

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS  
For the six month period ended March 31, 2023**

**(Expressed in thousands of United States dollars, except ounce, share and 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 six month period ended March 31, 2023, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of May 29, 2023. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2022, 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 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 corporation focused in Chile. Please see further comments under Operational Highlights.

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

### 3. HIGHLIGHTS

#### Operational Highlights

There were no operations for the period ended March 31, 2023 and 2022.

The Company's subsidiary Minera Til Til Spa signed an Asset Purchase Agreement (the "APA") with Minera Tamidak Limitada ("Tamidak"), a private Chilean company owned by the family of a former director and significant shareholder. Under the terms of the APA, the Company can acquire, at its option, certain assets, rights and obligations of Tamidak relating to the Pimenton Copper Gold Mining Project for an aggregate of 3,900,000,000 Chilean pesos payable in three installments. The Company paid the first installment under the APA through the issuance of 44,055,102 common shares of the Company and a second installment through the issuance of a further 39,833,923 common shares of the Company with a fair value at December 31, 2022 of \$1,153. The remaining payment of 1,300,000,000 Chilean pesos payable in cash or common shares of the Company, at Tamidak's option, is due on December 1, 2023. Certain of the assets relating to the Pimenton Copper Gold Mining Project are subject to royalty agreements with a company owned by the family of a former director and significant shareholder of the Company and a company controlled by a director of the Company.

The Company's subsidiary Minera Til Til SpA ("TilTil") has entered into a lease agreement for mining exploitation concessions (the "Agreement") with Minera Tamidak Limitada ("Tamidak") to lease to Tamidak certain concessions from the Company's past producing Pimenton copper and gold project located approximately 120km northeast of Santiago in the Andes mountains in Chile (the "Pimenton Project").

The purpose of the Agreement is to enable Tamidak to carry out certain exploration and extraction activities for mineral substances limited to the existing tailings pond at the Pimenton Project (the "Area of interest"). As such, Tamidak may carry out research, reconnaissance, exploration and exploitation works in the Area of Interest and sell any mineral substances recovered therefrom.

Pursuant to the Agreement, all activities to be conducted by Tamidak, including obtaining the required permits and authorizations applicable to Tamidak's activities, are its sole responsibility and costs. As compensation for the lease, Til Til is entitled to receive, on an annual basis, 50% of the net profits that Tamidak may receive from the recovery and sale of minerals recovered from the Area of Interest. In addition, Tamidak's activities cannot impede or limit any exploration activities on the Pimenton Project that Til Til may conduct on its own or that are undertaken by a third party pursuant to a formal written agreement entered into between Til Til and such third party, and as such, Til Til retains the right to terminate the Agreement with 7-months' prior written notice in the event that such activities would be incompatible with the activities carried out by Tamidak. The term of the Agreement is for three years and is automatically renewable for additional two-year periods unless terminated by either party with 60-days' prior written notice to the other prior to the end of the initial term or

any additional term. Tamidak retains the right to terminate the Agreement at any time by providing 90-days' written notice to Til Til, and Til Til may terminate the Agreement at any time after five years with six-months' prior written notice, provided that Til Til may immediately terminate the Agreement after providing written notice to Tamidak that it has failed to make any annual lease payment and such default is not remedied by Tamidak within ten business days after written notice has been provided to Tamidak. In the event of such termination, Tamidak remains obligated to make such payment.

Upon termination of the Agreement, Tamidak is required to abandon and clean the Area of Interest, remove equipment and comply with the closure plan approved by the relevant authority.

#### Tailings Pond - Area of Interest

The tailings pond is approximately 130 m by 200 m in size with depths ranging from 2 to 15 m. In 2019, a preliminary sampling program was carried out as part of the Company's environmental permitting of the tailings pond and the Company decided to assay the samples for gold mineralization. A total of 20 samples were collected, none more than 50 cm deep. The original samples returned higher than expected gold grades averaging 0.5 g/t, ranging from a low of 0.34 g/t to a high of 0.63 g/t.

In 2021, the tailings pond was drilled with Auger-type wells to a maximum depth of 6m. This sampling system is adequate until this depth and it is not recommended for more deep holes because of the higher water content in depth. A total of 13 wells were drilled, in 3 sections separated 35 m and in lines every 50 m. In 2022, a 43-101 report completed on the auger holes found an Indicated Resource of 560,000 tonnes with 25,165 oz Au, assuming a head grade of 1.12 g/t Au.

Tamidak has now received all of the applicable environmental and mining permits and has initiated the tailing pond reprocessing operation at the Company's Pimenton project. Please see the Company's press release dated February 21, 2023. In March and April 2023, the pond reprocessing operation began. The first sale of concentrate is expected to occur in the Company's third quarter.

#### **Financial Highlights**

- Loss before and after income taxes for the six month period ended March 31, 2023 was \$334 compared to a loss of \$47 in the same period in 2022.
- Loss before and after income taxes for the three months ended March 31, 2023 was \$247 compared to a profit of \$125 in the same period in 2022.
- Basic loss per share for the six months ended March 31, 2023 was a loss of \$0.00 per share (2022 – loss of \$0.00).
- At March 31, 2023, the Company had cash of \$4 compared to \$4 at March 31, 2022.
- Cash used in operations for the six months ended March 31, 2023 was negative \$279 (2022 – negative \$387).

- Cash used in operations for the period ended March 31, 2023 was \$279 (2022 – \$387).

### Other Highlights

- Management believes that the values of the exploration of Tordillo 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 income (loss) for the six months ended March 31, 2023 and 2022.

	Three months ended		Six months ended	
	March 31,		March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
<b>Expenses</b>				
General, sales and administrative (Note 11)	360	213	442	334
Foreign exchange	(100)	20	(95)	51
Interest	4	4	8	8
Accretion expense (Note 8)	18	18	37	37
Unrealized loss/(gain) on derivative liability	(35)	(378)	(58)	(381)
	247	(123)	334	47
<b>Income (loss) and comprehensive income (loss) for the period</b>	<u>(247)</u>	<u>123</u>	<u>(334)</u>	<u>(47)</u>
<b>Basic and diluted income (loss) per share</b>	<u>(0.00)</u>	<u>0.00</u>	<u>(0.00)</u>	<u>(0.00)</u>
<b>Weighted average number of shares outstanding - basic and diluted</b>	424,609,480	395,291,279	424,609,480	395,291,279

1) Consolidated statements of income (loss) and other comprehensive income (loss) for the three month period ended March 31, 2023 and 2022:

- General and administrative costs for the three months ended March 31, 2023 were \$360 compared to \$213 for the same period in 2022. The increase was due to payments made during January for right of way fees to access the Pimenton mine site and payments of annual mining licenses during the month of March.

2) Consolidated statements of loss and other comprehensive loss for the six month period ended March 31, 2023 and 2022.

a) General and administrative costs for the six months ended March 31, 2023 were \$442 compared to \$334 for the same period in 2022. The increase is explained above.

3) Consolidated Statement of Financial Position as at March 31, 2023

As at March 31, 2023 the Company had a negative working capital of \$2,578 (2021 – negative \$1,988).

### 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 financial statements

	Mar 31, 2023	Dec 31, 2022	Sept 30, 2022	June 30, 2022
Sales	-	-	-	-
Net income (loss)	(247)	(87)	(75)	(116)
Per share	0.00	0.00	0.00	0.00
Per share diluted	0.00	0.00	0.00	0.00

	Mar 31, 2022	Dec 31, 2021	Sept 30, 2021	June 30, 2021
Sales	-	-	-	-
Net income (loss)	123	(170)	917	(536)
Per share	0.00	0.00	0.00	0.00
Per share diluted	0.00	0.00	0.00	0.00

### 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 six months ended March 31, 2023, the Company expensed a total of \$nil (2022 - \$nil) relating to mining property costs and exploration costs on Tordillo.

### **Bandurrias**

During the six months ended March 31, 2023 acquisition costs of \$nil were expensed (2022 - \$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 March 31, 2023, the Company had contributed a cumulative total of \$4,080 (2022 - \$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 March 31, 2023, the Company had contributed a cumulative total of \$1,556 (2022 - \$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.

## **6. INVESTING**

During the six months ended March 31, 2023 the Company invested \$nil (2022 - \$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, Auromin (a company owned by the Thomson family), Chañar Blanco (a company owned by Mario Hernandez, a Director and Officer of the Company) and Mario Hernandez personally 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 the Thomson family, (“Thomson”) through Compañía Minera Auromin Ltda (“Auromin”), a company controlled by the Thomsons, 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 March 31, 2023 is \$27. There is no derivative liability associated with the fluctuation of the price of gold in the contract as at March 31, 2023 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 March 31, 2023 is \$167 and unpaid interest amounts to \$78 (2022 - \$65) There is no derivative liability associated with the fluctuation of the price of gold in the contract as at March 31, 2023 there was no production at the Pimenton mine.

## 8. LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2023, the Company shows a negative working capital of \$2,578 (2021 - negative \$1,988).

<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	194	194	-	-
Amount due to related parties	2,138	2,138	-	-
Short-term debt	271	271	-	-
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>5,353</b>	<b>2,603</b>	<b>-</b>	<b>2,750</b>

Note (1). The estate of David Thomson and Mario Hernandez, a director and officer 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 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. RELATED PARTY TRANSACTIONS**

A company controlled by the Chief Financial Officer of the Company (the "CFO" and interim CEO and also a director) billed \$16 to the Company for accounting and administration services and \$18 for interim CEO services during the six months ended March 31, 2023 (2022 - \$18 and \$18). Trade and other payables include \$28 in relation to such services at March 31, 2023 (2022 - \$16).

Due to related parties includes cash advances of \$1,913 from the estate of David Thomson, who was a former director and officer of the Company at March 31, 2023 (2022 - \$1,376). The cash advances bear no interest and have no specific terms of repayment.

As at March 31, 2023, the Company owes a total of \$224 (2022 - \$213) to directors for director's compensation. This amount is included in due to related parties.

## **11. 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.

## **12. SECURITIES OUTSTANDING**

As of May 29, 2023 the Company has issued one class of common shares of which a total of 436,263,916 are outstanding.

Options granted under the stock option plan of the Company (each, an "Option") outstanding as of May 29, 2023 totaled 2,562,000 options exercisable into 2,562,000 common shares at exercise prices of CA \$0.05 through August 2023 of which 2,562,000 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.

## **13. 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 March 31, 2023 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 March 31, 2023, 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.