

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

The following discussion is a review of the activities, results of operations and financial condition of Cerro Grande Mining Corporation and its consolidated subsidiaries (“CEG” or the “Company”) for the three month period ended December 31, 2014, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of February 27, 2015. This discussion should be read in conjunction with the audited consolidated financial statements as at September 30, 2014, 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. Such forward-looking information includes, without limitation, information regarding the Company’s

expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, development and operational plans and objectives (including delineating additional mineral resources), expectations regarding cash flows, revenue and expenses, expectations regarding the timing for the calculation of mineral reserves, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital, the expected increase in concentration of gold in its Knelson concentrate resulting from the new gold table and gold furnace and the Company's expectations regarding its dividend policy.

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, the ability of management to increase commercial mining operation at Pimenton, 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 demand.

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.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labor or supplies, climatic conditions; inability to delineate additional mineral resources and other factors including, but not limited to, those listed under "Operations at the Pimenton Mine, Risks".

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

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

## **2. OVERVIEW**

The Company is an exploration, development and mining corporation focused in Chile. The Company's primary asset is an operating gold and copper mine in Chile (the "Pimenton Mine"). The Pimenton mine is a narrow high-grade gold and copper mine located in the high mountain range of Chile and encompasses 3,121 hectares (7,708 acres).

The Company's other major assets are a porphyry copper deposit (the "Pimenton Porphyry") and other projects in various stages of exploration and development in Chile which include "Santa Cecilia", "Tordillo", and two limestone deposits "Catedral" and "Cal Norte".

## **3. HIGHLIGHTS**

### **Operational Highlights**

- Gold produced by the Pimenton Mine for the three months ended December 31, 2014 was 1,822 oz compared to 2,558 oz produced in the prior quarter.
- Pimenton's cash cost for the first quarter ended December 31, 2014 was \$1,119 per ounce of gold produced net of by product credits, compared to \$991 per oz in the prior quarter.
- Pimenton's production cost, which includes depreciation and amortization, for the first quarter ended December 31, 2014, was \$1,444 per ounce of gold produced net of by product credit, compared to \$2,002 per oz in the prior quarter.
- The average gold recovery for the three months ended December 31, 2014 was 95.10% compared to 94.28% in the prior quarter.
- The Company expects the mine to maintain milling rates of 120 tons per day depending on the rate of conversion of its known resources to reserves.

- Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has prepared but not yet submitted permits to take the mine up to 500 tons per day.

### **Financial Highlights**

- Loss before income taxes for the three months period ended December 31, 2014 was \$1,415 compared to a loss of \$1,086 in the same three month period in 2013.
- Average price per ounce of gold sold for the three months ended December 31, 2014 was \$1,207 (2013 - \$1,258).
- Net loss after income taxes for the three months ended December 31, 2014 was \$1,415 compared to \$1,086 in the same three month period in 2013.
- Basic loss per share for the three months ended December 31, 2014 was a loss of 0.008 cents per share (2013 – 0.011).
- At December 31, 2014, the Company had cash and cash equivalents of \$245 compared to \$87 at September 30, 2014.
- Cash flow provided by operating activities for the quarter ended December 31, 2014 was \$202 (2013 - \$750).

### **Other Highlights**

- Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Santa Cecilia project, 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.
- On October 24, 2014 Mr. David Thomson and Mr. Mario Hernandez, both Officers and Directors of the Company, through their respective companies have (i) Suscribed to a Private Placement of units of the Company for cash proceeds of US\$700 (the "Placement"), and (ii) extinguish certain outstanding indebtedness owed to the Directors by issuing common shares of the Company (each, a "Common Share") in settlement of such debt (the "Debt Settlement"). The Placement and Debt Settlement has been completed in order to immediately improve the financial position of the Company given the serious financial difficulties it is currently facing, and with a view of setting the Company on firm financial ground to carry out its mining business in Chile in the future.

Pursuant to the Placement the Company has issued an aggregate of 15,743,000 units of securities of the Company (each, a "Unit") at CDN\$0.05 per Unit, with each Unit comprising one Common Share and one Common Share purchase warrant (each, a "Warrant"), with each Warrant exercisable for a period of 5 years to purchase one Common Share at CDN\$0.07. Proceeds of the Placement are expected to be used for general working capital purposes, including, but not limited to, corporate and administrative purposes.

Pursuant to the Debt Settlement, the Company has extinguished outstanding indebtedness in the aggregate amount of US\$2,162, owed to these Directors, such

indebtedness being made up of accrued but unpaid royalty payments and service fees owed to the Directors and cash advances made to the Company by the Directors and interest thereon, by issuing an aggregate of 48,645,220 Common Shares (representing an issue price of CDN\$0.05 per share) in full and final settlement thereof. All dollar amounts have been converted at an exchange rate of CND\$1.1245 per US\$1.

- In January 2015 the Company was successful in extending its labour contract with the Union at the Pimenton mine by one year (February 2016 to February 2017). The agreed extension was due to the Pimenton mine's management agreeing to a 7 by 7 shift compared to the actual 10 by 5 shift along with a 3% increase in base wages. The Company believes the small adjustment in wages will be more than offset through adjustments to plant and mine operations and an increased productivity of the mine workers.

#### 4. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated profit and loss for the first quarter ended December 31, 2014 with comparatives for the same period in 2013.

	<b>Three months ended</b>	
	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
<b>Revenue</b>	<b>\$</b>	<b>\$</b>
Sales	2,464	4,541
Services	-	-
	<u>2,464</u>	<u>4,541</u>
<b>Expenses</b>		
Operating costs	3,285	4,790
Operating costs for services	-	-
Reclamation and remediation	19	11
General, sales and administrative	564	770
Foreign exchange	(20)	(50)
Interest	53	95
Other gains and losses (net)	(23)	9
Exploration costs	0	2
	<u>3,879</u>	<u>5,627</u>
<b>Loss and comprehensive loss before income taxes</b>	<b>(1,415)</b>	<b>(1,086)</b>
Income tax (expense)/recovery	-	-
Deferred income tax	-	-
<b>Loss and comprehensive loss for the period</b>	<b><u>(1,415)</u></b>	<b><u>(1,086)</u></b>
<b>Basic and diluted loss per share</b>	<b><u>(0.008)</u></b>	<b><u>(0.011)</u></b>
<b>Weighted average number of shares outstanding</b>	<b>174,977,010</b>	<b>98,585,517</b>

1) Consolidated statements for the three month periods ended December 31, 2014 and 2013:

- a) Revenue for the three month period ended December 31, 2014 decreased over the same period in 2013 due to a decrease in gold sales to 1,745 oz compared to 3,088 oz in the three month period ended December 31, 2013. The decrease was also due to a lower grade and average price of gold of \$1,207 for the quarter ended December 31, 2014 (2013-\$1,258).
- b) Operating expenses for the three months ended December 31, 2014 were \$3,285 compared to \$4,790 for the same period in 2013. The decrease of \$1,505 consists mainly due to a reduction in labour costs and a revaluation of the Chilean pesos vs the US Dollar and lower fuel costs.
- c) General and administrative costs for the three months ended December 31, 2014 were \$564 compared to \$770 for the same period in 2013, basically for the same reasons mentioned in 1) b).

2) Consolidated Cash flow for the three month period ended December 31, 2014

Cash generated by the Pimenton Mine decreased due to lower gold grades, sales and prices in the quarter compared to the comparative quarter. Capital expenditures at the Pimenton Mine were \$63 for the three months ended December 31, 2014 (2013 - \$184).

3) Consolidated Statement of Financial Position as at December 31, 2014

As at December 31, 2014, the Company had a negative working capital of \$1,576 (2013–negative \$454).

The following information is provided for each of the eight most recent quarterly periods ending on the dates specified. The figures are extracted from underlying unaudited financial statements that have been prepared using accounting policies consistent with IFRS.

## Summary of Quarterly Results

	<b>Dec 31, 2014</b>	<b>Sept 30, 2014</b>	<b>June 30, 2014</b>	<b>Mar 31, 2014</b>
Sales	2,464	3,067	2,287	4,233
Net income (loss) before extraordinary items	(1,415)	(1,299)	(1,514)	(1,248)
Per share	(0.008)	(0.018)	(0.013)	(0.009)
Per share diluted	(0.008)	(0.019)	(0.013)	(0.009)
Net income (loss) after extraordinary items	(1,415)	(1,299)	(1,514)	(1,248)
Per share	(0.008)	(0.018)	(0.013)	(0.009)
Per share diluted	(0.008)	(0.019)	(0.013)	(0.009)

	<b>Dec 31, 2013</b>	<b>Sept 30, 2013</b>	<b>June 30, 2013</b>	<b>Mar 31, 2013</b>
Sales	4,541	3,598	2,423	6,225
Net income (loss) before extraordinary items	(1,030)	(600)	(3,185)	(561)
Per share	(0.009)	(0.006)	(0.031)	0.006
Per share diluted	(0.009)	(0.005)	(0.029)	0.005
Net income (loss) after extraordinary items	(1,086)	(878)	(4,148)	(1,082)
Per share	(0.011)	(0.009)	(0.041)	(0.011)
Per share diluted	(0.011)	(0.008)	(0.038)	(0.010)

## 5. OPERATIONS AT THE PIMENTON MINE

### Safety, Health and Environment

The following safety statistics have been presented for the first quarter ended December 31, 2014 along with 2013 comparables:

<b>Pimenton Mine Safety Statistics</b>		
	<b>For the 3 months ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Lost time injury	2	5
Medical aid	2	3
<b>Total</b>	<b>4</b>	<b>8</b>
Total injury frequency rate (i)	24	26
Total disabling injury frequency rate (ii)	691	691
Lost days for medical aid	16	101
Man - Hours worked	114,786	121,234

(i) A measurement of lost time injury multiplied by 1,000,000 man-hours worked

(ii) A measurement of the total number of shifts lost multiplied by 1,000,000 per total of number of man-hours worked

Overall, for the three month period ended December 31, 2014 Pimenton's accident record has improved compared to the prior quarter ended December 31, 2013, which is reflected in the total number of lost days.

There were no adverse environmental issues during the quarters ended December 31, 2014 and 2013.

### Gold Production

Gold produced in Q1 of 2015 was 1,822 ounces, a 19.38% decrease compared to the 2,257 ounces produced in Q4 of 2014 and a 28.78% decrease compared to 2,558 ounces produced in Q1 of 2014.

The following table shows the tonnes milled, average mill grade, gold plant recovery and gold produced during each quarter from January 2013 to December 31, 2014:

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q2-2014	8,806	9.74	95.80	2,641.96
Q3-2014	5,114	8.05	95.00	1,260.30
Q4-2014	9,733	7.80	90.00	2,256.80
Q1-2015	9,601	7.43	95.10	1,822.04
	33,254	8.25	94.00	7,981.10

Quarter	Tonnes milled	Average mill grade Au (gr/ton)	% Gold recovery	Gold Produced Oz
Q2-2013	9,356	11.43	93.10	2,676.65
Q3-2013	8,665	7.85	94.30	1,736.19
Q4-2013	8,673	10.07	94.60	2,614.43
Q1-2014	10,128	9.98	94.10	2,557.98
	36,822	9.94	94.02	9,585.25

The drop in production in Q3-2014 was mainly as a result of the closure of the mine for 5 weeks during the months of May and June. While the grade of gold continues to drop, efforts are being focused on reaching higher grade veins.

### Operating Costs

The cash cost per ounce of gold produced during the quarters from January 2014 to December 31, 2014 are set out in the table below.

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

	<u>Q2-2014</u>	<u>Q3-2014</u>	<u>Q4-2014</u>	<u>Q1-2015</u>	<u>Total</u>
Gold ounces produced	2,642	1,260	2,257	1,822	7,981
Direct mine expenses	2,867	2,396	2,697	2,307	10,267
By product credits (deduct)	(796)	(433)	(460)	(269)	(1,958)
<b>Cash Costs</b>	<b>2,071</b>	<b>1,963</b>	<b>2,237</b>	<b>2,038</b>	<b>8,309</b>

<b>Cash cost/Oz</b>	<b>783.89</b>	<b>1,557.57</b>	<b>991.23</b>	<b>1,118.73</b>	<b>1,041.07</b>
Depreciation	379	364	362	362	1,467
Amortization	335	195	300	230	1,060
<b>Production costs</b>	<b>2,785</b>	<b>2,522</b>	<b>2,899</b>	<b>2,630</b>	<b>10,836</b>
<b>Production cost/Oz</b>	<b>1,001.48</b>	<b>1,054.19</b>	<b>2,001.59</b>	<b>1,443.77</b>	<b>1,357.69</b>
Net Smelter return	253	129	175	139	696
<b>Total costs</b>	<b>3,038</b>	<b>2,651</b>	<b>3,074</b>	<b>2,769</b>	<b>11,532</b>
<b>Total cost/Oz</b>	<b>1,149.98</b>	<b>2,103.98</b>	<b>1,362.11</b>	<b>1,519.76</b>	<b>1,444.90</b>

### Mineral Reserves and Resources

The Company has received a NI-43-101 Technical Report entitled “A Technical Report on the Pimenton Mine, The Surrounding Pimenton Property and the Nearby Tordillo Property in Central Chile”, dated December 17, 2013, which gives Pimenton the following reserves:

	<u>Tonnes</u>	<u>g Au/t</u>	<u>Contained oz Au</u>	<u>% Cu</u>
Proven Reserves	28,000	11.0	9,600	1.2
Probable Reserves	110,000	11.1	38,000	1.2
Proven + Probable Reserves	138,000	11.1	47,600	1.2

Not included are inferred resources of 162,000 tonnes at a grade of 12.3 g Au/t and 1.3% Cu. Proven and probable reserves are sufficient to operate the mine for in excess of three years at its current rate of production of 120 tonnes per day. The Company also believes it will be successful in converting inferred resources into reserves.

Exploration and development are ongoing at the Pimenton mine. The rate of exploration and development at Pimenton is expected to increase during the 2015 fiscal year.

The above Technical Report dated December 17, 2013 compared to the Technical Report dated January 31, 2011 shown below:

	<u>Tonnes</u>	<u>g Au/t</u>	<u>Contained oz Au</u>	<u>% Cu</u>
Proven Reserves	26,000	12.8	10,351	1.4
Probable Reserves	113,000	13.7	49,772	1.5
Proven + Probable Reserves	139,000	12.9	60,123	1.4

Not included are inferred resources of approximately 189,000 tons at an average grade of 12.9 Au/t and 1.4% Cu.

These two Technical Reports demonstrate that the Pimenton Mine has replaced its Proven and Probable Reserves annually for the past three years at nearly comparable grades of Au and Cu.

## **Risks**

Risks relating to the Pimenton Mine associated with mining operations (e.g. production, commodity prices, etc.) are set out below:

- Increasing costs: Pimenton, and other Chilean miners, continue to experience significant upward cost pressures from labour and the costs associated with generating their own electricity at the mine.
- Reserve replacement: As is normal with exploration/development in narrow veins, activities at Pimenton may not identify sufficient resources of an adequate grade to replace ore which has been depleted by mining activities. Pimenton has embarked on development and exploration programs as set out under “Mineral Reserves and Resources” above.
- With the exception of the \$100 Gold Loan, the Company does not use financial instruments to mitigate the risks of either change in the price of gold or currency fluctuations.
- The mining industry is intensely competitive in all of its phases. The Company competes with many companies possessing larger technical facilities and financial resources.
- All phases of the Company’s operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.
- The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.
- The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labour unrest could adversely affect the Company’s exploration efforts and production plans.
- The Company’s mine is located in an area that can experience severe winter weather conditions that could adversely affect mining operations.

## **Opportunities**

- Increased production: Pimenton's existing reserves and resources would support a further increase in production provided the necessary investments in the resource development can be made.
- Surplus capacity: The plant at the Pimenton Mine currently has a daily average milling capacity of over 150 tons per day. Any increased production arising from increased mining throughput could therefore be processed with little or no capital investment and incur only consumable costs to treat any increase throughput.
- Exploration success: Depending on future exploration success, Pimenton may be able to increase its production levels.

## **Outlook**

The Company achieved annualized production of 7,981 ounces of gold for the twelve month period ended December 31, 2014, which is expected to be sustained and increased this year. During the first three months ended December 31, 2014 the Company's production was 1,822 ounces of gold.

The Company produces its own gold doré at the mine site allowing it to ship the gold doré bars directly to a gold refinery in Europe. 90% of the value of this gold shipment is paid during the week following delivery with the balance of payment received a month from the day of receipt of the initial payment. For the three month period ended December 31, 2014, 60% of the Company's sales have been to a gold refinery in Europe and 40% to the ENAMI smelter in Ventanas, Chile. Enami is owned by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment.

## **Changes to the Dore Processing Circuit**

We have improved several aspects of our gravity circuit from November 2014 to January 2015. The two main areas are the addition of a Falcon gravity concentrator and the increased security measures on the actual dore process.

The Falcon has had a significant learning process due to the wide variety of g forces that can be used. We currently have reached an average of 60% recovery of gold and we believe we can reach in excess of 75% with minor modifications to the ball mill screen discharge and general fine tuning of the system. Security with the Falcon is significantly better since it is a locked automatic system without any need of an operator. Concentrate grades are higher allowing for quicker processing and water consumption is down allowing more through put in the ball mill and flotation circuit.

We have also made the entire dore process considerably more stringent with multiple weight checks with counter signed registries to make it more difficult to remove gold

during the process. We are quoting a Chinese induction furnace to upgrade our dore quality to higher than 90% Au. At present we are shipping dore at over 85% Au. The security review of our dore process has detected that we can greatly simplify our dore process and cut out several unnecessary steps. The current process takes 72 hours to process from super concentrate to dore bar. We believe we can bring that down to 24 hours.

The samples taken from the automatic sampler on the main belt in the plant now go to a locked cabinet where they are automatically split into two assays: one for an external lab, and the other to our lab. Manipulation of the head grades would be important step if someone wanted to steal gold and cover up the theft in the metallurgical balance. We are making all the changes we can to make it as difficult as possible to steal gold from the gold room.

Apart from the small induction furnace, we are quoting a truck scale so we can increase the control of ore that goes to the plant. Again this would be to allow us greater accuracy in knowing what went into the plant and what should be coming out, including the gold copper concentrate.

It will be difficult to quantify how these changes affect the actual gold sales until all have been implemented.

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

### **Pimenton - porphyry copper**

The Company is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. A prior diamond drill program completed by Rio Tinto Mining and Exploration Ltd. (“Rio Tinto”) on the porphyry copper deposit located within the Pimenton area provided the Company with an exploration report which, among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project. Please see Report by Rio Tinto on the Company’s web site, [www.cegmining.com](http://www.cegmining.com).

The Company will continue exploration and drilling on the Pimenton porphyry copper deposits during the 2015 exploration seasons.

### **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 December 31, 2014, the Company expensed a total of \$nil (2013 - \$nil) relating to mining property costs and exploration costs on Tordillo.

### **Santa Cecilia**

On July 11, 2011 CEG signed a Letter of Agreement with the majority shareholders representing 65.6% of the outstanding shares of Compania Minera Cerro del Medio (CDM), the 100% owner of the Santa Cecilia project which is located in the Maricunga gold district of Chile and adjacent to Exeter Resources Caspiche project. Under the terms of the agreement, between July 31, 2011 and July 31, 2013 CEG must fund the CDM majority shareholders, and any option shareholders, the pro rata cost of a drilling campaign on the property consisting of a minimum of 7,200 meters of drilling, at an aggregate cost of approximately \$4,000. CEG is committed to fund an estimated \$2,624 or 65.6% of this drilling campaign. Mario Hernandez Dr. David Thomson, both EVP's and Directors of the Company and an arms length third party (the majority shareholders in aggregate) are owners of 65.6% of CDM. 3,335 meters had been drilled at December 31, 2013 for a cost to the Company of \$ 2,725 which includes a \$294 for the cost of an Orion 3D geophysical study mentioned below. Please see News Releases dated March 22, 2012, June 19, 2012 and March 20, 2013 for drill hole results on the Company's web site, [www.cegmining.com](http://www.cegmining.com).

During the three month period ended December 31, 2014, the Company expensed a total of \$nil (2012 - \$nil) relating to mining property costs and exploration costs on CDM.

In October 2012, the Company began an Orion 3D geophysical study by Quantec Geoscience Toronto, Canada on Santa Cecilia. Based on the study, Quantec recommended twenty-three DC/IP/MT anomalies for future drilling, nearly all of which are located within the previously established five MMI (mobile metal ion) gold and copper anomalies at Santa Cecilia. One of the most interesting DC/IP/MT anomalies sighted for drilling lies 1,000 meters to the south west of Exeter Resources Caspiche orebody.

Under the terms of the Letter of Agreement dated July, 2011 CEG engaged a qualified engineering firm to supervise the drilling campaign on Santa Cecilia. This firm also updated NI 43-101 technical reports on CEG's other projects and Santa Cecilia on completion of the drilling campaign.

Following the completion of the drilling campaign on Santa Cecilia, and receipt of the NI 43-101 technical reports, an evaluation of CEG and CDM will be undertaken by a competent, independent investment banking group to value CEG and CDM. On completion of a satisfactory evaluation, CEG will have 90 days in which to determine if it wishes to proceed with acquiring the interest of the Majority Shareholders in CDM.

Under the terms of the agreement, CEG or CDM may terminate the Letter of Agreement under certain circumstances. Depending on the circumstance, CEG will be reimbursed up to 125% of its share of drilling campaign costs. CEG may terminate the agreement at any time after having drilled not less than 1,500 meters.

Since the letter of agreement has no immediate impact on the shareholdings of Mr. Hernandez and Dr. Thomson in CEG, CEG is unable to provide a description of any impact that a definite acquisition agreement may have on any shareholdings in CEG at this, or any other, time.

Final approval of any such acquisition will likely require CEG shareholder and Canadian Securities Exchange approval.

### **Bandurrias**

During the three months ended December 31, 2014 acquisition costs of \$2 were expensed (2013- \$2).

### **Limestone deposits**

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

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

As at December 31, 2014, the Company had contributed a cumulative total of \$4,080 (2012 - \$4,080) to finance a drilling program on Catedral/Rino and complete a preliminary feasibility study for the construction of a 1,320 ton per day capacity cement manufacturing facility on the project as well as a preliminary feasibility study for construction of a 600 ton per day lime kiln on the Catedral property. During prior years the Company had written off \$4,080 in mining properties and exploration costs relating to Catedral/Rino.

As at December 31, 2014, the Company had contributed a total of \$1,556 (2013 - \$1,551) 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 \$1,561 in prior years as it focused its efforts on the Pimenton gold mine.

## **7. INVESTING**

During the quarter ended December 31, 2014 the Company invested \$475 (2013 - \$184) in mining plant and equipment.

## **8. FINANCING**

The Company financed all its operations using either funds on hand, funds generated by its operations, lease financing, convertible debentures or equity sold to related parties.

The common stock issued during the quarter was as follows:

- a) a US \$700 private placement by Mesrs. David Thomson and Mario Hernandez, for which a total of 15,743,000 Common shares were issued and corresponding warrants,
- b) a Debt settlement of US \$2,162 owed to Messrs David Thomson and Mario Hernandez, for which a total of 48,645,220 Common shares were issued.

### **Other Financing**

The Company's secured mortgage bears an interest rate of 5.13% and is secured by the building and land the Company uses for its office space.

The Company signed a "Gold Loan" for US \$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.

## **9. LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2014, the Company shows a negative working capital of \$1,576 (2013-negative \$454).

As of December 31, 2014 the Company had potential liabilities for reclamation and remediation costs, if and when the Pimenton Mine is permanently closed, at an estimated present value cost of \$1,879 (September 2014 - \$1,867). The Company calculated the cash flow estimation under updated parameters. The expected undiscounted remediation of \$2,360 is expected to be incurred in 6 years. These estimated cash flows are discounted using a long term 5 year Chilean interest rate of 1.81 % as at December 31, 2014.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>Over 4 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	2,693	2,693	-	-
Amount due to related parties	5,383	2,383	3,000	-
Debt, Gold loan and finance leases	1,687	732	437	518
Conditional loan agreement (1)	2,500	-	-	2,500
Tordillo prospect (2)	250	-	-	250
<b>Total Contractual Obligations</b>	<b>12,513</b>	<b>5,808</b>	<b>3,437</b>	<b>3,268</b>

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

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

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

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the 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.

## **10. OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

## **11. RELATED PARTY TRANSACTIONS**

A company owned by the CEO (who is also a director) billed \$nil to the Company at December 31, 2014 (2013- \$2) in relation to office space and services used by the Company. In addition, the Company has a receivable of \$208 (2013 - \$185) consisting of \$167 (2013 - \$138) of cash advances, net of salary and travel expenses, and two loans totaling \$41 (2013 - \$47), net of the market value at December 30, 2014 of 653,200 common shares of the Company, owned by him, which collateralizes one of the loans. The cash advances and loans bear no interest rate or specific repayment terms.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed \$17 to the Company for accounting and administration services rendered at December 31, 2014 (2013 - \$19). Accounts payable and accrued liabilities include \$31 in relation to such services at December 31, 2014 (2013 - \$28).

A law firm, of which a director of the Company is a partner, billed the Company \$31 at December 31, 2014 (2013 - \$26) for legal services. Accounts payable and accrued liabilities include \$130 at December 31, 2014 (2014- \$74).

Accounts payable and accrued liabilities include \$ 71 at December 31, 2014 (2014-\$131) for royalties due to Mario Hernández, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Amounts payable to related parties also include cash advances and salaries due of \$343 at December 31, 2014 (2013 - \$26).

Accounts payable and accrued liabilities include \$ 71 at December 31, 2014 (2014-\$131) for royalties due to David Thomson, who is also a director of the Company, and the owner of a net smelter royalty on the Pimenton gold mine. Amounts payable to related parties also include cash advances of \$ 390 at December 31, 2014 (2014 - \$41).

In the end of July 2013, Pimenton, a subsidiary of the Company entered into a loan agreement of \$3,000 in lieu of repayment of advances provided by Compañía Minera Chañar Blanco S.A. a Company owned by Mario Hernández, who is also director of the Company and Compañía Minera Auromín Ltda. a Company owned by David Thomson, who is also director of the Company. The loan which will be paid at the end of a three year term, has a 5% interest rate. The loan is secured by certain fixed assets and mining rights. As at September 30, 2014 the amount due is \$3,000. As of December 31, 2014 there is a total of \$38 (2014 - \$158) of interest payable to Compañía Minera Chañar Blanco S.A. and Compañía Minera Auromin Ltda. The amount outstanding as of this date is USD 3,000.

In October 2011 Pimenton entered into a services contract with CDM (Note 15). The services to be provided by Pimenton include management, machinery and equipment rental. In the year ended September 30, 2014 Pimenton recognized revenue of \$nil (2013 - \$101). For the three month period ended December 31, 2014 there is no revenue or payments.

On June 21, 2011 the board approved a resolution that non-executive directors be paid \$1 per meeting attended. Amounts due to the directors for these director fees as at December 31, 2014 were \$80 (2013 - \$39).

## **12. CRITICAL ACCOUNTING ESTIMATES**

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

### *Mining properties, plant and equipment*

Mining properties, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost included expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized separately, as appropriate, only when future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. All other repairs and maintenance costs are expensed during the period in which they are incurred.

Expenditures for the continued development of the mining property are capitalized as incurred. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

The major categories of property, plant and equipment are depreciated on a straight-line basis or units of production (UOP) as follow:

- Mining properties and development - UOP
- Building 5 years
- Plant and Equipment 1- 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. Changes to the estimated residual values or useful lives are accounted for prospectively.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and value in use. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such considerations.

#### *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.

#### *Revenue recognition*

Revenue from the sale of concentrates and gold doré are recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of customers. Generally, the final settlement price is computed with reference to quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to customers and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

Revenue from services includes management, drilling, machinery and equipment rent and is recognized as the services are rendered.

### *Stock-based compensation*

The Company has a share option plan, as discussed in note 7 (c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of 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.

## **13. SECURITIES OUTSTANDING**

As of February 27, 2015, the Company has issued one class of common shares of which a total of 174,977,010 common shares were outstanding. As of February 27, 2015, the Company had 1,608,254 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA\$0.50 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of February 27, 2015, totaled 5,664,952 of which 5,349,952, are currently exercisable into one common share at prices of CA\$0.10 to CA\$0.79 per common share, expiring at various dates through April, 2018.

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

## **14. CONTROLS**

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

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

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

Management has evaluated the effectiveness of the Company's Disclosure Controls and Procedures as at December 31, 2014 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

#### *Internal controls over financial reporting*

Management of the Company is responsible for evaluating the design of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS as of December 31, 2014, 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.

## **15. QUALIFIED PERSON**

#### *Mineral Reserves and Mineral Resources Estimates*

The Company has compiled with an independent qualified person under National Instrument 43-101, a Mineral Reserve and Mineral Resource estimate of the Pimenton Mine on December 17, 2013. These reports are filed on SEDAR at [www.sedar.com](http://www.sedar.com).