213	493	955
Foreign exchange	(17)	6	76	21
Share-based compensation	1	2	2	5
Interest	4	(177)	15	(164)
Acretion expense	45	-	45	-
Unrealized loss on derivative liability	1,100	-	1,100	-
<b>Loss and comprehensive loss for the year</b>	<u>(1,274)</u>	<u>(44)</u>	<u>(1,731)</u>	<u>(817)</u>
<b>Basic and diluted loss per share</b>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.00)</u>
<b>Weighted average number of shares outstanding</b>	339,390,784	334,560,722	339,390,784	334,560,722
- basic and diluted				

1) Consolidated statements of loss and other comprehensive loss for the year ended September 30, 2020 and 2019:

- a) General sales and administrative costs for the year ended September 30, 2020 were \$493 compared to \$955 for the same period in 2019.
- b) Interest expense for the year ended September 30, 2020 was \$15 compared to (recovery) of \$164 for the same period in 2019 due to interest being forgiven on the convertible debentures
- c) The February 2020 debenture shows an accretion of \$45 and a loss on revaluation of the derivative liability of \$1,100

2) Consolidated statements of loss and other comprehensive loss for the three month period ended September 30, 2020 and 2019:

- a) General sales and administrative costs for the three months ended September 30, 2020 were \$141 compared to \$213 for the same period in 2019.
- b) Interest expense for the three months ended September 30, 2020 was of \$4 compared to (recovery) of \$177 for the same period in 2019 due to interest being forgiven on the convertible debentures.
- c) The February 2020 debenture shows an accretion of \$45 and a loss on revaluation of the derivative liability of \$1,100.

3) Consolidated Statements of Financial Position as at September 30, 2020:

- a) As at September 30, 2020 the Company had a negative working capital of \$1,336 (2019 – negative \$4,539).

### Summary of Quarterly Results

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

	<b>Sept 30, 2020</b>	<b>June 30, 2020</b>	<b>Mar 31, 2020</b>	<b>Dec 31, 2019</b>
Sales	-	-	-	-
Net income (loss)	(1,272)	(88)	(79)	(292)
Per share	0.000	0.000	0.000	0.000
Per share diluted	0.000	0.000	0.000	0.000

	<b>Sept 30, 2019</b>	<b>June 30, 2019</b>	<b>Mar 31, 2019</b>	<b>Dec 31, 2018</b>
Sales	-	-	-	-
Net income (loss)	(44)	(261)	(353)	(159)
Per share	0.000	0.000	0.000	0.000
Per share diluted	0.000	0.000	0.000	0.000

## **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 Pimentón. At this time management is determining the best course of action.

## **5. 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 year ended September 30, 2019, a company owned by David Thomson, who is a director and officer, signed an agreement on behalf of the Company, to carry out a survey on the Tordillo Project for a total cost of \$51. The final payment was made by David Thomson's company, on behalf of the Company, in July of 2019. This amount is included in due to related parties on the financial statements.

During the year ended September 30, 2020, the Company expensed a total of \$nil (2019 - \$51) relating to mining property costs and exploration costs on Tordillo.

### **Bandurrias**

During the year ended September 30, 2020 acquisition costs of \$nil were expensed (2019 - \$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. The Company will 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 September 30, 2020, the Company had contributed a cumulative total of \$4,080 (2019 - \$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 September 30, 2020, the Company had contributed a cumulative total of \$1,556 (2019 - \$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 this \$1,566 in prior years as it focused its efforts on the Pimenton gold mine.

## **6. INVESTING**

During the year ended September 30, 2020 the Company invested \$nil (2019 - \$nil) in mining plant, equipment, and mining properties.

## **7. FINANCING**

The Company finances its operations using cash advances by related parties or equity sold to related parties. Due to no production and the 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.

The Company announced on February 20, 2020 that it has issued unsecured convertible debentures in the aggregate principal amount totaling approximately US\$3,787 (or CDN\$4,919 using an exchange rate of US\$1.00/CDN\$1.2988) (the "Debentures").

Mario Hernandez, ("Hernandez") a director and officer of the Company, personally and through Compañía Minera Chanar Blanco S.A. ("Chanar Blanco"), a company

controlled by Hernandez and David Thomson, (“Thomson”) a director and officer of the Company, through Compañía Minera Auromin Ltda (“Auromin”), a company controlled by Thomson, have each acquired one Debenture convertible into common shares of the Company. Hernandez has acquired a Debenture in the principal amount of US\$34 (CDN\$44), Chanar Blanco has acquired a Debenture in the principal amount of US\$604 (CDN\$784) and Minera Auromin has acquired a Debenture in the principal amount of US\$3,149 (CDN\$4,090). The outstanding amount of principal under each Debenture is convertible into Common Shares at a conversion price (the “Conversion Price”) equal to the greater of (i) CDN\$0.05 per Common Share, and (ii) the simple average of the closing price per Common Share on the Canadian Securities Exchange (or such other exchange on which the Common Shares may then be listed) for the 15 consecutive trading days period ending immediately prior to the date of the notice of conversion provided by the holder of the Debenture to the Company. On this basis, each of Hernandez, Chanar Blanco and Minera Auromin, can acquire at their option, at any time after the date that is 180 days from the date hereof until maturity, up to 882,290, 15,680,601 and 81,807,694 Common Shares, respectively, upon conversion of the full amount of principal under their respective Debentures.

The Debentures have been issued in exchange for the cancellation of cash advances made to the Company up to December 31, 2019 by each of Hernandez, Chanar Blanco and Minera Auromin in the aggregate amount of US\$3,787. The cash advances were used for working capital purposes and to pay for the Company’s MAG and DCIP surveys conducted on the Company’s Tordillo property by Quantec Geoscience. The Debentures mature on February 20, 2025 and do not bear interest. The Company may also, at its option, accelerate the conversion (the “Acceleration Right”) of all or part of the outstanding principal at the Conversion Price, at any time if the closing price of the Common Shares on the Canadian Securities Exchange, equals or exceeds CDN\$0.15 per Common Share for a period of 20 consecutive trading days (the “Acceleration Period”). For further information, please refer to the February 20, 2020 press release issued by 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 balance of the Gold Loan at September 30, 2020 is \$22 (2019 -\$21). There is no derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2020 there was no production at the Pimenton mine

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 principal balance of the Gold Loan at September 30, 2020 is \$167 (2019 - \$167) and unpaid interest amounts to \$45 (2019 - \$31). There is no derivative liability associated with the fluctuation of the price of gold in the contract as at September 30, 2020 there was no production at the Pimenton mine

## 8. LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2020, the Company shows a negative working capital of \$1,336 (2019 - negative \$4,539).

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	125	125	-	-
Amount due to related parties	1,003	1,003	-	-
Short-term debt	234	234	-	-
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>4,112</b>	<b>1,362</b>	<b>0</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 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 near future. Any decision to pay dividends on the common shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

## 9. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

## 10. PROPOSED TRANSACTIONS

The Company does not have any proposed transactions as at September 30, 2020 other than as disclosed elsewhere in this document.

## 11. FINANCIAL INSTRUMENTS

### a) Financial Assets and Liabilities

The Company's financial instruments at September 30, 2020 consist of cash, receivables and advances, due from related parties, trade and other payables, due to related parties, other debt, derivative liabilities and long term debt.

### Fair value measurements of financial assets and liabilities recognized in the statement of financial position

Fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At September 30, 2020, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized in the statement of financial position at fair value are categorized are as follows:

	<u>Level 1</u>	<u>Level 2</u>
Cash	15	-
Derivative liability	-	1,471

The fair value of the Company's derivative liability was determined by using inputs other than quoted prices that are observable for the liability.

At September 30, 2020, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as level 3 in the fair value hierarchy above.

At September 30, 2020, the carrying amounts of receivables and advances, trade and other payables, due to related party, and other debt, are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

**(b) Management of Financial Risk**

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

**Credit Risk**

Receivables and advances consist of:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Advances and other sundry receivables	\$ 9	\$ 14
<b>Total receivables and advances</b>	<b>\$ 9</b>	<b>\$ 14</b>

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

**Liquidity Risk**

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. At September 30, 2020, the Company had a negative working capital of \$1,336. At September 30, 2020, the Company's accumulated deficit was \$104,334 and shareholders' deficiency was \$5,667.

**Market Risk**

The significant market risk to which the Company is exposed are commodity price risk, interest rate risk, and currency risk.

Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of gold, silver, and copper.

Interest rate risk

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

### Currency risk

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

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

## **12. RELATED PARTY TRANSACTIONS**

The Company has a receivable from the CEO (who is also a director) of \$601 (2019 - \$601) consisting of \$283 (2019 - \$283) of cash advances and two loans totaling \$318 (2019 - \$318). The cash advances and loans bear no interest and have no specific terms of repayment. As at September 30, 2020, the Company has salaries and expenses payable to the CEO in the amount of \$387 (2019 - \$339), which is included in due to related parties.

A company controlled by the Chief Financial Officer of the Company (the "CFO") (who is also a director) billed \$25 to the Company for accounting and administration services rendered during the year ended September 30, 2020 (2019 - \$23). Trade and other payables include \$1 in relation to such services at September 30, 2020 (2019 - \$14).

As at September 30, 2020, due to related parties includes cash advances of \$nil from Mario Hernández, who is also a director and officer of the Company (2019 - \$556). The cash advances bear no interest and have no specific terms of repayment.

Due to related parties includes cash advances of \$433 from David Thomson, who is also a director and officer of the Company at September 30, 2020 (2019 - \$2,905). The cash advances bear no interest and have no specific terms of repayment.

As at September 30, 2020, the Company owes a total of \$182 (2019 - \$202) to directors for director's compensation and \$nil to David Thomson for expense reimbursement (2018 - \$51). This amount is included in due to related parties.

## **13. CRITICAL ACCOUNTING ESTIMATES**

A summary of the critical accounting estimates are 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. 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 options granted 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 to be equal to the closing price of the Company's stock on the relevant Stock Exchange on the business day preceding the grant date.

#### *Reclamation and remediation*

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there are a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

## **14. CHANGES IN ACCOUNTING STANDARDS AND INITIAL ADOPTION**

The Company adopted IFRS 16, Leases ("IFRS 16" or the "New Standard") effective October 1, 2019 which replaced IAS 17, Leases ("IAS 17"). The New Standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Company elected the modified retrospective transition approach, which provides lessees a method for recording existing leases at adoption with no restatement of prior period financial information. Under this approach, a lease liability would be recognized at October 1, 2019 in respect of leases previously

classified as operating leases, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate where the implicit rate in the lease is not readily determinable at transition. The right-of-use assets would be measured at amounts equal to the respective lease liabilities, subject to certain adjustments allowed under IFRS 16. The Company elected to utilize practical expedients permitted under the New Standard for low-value asset leases and short-term leases which are expensed as incurred.

Adoption of the new standard at October 1, 2019 did not result in the Company recording a lease liability or right-of-use asset.

## **15. SECURITIES OUTSTANDING**

As of January 27, 2021 the Company has issued one class of common shares of which a total of 383,445,886 are outstanding.

On January, 2021, the Company had no common share purchase warrants outstanding. The 15,743,000 common share purchase warrants as at September 30, 2019 all expired unexercised.

Options granted under the stock option plan of the Company (each, an "Option") outstanding as of January 27, 2021 totaled 9,049,000 options exercisable into 9,049,000 common shares at exercise prices of CA \$0.02 and CA \$0.05 through August 2023 of which 9,049,000 options are currently exercisable as a result of vesting provisions.

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

## **16. 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 September 30, 2020 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 September 30, 2020, 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.

**17. SUBSEQUENT EVENT**

The Company entered into the LOI with Minera Tamidak Limitada ("Tamidak"), a private Chilean company owned by a director, to acquire from Tamidak certain assets, rights and obligations of Tamidak relating to the Pimentón Copper Gold Mining Project.

Pursuant to an asset purchase agreement negotiated by the parties (the "APA"), the Company's Chilean subsidiary Minera Til Til SpA will acquire from Tamidak the mining concessions and other assets covering the Pimentón Mining Project as well as Tamidak's rights and obligations under the Exploration and Option to Joint Venture Agreement (the "FQM Agreement") entered into on or about April 27, 2020 between Tamidak and FQM Exploration (Chile) S.A. ("FQM"), a Chilean subsidiary of First Quantum Minerals Ltd. The Company is to pay 3,900,000,000 Chilean pesos, in cash or shares, within 36 months of signing the APA. The Company made an initial issuance of 44,055,102 common shares pursuant to the APA.