RED EAGLE MINING CORPORATION

Consolidated Financial Statements

For the year ended December 31, 2016

March 31, 2017

Independent Auditor's Report

To the Shareholders of Red Eagle Mining Corporation

We have audited the accompanying consolidated financial statements of Red Eagle Mining Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Red Eagle Mining Corporation and its subsidiaries as at December 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter
The financial statements as at December 31, 2015 and for the year then ended were audited by other auditors who expressed an opinion on those statements in their report dated April 29, 2016. Their opinion was without reservation.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

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

As at	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents (note 19c)	$ 5,642	$ 10,348
Amounts receivable	1,391	490
Inventory (note 5)	4,699	-
Prepaid expenses	424	610
	12,156	**11,448**
Non-current assets		
Property, plant and equipment (note 6)	124,565	20,551
Mineral properties (note 7)	21,413	15,984
Other receivables (note 8)	5,701	12,101
Deferred debt costs	-	2,499
	151,679	**51,135**
Total assets	$ **163,835**	$ **62,583**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	$ 22,793	$ 8,553
Mineral property obligations (note 7)	1,526	4,432
Current portion of long-term debt (note 11)	22,310	-
	46,629	**12,985**
Non-current liabilities		
Mineral property obligations (note 7)	-	366
Long-term debt (note 11)	64,562	19,581
Reclamation provision (note 10)	2,389	642
	66,951	**20,589**
Total liabilities	**113,580**	**33,574**
SHAREHOLDERS' EQUITY		
Share capital	$ 95,212	$ 65,685
Contributed surplus	6,577	3,670
Accumulated other comprehensive loss	(674)	(1,041)
Deficit	(51,655)	(45,159)
	$ **49,460**	$ **23,155**
Non-controlling interests (note 9)	795	5,854
Total shareholders' equity	**50,255**	**29,009**
Total liabilities and shareholders' equity	$ **163,835**	$ **62,583**

Subsequent events (note 19)

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 Canadian dollars, except number of common shares and per share amounts)

For the year ended	December 31, 2016	December 31, 2015
Expenses		
Salaries and benefits	$ 3,600	$ 1,349
Office and administration	3,085	2,122
Mineral property exploration costs (note 7)	2,577	2,489
Investor relations and business development	717	478
Professional fees	552	493
VAT recovery	-	(740)
Operating loss	**10,531**	**6,191**
Other expenses (income)		
Foreign exchange (gain) loss	(1,435)	890
Interest and other expense (income)	113	(28)
Net gain from disposal of investment in associate	-	(343)
	9,209	**6,710**
Loss before tax		
Deferred tax recovery	-	(4)
Net loss	**$ 9,209**	**$ 6,706**
OTHER COMPREHENSIVE LOSS (OCL)		
Foreign currency translation difference for foreign operations	(367)	731
Total comprehensive loss	**$ 8,842**	**$ 7,437**
Net loss attributable to:		
Equity holders of the parent	8,103	6,463
Non-controlling interests	1,106	243
	$ 9,209	**$ 6,706**
Total comprehensive loss attributable to:		
Equity holders of the parent	7,736	7,194
Non-controlling interests	1,106	243
	$ 8,842	**$ 7,437**
Basic and diluted loss per share attributable to ordinary equity holders of the parent	$ 0.04	$ 0.05
Weighted average number of common shares outstanding	217,004,408	125,270,567

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

RED EAGLE MINING CORPORATION

Consolidated statements of changes in equity

(thousands of Canadian dollars, except number of commons shares)

		Attributable to equity holders of the parent						
	Number of shares	Share capital	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total	Non-controlling interests	Total
Balance as at December 31, 2014	**73,932,714**	**$ 37,164**	**$ 1,205**	**$ (310)**	**$ (38,827)**	**$ (768)**	**$ -**	**$ (768)**
Shares issued, net of share issue costs	107,496,538	28,521	-	-	-	28,521	-	28,521
Share-based payments (note 12)	-	-	1,439	-	-	1,439	-	1,439
Expiry of share options	-	-	(64)	-	64	-	-	-
Warrants issued	-	-	1,121	-	-	1,121	-	1,121
Expiry of warrants, net of tax	-	-	(31)	-	27	(4)	-	(4)
Total comprehensive loss	-	-	-	(731)	(6,463)	(7,194)	(243)	(7,437)
Acquisition of non-controlling interests	-	-	-	-	40	40	6,097	6,137
Balance as at December 31, 2015	**181,429,252**	**$ 65,685**	**$ 3,670**	**$ (1,041)**	**$ (45,159)**	**$ 23,155**	**$ 5,854**	**$ 29,009**
Shares issued, net of share issue costs	59,575,869	29,527	-	-	-	29,527	-	29,527
Share-based payments (note 12)	-	-	3,211	-	-	3,211	-	3,211
Expiry of share options	-	-	(11)	-	11	-	-	-
Share options and warrants exercised	-	-	(293)	-	-	(293)	-	(293)
Total comprehensive loss	-	-	-	367	(8,104)	(7,737)	(1,105)	(8,842)
Acquisition of non-controlling interests	-	-	-	-	1,597	1,597	(3,954)	(2,357)
Balance as at December 31, 2016	**241,005,121**	**$ 95,212**	**$ 6,577**	**$ (674)**	**$ (51,655)**	**$ 49,460**	**$ 795**	**$ 50,255**

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

RED EAGLE MINING CORPORATION

Consolidated statements of cash flows

(thousands of Canadian dollars)

For the year ended	December 31, 2016	December 31, 2015
OPERATING ACTIVITIES		
Net loss for the year	**$ (9,209)**	**$ (6,706)**
Adjustments for items not affecting cash:		
Share-based payments (note 12)	2,712	1,007
Depreciation (note 6)	601	437
Foreign exchange (gain) loss	(1,174)	1,227
Accretion expense	136	4
VAT recovery	-	(740)
Net gain from disposal of investment in associate	-	(343)
Deferred tax recovery	-	(4)
	(6,934)	**(5,118)**
Net changes in non-cash working capital items:		
Amounts receivable	(901)	(1,560)
Inventory	(2,137)	-
Prepaid expenses	186	(356)
Accounts payable and accrued liabilities	1,731	2,016
Net cash outflows from operating activities	**(8,055)**	**(5,018)**
FINANCING ACTIVITIES		
Issuance of common shares, net of share issue costs	21,199	24,799
Long-term debt, net of deferred debt costs (note 11)	55,730	17,187
Contribution to non-controlling interests	-	785
Net cash inflows from financing activities	**76,929**	**42,771**
INVESTING ACTIVITIES		
Purchase of equipment and capitalized costs	(70,112)	(25,531)
Payment of mineral properties obligations	(1,156)	(829)
Acquisition of subsidiary	(707)	(1,283)
Non-current tax receivable	(2,208)	-
Net cash outflows from investing activities	**(74,183)**	**(27,643)**
Net foreign exchange differences	603	(189)
Net (decrease) increase in cash and cash equivalents	**(4,706)**	**9,921**
Cash and cash equivalents, beginning of the year	10,348	427
Cash and cash equivalents, end of the year	**$ 5,642**	**$ 10,348**

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

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Red Eagle Mining Corporation ("Red Eagle" 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 and construction of the San Ramon Gold Mine and Mill, along with other exploration activities. The Company is considered to be in the development stage given that its mineral properties are not yet in production and, to date, have not earned any significant revenues. The recoverability of amounts shown for development assets is dependent on the existence of economically recoverable reserves, maintaining the necessary permits to operate a mine, managing the financing to complete development and future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumptions were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the consolidated statements of financial position. Refer to note 18b(v) for further discussion on the Company's liquidity risk.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared using the accounting policies set out in note 3.

The consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars.

The consolidated financial statements of Red Eagle Mining Corporation and all of its subsidiaries (the "Company") for the year ended December 31, 2016 were authorized for issue by the Board of Directors on March 31, 2017.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company as at December 31, 2016. The Company is the ultimate parent of the consolidated group of companies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The Company controls an investee if, and only if, the Company has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income or loss from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income or loss are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

These consolidated financial statements comprise the accounts of the Company and the following subsidiaries:

- REMDC Holdings Limited, a company incorporated in Canada (holding interest – 100%);
- Red Eagle Mining de Colombia S.A.S., a company incorporated in Colombia (holding interest – 100%);
- Red Eagle Finance Limited, a company incorporated in the British Virgin Islands (holding interest – 100%); and
- Red Eagle Exploration Limited ("Red Eagle Exploration" formerly named CB Gold Inc.), a company incorporated in Canada, and its subsidiaries (holding interest – 92%).

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below.

a) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and its subsidiaries, except Red Eagle Mining de Colombia S.A.S., is the Canadian dollar. The functional currency of the subsidiary Red Eagle Mining de Colombia S.A.S. is the Colombian peso. The consolidated financial statements are presented in Canadian dollars.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net loss.

Statements of comprehensive loss and cash flows for entities whose functional currency is different to the presentation currency are translated into the Company's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation are recorded as a component of other comprehensive income (loss). On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognized in net income (loss) as part of the gain or loss on sale.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value, net of bank overdrafts, which are repayable on demand. Cash and cash equivalents normally have a term to maturity of less than 90 days from the date of acquisition.

c) Inventory

Ore stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore is accumulated in stockpiles that are subsequently processed into gold in a saleable form. Work in process represents gold in the processing circuit that has not completed the production process, and is not yet in a saleable form. Finished goods inventory represents gold in saleable form. Materials and supplies represent consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c) Inventory (continued)

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs incurred, based on a normal production capacity, in bringing each product to its present location and condition. Cost of product inventories comprises direct labor, materials and contractor expenses, including depreciation on property, plant and equipment and an allocation of general and administrative costs. As ore is removed for processing, costs are removed based on the average cost per ounce in the stockpile.

The Company records provisions to reduce inventory to net realizable value to reflect changes in economic factors that impact inventory value. Net realizable value is determined with reference to relevant market prices less applicable variable selling expenses. Provisions recorded also reflect an estimate of the remaining costs of completion to bring the inventory into its saleable form. Provisions are also recorded to reduce materials and supplies to net realizable value, which is generally calculated by reference to its salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realizable value where the inventory is still on hand.

d) Property, plant and equipment

Items of equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. All items of equipment are subsequently carried at depreciated cost less impairment losses, if any.

Depreciation is provided on all items of equipment to write off the carrying value of items over their expected useful economic lives. It is applied using the declining balance method at the following rates:

- Computer Hardware – 30% per annum
- Software – 100% per annum
- Field Equipment – 30% per annum
- Office Equipment – 20% per annum
- Vehicles – 30% per annum

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Construction work-in-progress
Costs recorded for assets under construction are capitalized as construction work-in-progress. On completion, the cost of construction is transferred to the appropriate category of plant and equipment. No amortization or depreciation is recorded until the assets are substantially complete and available for their intended use.

On the commencement of commercial production, depletion of each mining property will be provided on a units-of production basis using estimated reserves as the depletion base.

e) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset until such time as the asset is substantially complete and ready for its intended use or sale. Where funds have been borrowed specifically to finance an asset, the amount capitalized is the actual borrowing cost incurred. Where the funds used to finance an asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during that respective period.

f) Mineral properties

All direct costs including the option payments related to the acquisition of mineral property interests are capitalized into mineral property assets on a property by property basis. Effective April 1, 2015, the Company commenced capitalization of all direct costs related to the development of mineral properties, because the technical feasibility and commercial viability of the project had been established.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

f) Mineral properties (continued)

Exploration and evaluation costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into "mineral properties" within Property, plant and equipment.

Costs incurred prior to the acquisition of a mineral property are charged to the statement of comprehensive loss.

g) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of a) an asset's or cash-generating unit's (CGU) fair value less costs to sell and b) its value in use, determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated.

h) Financial instruments

Financial assets

Initial recognition and measurement
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or fair value through profit or loss ("FVTPL"). All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

- Financial assets at fair value through profit or loss ("FVTPL") include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments or fixed maturities that the Company has the positive intention and ability to hold them to maturity.
- Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

h) Financial instruments (continued)

Financial assets (continued)

The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

Initial recognition and measurement
All financial liabilities are initially designated upon inception as FVTPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially recognized at fair value, plus, in the case of loans and borrowings, directly attributable transaction costs.

Subsequent measurement
After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in comprehensive loss in the period in which they arise. The net gain or loss recognized in comprehensive loss excludes any interest paid on the financial liabilities.

i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements within the scope of IFRS 13 are categorized into Level 1, 2 or 3 based on the degree to which the inputs are observable and the significance of the inputs to the fair value measurement in its entirety. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Financial instruments measured at fair value and categorized within the fair value hierarchy are disclosed in note 18.

j) Taxation

Tax expense recognized in comprehensive loss comprises the sum of deferred tax and current tax not recognized directly in equity.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

j) Taxation (continued)

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization or settlement, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognized for all taxable temporary differences except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and any unused tax losses can be utilized except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right to set off current tax assets and liabilities and the deferred income taxes related to the same taxable entity and the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in comprehensive loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

k) Share-based payments

The Company grants share-based awards as an element of compensation. Share-based awards granted by the Company can include share purchase options, deferred share units, or restricted share units.

For share purchase options granted by the Company, the cost of the service received is measured based on an estimate of the fair value at the date of grant. The grant-date fair value is recognized as compensation expense over the vesting period with a corresponding increase in contributed surplus. On the exercise of share purchase options, consideration received, together with the compensation expense previously recorded to contributed surplus, is credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of each share purchase option tranche at the date of grant.

Deferred and restricted share units are grants of notional common shares that are redeemable for shares or cash based on the market value of the Company's common shares. For deferred and restricted share units where the Company expects to settle in shares, the cost of the service received is measured based on an estimate of the fair value at the date of grant. The grant-date fair value is recognized as compensation expense over the vesting period with a corresponding increase in contributed surplus. The Company uses the Binominal option pricing model to estimate the fair value of each deferred and restricted share unit at the date of grant.

l) Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year. The Company uses the treasury share method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

m) Reclamation provision

The Company records a reclamation provision for the legal and constructive obligations to restore exploration, development and mining operations in the period in which the obligation is incurred. When the liability is initially recognized the present value of the estimated costs is capitalized by increasing the carrying amount of the related mineral property asset. The provision is reviewed at each reporting date and all changes to the liability, including changes in discount rate, are recorded as a change to the mineral property asset to which it relates. Over time the discount is unwound through accretion expense in the statement of comprehensive loss.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n) Management judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Information about significant judgments, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment

The Company assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash-generating units as being each mineral property, which is the lowest level for which cash inflows are largely independent of those of other assets, and has determined that there are no indications of impairment.

Reclamation provision

Closure and reclamation costs are a normal consequence of mining, and the majority of closure and reclamation expenditures are incurred near the end of the life of the mine. The Company's accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation and updated to reflect new developments or changes in estimates and forecasts. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current reclamation standards and techniques. The initial closure provisions together with changes, other than those arising from the unwinding of the discount applied in establishing the net present value of the provision, are capitalized within property, plant and equipment and depreciated over the lives of the assets to which they relate.

The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new reclamation techniques or experience at other mine sites, local inflation rates and exchange rates. The expected timing of expenditure can also change, for example, in response to changes in mineral reserves or production rates, timing of planned restart of operations or economic conditions. As a result there could be significant adjustments to the provision for closure and reclamation, which would affect future financial results.

(thousands of Canadian dollars, unless otherwise stated)

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Standards and interpretations issued but not yet effective

The following new standards, and amendments to standards and interpretations, were not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets From Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is assessing IFRS 15's impact on its financial statements and has not yet determined the impact.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments ("IFRS 9") which will replace IAS 39, Financial Instruments ("IAS 39"). This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition and measurement of financial instruments with two classification categories: amortized cost and fair value. As well, under the new standard a single impairment method is required, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes a substantially reformed approach to hedge accounting that aligns accounting more closely with risk management. The Company is assessing IFRS 9's impact on its financial statements and has not yet determined the impact.

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption provided that IFRS 15 is also adopted. The objective of IFRS 16 is to bring all leases on-balance sheet for lessees. IFRS 16 requires lessees to recognize a "right of use" asset and liability calculated using a prescribed methodology. The Company is assessing IFRS 16's impact on its financial statements and has not yet determined the impact.

5. INVENTORY

As at	December 31, 2016	December 31, 2015
Finished goods	$ 742	$ -
Work in process	647	-
Materials and supplies	3,310	-
	$ 4,699	**$ -**

(thousands of Canadian dollars, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Construction work-in-progress				
	Mill	Mine	Mineral property	Other equipment	Total
Cost					
Balance, December 31, 2014	$ **-**	$ **-**	$ **-**	$ **754**	$ **754**
Transfer from exploration costs	-	-	413	-	413
Additions	13,192	1,722	4,267	1,243	20,424
Reclamation costs (note 10)	-	-	284	-	284
Foreign currency translation	(61)	(9)	(244)	(134)	(448)
Balance, December 31, 2015	$ **13,131**	$ **1,713**	$ **4,720**	$ **1,863**	$ **21,427**
Additions	68,148	27,096	2,334	2,724	100,302
Disposals	-	-	-	(93)	(93)
Reclamation costs (note 10)	-	-	1,571	-	1,571
Foreign currency translation	1,767	743	174	103	2,787
Balance, December 31, 2016	$ **83,046**	$ **29,552**	$ **8,799**	$ **4,597**	$ **125,994**
Accumulated depreciation					
Balance, December 31, 2014	$ **-**	$ **-**	$ **-**	$ **(487)**	$ **(487)**
Depreciation charged	-	-	-	(437)	(437)
Foreign currency translation	-	-	-	48	48
Balance, December 31, 2015	$ **-**	$ **-**	$ **-**	$ **(876)**	$ **(876)**
Depreciation	-	-	-	(601)	(601)
Disposals	-	-	-	71	71
Foreign currency translation	-	-	-	(23)	(23)
Balance, December 31, 2016	$ **-**	$ **-**	$ **-**	$ **(1,429)**	$ **(1,429)**
Net book value, December 31, 2016	$ **83,046**	$ **29,552**	$ **8,799**	$ **3,168**	$ **124,565**
Net book value, December 31, 2015	$ **13,131**	$ **1,713**	$ **4,720**	$ **987**	$ **20,551**

At December 31, 2016, accounts payable and accrued liabilities included $22,424,425 (2015: $7,809,735) related to capital expenditures for the construction of the San Ramon Gold Mine and Mill.

7. MINERAL PROPERTIES

Mineral Properties

Mineral properties consist solely of Red Eagle Exploration's assets, which owns the Vetas Gold Project and Santa Ana Silver Project. The Santa Rosa Mineral Property is included in Property, Plant and Equipment.

Mineral Property Obligations

The following is a summary of the mineral property obligations for the year ended December 31, 2016:

Santa Rosa

a) On April 15, 2011, the Company acquired 100% of the Santa Rosa Gold Project in Antioquia, Colombia, for US $9,600,000 ($9,988,676).

b) On October 22, 2012, concurrent with a private placement financing, the Company completed the sale of a 2% NSR royalty over the Santa Rosa property to Liberty Metals and Mining Holdings, LLC, ("LMM") a shareholder of the Company, for gross proceeds of $8,333,333. The Company had the option to sell an additional 1% royalty for $4,166,667 at any time until December 31, 2013 and on December 20, 2013, the Company exercised this option. The Company has the option to repurchase a 1% royalty for $8,333,333 at any time during the first two years of commercial gold production.

(thousands of Canadian dollars, unless otherwise stated)

7. MINERAL PROPERTIES (CONTINUED)

Mineral Property Obligations (continued)

Santa Rosa (continued)

c) On October 24, 2012, the Company executed a purchase agreement with Bullet Holdings Corp. to acquire mineral concession contracts totaling 35,910 hectares adjacent to the Company's Santa Rosa Gold Project. The consideration for the transaction was the issuance of 905,000 common shares, reimbursement of current year concession fees and the granting of a 1.5% NSR royalty over the properties acquired. LMM's royalty does not cover these properties.

d) On May 28, 2014, the Company executed a purchase agreement with AngloGold Ashanti Colombia S.A., to acquire 100% of contiguous mineral concession contracts totaling 1,673 hectares within the Company's Santa Rosa Gold Project. In consideration for the property, the Company agreed to pay US $375,000 to AGAC and grant AGAC a 2% NSR royalty over the properties acquired. The cash payments are as follows:

	US $
Within 10 days of execution of contract (paid)	25
Upon title transfer (paid)	100
March 18, 2016 (paid)	125
March 18, 2017 (paid subsequent to year end)	125
	375

As at December 31, 2016 the mineral property obligation relating to this acquisition was $167,419 which represents the discounted value of the US $125,000 remaining to be paid.

Vetas

On October 8, 2015, the Company acquired a controlling interest in Red Eagle Exploration, which owns the Vetas Gold Project. During the year ended December 31, 2016, Red Eagle Exploration settled the following property obligations:

i) Real Minera - The Real Minera property was subject to a one-time royalty payment of US $5 per ounce of measured and indicated mineral resources as disclosed and published in one or more technical reports to be prepared in accordance with NI 43-101. The terms of the royalty payment with Real Minera were renegotiated by Red Eagle Exploration in December 2015 and a final settlement was paid on January 15, 2016, which included cash of US $50,000 and 2,843,206 Red Eagle common shares. Red Eagle Exploration issued 17,550,654 common shares to Red Eagle as compensation on January 15, 2016.

ii) San Alfonso - On January 15, 2016, Red Eagle Exploration paid US $150,000 to complete the acquisition of the San Alfonso property.

iii) La Triada – Red Eagle Exploration renegotiated the acquisition price for the La Triada property. The final consideration was paid on February 29, 2016 and included cash of US $300,000 and 2,219,816 Red Eagle common shares. Red Eagle Exploration issued 13,702,562 common shares to Red Eagle as compensation on March 4, 2016.

Santa Ana

On August 9, 2016, Red Eagle Exploration purchased 100% of the Santa Ana Silver Project from Condor Precious Metals Inc. for cash settlement of $250,000, 8,095,238 Red Eagle Exploration common shares ($850,000 at $0.105 per share) and a 2% Net Smelter Return ("NSR") royalty. Red Eagle Exploration has a right of first refusal on any sale of the royalty and may purchase 1% at any time for $500,000.

(thousands of Canadian dollars, unless otherwise stated)

7. MINERAL PROPERTIES (CONTINUED)

Mineral Property Obligations (continued)

The Company's mineral property obligations are comprised of outstanding payables to the following parties:

As at	December 31, 2016	December 31, 2015
Santa Rosa		
AngloGold Ashanti Colombia S.A. (note 7d)	$ 167	$ 343
Individuals	-	1,026
Vetas	1,359	3,429
Total mineral property obligations	**1,526**	**4,798**
Non-current portion of mineral property obligations	-	(366)
Current portion of mineral property obligations	**$ 1,526**	**$ 4,432**

The following are changes in mineral property obligations during 2016 and 2015:

	2016	2015
Balance as at January 1,	**$ 4,798**	**$ 1,784**
Santa Rosa	(1,132)	(710)
Vetas	(2,069)	3,429
Foreign exchange translation (gain) loss	(73)	292
Accretion expense	2	3
Balance as at December 31,	**$ 1,526**	**$ 4,798**

Exploration and Evaluation Costs

The following is a summary of the Santa Rosa and Vetas exploration costs:

For the year ended December 31, 2016	Santa Rosa	Vetas	Total
Salaries and consulting	$ 294	$ 541	$ 835
Drilling	636	-	636
Geological and geochemical	-	369	369
Legal and office administration	9	234	243
Field and camp	-	166	166
License and permits	-	119	119
Travel and transportation	18	78	96
Assays and sampling	57	-	57
Depreciation	-	30	30
Environmental	5	10	15
Concession fees	11	-	11
Total exploration costs	**$ 1,030**	**$ 1,547**	**$ 2,577**

(thousands of Canadian dollars, unless otherwise stated)

7. MINERAL PROPERTIES (CONTINUED)

Exploration and Evaluation Costs (continued)

The following is a summary of the Santa Rosa and Vetas exploration costs:

For the year ended December 31, 2015	Santa Rosa	Vetas	Total
Salaries and consulting	$ 1,046	$ 11	$ 1,057
Field and camp	677	19	696
Concession fees	275	-	275
Legal and office administration	90	3	93
Travel and transportation	72	7	79
Depreciation	68	1	69
Engineering	59	-	59
Geological and geochemical	-	53	53
Metallurgical	39	-	39
Training	35	-	35
Technical studies	22	-	22
Assays and sampling	12	-	12
Total exploration costs	**$ 2,395**	**$ 94**	**$ 2,489**

8. OTHER RECEIVABLES

As at	December 31, 2016	December 31, 2015
VAT credits receivable	$ 3,218	$ 1,168
Deposits, mill equipment and suppliers	2,483	10,933
	$ 5,701	**$ 12,101**

As at December 31, 2016, the Company recognized value added tax ("VAT") credits receivable of $3,217,622 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 in Colombia. These amounts are classified as long-term as the Company does not expect to fully recover them in the next year.

9. NON-CONTROLLING INTERESTS

The Company has a 92% interest in Red Eagle Exploration located in Canada. For the year ended December 31, 2016, the Company increased its controlling interest in Red Eagle Exploration from 51% to 92% through a combination of private placements, market purchases, and share exchanges.

The following table summarizes the Red Eagle Exploration financial information, except as noted, included in the consolidated financial statements, before any inter-company eliminations:

As at	December 31, 2016	December 31, 2015
Current assets	$ 2,126	$ 71
Non-current assets	21,236	19,830
Current liabilities	(1,616)	(3,737)
Non-current liabilities	(364)	(353)
Net assets	21,382	15,811
Non-controlling interests	$ 795	$ 5,854

(thousands of Canadian dollars, unless otherwise stated)

9. NON-CONTROLLING INTERESTS (CONTINUED)

The following table summarizes the Red Eagle Exploration financial information, except as noted, included in the consolidated financial statements, before any inter-company eliminations:

For the years ended December 31		2016		2015
Net loss and total comprehensive loss	$	4,541	$	4,100
Net loss and total comprehensive loss allocated to non-controlling interests	$	1,105	$	243

For the years ended December 31		2016		2015
Cash flows from operating activities	$	(2,955)	$	(3,154)
Cash flows from financing activities		6,017		2,365
Cash flows from investing activities	$	(1,016)	$	(164)

10. 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 December 31, 2016. The reclamation provision has been recorded using a discount rate of approximately 7.2% and an inflation factor of approximately 5.8% as established by a Colombian financial institution.

The following is a summary of the reclamation provision as at December 31, 2016 and December 31, 2015:

		December 31, 2016		December 31, 2015
San Ramon Gold Mine	$	2,025	$	284
Vetas Gold Project		364		358
	$	**2,389**	$	**642**

The following are changes in reclamation provision during the year ended December 31, 2016:

		San Ramon Gold Mine		Vetas Gold Project
Balance, December 31, 2014	$	-	$	-
Change in estimate		284		358
Balance, December 31, 2015	$	**284**	$	**358**
Change in estimate		1,571		(28)
Accretion expense		104		30
Foreign exchange translation		66		4
Balance, December 31, 2016	$	**2,025**	$	**364**

11. LONG-TERM DEBT

		Credit Facility
Balance, December 31, 2015	$	19,581
Principal draws, net of fees		55,730
Interest expense, net of amortization		11,139
Production payments		(12)
Foreign exchange loss		434
Balance, December 31, 2016		**86,872**
Current portion		(22,310)
Long-term	$	**64,562**

11. LONG-TERM DEBT (CONTINUED)

The US $60,000,000 credit facility has a five year term with a principal holiday and capitalized interest for 18 months from the first advance which occurred in November 2015. Principal repayments commence on May 1, 2017 and will be made in forty-two equal monthly amortization amounts. The credit facility is secured by all of the Company's property and assets.

The credit facility bears interest at a rate of the higher of LIBOR or 1% plus 7.5%, compounded monthly. The credit facility includes a production payment of US$30 per ounce payable on the first 405,000 ounces of gold produced for a total payment of US$12,150,000. On July 16, 2015, 5,000,000 warrants were granted to Orion to purchase shares of the Company exercisable for a five year term at an exercise price of $0.275. Considering the various features of the credit facility, the effective interest rate is approximately 16%. The facility is fully drawn at December 31, 2016.

For the year ended December 31, 2016, the Company capitalized $10,625,444 of interest on the credit facility to construction work in progress.

Pursuant to the terms of the credit facility, the Company is required to maintain the following financial covenants:

a) at all times commencing 12 months after the Commercial Production Start Date, Debt Service Coverage Ratio on a rolling four fiscal quarter basis of at least 1.5:1;
b) at all times after the Commercial Production Start Date, EBITDA to Interest Coverage Ratio on a rolling four fiscal quarter basis of at least 5:1; and
c) at all times after the Commercial Production Start Date, Debt to EBITDA Ratio on a rolling four fiscal quarter basis of no greater than 2:1

12. SHARE CAPITAL

a) Authorized share capital

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

b) Issued during the year ended December 31, 2016

During the year ended December 31, 2016, the Company issued 5,063,022 common shares of the Company in exchange for 31,253,216 common shares of Red Eagle Exploration to acquire the Real Minera and La Triada properties.

In April 2016, the Company completed a private placement, in two tranches, for gross proceeds of $11,281,476, consisting of 29,688,095 common shares at a price of $0.38 per share.

In July 2016, the Company completed a private placement for gross proceeds of $9,223,638, consisting of 13,176,626 common shares at a price of $0.70 per share.

On November 2, 2016, the Company acquired 83,020,237 common shares of Red Eagle Exploration in exchange for 7,428,126 shares of the Company.

c) Issued during the year ended December 31, 2015

During the year ended December 31, 2015, the Company issued 107,496,538 common shares as a combination of private placements (94,253,981 common shares for net proceeds of $24,798,481) and the share exchange take-over bid for Red Eagle Exploration (13,242,557 common shares). Refer to note 7 (Vetas).

During the first quarter of 2015, the Company issued 18,471,627 common shares at $0.33 per share for gross proceeds of $6,095,636 in two tranches to Orion. The Company also issued 4,104,806 common shares to Orion pursuant to an adjustment provision in the subscription agreement.

On July 17, 2015 and August 21, 2015, the Company completed a private placement for gross proceeds of $19,352,939, consisting of 71,677,550 common shares at a price of $0.27 per share.

(thousands of Canadian dollars, unless otherwise stated)

12. SHARE CAPITAL (CONTINUED)

d) Warrants

Information regarding warrants outstanding at December 31, 2016 is as follows:

For the year ended	Number of outstanding warrants	Weighted average exercise price
Balance, December 31, 2014	**4,500,000**	$ **0.25**
Issued	5,000,000	0.28
Expired	(1,125,000)	0.25
Balance, December 31, 2015	**8,375,000**	$ **0.27**
Exercised	(3,375,000)	0.25
Balance, December 31, 2016	**5,000,000**	$ **0.28**

Expiry date	Warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
July 16, 2020	5,000,000	0.275	3.5
	5,000,000	$ **0.275**	**3.5**

e) Share Purchase Options

Information regarding share purchase options outstanding at December 31, 2016 is as follows:

	Number of outstanding	Weighted average exercise price	Weighted average measurement date fair value
Outstanding, December 31, 2014	**4,347,500**	$ **0.44**	$ **0.19**
Granted	10,460,000	0.29	0.16
Expired	(402,500)	0.48	0.24
Forfeited	(40,000)	0.33	0.19
Outstanding, December 31, 2015	**14,365,000**	$ **0.33**	$ **0.19**
Granted	5,045,000	0.68	0.33
Exercised	(845,000)	0.45	0.24
Expired	(75,000)	0.28	0.15
Forfeited	(625,000)	0.55	0.28
Outstanding, December 31, 2016	**17,865,000**	$ **0.42**	$ **0.23**

(thousands of Canadian dollars, unless otherwise stated)

12. SHARE CAPITAL (CONTINUED)

e) Share Purchase Options (continued)

Information regarding share purchase options outstanding at December 31, 2016 is as follows:

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (years)
December 6, 2017	1,540,000	1,540,000	$ 0.55	0.93
April 9, 2019	1,810,000	1,810,000	0.33	2.27
May 6, 2020	2,990,000	2,990,000	0.33	3.35
October 7, 2020	7,030,000	6,642,500	0.275	3.77
February 24, 2021	250,000	125,000	0.375	4.15
April 22, 2021	175,000	175,000	0.57	4.31
June 14, 2021	400,000	200,000	0.71	4.45
July 8, 2021	300,000	300,000	0.77	4.52
August 18, 2021	150,000	37,500	0.86	4.63
October 17, 2021	975,000	281,250	0.80	4.80
December 19, 2021	2,245,000	1,311,250	0.65	4.97
	17,865,000	**15,412,500**	$ **0.42**	**3.56**

The fair value of each outstanding share purchase option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2016	December 31, 2015
Risk free interest rate	0.8%	1.0%
Expected volatility	77%	96%
Expected life (years)	3.8	3.8
Expected dividends (yield)	0%	0%
Weighted average fair value per option	$ **0.37**	$ **0.18**

The share-based payments expense related to share purchase options for the year ended December 31, 2016 was $1,236,633 (2015: $1,438,713), of which $418,321 (2015: $434,807) has been capitalized to Property, plant and equipment and $818,312 (2015: $1,003,906) has been recorded in the statement of comprehensive loss.

For the year ended December 31, 2016	Total
Salaries and benefits	$ 489
Property, plant and equipment	418
Office and administration	283
Investor relations	47
	$ **1,237**

For the year ended December 31, 2015	Total
Salaries and benefits	$ 336
Property, plant and equipment	435
Office and administration	665
Investor relations	3
	$ **1,439**

(thousands of Canadian dollars, unless otherwise stated)

12. SHARE CAPITAL (CONTINUED)

f) Deferred and Restricted Share Units

Deferred and restricted share units granted to directors and certain senior officers of the Company outstanding at December 31, 2016 is as follows:

	Number of deferred share units	Number of restricted units
Outstanding, December 31, 2015	-	-
Granted	625,000	975,000
Outstanding, December 31, 2016	**625,000**	**975,000**

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 fair value of deferred and restricted share units as at December 31, 2016 was $1,170,596 compared with the recorded contributed surplus of $372,154. The difference between the fair value and the recorded contributed surplus of $798,442 will be recognized over the weighted average remaining vesting period of approximately 1.5 years.

For the year ended December 31, 2016, share-based payment expense related to deferred and restricted units included in net loss was $290,922 (2015 – nil) and $81,232 was capitalized to Property, plant, and equipment.

For the year ended December 31, 2016		Total
Office and administration	$	204
Salaries and benefits		87
Property, plant and equipment		81
	$	**372**

g) Red Eagle Exploration Warrants and Share Purchase Options

<u>Warrants</u>

On May 11, 2016, 25,310,000 warrants were issued as part of the private placement. Each warrant entitles the holder thereof to acquire one common share of Red Eagle Exploration exercisable at a price of $0.10 until May 11, 2021. The warrants are callable by Red Eagle Exploration. The share-based payments expense related to warrants for the year ended December 31, 2016 was $883,836 (2015: nil) based on the relative fair value model. The Company held 16,933,333 warrants.

Information regarding warrants outstanding at December 31, 2016 is as follows:

Expiry date	Warrants outstanding		Weighted average exercise price	Weighted average remaining contractual life (years)
May 11, 2021	25,310,000		0.10	4.36
	25,310,000	$	**0.10**	**4.36**

(thousands of Canadian dollars, unless otherwise stated)

12. SHARE CAPITAL (CONTINUED)

g) Red Eagle Exploration Warrants and Share Purchase Options (continued)

Share Purchase Options

Information regarding Red Eagle Exploration's share purchase options outstanding at December 31, 2016 is as follows:

	Number of outstanding	Weighted average exercise price	Weighted average measurement date fair value
Outstanding, December 31, 2014	**13,270,000**	$ **0.53**	$ **0.44**
Cancelled and expired	(9,460,000)	0.55	0.44
Outstanding, December 31, 2015	**3,810,000**	$ **0.48**	$ **0.32**
Granted	18,975,000	0.16	0.14
Expired	(2,105,000)	0.57	0.36
Outstanding, December 31, 2016	**20,680,000**	$ **0.18**	$ **0.15**

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (years)
December 14, 2017	635,000	635,000	$ 0.90	0.95
December 20, 2018	570,000	570,000	0.13	1.97
May 29, 2019	500,000	500,000	0.12	2.41
November 11, 2021	14,675,000	8,918,750	0.16	4.87
November 21, 2021	4,000,000	1,000,000	0.16	4.89
December 16, 2021	300,000	75,000	0.11	4.96
	20,680,000	**11,698,750**	$ **0.18**	**4.61**

The fair value of each outstanding share purchase option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2016
Risk free interest rate	0.8%
Expected volatility	137%
Expected life (years)	5.0
Expected dividends (yield)	0%
Weighted average fair value per option	$ **0.14**

The share-based payments expense related to share purchase options for the year ended December 31, 2016 was $1,602,343 (2015: $19,000) recorded in salaries and benefits in the consolidated statements of comprehensive loss.

(thousands of Canadian dollars, unless otherwise stated)

13. INCOME TAX

The Company is subject to tax in Canada and Colombia at the rates of 26% and 34%, respectively, for the year ended December 31, 2016. The Company had no assessable profit in Canada and Colombia for the year ended December 31, 2016.

Income tax recovery differs from the amounts that would be obtained by applying the Canadian statutory income tax rate to net loss before income tax as follows:

For the years ended		December 31, 2016		December 31, 2015
Loss before tax	$	**9,209**	$	**6,710**
Statutory tax rate		26%		26%
Recovery tax at the statutory rate	$	**(2,394)**	$	**(1,745)**
Unrecognized loss carryforwards		2,291		1,560
Non-deductible expenses		117		266
Difference in tax rates in foreign jurisdictions		(14)		(85)
Income tax recovery	$	**-**	$	**(4)**

The Company's deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are as follows:

For the years ended		December 31, 2016		December 31, 2015
Deductible temporary differences				
Loss carryforwards	$	68,518	$	40,352
Mineral properties and Property, plant and equipment		(8,009)		21,545
Other		6,593		4,600
Total deductible temporary differences	$	**67,102**	$	**66,497**

The Company has loss carryforwards of approximately $68,518,266 (2015 – $40,351,751) which may be available to offset future income for income tax purposes, of which $40,561,089 applies in Canada and $27,957,177 in Colombia. The Company recognizes the benefits of tax losses only to the extent of the reversal of taxable temporary differences in relevant jurisdictions within the carry forward period. The available losses can be carried forward over 20 years in Canada, and in Colombia losses before 2015 can be carried forward indefinitely and losses after 2015 can be carried forward over 12 years.

(thousands of Canadian dollars, unless otherwise stated)

14. RELATED PARTY TRANSACTIONS

The Company's executive management and directors received the following salaries and benefits:

For the year ended	December 31, 2016	December 31, 2015
Employee salaries and benefits	$ 1,639	$ 1,055
Share-based payments	748	677
	$ **2,387**	$ **1,732**

The following table provides outstanding balances and the total amount of transactions, which have been entered into by the Company with related parties during years ended December 31, 2016 and 2015:

For the year ended	December 31, 2016	December 31, 2015
Purchases during the year		
Mine development costs by Stracon GyM to which its CEO is a director and a shareholder of the Company	$ 19,432	$ 1,605
Rent, salary and related costs recharged from a company controlled by certain directors in common	$ 1,340	$ 866
Legal fees to Farris, Vaughan, Wills & Murphy LLP (previously Anfield Sujir Kennedy & Durno LLP) in which one of the Company directors is a partner	$ 279	$ 950
Amounts owed to		
Stracon GyM to which its CEO is a director and a shareholder of the Company	$ 8,508	$ 1,072
Farris, Vaughan, Wills & Murphy LLP (previously Anfield Sujir Kennedy & Durno LLP) in which one of the directors is a partner	$ 93	$ 348
A company controlled by certain directors in common for technical and geological services	$ 40	$ -
Amounts due from		
A company controlled by certain directors in common for reimbursement of rent, salary and related costs	$ 210	$ -
A company controlled by certain directors in common for reimbursement of legal fees	$ -	$ 106

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

(thousands of Canadian dollars, unless otherwise stated)

15. SEGMENT INFORMATION

The Company has one operating segment, which is the exploration and development of mineral properties. The Company's assets and liabilities are distributed in two geographic regions, Canada and Colombia, as follows:

As at December 31, 2016	Canada	Colombia	Total
Cash and cash equivalents	$ 5,014	$ 628	$ 5,642
Amounts receivable	415	976	1,391
Inventory	-	4,699	4,699
Prepaid expenses	187	237	424
Property, plant and equipment	671	123,894	124,565
Mineral properties	-	21,413	21,413
Other receivables	-	5,701	5,701
	6,287	**157,548**	**163,835**
Accounts payable and accrued liabilities	(1,809)	(20,984)	(22,793)
Mineral properties obligations	-	(1,526)	(1,526)
Long-term debt	(86,872)	-	(86,872)
Reclamation provision	-	(2,389)	(2,389)
	$ **(82,394)**	$ **132,649**	$ **50,255**
Net loss for 2016	$ **9,137**	$ **72**	$ **9,209**

As at December 31, 2015	Canada	Colombia	Total
Cash and cash equivalents	$ 9,418	$ 930	$ 10,348
Amounts receivable	292	198	490
Prepaid expenses	463	147	610
Property, plant and equipment	19	20,532	20,551
Mineral properties	-	15,984	15,984
Other receivables	-	12,101	12,101
Deferred debt cost	2,364	135	2,499
	12,556	**50,027**	**62,583**
Accounts payable and accrued liabilities	(1,654)	(6,899)	(8,553)
Mineral properties obligations	-	(4,798)	(4,798)
Long-term debt	(19,581)	-	(19,581)
Reclamation provision	-	(642)	(642)
	$ **(8,679)**	$ **37,688**	$ **29,009**
Net loss for 2015	$ **3,196**	$ **3,510**	$ **6,706**

16. COMMITMENTS AND CONTINGENCIES

The Company has commitments related to capital expenditures for the development and construction of the San Ramon Gold Mine and Mill and certain operational commitments as at December 31, 2016 as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Capital	$ 112	$ -	$ -	$ 112
Operational	8,548	9,961	2,279	20,788
	$ **8,660**	$ **9,961**	$ **2,279**	$ **20,900**

The Company has to make certain cash payments in order to meet the terms of the mineral property acquisition agreements as described in note 7.

(thousands of Canadian dollars, unless otherwise stated)

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company may be involved in various claims or legal proceedings arising in the ordinary course of business. The Company does not 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.

17. CAPITAL MANAGEMENT

The Company's capital consists of common shares, contributed surplus, accumulated other comprehensive loss, deficit attributable to shareholders of the Company, and long-term debt. The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares, or sell assets to reduce debt. In addition the Company is cognizant of the impact of diluting equity shareholders and so considers this when planning the timing and amount of equity financings or other changes to the group's capital structure.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has designated its cash and cash equivalents and amounts receivable as loans and receivables and accounts payable and long-term debt as other financial liabilities. There has been no change to the designations of financial instruments during the year ended December 31, 2016.

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-term maturities of these instruments.

The Company currently has no financial instruments measured at fair value.

The carrying values of mineral property obligations and long-term debt approximate their fair values.

b) Financial risk management

i) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents and amounts receivable. Amounts receivable are investments that have been placed on deposit with major Canadian or Colombian financial institutions. All cash and cash equivalents are on deposit with major Canadian or Colombian financial institutions.

The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk by purchasing highly liquid, short-term investment-grade securities held at major financial institutions.

The Company's concentration of credit risk and maximum exposure thereto is as follows:

As at	December 31, 2016		December 31, 2015	
Cash and cash equivalents	$	5,642	$	10,348
Amounts receivable	$	1,391	$	490

The credit risk associated with deposits on mill equipment and advances to suppliers of $1,427,429 is minimized by ensuring that the Company selects well established counterparties with a strong financial position.

(thousands of Canadian dollars, unless otherwise stated)

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risk management (continued)

ii) Interest rate risk

The Company has cash balances, investment-grade short-term deposit certificates issued by its banking institution and long-term debt under the credit facility. Interest income is not material to the Company. Advances under the credit facility will bear interest at the higher of LIBOR or 1%, +7.5%. At December 31, 2016, a 1% change in the interest rate of the credit facility would give rise to a change of approximately $761,000 for the year that would be capitalized to property, plant, and equipment. The Company manages this risk by monitoring fluctuations in LIBOR, which are not expected to be significant, and has entered discussions with traditional bank financiers with a view to provide potential conventional debt financing, once commercial operations have been more fully established.

iii) Foreign currency risk

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

Certain of the Company's cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities are denominated in Colombian peso ("COP"), while mineral property obligations and long-term debt are denominated in US dollars; therefore, COP and US dollar amounts are subject to fluctuation against the Canadian dollar ("CAD").

The Company also has transactional currency exposures. Such exposures arise from purchases in currencies other than the respective functional currencies, typically in the US dollar. The Company manages this risk by matching receipts including gold and silver sales and payments in the same currency and monitoring the movements in foreign currency.

A 10% change in the average exchange rate for the year, with all other variables held constant, would have the following impact on the Company's earnings:

	10% change in USD		10% change in COP	
Change in net loss	$	9,087	$	1,691

iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to significant other price risk.

v) Liquidity risk

The following are the maturities of amounts due within one year and beyond:

As at December 31, 2016		Within 1 year		More than one year		Total
Accounts payable and accrued liabilities	$	22,793	$	-	$	22,793
Mineral properties obligations		1,527		-		1,527
Long-term debt		18,250		70,473		88,723
Reclamation provision		-		4,175		4,175
	$	**42,570**	$	**74,648**	$	**117,218**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company reported a net loss of $9,209,000 for the year ended December 31, 2016 and as at December 31, 2016 had a working capital deficiency of $34,472,265 (December 31, 2015: ($1,536,765)) with cash and cash equivalents of $5,642,254 (December 31, 2015: $10,347,916). Under the Company's debt facility agreements, $18,250,499 is due within twelve months of the balance sheet date.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risk management (continued)

v) Liquidity risk (continued)

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 is currently in the start-up phase at the San Ramon Gold Mine and Mill. The Company's ability to continue operations in the normal course of business is dependent upon establishing positive cash flows from production at the San Ramon Gold Mine and Mill. For working capital and exploration purposes, the Company completed a bought deal financing in February 2017 for gross proceeds of $17,250,000 consisting of 23,000,000 common shares at a price of $0.75 per share. Management has evaluated cash requirements based on current best estimates of cash inflows from gold sales and outflows for operating costs, administrative costs and debt service and expects to have sufficient cash and cash equivalents available to continue operating for the ensuing twelve months. In the event of operational delays, cost overruns and / or decreases in gold or silver prices, the Company may require additional financing. Such funds may be secured by debt refinancing and / or equity financing. There is no assurance that financing of sufficient amounts or on terms acceptable to the Company will be available if required.

19. SUBSEQUENT EVENTS

a) Red Eagle Exploration Acquires Concessions in the California Gold District

On February 15, 2017, Red Eagle Exploration announced an option to purchase 100% of six exploitation mining concessions from local miners for consideration of US $5,683,764 and US $7,561,746 which is payable in shares of Red Eagle Exploration. Initial payments of US $345,127 and 2,180,985 common shares of Red Eagle Exploration were paid upon closing.

On March 15, 2017, Red Eagle Exploration announced an option to purchase 100% of two additional exploitation mining concessions for consideration of US $7,493,250 of which 50% is payable in cash and 50% is payable in shares of Red Eagle Exploration. Initial payments of US $62,444 and 520,367 common shares of Red Eagle Exploration were paid upon closing.

The balance of the payments for both acquisitions are due over a two-year period subsequent to title transfer. An additional payment is due three years from the date of title transfer equivalent to 1.5% of the value of gold and silver measured and indicated resources included in a NI 43-101 Technical Report. The eight properties, which collectively comprise the California Gold Project, total 250 hectares in the prolific California-Vetas Gold District located in Santander, Colombia. The Company plans to advance the California Gold Project toward economic feasibility, although there is no guarantee economic feasibility will be achieved.

b) Vetas Gold Project

On February 14, 2017, Red Eagle Exploration amended the acquisition agreement for the San Bartolo and San Antonio properties, which together with other properties collectively comprise the Vetas Gold Project. A portion of the properties were affected by the delineation of the Paramo boundaries and the outstanding amount of the purchase price was reduced proportionately. As final payment, Red Eagle Exploration had agreed to issue 4,550,000 common shares and pay US $500,000 in cash with respect to the San Bartolo property and issue 116,700 common shares with respect to the San Antonio property.

The Company has now settled all outstanding mineral property obligations for the Vetas Gold Project.

c) Bought Deal Financing

On February 21, 2017, the Company completed a bought deal financing for gross proceeds of $17,250,000, consisting of 23,000,000 common shares at a price of $0.75 per share. Proceeds will be used to advance exploration of the Santa Rosa Gold Project and for working capital purposes.