



**RED EAGLE MINING CORPORATION**

**Consolidated Financial Statements**

**For the year ended December 31, 2017**



March 27, 2018

## **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 statements of financial position as at December 31, 2017 and December 31, 2016 the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **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, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Other matter**

Without modifying our opinion, we draw attention to note 3(a) of the financial statements, which explains that effective January 1, 2017, the Company changed presentation currency from the Canadian Dollar to the United States Dollar. As part of this presentation currency change, the Company has presented a third statement of financial position as at January 1, 2016. The financial statements of the Company for the year ended December 31, 2015 (prior to the adjustments due to the presentation currency change) were audited by other auditors who expressed an unmodified opinion on those financial statements in their report dated April 29, 2016.

As part of our audits of the 2017 and 2016 financial statements, we also audited the adjustments described in note 3(a) that were applied to amend the statement of financial position as at January 1, 2016. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the Company other than with respects to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants**

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

As at	Note	December 31, 2017	December 31, 2016 (note 3.a)	January 1, 2016 (note 3.a)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 1,776	\$ 4,202	\$ 7,461
Amounts receivable		4,746	1,036	353
Inventory	5	4,419	3,500	-
Prepaid expenses		1,261	316	440
		<b>12,202</b>	<b>9,054</b>	<b>8,254</b>
<b>Non-current assets</b>				
Property, plant and equipment	6	132,935	92,772	14,818
Exploration and evaluation assets	7	16,725	15,948	11,525
Other receivables	8	3,459	4,246	8,725
Deferred debt costs		-	-	1,802
		<b>153,119</b>	<b>112,966</b>	<b>36,870</b>
<b>Total assets</b>		<b>\$ 165,321</b>	<b>\$ 122,020</b>	<b>\$ 45,124</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 15,441	\$ 16,975	\$ 6,166
Current portion of long-term debt	11	15,422	16,616	-
Mineral property obligations	7	-	1,137	3,195
		<b>30,863</b>	<b>34,728</b>	<b>9,361</b>
<b>Non-current liabilities</b>				
Reclamation provision	10	1,794	1,780	463
Mineral property obligations	7	-	-	264
Long-term debt	11	56,938	48,083	14,118
		<b>58,732</b>	<b>49,863</b>	<b>14,845</b>
<b>Total liabilities</b>		<b>89,595</b>	<b>84,591</b>	<b>24,206</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	114,910	81,504	58,939
Contributed surplus		20,470	5,568	3,344
Accumulated other comprehensive loss		(1,803)	(2,395)	(2,798)
Deficit		(61,430)	(47,736)	(42,788)
		<b>72,147</b>	<b>36,941</b>	<b>16,697</b>
Non-controlling interests	9	3,579	488	4,221
<b>Total shareholders' equity</b>		<b>75,726</b>	<b>37,429</b>	<b>20,918</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 165,321</b>	<b>\$ 122,020</b>	<b>\$ 45,124</b>
Nature of Operations and Going Concern	1			
Subsequent events	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 US dollars, except per share amounts)*

For the year ended	Note	December 31, 2017	December 31, 2016 (note 3.a)
<b>Expenses</b>			
Mine site expenses	3n	\$ 4,383	\$ -
Mineral property exploration cost	7	2,933	1,945
Salaries and benefits		2,922	2,702
Office and administration		2,711	2,325
Professional fees		639	413
Investor relations and business development		422	544
Write-down of mineral properties	7a	217	-
<b>Operating loss</b>		<b>14,227</b>	<b>7,929</b>
<b>Other expenses</b>			
Foreign exchange loss (gain)		410	(1,087)
Interest and other expense		1,102	86
<b>Net loss</b>		<b>\$ 15,739</b>	<b>\$ 6,928</b>
<b>Other comprehensive gain</b>			
Foreign currency translation difference for foreign operations		(592)	(403)
<b>Total comprehensive loss for the year</b>		<b>\$ 15,147</b>	<b>\$ 6,525</b>
<b>Net loss attributable to:</b>			
Equity holders of the parents		15,345	6,096
Non-controlling interests		394	832
		<b>\$ 15,739</b>	<b>\$ 6,928</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the parents		14,753	5,693
Non-controlling interests		394	832
		<b>\$ 15,147</b>	<b>\$ 6,525</b>
Basic and diluted loss per share		\$ 0.05	\$ 0.03
Weighted average number of common shares outstanding		300,070,524	217,004,408

*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		
<b>Balance as at December 31, 2015</b>	<b>181,429,252</b>	\$ <b>58,939</b>	\$ <b>3,344</b>	\$ <b>(2,798)</b>	\$ <b>(42,788)</b>	\$ <b>16,697</b>	\$ <b>4,221</b>	\$ <b>20,918</b>
Shares issued	55,355,869	22,340	-	-	-	22,340	-	22,340
Share-based payments	-	-	2,457	-	-	2,457	-	2,457
Share options and warrants exercised	4,220,000	225	(225)	-	-	-	-	-
Expiry of share options	-	-	(8)	-	8	-	-	-
Total comprehensive (loss) gain	-	-	-	403	(6,096)	(5,693)	(832)	(6,525)
Acquisition of non-controlling interests	-	-	-	-	1,140	1,140	(2,901)	(1,761)
<b>Balance as at December 31, 2016</b>	<b>241,005,121</b>	\$ <b>81,504</b>	\$ <b>5,568</b>	\$ <b>(2,395)</b>	\$ <b>(47,736)</b>	\$ <b>36,941</b>	\$ <b>488</b>	\$ <b>37,429</b>
<b>Balance as at December 31, 2016</b>	<b>241,005,121</b>	\$ <b>81,504</b>	\$ <b>5,568</b>	\$ <b>(2,395)</b>	\$ <b>(47,736)</b>	\$ <b>36,941</b>	\$ <b>488</b>	\$ <b>37,429</b>
Shares and share units issued for cash	110,181,443	26,182	9,229	-	-	35,411	-	35,411
Shares issued for settlement of accounts payable	14,545,455	2,409	1,591	-	-	4,000	-	4,000
Shares issued for settlement of debt	23,493,245	3,963	2,570	-	-	6,533	-	6,533
Share-based payments	-	-	2,834	-	-	2,834	-	2,834
Share options, DSU's and RSU's exercised	1,695,000	852	(523)	-	-	329	-	329
Expiry of share options	-	-	(799)	-	799	-	-	-
Total comprehensive (loss) gain	-	-	-	592	(15,345)	(14,753)	(394)	(15,147)
Divestment of shares in subsidiary (note 11)	-	-	-	-	1,134	1,134	1,476	2,610
Contributions from non-controlling interests (note 9, 12d)	-	-	-	-	(282)	(282)	2,009	1,727
<b>Balance as at December 31, 2017</b>	<b>390,920,264</b>	\$ <b>114,910</b>	\$ <b>20,470</b>	\$ <b>(1,803)</b>	\$ <b>(61,430)</b>	\$ <b>72,147</b>	\$ <b>3,579</b>	\$ <b>75,726</b>

*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 year ended	Note	December 31, 2017	December 31, 2016 (note 3.a)
<b>OPERATING ACTIVITIES</b>			
<b>Net loss for the year</b>		\$ (15,739)	\$ (6,928)
<i>Adjustments for items not affecting cash:</i>			
Share-based payments	12	2,534	2,039
Depreciation	6	733	456
Accretion expense		134	104
Write-down of mineral properties	7a	217	-
Foreign exchange loss (gain)		372	(847)
		(11,749)	(5,176)
<i>Net changes in non-cash working capital items:</i>			
Amounts receivable		(3,710)	(676)
Inventory		(919)	(1,592)
Prepaid expenses		(945)	139
Accounts payable and accrued liabilities		5,852	1,299
<b>Net cash outflows from operating activities</b>		<b>(11,471)</b>	<b>(6,006)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares, net of share issue costs	12b,c	35,740	16,350
Proceeds from bridge loan, net of issue costs	11	6,178	-
Long-term debt, net of deferred costs		-	41,173
Principal and production payments related to credit facility	11	(1,729)	-
Red Eagle Exploration's shares issued to non-controlling interests	12d	978	17
<b>Net cash inflows from financing activities</b>		<b>41,167</b>	<b>57,540</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(32,105)	(52,775)
Settlement of mineral property obligations	7b	(625)	(852)
Acquisition of California Gold mineral properties	7a	(443)	-
Non-current tax credit received (paid)		787	(1,703)
Acquisition of subsidiary		-	(549)
<b>Net cash outflows from investing activities</b>		<b>(32,386)</b>	<b>(55,879)</b>
Net foreign exchange differences		264	1,086
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(2,426)</b>	<b>(3,259)</b>
Cash and cash equivalents, beginning of period		4,202	7,461
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,776</b>	<b>\$ 4,202</b>

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

## RED EAGLE MINING CORPORATION

### Notes to 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 December 31, 2017, the Company also owned a 78.7% controlling interest in Red Eagle Exploration Limited (“Red Eagle Exploration”) which holds exploration projects in Colombia.

##### Going concern

These consolidated financial statements have been prepared on the basis of generally accepted accounting principles applicable to a going concern 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 year ended December 31, 2017 of \$15,739 (2016: \$6,928). As at December 31, 2017, the Company had cash and cash equivalents of \$1,776 (2016: \$4,202) and a working capital deficiency of \$18,661 (2016: \$25,674). Under the Company’s credit facility agreement, \$15,422 is due within twelve months of the balance sheet date. Excluding the current portion of the long-term debt, the working capital deficiency is \$3,239.

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. The nature and significance of these conditions, along with the working capital deficiency and the requirement to satisfy the current portion of 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 11). 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

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 thousands of US dollars, unless otherwise stated.

The consolidated financial statements of the Company for the year ended December 31, 2017 were authorized for issue by the Board of Directors, on March 27, 2018.

##### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2017.

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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

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

##### Basis of consolidation (continued)

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.

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 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%);
- Red Eagle Exploration Limited (“Red Eagle Exploration” formerly named CB Gold Inc.), a company incorporated in Canada (holding interest – 78.7%);
- Cedar Business Investment Ltd., a company incorporated in the British Virgin Islands (holding interest – 78.7%);
- Minera Vetas Limited, a company incorporated in British Virgin Islands (holding interest – 78.7%);
- Malew Overseas S.A., a company incorporated in Panama (holding interest – 78.7%);
- Lost City S.A.S., a company incorporated in Colombia (holding interest – 78.7%);
- Minera San Antonio Limited, a company incorporated in the British Virgin Islands (holding interest – 78.7%); and
- Minera San Antonio SAS, a company incorporated in Colombia (holding interest – 78.7%).

#### 3. PRINCIPAL ACCOUNTING POLICIES

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

##### a) Change in functional and presentation currency

Effective January 1, 2017, the Company changed its presentation currency from the Canadian Dollar (“CAD”) to the United States Dollar (“USD”). The change in presentation currency is to better reflect the Company's business activities and to improve comparability of the Company's financial results with other publicly traded gold mining businesses. In making the change to the USD presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new USD presentation currency as follows:

- All assets and liabilities have been translated from their functional currency into the new USD presentation currency using the closing exchange rate at the date of each balance sheet;
- Income and expenses for each statement of comprehensive loss presented have been translated at average exchange rates prevailing during each reporting period;

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### a) Change in functional and presentation currency (continued)

- Equity balances have been retrospectively translated at historical rates prevailing during the period incurred; and
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity (cumulative translation adjustment).

In addition to the comparative financial statements, the Company has presented a third statement of financial position as at January 1, 2016 as required by IFRS.

Due to the initial commencement of production and realization of USD cash flows from pre-production gold sales during the first quarter of 2017, the Company re-assessed the currency of the primary economic environment in which all of the entities in the group operate ("functional currency") and the functional currencies of all non-Canadian entities in the group was changed to USD effective January 1, 2017. Previously, these subsidiaries had either a CAD or Colombian peso functional currency. The functional currency of the parent entity (Red Eagle Mining Corporation) as well as Red Eagle Exploration remained CAD. These entities are Canadian companies with the majority of costs being incurred in CAD and financings raised in CAD.

##### *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 with banks and highly liquid investments that are readily convertible into known amounts of cash and 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.

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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### c) Inventory (continued)

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 to 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 other 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.

On the commencement of commercial production, depletion of Mine and Mill costs will be provided on a units-of production basis using estimated reserves as the depletion base.

Depreciation is provided on all items of other 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.

##### 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 the 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 the Santa Rosa mineral property as technical feasibility and commercial viability of the project has been established.

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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### 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.

The Company reviews and evaluates the carrying value of its mineral properties and property, plant, and equipment for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. The identification of such events or changes and the performance of the assessment requires significant judgment. Furthermore, the Company's estimates of many of the factors relevant to completing this assessment, including commodity price, mineral resources, and operating, capital and reclamation costs, are subject to risks and estimation uncertainties that may further affect the determination of the recoverability of the carrying amounts of its mineral properties and property, plant, and equipment.

##### 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 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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### 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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 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 ("DSU's"), or restricted share units ("RSU's").

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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### m) Reclamation provision

The Company records a reclamation provision for 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.

##### 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.

##### Declaration of commercial production

The Company announced commercial production readiness at the end of the first quarter of 2017. The criteria used by the Company to determine that the assets were operating in a manner intended by management was based on the Santa Rosa processing plant operating, over 30 consecutive days, at an average of at least 75% of design capacity. However, the underground mine did not consistently achieve planned operating levels due to ground stability conditions and as at June 30, 2017, the Company discontinued operations at the Mill to refocus on mine development. Costs to maintain the site and processing plant in a state of operational readiness are being expensed directly to the consolidated statements of comprehensive loss. Costs related to continued mine development are being capitalized. For the year ended December 31, 2017, approximately \$4,383 in costs related to the plant and site support activities were recorded to the mine site expenses line in the consolidated statements of loss and comprehensive loss. On January 1, 2018, subsequent to year end, the Company restarted the Mill and resumed gold and silver production.

##### Impairment

The Company assesses each cash-generating unit 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.

As at June 30, 2017, the Company's decision to suspend milling operations and refocus on mine development was identified as an indicator of potential impairment. As a result, the Company performed an impairment assessment of the San Ramon Mill and Mine (the "CGU") and concluded that there is no impairment.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### n) Management judgments and key sources of estimation uncertainty (continued)

###### 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.

#### 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, 2017, 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 concluded that this standard will have an impact in revenue in 2018 following the resumption of commercial production.

###### *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 preliminary concluded that this standard will only materially impact the measurement of the Company's long-term debt.

###### *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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 5. INVENTORY

As at	December 31, 2017	December 31, 2016	January 1, 2016
Finished goods	\$ -	\$ 553	\$ -
Work in process	-	482	-
Ore stockpiles	907	-	-
Materials and supplies	3,512	2,465	-
	<u>\$ 4,419</u>	<u>\$ 3,500</u>	<u>\$ -</u>

As of December 31, 2017, the balance of ore stockpiles inventory has been reduced to its net realizable value.

#### 6. PROPERTY, PLANT AND EQUIPMENT

	Construction work-in-progress		Mineral property	Other equipment	Total
	Mine	Mill			
<b>Cost</b>					
<b>Balance, January 1, 2016</b>	\$ 1,235	\$ 9,468	\$ 3,403	\$ 1,344	\$ 15,450
Additions	20,228	53,034	1,819	2,153	77,234
Disposals	-	-	-	(74)	(74)
Reclamation costs (note 10)	-	-	1,227	-	1,227
<b>Balance, December 31, 2016</b>	\$ 21,463	\$ 62,502	\$ 6,449	\$ 3,423	\$ 93,837
Additions	27,103	12,870	204	805	40,982
Reclamation recovery (note 10)	-	-	(86)	-	(86)
<b>Balance, December 31, 2017</b>	\$ 48,566	\$ 75,372	\$ 6,567	\$ 4,228	\$ 134,733
<b>Accumulated depreciation</b>					
<b>Balance, January 1, 2016</b>	\$ -	\$ -	\$ -	\$ (632)	\$ (632)
Depreciation	-	-	-	(491)	(491)
Disposals	-	-	-	58	58
<b>Balance, December 31, 2016</b>	\$ -	\$ -	\$ -	\$ (1,065)	\$ (1,065)
Depreciation	-	-	-	(733)	(733)
<b>Balance, December 31, 2017</b>	\$ -	\$ -	\$ -	\$ (1,798)	\$ (1,798)
<b>Net book value, December 31, 2017</b>	\$ 48,566	\$ 75,372	\$ 6,567	\$ 2,430	\$ 132,935
<b>Net book value, December 31, 2016</b>	\$ 21,463	\$ 62,502	\$ 6,449	\$ 2,358	\$ 92,772
<b>Net book value, January 1, 2016</b>	\$ 1,235	\$ 9,468	\$ 3,403	\$ 712	\$ 14,818

Construction work-in-progress is net of a credit for pre-production revenue of \$5,305 (2016: \$311).

At December 31, 2017, accounts payable and accrued liabilities included \$14,448 (2016: \$16,701) related to capital expenditures for the construction of the San Ramon Gold Mine and Mill.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### Mineral properties - Santa Rosa Gold Project

On April 15, 2011, the Company acquired 100% of the Santa Rosa Gold Project in Antioquia, Colombia, for \$9,600 (CAD \$10.0 million).

On October 22, 2012, concurrent with a private placement financing, the Company completed the sale of a 2% Net Smelter Return ("NSR") royalty over the Santa Rosa property to Liberty Metals and Mining Holdings, LLC, ("LMM") a shareholder of the Company, for gross proceeds of CAD \$8.3 million. The Company had the option to sell an additional 1% royalty for CAD \$4.2 million 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 CAD \$8.3 million at any time during the first two years of commercial gold production.

On October 24, 2012, the Company executed a purchase agreement with Bullet Holdings Corp. to acquire adjacent mineral concession contracts within 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.

On May 28, 2014, the Company executed a purchase agreement with AngloGold Ashanti Colombia S.A., to acquire 100% of contiguous mineral concession contracts within the Company's Santa Rosa Gold Project. In consideration for the property, the Company paid \$375 to AGAC and granted AGAC a 2% NSR royalty over the properties acquired.

As at December 31, 2017, the Company has no outstanding mineral property obligations in relation to the Santa Rosa Gold Project.

##### Impairment Assessment

As at June 30, 2017, the Company's decision to suspend milling operations and refocus on mine development was identified as an indicator of potential impairment. As a result, the Company performed an impairment assessment of the San Ramon Mill and Mine and concluded that there was no impairment at June 30, 2017. The recoverable amount was determined as the value in use for the CGU, being the present value of estimated future cash flows arising from the continued use of the asset, and eventual disposal. Cash flows were 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. Key assumptions used in the value in use model include a discount rate of 12%, long-term gold price of \$1,250 to \$1,300, and life of mine of 8 years.

The impairment assessment is highly sensitive to the discount rates and gold prices used in the cash flow projection. The impact of a 1% change in discount rate was approximately \$4,000 with all other variables held constant. The impact of a \$50/oz change in gold price was approximately \$12,000 with all other variables held constant. As at June 30, 2017, the Company concluded that the recoverable amount exceeded the carrying value of the CGU.

As at December 31, 2017, the Company has not identified any events or circumstances that would indicate that the carrying amounts of the related assets may not be recoverable.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 7. MINERAL PROPERTIES

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 6.

##### a) California Gold Project

During 2017, Red Eagle Exploration announced an option to purchase 100% of eight exploitation mining concessions from local miners. After completion of due diligence, the options on four of the concessions were dropped and a write down for \$217 was recorded in net loss. Aggregate consideration for the remaining four concessions is \$9,390 of which \$3,756 is payable in cash and \$5,634 is payable in shares of the Company. Red Eagle Exploration has issued 4,608,465 common shares valued at \$459 and paid \$443 in cash to the vendors.

The balance of the payments for these acquisitions are due over a two-year period after title transfer, at the option of Red Eagle Exploration. 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 if any are included in a NI 43-101 Technical Report. The four properties, collectively comprise the California Gold Project, in the California-Vetas Gold District located in Santander, Colombia.

##### b) Vetas Gold Project

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 \$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 \$50 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 \$150 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 \$300 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.

On February 14, 2017, Red Eagle Exploration amended the pre-existing acquisition agreements 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 issued 4,550,000 common shares and paid \$500 in cash with respect to the San Bartolo property and issued 116,700 common shares with respect to the San Antonio property.

Red Eagle Exploration has now settled all outstanding mineral property obligations.

##### c) Santa Ana Silver Project

On August 9, 2016, Red Eagle Exploration purchased 100% of the Santa Ana Silver Project from Condor Precious Metals Inc. for CAD \$250 in cash, 8,095,238 Red Eagle Exploration common shares at CAD \$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 CAD \$500.

**RED EAGLE MINING CORPORATION****Notes to consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***7. MINERAL PROPERTIES (CONTINUED)****Exploration and Evaluation Costs**

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

<b>For the year ended December 31, 2017</b>	<b>Santa Rosa</b>	<b>Vetas</b>	<b>California</b>	<b>Santa Ana</b>	<b>Total</b>
Salaries and consulting	\$ 372	\$ 661	\$ 127	\$ -	\$ 1,160
Drilling	799	-	-	-	799
Legal and office administration	22	252	50	-	324
Geological and geochemical	-	177	17	-	194
Assays and sampling	73	48	-	-	121
Field and camp	-	64	24	-	88
License and permits	-	78	6	-	84
Travel and transportation	37	32	6	-	75
Concession fees	36	-	-	33	69
Depreciation	-	19	-	-	19
<b>Total exploration costs</b>	<b>\$ 1,339</b>	<b>\$ 1,331</b>	<b>\$ 230</b>	<b>\$ 33</b>	<b>\$ 2,933</b>

<b>For the year ended December 31, 2016</b>	<b>Santa Rosa</b>	<b>Vetas</b>	<b>Total</b>
Salaries and consulting	\$ 220	\$ 408	\$ 628
Drilling	480	-	480
Legal and office administration	7	179	186
Geological and geochemical	-	279	279
Assays and sampling	43	-	43
Field and camp	-	125	125
License and permits	-	88	88
Travel and transportation	14	59	73
Concession fees	9	-	9
Depreciation	-	23	23
Environmental	4	7	11
<b>Total exploration costs</b>	<b>\$ 777</b>	<b>\$ 1,168</b>	<b>\$ 1,945</b>

**RED EAGLE MINING CORPORATION****Notes to consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***8. OTHER RECEIVABLES**

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
VAT credits receivable	\$ 2,700	\$ 2,397	\$ 842
Security deposits and advances to suppliers	759	1,849	7,883
	<u>\$ 3,459</u>	<u>\$ 4,246</u>	<u>\$ 8,725</u>

As at December 31, 2017, the Company recognized value added tax ("VAT") credits receivable of \$2,700 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 78.7% interest in Red Eagle Exploration as at December 31, 2017. During the year ended December 31, 2017, the Company's controlling interest in Red Eagle Exploration was diluted from 92% to 78.7% through a combination of private placements, warrants exercises and share exchanges.

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

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Current assets	\$ 336	\$ 1,583	\$ 51
Non-current assets	16,489	15,816	14,298
Current liabilities	(1,018)	(1,204)	(2,680)
Non-current liabilities	(254)	(270)	(254)
Net assets	15,553	15,925	11,415
Non-controlling interests	\$ 3,579	\$ 488	\$ 4,221

<b>For the year ended December 31</b>	<b>2017</b>	<b>2016</b>
Total comprehensive loss	\$ 3,433	\$ 1,539
Total comprehensive loss allocated to non-controlling interests	\$ 394	\$ 832

<b>For the year ended December 31</b>	<b>2017</b>	<b>2016</b>
Cash flows from operating activities	\$ (1,545)	\$ (2,227)
Cash flows from financing activities	\$ 978	\$ 4,464
Cash flows from investing activities	\$ (949)	\$ (751)

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 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 Vetás 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, 2017. 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 December 31, 2017, December 31, 2016 and January 1, 2016:

	December 31, 2017	December 31, 2016	January 1, 2016
San Ramon Gold Mine	\$ 1,539	\$ 1,509	\$ 205
Vetas Gold Project	255	271	258
<b>Total Reclamation Provision</b>	<b>\$ 1,794</b>	<b>\$ 1,780</b>	<b>\$ 463</b>

The following are changes in reclamation provision during the year ended December 31, 2017 and year ended December 31, 2016:

	San Ramon Gold Mine	Vetas Gold Project
<b>Balance, January 1, 2016</b>	\$ 205	\$ 258
Change in estimate	1,227	(9)
Accretion expense	77	22
<b>Balance, December 31, 2016</b>	<b>\$ 1,509</b>	<b>\$ 271</b>
Change in estimate	(86)	(20)
Accretion expense	116	18
Settled in the year	-	(14)
<b>Balance, December 31, 2017</b>	<b>\$ 1,539</b>	<b>\$ 255</b>

#### 11. LONG-TERM DEBT

	Credit Facility
<b>Balance, January 1, 2016</b>	<b>\$ 14,118</b>
Principal, net of fees	41,173
Interest expense, including amortization	9,417
Production payments	(9)
<b>Balance, December 31, 2016</b>	<b>\$ 64,699</b>
Interest expense, including amortization	12,000
Credit facility repayments	(1,580)
Credit facility amendment fee, including expenses	(2,633)
Production payments	(126)
<b>Balance, December 31, 2017</b>	<b>\$ 72,360</b>
	Current portion
	15,422
	<b>Long-term portion</b>
	<b>\$ 56,938</b>

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 11. LONG-TERM DEBT (CONTINUED)

Prior to August 11, 2017, the US \$60,000 credit facility had 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 commenced on May 1, 2017 and were due in forty-two equal monthly amortization amounts of \$1,579. Orion Fund JV Limited ("Orion") and Liberty Metals & Mining Holdings LLC ("LMM" and together with Orion, the "Lenders") waived the Company's requirement under the credit facility to make the June, July and August 2017 amortization payments.

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 shall re-commence on April 1, 2018 in equal monthly amortization amounts of \$1,600 with a maturity date of April 1, 2019, at which time all remaining outstanding amounts are due. The credit facility is secured by all of the Company's property and assets.

The amended credit facility bears interest at a rate of the higher of LIBOR or 1%, plus 11%, compounded monthly, with interest being 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. Additionally, as a fee for the 2017 amendments, the Company transferred to the Lenders 33,105,362 common shares of Red Eagle Exploration, with a fair value of \$2,610, and paid \$23 in related expenses. The Company accounted for the amendment as a modification. Considering the various features of the amended credit facility, the effective interest rate is approximately 19%.

In order to fund working capital requirements, on July 24, 2017, the Company entered into a bridge funding agreement (the "Bridge Loan") for \$6,500. Upon completion of the rights offering (note 12(b)) and execution of the amendment to the credit agreement, the Bridge Loan was repaid on August 11, 2017, out of the Lenders' participation in the rights offering.

For the year ended December 31, 2017, the Company capitalized \$12,000 of interest on the amended credit facility to construction work in progress.

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 consolidated financial statements

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

#### 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, 2017

On February 21, 2017, the Company completed a bought deal financing for gross proceeds of \$13,119 (CAD \$17.3 million), consisting of 23,000,000 common shares at a price of CAD \$0.75 per share.

On August 11, 2017, the Company completed a rights offering for gross proceeds of \$23,952 (CAD \$30.0 million) consisting of 85,629,689 Units at a price of CAD \$0.35 per Unit. Each Unit consists of one common share of the Company and one transferable share purchase warrant exercisable into one common share of the Company at CAD \$0.50 per common share until August 7, 2022. As part of the rights offering 47,590,989 Units were issued for net cash proceeds of \$13,419, (CAD \$16.7 million gross), 14,545,455 Units were issued to Stracon GyM to settle \$4,000 of accounts payable, and 23,493,245 Units were issued to the Lenders of the credit facility to settle the Bridge Loan principal and accrued interest of \$6,533 (note 11).

On November 24, 2017, the Company completed a private placement for gross proceeds of \$6,484 (CAD \$8.2 million), consisting of 23,545,000 Units at a price of CAD \$0.35 per Unit. Each Unit consists of one common share of the Company and one transferable share purchase warrant exercisable into one common share of the Company at CAD \$0.50 per common share until August 7, 2022.

On December 21, 2017, the Company completed a private placement for gross proceeds of \$4,459 (CAD \$5.7 million), consisting of 16,045,454 Units at a price of CAD \$0.35 per Unit. Each Unit consists of one common share of the Company and one transferable share purchase warrant exercisable into one common share of the Company at CAD \$0.50 per common share until August 7, 2022.

The Company used the relative fair value approach to calculate the fair value allocation between common shares and share purchase warrants. For the rights offering and the November 24 and December 21, 2017 private placements a total of \$13,390 was allocated to contributed surplus for the share purchase warrants. Refer to note 12(f) for details on the warrant valuation.

##### c) 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 \$8,756 (CAD \$11.3 million), consisting of 29,688,095 common shares at a price of CAD \$0.38 per share.

In July 2016, the Company completed a private placement for gross proceeds of \$7,067 (CAD \$9.2 million), consisting of 13,176,626 common shares at a price of CAD \$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.

##### d) Red Eagle Exploration shares issued during the year ended December 31, 2017

During the year ended December 31, 2017, Red Eagle Exploration issued 4,550,000 common shares for final settlement of the San Bartolo property, issued 116,700 common shares for final settlement of the San Antonio property, and issued 4,608,465 common shares to meet initial option payments for the California Gold Project. Red Eagle Exploration also issued 2,850,000 shares as a result of warrant exercises.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 12. SHARE CAPITAL (CONTINUED)

##### d) Red Eagle Exploration shares issued during the year ended December 31, 2017 (continued)

On June 23, 2017, Red Eagle Exploration completed a non-brokered private placement consisting of 6,854,722 units at a price of CAD \$0.15 per unit for gross proceeds of \$775 (CAD \$1.0 million). Each unit consists of one common share and one warrant, with each warrant exercisable at a price of CAD \$0.25 per unit until June 23, 2022.

The above issuances diluted the Company's ownership interest in Red Eagle Exploration.

##### e) Share Purchase Options

Information regarding share purchase options outstanding at December 31, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
<b>Outstanding, January 1, 2016</b>	<b>14,365,000</b>	<b>\$ 0.33</b>	<b>\$ 0.19</b>
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
<b>Outstanding, December 31, 2016</b>	<b>17,865,000</b>	<b>\$ 0.42</b>	<b>\$ 0.23</b>
Granted	7,750,000	0.37	0.15
Exercised	(1,020,000)	0.32	0.18
Expired	(4,022,500)	0.46	0.26
Forfeited	(817,500)	0.70	0.33
<b>Outstanding, December 31, 2017</b>	<b>19,755,000</b>	<b>\$ 0.38</b>	<b>\$ 0.19</b>

Information regarding share purchase options outstanding at December 31, 2017 is as follows:

Expiry date	Options outstanding	Options exercisable	Exercise price in CAD \$	Weighted average remaining contractual life (years)
April 9, 2019	1,450,000	1,450,000	\$ 0.33	1.27
May 6, 2020	2,120,000	2,120,000	0.33	2.35
October 7, 2020	5,600,000	5,600,000	0.28	2.77
February 24, 2021	25,000	25,000	0.38	3.15
April 22, 2021	175,000	175,000	0.57	3.31
June 14, 2021	400,000	400,000	0.71	3.45
July 8, 2021	300,000	300,000	0.77	3.52
October 17, 2021	450,000	337,500	0.80	3.80
December 19, 2021	2,085,000	1,813,750	0.65	3.97
August 19, 2022	7,150,000	1,787,500	0.35	4.64
	<b>19,755,000</b>	<b>14,008,750</b>	<b>\$ 0.38</b>	<b>3.5</b>

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 12. SHARE CAPITAL (CONTINUED)

##### e) Share Purchase Options (continued)

The fair value of each outstanding share purchase option grant was estimated using the Black-Scholes option pricing model, and for the year ended December 31, 2017, with the following weighted average assumptions:

	December 31, 2017	December 31, 2016
Risk free interest rate	1.3%	0.8%
Expected volatility	76%	77%
Expected life (years)	2.9	3.8
Expected dividends (yield)	0%	0%
<b>Weighted average fair value per option in CAD \$</b>	<b>\$ 0.15</b>	<b>\$ 0.37</b>

The share-based payments expense related to share purchase options for the year ended December 31, 2017 was \$738 (2016: \$966) of which \$99 (2016: \$327) have been capitalized to property, plant and equipment and \$639 (2016: \$639) has been recorded in the statement of loss and comprehensive loss.

For the year ended December 31, 2017	Total
Salaries and benefits	\$ 507
Office and administration	132
Property, plant and equipment	99
	<u>\$ 738</u>

For the year ended December 31, 2016	Total
Salaries and benefits	\$ 382
Office and administration	220
Property, plant and equipment	327
Investor relations	37
	<u>\$ 966</u>

##### f) Warrants

Information regarding warrants outstanding at December 31, 2017 is as follows:

For the year ended	Number of outstanding warrants	Weighted average exercise price in CAD \$
<b>Balance, January 1, 2016</b>	<b>8,375,000</b>	<b>\$ 0.275</b>
Exercised	(3,375,000)	0.25
<b>Balance, December 31, 2016</b>	<b>5,000,000</b>	<b>\$ 0.275</b>
Issued	125,220,143	0.50
<b>Balance, December 31, 2017</b>	<b>130,220,143</b>	<b>\$ 0.49</b>

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 12. SHARE CAPITAL (CONTINUED)

##### f) Warrants (continued)

Information regarding warrants outstanding at December 31, 2017 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	2.5
August 7, 2022	125,220,143	0.50	4.6
	<b>130,220,143</b>	<b>\$ 0.49</b>	<b>4.5</b>

On August 11, 2017, November 24, 2017 and December 21, 2017 the Company issued 85,629,689, 23,545,000 and 16,045,454 transferable purchase warrants, respectively, to purchase shares of the Company exercisable for a five year term at an exercise price of \$0.50.

The Company has calculated the fair value of warrants issued of \$13,390 using the Black-Scholes valuation model with the following variables and has recorded it to contributed surplus:

Grant date	December 31, 2017
Risk free interest rate	1.3%
Expected annual volatility	95%
Expected life (years)	4.9
Expected dividends (yield)	0%
<b>Weighted average fair value per warrant in CAD \$</b>	<b>\$ 0.19</b>

##### g) Deferred and Restricted Share Units

Deferred and restricted share units granted to directors and certain senior officers of the Company outstanding at December 31, 2017 is as follows:

	Number of deferred share units	Number of restricted units
<b>Outstanding, January 1, 2016</b>	-	-
Granted	625,000	975,000
<b>Outstanding, December 31, 2016</b>	<b>625,000</b>	<b>975,000</b>
Granted	1,200,000	1,150,000
Exercised	(325,000)	(350,000)
<b>Outstanding, December 31, 2017</b>	<b>1,500,000</b>	<b>1,775,000</b>

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 grant date fair value of deferred and restricted share units granted during the year ended December 31, 2017, was CAD \$0.30 per unit (2016 - CAD \$0.73 per unit). The weighted average remaining vesting period of the units outstanding at December 31, 2017 is approximately 0.15 years.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 12. SHARE CAPITAL (CONTINUED)

##### g) Deferred and Restricted Share Units (continued)

For the year ended December 31, 2017, share-based payment expense related to deferred and restricted units included in net loss was \$846 (2016: 227) and \$201 (2016: 63) was capitalized to Property, Plant, and Equipment.

For the year ended December 31, 2017	Total
Salaries and benefits	\$ 432
Office and administration	414
Property, plant and equipment	201
	<u>\$ 1,047</u>

For the year ended December 31, 2016	Total
Salaries and benefits	\$ 67
Office and administration	160
Property, plant and equipment	63
	<u>\$ 290</u>

##### h) Red Eagle Exploration Share Purchase Options and Warrants

###### Share Purchase Options

Information regarding Red Eagle Exploration's share purchase options outstanding at December 31, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
<b>Outstanding, January 1, 2016</b>	<b>3,810,000</b>	\$ <b>0.48</b>	\$ <b>0.43</b>
Granted	18,975,000	0.16	0.14
Expired	(2,105,000)	0.53	0.56
<b>Outstanding, December 31, 2016</b>	<b>20,680,000</b>	\$ <b>0.18</b>	\$ <b>0.15</b>
Granted	5,200,000	0.15	0.12
Expired	(3,816,250)	0.28	0.22
Forfeited	(1,608,750)	0.16	0.14
<b>Outstanding, December 31, 2017</b>	<b>20,455,000</b>	\$ <b>0.16</b>	\$ <b>0.13</b>

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	0.97
May 29, 2019	500,000	500,000	0.12	1.41
November 11, 2021	10,100,000	8,825,000	0.16	3.87
November 21, 2021	4,000,000	3,000,000	0.16	3.89
December 16, 2021	300,000	225,000	0.11	3.96
June 26, 2022	5,000,000	4,500,000	0.15	4.49
	<u>20,455,000</u>	<u>17,605,000</u>	<u>\$ 0.16</u>	<u>3.89</u>

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 12. SHARE CAPITAL (CONTINUED)

##### h) Red Eagle Exploration Share Purchase Options and Warrants (continued)

###### Share Purchase Options (continued)

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, 2017	December 31, 2016
Risk free interest rate	1.1%	0.8%
Expected volatility	139.6%	137%
Expected life (years)	5.0	5.0
Expected dividends (yield)	0%	0%
<b>Weighted average fair value per option in CAD \$</b>	<b>\$ 0.12</b>	<b>\$ 0.14</b>

The share-based payments expense related to share purchase options for the year ended December 31, 2017 was \$1,049 (2016: 1,201), respectively, recorded in the consolidated statements of loss and comprehensive loss.

###### Warrants

Information regarding Red Eagle Exploration's warrants outstanding at December 31, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$
<b>Outstanding, January 1, 2016</b>	-	\$ -
Issued	25,310,000	0.10
<b>Outstanding, December 31, 2016</b>	<b>25,310,000</b>	<b>\$ 0.10</b>
Issued (note 12d)	6,854,722	0.25
Exercised	(2,850,000)	0.10
Expired	(22,460,000)	0.10
<b>Outstanding, December 31, 2017</b>	<b>6,854,722</b>	<b>\$ 0.25</b>

Expiry date	Warrants outstanding	Weighted average exercise price in CAD \$	Weighted average remaining contractual life (years)
June 23, 2022	6,854,722	\$ 0.25	4.48

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 13. INCOME TAX

The Company is subject to tax in Canada and Colombia at the statutory rates of 26% and 34%, respectively, for the year ended December 31, 2017. Effective January 1, 2018, the Canadian statutory tax rate increased to 27% and the Colombian statutory tax rate decreased to 33%. The Company had no assessable profit in Canada and Colombia for the year ended December 31, 2017.

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, 2017	December 31, 2016
<b>Loss before tax</b>	\$ 15,739	\$ 6,928
Statutory tax rate	26%	26%
<b>Recovery tax at the statutory rate</b>	\$ (4,092)	\$ (1,801)
Unrecognized loss carryforwards and other	3,588	1,724
Non-deductible expenses	925	88
Difference in tax rates in foreign jurisdictions	(421)	(11)
<b>Income tax recovery</b>	\$ -	\$ -

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, 2017	December 31, 2016
<b>Deductible temporary differences</b>		
Loss carryforwards	\$ 81,159	\$ 51,030
Mineral properties and Property, plant and equipment	(32,200)	(5,965)
Other	4,609	4,910
<b>Total deductible temporary differences</b>	\$ 53,568	\$ 49,975

The Company has loss carry-forwards of approximately \$81,159 (2016: \$51,030) which may be available to offset future income for income tax purposes, of which \$31,304 applies in Canada and \$49,855 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.

**RED EAGLE MINING CORPORATION****Notes to consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***14. RELATED PARTY TRANSACTIONS**

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

<b>For the year ended</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Share-based payments	\$ 1,520	\$ 564
Employee salaries and benefits	802	1,237
Directors fees	200	218
	<b>\$ 2,522</b>	<b>\$ 2,019</b>

The following table provides the total amount of transactions entered into by the Company with related parties during the years ended December 31, 2017 and 2016, and the outstanding balances as at December 31, 2017 and 2016:

<b>For the year ended</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Purchases:</b>		
Mine development and operating costs charged by Stracon GyM; its CEO, Steve Dixon, is a director and a shareholder of the Company	\$ 19,467	\$ 14,659
Costs recharged from a company controlled by directors, Robert Bell and Ian Slater	\$ 833	\$ 1,030
Legal fees to Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 158	\$ 210
<b>Amounts owed to (from):</b>		
Stracon GyM to which its CEO, Steve Dixon, is a director and a shareholder of the Company	\$ 8,043	\$ 6,336
A company controlled by directors, Robert Bell, and Ian Slater	\$ 603	\$ (156)
Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 34	\$ 69

As part of the rights offering on August 11, 2017, 14,545,455 Units were issued to Stracon GyM to settle \$4,000 of accounts payable.

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

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

(amounts are in thousands of US 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 total assets, long-term debt and net loss are distributed in two geographic regions, Canada and Colombia, as follows:

As at December 31, 2017	Canada	Colombia	Total
Total assets	1,357	163,964	165,321
Long-term debt	(72,360)	-	(72,360)
Net loss for 2017	6,915	8,824	15,739

As at December 31, 2016	Canada	Colombia	Total
Total assets	4,683	117,337	122,020
Long-term debt	(64,699)	-	(64,699)
Net loss for 2016	6,874	54	6,928

#### 16. COMMITMENTS AND CONTINGENCIES

The Company has commitments related to the development and operations of the San Ramon Gold Mine and Mill as at December 31, 2017 as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Operational	\$ 4,274	\$ 2,777	\$ 1,249	\$ 8,300

The Company has to make cash payments in order to meet the terms of the option agreements entered to acquire certain of its mineral properties as described in note 7.

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.

#### 17. CAPITAL MANAGEMENT

The Company's capital consists of the shareholders' equity 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 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.

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 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, 2017.

##### 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

###### i) Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents and amounts receivable. 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 arises from its cash and cash equivalents and as at December 31, 2017, the maximum exposure thereto is \$1,776 (December 31, 2016: \$4,202).

The credit risk associated with amounts receivable is minimized by ensuring that the Company selects well established counterparties with a strong financial position.

###### 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 bear interest at the higher of LIBOR or 1%, +11%. The Company manages this risk by monitoring fluctuations in LIBOR, which are not expected to be significant.

###### iii) Foreign currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities of the Company held by the parent entity are not denominated in Canadian dollars (CAD) and to the extent that those held by the subsidiaries are not denominated in United States dollars (USD). The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's currency risk is presently limited to cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities of the parent entity that are denominated in USD and of the subsidiaries that are denominated in Colombian peso ("COP").

The Company also has transactional currency exposures. Such exposures arise from purchases in currencies other than the respective functional currencies. The Company manages this risk by matching receipts 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 net loss:

	10% change in CAD	10% change in COP
Change in net loss	\$ 46	\$ 628

## RED EAGLE MINING CORPORATION

### Notes to consolidated financial statements

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

#### 18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

##### b) Financial risk management (continued)

##### iv) Liquidity risk

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

As at December 31, 2017	Within 1 year	More than one year	Total
Accounts payable and accrued liabilities	\$ 15,441	\$ -	\$ 15,441
Reclamation provision	-	2,965	2,965
Long-term debt	15,900	76,740	92,640
	<u>\$ 31,341</u>	<u>\$ 79,705</u>	<u>\$ 111,046</u>

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 for the year ended December 31, 2017 of \$15,739 (2016: \$6,928) and as at December 31, 2017 had a working capital deficiency of \$18,661 (December 31, 2016: \$25,674) with cash and cash equivalents of \$1,776 (December 31, 2016: \$4,202). Under the Company's credit facility agreement, \$15,422 is due within twelve months of the balance sheet date and the full amount of the facility is due within eighteen months of the balance sheet date.

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. Refer to Note 1 – Nature of Operations and Going Concern. The Company may also issue new shares, renegotiate its debt, or sell assets to reduce debt.

#### 19. SUBSEQUENT EVENTS

On March 1, 2018, the Company's subsidiary, 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 CAD \$1,325. Each unit consists of one common share of Red Eagle Exploration and one warrant. Each warrant entitles the holder thereof to purchase one common share of Red Eagle Exploration at a price of CAD \$0.25 per share until June 23, 2022.

On March 2, 2018, the Company and Red Eagle Exploration (TSX.V: XR) announced that they have entered into a definitive amalgamation agreement ("Amalgamation Agreement") pursuant to which the Company has agreed to acquire all of the issued and outstanding common shares of Red Eagle Exploration not already owned by it by way of a three-cornered amalgamation ("Amalgamation").

Under the terms of the Amalgamation, Red Eagle Exploration shareholders will receive one (1) common share of the Company for every two (2) Red Eagle Exploration common shares held ("Exchange Ratio"). Outstanding stock options of Red Eagle Exploration will be converted at the Exchange Ratio, and outstanding warrants of Red Eagle Exploration will be exercisable into common shares of the Company at the Exchange Ratio.

As of March 2, 2018, the Company owned 76.43% of the outstanding common shares of Red Eagle Exploration. Pursuant to the Amalgamation, the Company will issue approximately 45,946,258 common shares to Red Eagle Exploration's shareholders (other than itself) and Red Eagle Exploration will amalgamate with a wholly-owned subsidiary of the Company, becoming a wholly-owned subsidiary of the Company. Upon completion of the Amalgamation, former shareholders of Red Eagle Exploration will own approximately 10.51% of the outstanding shares of the Company.

Completion of the Amalgamation is subject to a number of conditions, including the receipt of the requisite approval of the shareholders of Red Eagle Exploration and of the stock exchange.