



RED EAGLE MINING CORPORATION

Unaudited condensed interim consolidated financial statements

For the three months ended March 31, 2018

RED EAGLE MINING CORPORATION
Consolidated statements of financial position
(thousands of US dollars)

As at	Note	March 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		\$ 637	\$ 1,776
Amounts receivable		5,134	4,746
Inventory	3	6,890	4,419
Prepaid expenses		1,194	1,261
		<u>13,855</u>	<u>12,202</u>
Non-current assets			
Property, plant and equipment	4	145,210	132,935
Exploration and evaluation assets	5	16,725	16,725
Other receivables	6	3,718	3,459
		<u>165,653</u>	<u>153,119</u>
Total assets		<u>\$ 179,508</u>	<u>\$ 165,321</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 24,163	\$ 15,441
Current portion of long-term debt	10	21,057	15,422
		<u>45,220</u>	<u>30,863</u>
Non-current liabilities			
Reclamation provision	9	1,935	1,794
Long-term debt	10	59,494	56,938
		<u>61,429</u>	<u>58,732</u>
Total liabilities		<u>106,649</u>	<u>89,595</u>
SHAREHOLDERS' EQUITY			
Share capital	11	115,026	114,910
Contributed surplus		20,295	20,470
Accumulated other comprehensive loss		(1,632)	(1,803)
Deficit		(64,645)	(61,430)
		<u>69,044</u>	<u>72,147</u>
Non-controlling interests	8	3,815	3,579
Total shareholders' equity		<u>72,859</u>	<u>75,726</u>
Total liabilities and shareholders' equity		<u>\$ 179,508</u>	<u>\$ 165,321</u>
Nature of Operations and Going Concern	1		
Subsequent events	15		

On behalf of the Board of Directors:

(signed) "Jeffrey Mason"
Director

(signed) "Ian Slater"
Director

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

RED EAGLE MINING CORPORATION
Consolidated statements of loss and comprehensive loss
(thousands of US dollars, except per share amounts)

For the three months ended	Note	March 31, 2018	March 31, 2017
Expenses			
Mine site expenses	4	\$ 1,410	\$ -
Mineral property exploration cost		537	554
Salaries and benefits		484	860
Office and administration		441	698
Professional fees		311	73
Investor relations and business development		110	96
Operating loss		3,293	2,281
Other (income) expenses			
Foreign exchange loss		912	222
Interest and other (income) expense		(4)	88
Net loss		\$ 4,201	\$ 2,591
Other comprehensive gain			
Foreign currency translation difference for foreign operations		(171)	(410)
Total comprehensive loss for the period		\$ 4,030	\$ 2,181
Net loss attributable to:			
Equity holders of the parents		4,073	2,536
Non-controlling interests		128	55
		\$ 4,201	\$ 2,591
Total comprehensive loss attributable to:			
Equity holders of the parents		3,902	2,131
Non-controlling interests		128	50
		\$ 4,030	\$ 2,181
Basic and diluted loss per share		\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding		391,203,511	251,189,499

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

RED EAGLE MINING CORPORATION
Consolidated statements of changes in equity
(thousands of US dollars)

	Number of shares	Attributable to equity holders of the parent					Non-controlling interests	Total
		Share capital	Contributed surplus	Accumulated other comprehensive (loss) gain	Deficit	Total		
Balance as at December 31, 2016	241,005,121	\$ 81,504	\$ 5,568	\$ (2,395)	\$ (47,736)	\$ 36,941	\$ 488	\$ 37,429
Shares issued	23,000,000	12,100	-	-	-	12,100	-	12,100
Share-based payments	-	-	1,680	-	-	1,680	-	1,680
Share options and warrants exercised	720,000	283	(110)	-	-	173	-	173
Expiry of share options	-	-	(15)	-	15	-	-	-
Total comprehensive (loss) gain	-	-	-	405	(2,536)	(2,131)	(50)	(2,181)
Acquisition and settlement of mineral properties	-	-	-	-	-	-	93	93
Balance as at March 31, 2017	264,725,121	\$ 93,887	\$ 7,123	\$ (1,990)	\$ (50,257)	\$ 48,763	\$ 531	\$ 49,294
Balance as at December 31, 2017	390,920,264	\$ 114,910	\$ 20,470	\$ (1,803)	\$ (61,430)	\$ 72,147	\$ 3,579	\$ 75,726
Share-based payments (note 11)	-	-	149	-	-	149	-	149
Share options, DSU's and RSU's exercised	318,750	116	(72)	-	-	44	-	44
Expiry of share options	-	-	(252)	-	252	-	-	-
Total comprehensive loss	-	-	-	171	(4,073)	(3,902)	(128)	(4,030)
Contributions from non-controlling interests (note 8, 11e)	-	-	-	-	606	606	364	970
Balance as at March 31, 2018	391,239,014	\$ 115,026	\$ 20,295	\$ (1,632)	\$ (64,645)	\$ 69,044	\$ 3,815	\$ 72,859

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

RED EAGLE MINING CORPORATION
Consolidated statements of cash flows
(thousands of US dollars)

For the three months ended	Note	March 31, 2018	March 31, 2017
OPERATING ACTIVITIES			
Net loss for the period		\$ (4,201)	\$ (2,591)
<i>Adjustments for items not affecting cash:</i>			
Share-based payments	11	149	721
Depreciation	4	223	185
Accretion expense		32	34
Foreign exchange loss (gain)		792	(16)
		<u>(3,005)</u>	<u>(1,667)</u>
<i>Net changes in non-cash working capital items:</i>			
Amounts receivable		(62)	(753)
Inventory		(2,471)	(839)
Prepaid expenses		199	(814)
Accounts payable and accrued liabilities		4,237	1,125
Net cash outflows from operating activities		<u>(1,102)</u>	<u>(2,948)</u>
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs	11	44	12,273
Production payments related to credit facility	10	(11)	(45)
Red Eagle Exploration's shares issued to non-controlling interests	11e	970	-
Net cash inflows from financing activities		<u>1,003</u>	<u>12,228</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(952)	(6,335)
Non-current tax credit paid		(259)	(111)
Settlement of mineral property obligations		-	(625)
Acquisition of California Gold mineral properties		-	(451)
Net cash outflows from investing activities		<u>(1,211)</u>	<u>(7,522)</u>
Net foreign exchange differences		171	(43)
Net (decrease) increase in cash and cash equivalents		<u>(1,139)</u>	<u>1,715</u>
Cash and cash equivalents, beginning of period		1,776	4,202
Cash and cash equivalents, end of period		<u>\$ 637</u>	<u>\$ 5,917</u>

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

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

1. NATURE OF OPERATIONS AND GOING CONCERN

Red Eagle Mining Corporation (“Red Eagle Mining” or the “Company”) was incorporated under the *Business Corporations Act* in British Columbia, Canada on January 4, 2010. The address and domicile of the Company’s registered office and its principal place of business is Suite 2348 - 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

The Company is primarily engaged in the development of the San Ramon Gold Mine and Mill. At March 31, 2018, the Company also owned a 76.4% controlling interest in Red Eagle Exploration Limited (“Red Eagle Exploration”) which holds exploration projects in Colombia (see subsequent events note 15 for the acquisition of the non-controlling interest in Red Eagle Exploration).

Going concern

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis that assumes that the Company will realize its assets and discharge its liabilities in the normal course of business.

The Company incurred a net loss for the three months ended March 31, 2018 of \$4,201 (2017: \$2,591). As at March 31, 2018, the Company had cash and cash equivalents of \$637 (2017: \$1,776) and a working capital deficiency of \$31,365 (2017: \$18,661). Subsequent to March 31, 2018, the Company entered into a Forbearance Agreement (the “Forbearance Agreement”) with Orion Fund JV Limited (“Orion”) and Liberty Metals & Mining Holdings LLC (“LMM” and together with Orion, the “Lenders”) pursuant to which the April 1, May 1, and June 1, 2018, amortization payments were deferred and the Lenders agreed to refrain from exercising any rights or remedies under the Amended Credit Facility until June 15, 2018. The Company is currently working with its Lenders to amend the terms of the Amended Credit Facility. The debt is classified as both current and non-current liabilities based on the existing terms at March 31, 2018.

The Company’s ability to continue operations in the normal course of business is dependent upon establishing sufficient cash flows from gold and silver production at the San Ramon Gold Mine and Mill which re-commenced operation in January 2018, or on the receipt of additional debt or equity financing, and on amending the repayment terms of the Amended Credit Facility. The nature and significance of these conditions, along with the working capital deficiency and the requirement to satisfy the long-term debt outstanding, cast significant doubt about the appropriateness of the going concern assumption (for details on the terms of the debt see note 10). These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the financial statements. Such adjustments could be material.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting and accordingly they do not contain all information and disclosures required for complete financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Therefore, they should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis and are presented in thousands of US dollars, unless otherwise stated, and follow the same accounting policies and methods of application as the most recent annual financial statements, except, as described below, for the effects of the adoption of new IFRS pronouncements.

The unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2018 were authorized for issue by the Board of Directors, on May 15, 2018.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (CONTINUED)

Financial instruments

On January 1, 2018 (the "Transition Date"), the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 provides a revised model for recognition, measurement and impairment of financial asset instruments and includes a substantially revised approach to hedge accounting. The Company adopted the standard using the modified retrospective approach. The transition to IFRS 9 did not impact the Company's measurement of financial assets and liabilities except for the carrying amount of long-term debt. The adoption of the standard required the Company to record the effect of the modification of the credit facility in 2017 differently. Previously, the effects of the modification were deferred and amortized over the remaining term of the credit facility on an effective interest rate basis. Under IFRS 9, the Company is required to record the effects of the modification as a finance cost in the period that the modification occurs. This resulted in an increase in the carrying amount of the credit facility of \$5,206 (note 10) at the Transition Date. As the Company is currently capitalizing all borrowing costs to the San Ramon Mine and Mill project, the incremental credit facility costs were capitalized to construction work in-progress in property plant and equipment (note 4).

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each of the Company's financial assets and financial liabilities:

	Measurement Category	
	Original (IAS 39)	New (IFRS 9)
Financial Assets:		
Cash, cash equivalents and amounts receivable	Amortized cost	Amortized cost
Financial Liabilities:		
Accounts payable and long-term debt	Amortized cost	Amortized cost

The Company's new accounting policies for financial assets are as follows:

Financial assets – Classification

Financial assets are classified at initial recognition as either: measured at amortized cost, FVTPL or FVOCI. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in earnings or loss or OCI. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Financial assets – Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in earnings or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (CONTINUED)

Financial instruments (continued)

Financial assets – Measurement (continued)

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in earnings or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in interest and finance (expense) income using the effective interest rate method.
- FVOCI – Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in earnings or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to earnings or loss and recognized in other gains (losses). Interest income from these financial assets is included in interest and finance (expense) income using the effective interest rate method. Foreign exchange gains and losses are presented in foreign exchange (loss) gain and impairment expenses in other expenses.
- FVTPL – Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in earnings or loss and presented net in the statement of earnings (loss) within other gains (losses) in the period in which it arises.

Changes in the fair value of financial assets at FVTPL are recognized in loss on financial instruments at fair value in the statement of earnings (loss) as applicable.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with any debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Revenue Recognition

On January 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 18 – Revenue ("IAS 18"). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the full retrospective approach. As the Company has not previously recorded any revenue, there was no impact on adoption of IFRS 15.

IFRS 15 requires entities to recognize revenue when 'control' of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the 'risks and rewards' of the goods or services transfer to the customer.

The Company's new accounting policy for recognition of revenue is as follows:

Revenue is generated from the sale of gold and silver bullion. The Company produces gold doré. The Company's performance obligations relate to the delivery of gold to customers, with each delivery representing a separate performance obligation.

Revenue from the sale of bullion is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the purchaser, the product is physically delivered to the customer, the customer controls the risks and rewards of ownership and the Company has a present right to payment for the product.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (CONTINUED)

Revenue Recognition (continued)

Control over the refined gold or silver produced from doré is transferred to the customer and revenue recognized upon delivery to the customer's bullion account.

Refined metals are sold at spot prices. Sales proceeds are collected within several days of the completion of the sale transaction.

3. INVENTORY

As at	March 31, 2018	December 31, 2017
Finished goods	\$ 2,947	\$ -
Work in process	522	-
Ore stockpiles	-	907
Materials and supplies	3,421	3,512
	<u>\$ 6,890</u>	<u>\$ 4,419</u>

4. PROPERTY, PLANT AND EQUIPMENT

	Construction work-in-progress		Mineral property	Other equipment	Total
	Mine	Mill			
Cost					
Balance, December 31, 2017	\$ 48,566	\$ 75,372	\$ 6,567	\$ 4,228	\$ 134,733
Impact of adopting IFRS 9 (note 2)	5,206	-	-	-	5,206
Balance, January 1, 2018 (restated)	\$ 53,772	\$ 75,372	\$ 6,567	\$ 4,228	\$ 139,939
Additions	7,016	-	-	186	7,202
Reclamation costs (note 9)	-	-	90	-	90
Balance, March 31, 2018	\$ 60,788	\$ 75,372	\$ 6,657	\$ 4,414	\$ 147,231
Accumulated depreciation					
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ (1,798)	\$ (1,798)
Depreciation	-	-	-	(223)	(223)
Balance, March 31, 2018	\$ -	\$ -	\$ -	\$ (2,021)	\$ (2,021)
Net book value, March 31, 2018	\$ 60,788	\$ 75,372	\$ 6,657	\$ 2,393	\$ 145,210
Net book value, December 31, 2017	\$ 48,566	\$ 75,372	\$ 6,567	\$ 2,430	\$ 132,935

Additions to construction work-in-progress are net of a credit for pre-production revenue of \$3,782 (2017: \$1,459).

Costs to maintain the site and processing plant in a state of operational readiness are being expensed directly to the consolidated statements of loss and comprehensive loss, and during the three-month period ended March 31, 2018, \$1,410 of these costs were expensed. Costs related to continued mine development are being capitalized to construction work in-progress.

As at March 31, 2018, the Company has not identified any events or circumstances that would indicate that the carrying amounts of the San Ramon Mine and Mill assets may not be recoverable.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of all direct costs, including option payments, incurred by Red Eagle Exploration to acquire the California Gold, Vetas Gold, and Santa Ana Silver projects. All direct costs incurred by the Company to acquire the Santa Rosa mineral property are included in Property, Plant and Equipment – Note 4.

	California	Vetas	Santa Ana	Total
Balance, December 31, 2017 and March 31, 2018	\$ 693	\$ 15,149	\$ 883	\$ 16,725

Vetas Gold Project

Subsequent to the end of the quarter, on April 13, 2018, Red Eagle Exploration acquired the Potosi property which adjoins the Vetas Gold Project. See subsequent events note 15.

6. OTHER RECEIVABLES

As at	March 31, 2018	December 31, 2017
VAT credits receivable	\$ 2,898	\$ 2,700
Security deposits and advances to suppliers	820	759
	<u>\$ 3,718</u>	<u>\$ 3,459</u>

As at March 31, 2018, the Company recognized value added tax (“VAT”) credits receivable of \$2,898 representing the cumulative amount of VAT paid to the Colombian Government. These VAT credits, depending on the nature, are either refundable or recoverable against corporate taxes to be paid in Colombia. These amounts are classified as long-term as the Company does not expect to fully recover them in the next year.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2018	December 31, 2017
Accounts payable	\$ 19,476	\$ 10,928
Accrued liabilities	4,269	4,054
Employee salaries and benefits payable	418	459
	<u>\$ 24,163</u>	<u>\$ 15,441</u>

8. NON-CONTROLLING INTERESTS

The Company had a 76.4% interest in Red Eagle Exploration as at March 31, 2018. During the three months ended March 31, 2018, the Company’s controlling interest in Red Eagle Exploration was diluted from 78.7% to 76.4% due to a private placement of common shares completed by Red Eagle Exploration in March 2018 (note 11e). Subsequent to the end of the quarter, on April 24, 2018, the Company completed an amalgamation with Red Eagle Exploration, whereby the Company acquired the remaining issued and outstanding common shares not already owned and now owns 100% of Red Eagle Exploration.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

8. NON-CONTROLLING INTERESTS (CONTINUED)

The following table summarizes financial information of Red Eagle Exploration, before any inter-company eliminations, that is included in the consolidated financial statements:

As at	March 31, 2018	December 31, 2017
Current assets	\$ 351	\$ 336
Non-current assets	16,738	16,489
Current liabilities	(596)	(1,018)
Non-current liabilities	(279)	(254)
Net assets	\$ 16,214	\$ 15,553
Non-controlling interests	\$ 3,815	\$ 3,579

For the three months ended March 31	2018	2017
Total comprehensive loss	\$ 570	\$ 691
Total comprehensive loss allocated to non-controlling interests	\$ 128	\$ 50

For the three months ended March 31	2018	2017
Cash flows from operating activities	\$ (816)	\$ (443)
Cash flows from financing activities	\$ 970	\$ 39
Cash flows from investing activities	\$ -	\$ (957)

9. RECLAMATION PROVISION

The Company has provided for future reclamation costs associated with the San Ramon Gold Mine and Mill held by the Company and the Vetas Gold Project held by Red Eagle Exploration. The reclamation costs have been calculated to reflect the amount of expected future net cash outflows discounted to present value for the future reclamation of disturbances incurred as at March 31, 2018. The reclamation provision has been recorded using a discount rate of approximately 6.8% and an inflation factor of approximately 4% based on relevant Colombian rates.

The following is a summary of the reclamation provision as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
San Ramon Gold Mine	\$ 1,656	\$ 1,539
Vetas Gold Project	279	255
Total Reclamation Provision	\$ 1,935	\$ 1,794

The following are changes in reclamation provision during the three months ended March 31, 2018 and year ended December 31, 2017:

	San Ramon Gold Mine	Vetas Gold Project
Balance, December 31, 2017	\$ 1,539	\$ 255
Change in estimate	90	19
Accretion expense	27	5
Balance, March 31, 2018	\$ 1,656	\$ 279

RED EAGLE MINING CORPORATION**Notes to unaudited condensed interim consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***10. LONG-TERM DEBT**

	Credit Facility
Balance, December 31, 2017	\$ 72,360
Impact of adopting IFRS 9 (note 2)	5,206
Balance, January 1, 2018 (restated)	\$ 77,566
Interest expense, including amortization	2,996
Production payments	(11)
Balance, March 31, 2018	\$ 80,551
	Current portion 21,057
	Long-term portion \$ 59,494

On August 11, 2017, the Company entered into an amendment to the US \$60,000 credit facility (the "Amended Credit Facility"). Under the terms of the Amended Credit Facility, principal repayments were to commence on April 1, 2018, in equal monthly amortization amounts of \$1,600 with a maturity date of April 1, 2019, at which time the remaining balance was due. The Amended Credit Facility bears interest at a rate of the higher of LIBOR or 1%, plus 11%, compounded monthly, and the interest is capitalized. The Amended Credit Facility continues to include a production payment of \$30 per ounce payable on the first 405,000 ounces of gold produced. The Amended Credit Facility is secured by all of the Company's property and assets. As at March 31, 2018, considering the various features of the Amended Credit Facility, the effective interest rate is approximately 14%.

The 2017 amendment was accounted for as a modification of debt. Under IAS 39, the effect of the modification was deferred and amortized over the remaining life of the credit facility on an effective interest rate basis. The impact of the modification was adjusted on adoption of IFRS 9 to record the impact of the changes on the carrying value of the debt at the original effective interest rate of approximately 14.5%

Subsequent to March 31, 2018, the Company entered into the Forbearance Agreement with the Lenders, pursuant to which the Lenders deferred the Company's requirement to make the April 1, May 1, and June 1, 2018, amortization payments and agreed to refrain from exercising any rights or remedies under the Amended Credit Facility until June 15, 2018. The Company is currently working with its Lenders to amend the terms of the Amended Credit Facility.

For the three months ended March 31, 2018, the Company capitalized \$2,996 of interest on the Amended Credit Facility to construction work in progress in property, plant and equipment.

The Company is required to maintain the following financial covenants, commencing July 1, 2018:

- a) as of the end of each fiscal quarter, Debt Service Coverage Ratio on a rolling four fiscal quarter basis of at least 1.5:1;
- b) as of the end of each fiscal quarter, EBITDA to Interest Coverage Ratio on a rolling four fiscal quarter basis of at least 5:1; and
- c) as of the end of each fiscal quarter, Debt to EBITDA Ratio on a rolling four fiscal quarter basis of no greater than 2:1.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

11. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common and preferred shares (nil outstanding) without par value.

b) Share Purchase Options

Information regarding share purchase options outstanding at March 31, 2018 is as follows:

	Number of options	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
Outstanding, December 31, 2017	19,755,000	\$ 0.38	\$ 0.19
Granted	400,000	0.35	0.16
Exercised	(200,000)	0.28	0.15
Expired	(1,125,000)	0.58	0.28
Forfeited	(787,500)	0.40	0.17
Outstanding, March 31, 2018	18,042,500	\$ 0.37	\$ 0.19

Information regarding share purchase options outstanding at March 31, 2018 is as follows:

Expiry date	Options outstanding	Options exercisable	Exercise price in CAD \$	Weighted average remaining contractual life (years)
April 9, 2019	1,400,000	1,400,000	\$ 0.33	1.02
May 6, 2020	2,045,000	2,045,000	0.33	2.10
October 7, 2020	5,400,000	5,400,000	0.275	2.52
April 22, 2021	175,000	175,000	0.57	3.06
July 8, 2021	300,000	300,000	0.77	3.27
October 17, 2021	250,000	187,500	0.80	3.55
December 19, 2021	1,885,000	1,663,750	0.65	3.72
August 19, 2022	6,587,500	2,968,750	0.35	4.39
	18,042,500	14,140,000	\$ 0.37	3.20

For the three months ended March 31, 2018, the fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2018
Risk free interest rate	1.8%
Expected volatility	75%
Expected life (years)	2.9
Expected dividends (yield)	0%
Weighted average fair value per option in CAD \$	\$ 0.16

The share-based payments expense related to share purchase options for the three months ended March 31, 2018 was \$114 (2017: \$195) of which \$nil (2017: \$99) have been capitalized to property, plant and equipment and \$114 (2017: \$96) has been recorded in the statement of loss and comprehensive loss.

RED EAGLE MINING CORPORATION**Notes to unaudited condensed interim consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***11. SHARE CAPITAL (CONTINUED)****c) Warrants**

No warrants were issued during the three months ended March 31, 2018 and 2017.

Information regarding warrants outstanding at March 31, 2018 is as follows:

	Number of warrants	Weighted average exercise price in CAD \$
Outstanding, December 31, 2017 and March 31, 2018	130,220,143	\$ 0.49

Information regarding warrants outstanding at March 31, 2018 is as follows:

Expiry date	Warrants outstanding	Weighted average exercise price in CAD \$	Weighted average remaining contractual life (years)
July 16, 2020	5,000,000	\$ 0.275	2.3
August 7, 2022	125,220,143	0.50	4.4
	130,220,143	\$ 0.49	4.3

d) Deferred and Restricted Share Units

Deferred and restricted share units granted to directors and certain senior officers of the Company outstanding at March 31, 2018 is as follows:

	Number of deferred share units	Number of restricted units
Outstanding, December 31, 2017	1,500,000	1,775,000
Exercised	-	(118,750)
Forfeited	-	(131,250)
Outstanding, March 31, 2018	1,500,000	1,525,000

Compensation expense for deferred and restricted share units is measured at fair value based on the binomial option pricing model and is recognized over the vesting period. The weighted average remaining vesting period of the units outstanding at March 31, 2018 is approximately 0.11 years.

For the three months ended March 31, 2018, share-based payment expense related to deferred and restricted units included in net loss was \$26 (2017: \$327) and \$nil (2017: \$201) was capitalized to Property, Plant, and Equipment.

e) Red Eagle Exploration, Shares, Share Purchase Options and Warrants

On April 24, 2018, the Company and Red Eagle Exploration completed the amalgamation previously announced pursuant to which the Company acquired all of the issued and outstanding common shares of Red Eagle Exploration not already owned by it. See subsequent events note 15.

Under the terms of the amalgamation, Red Eagle Exploration shareholders received one (1) common share of the Company for every two (2) Red Eagle Exploration common shares held ("Exchange Ratio"). All share purchase options and warrants were also converted at the Exchange Ratio.

Shares issued during the three months ended March 31, 2018

During the three months ended March 31, 2018, Red Eagle Exploration completed a non-brokered private placement of 11,042,000 units at a price of CAD \$0.12 per unit for total gross proceeds of \$1,031 (CAD \$1,325). Each unit consisted of one common share and one warrant. Each warrant entitles the holder thereof to purchase one common share at a price of CAD \$0.25 per share until June 23, 2022.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

11. SHARE CAPITAL (CONTINUED)

e) Red Eagle Exploration, Shares, Share Purchase Options and Warrants (continued)

Share Purchase Options

Information regarding Red Eagle Exploration's share purchase options outstanding at March 31, 2018 is as follows:

	Number of options	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
Outstanding, December 31, 2017	20,455,000	\$ 0.16	\$ 0.13
Expired	(1,162,500)	0.16	0.14
Forfeited	(387,500)	0.16	0.14
Outstanding, March 31, 2018	18,905,000	\$ 0.16	\$ 0.13

Expiry date	Options outstanding	Options exercisable	Exercise price in CAD \$	Weighted average remaining contractual life (years)
December 20, 2018	555,000	555,000	\$ 0.13	0.72
May 29, 2019	500,000	500,000	0.12	1.16
November 11, 2021	8,550,000	7,662,500	0.16	3.62
November 21, 2021	4,000,000	3,000,000	0.16	3.65
December 16, 2021	300,000	225,000	0.11	3.72
June 26, 2022	5,000,000	4,500,000	0.15	4.24
	18,905,000	16,442,500	\$ 0.15	3.64

The share-based payments expense related to share purchase options for the three months ended March 31, 2018 was \$9 (2017: 298), respectively, recorded in the consolidated statements of loss and comprehensive loss.

Warrants

Information regarding Red Eagle Exploration's warrants outstanding at March 31, 2018 is as follows:

	Number of warrants	Weighted average exercise price in CAD \$
Outstanding, December 31, 2017	6,854,722	\$ 0.25
Issued	11,042,000	0.25
Outstanding, March 31, 2018	17,896,722	\$ 0.25

Expiry date	Warrants outstanding	Weighted average exercise price in CAD \$	Weighted average remaining contractual life (years)
June 23, 2022	17,896,722	\$ 0.25	4.23

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

12. RELATED PARTY TRANSACTIONS

Key management, directors, and officers received the following salaries and benefits:

For the three months ended	March 31, 2018	March 31, 2017
Share-based payments	\$ 50	\$ 550
Employee salaries and benefits	157	246
Directors fees	35	58
	<u>\$ 242</u>	<u>\$ 854</u>

The following table provides the total amount of transactions entered into by the Company with related parties during the three months ended March 31, 2018 and 2017, and the outstanding balances as at March 31, 2018 and December 31, 2017:

For the three months ended	March 31, 2018	March 31, 2017
Purchases:		
Mine development and operating costs charged by Stracon of which a director, Steve Dixon, is the CEO	\$ 5,788	\$ 4,748
Legal fees to Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 98	\$ 99
Costs recharged from a company controlled by director Ian Slater	\$ 62	\$ 178
As at	March 31, 2018	December 31, 2017
Amounts owed to:		
Stracon of which a director, Steve Dixon, is the CEO	\$ 14,644	\$ 8,043
Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 128	\$ 34
A company controlled by director Ian Slater	\$ 431	\$ 603

Related party transactions are in the normal course of business and measured at the amounts agreed upon by the parties.

13. COMMITMENTS AND CONTINGENCIES

The Company has commitments related to the development and operations of the San Ramon Gold Mine and Mill as at March 31, 2018 as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Operational	\$ 3,944	\$ 2,958	\$ 1,243	\$ 8,145

The Company also has to make cash payments in order to meet the terms of the option agreements entered to acquire certain of its exploration and evaluation properties.

The Company may be involved in various claims or legal proceedings arising in the ordinary course of business. The Company does not currently believe that adverse decisions in any pending or threatened proceedings related to any matter, will have a material impact on the financial condition or future results of operations of the Company.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

(amounts are in thousands of US dollars, unless otherwise stated)

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has designated its cash and cash equivalents as a financial asset at amortized cost and accounts payable and long-term debt as financial liabilities at amortized cost.

a) Fair value

Management assessed that the fair values of cash and cash equivalents, amounts receivable, and accounts payable approximate their carrying amounts largely due to the short-terms to maturity of these instruments. The Company currently has no financial instruments measured at fair value.

The carrying value of long-term debt approximate its fair value.

b) Financial Risk Management

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's capital management objectives include working to ensure that it has sufficient liquidity to fund the Company activities. The Company endeavors to ensure that it will have sufficient liquidity in order to meet short to medium-term business requirements and all financial obligations as those obligations become due. Historically, sufficient liquidity has been provided through external financing initiatives. The Company's ability to continue operations in the normal course of business, and to maintain or adjust its liquidity, is dependent upon establishing sufficient cash flows from gold and silver production at the San Ramon Gold Mine and Mill, which has not yet been achieved, and upon amending the terms of the credit facility with its Lenders. Refer to Note 1 – Nature of Operations and Going Concern.

15. SUBSEQUENT EVENTS

a) Acquisition of Red Eagle Exploration Non-controlling Interest

On April 24, 2018, the Company and Red Eagle Exploration completed the amalgamation previously announced pursuant to which the Company acquired all of the issued and outstanding common shares of Red Eagle Exploration not already owned by it.

Under the terms of the Amalgamation, Red Eagle Exploration shareholders received one (1) common share of the Company for every two (2) Red Eagle Exploration common shares held. Pursuant to the transaction, the Company acquired an aggregate of 91,892,516 common shares of Red Eagle Exploration through the issuance of 45,946,281 common shares of the Company. Prior to the transaction the Company owned 297,948,252 Red Eagle Exploration Shares, representing 76.43% of the issued and outstanding Shares. As a result of the acquisition, the Company now owns 100% of the issued and outstanding shares of Red Eagle Exploration.

b) Red Eagle Exploration Acquisition of Mineral Property

On April 13, 2018, Red Eagle Exploration acquired the Potosi property which adjoins the Vetas Gold Project for \$40 in cash and 5,257,835 common shares of the Company at a price of CAD \$0.26 per share. In addition, \$800 is due in cash over a two-year period after the new delineation of the Paramo boundaries is enacted by the Government of Colombia, and as long as the Potosi property is not negatively affected by the new delineation. An additional payment equivalent to 1.5% of the value of gold and silver measured and indicated resources, if any, included in a NI 43-101 Technical Report is due in 3 years from the time of the new delineation.