



RED EAGLE MINING CORPORATION

Unaudited condensed interim consolidated financial statements

For the three and six months ended June 30, 2017

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

As at	Note	June 30, 2017	December 31, 2016 (note 2)	January 1, 2016 (note 2)
ASSETS				
Current assets				
Cash and cash equivalents		\$ 532	\$ 4,202	\$ 7,461
Amounts receivable		1,882	1,036	353
Inventory	3	3,592	3,500	-
Prepaid expenses		1,360	316	440
		7,366	9,054	8,254
Non-current assets				
Property, plant and equipment	4	111,861	92,772	14,818
Mineral properties	5	17,370	15,948	11,525
Other receivables	6	3,504	4,246	8,725
Deferred debt costs		-	-	1,802
		132,735	112,966	36,870
Total assets		\$ 140,101	\$ 122,020	\$ 45,124
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 22,556	\$ 16,975	\$ 6,166
Current portion of long-term debt	9	68,168	16,616	-
Mineral property obligations	5	-	1,137	3,195
		90,724	34,728	9,361
Non-current liabilities				
Reclamation provision	8	1,950	1,780	463
Mineral property obligations	5	-	-	264
Long-term debt	9	-	48,083	14,118
		1,950	49,863	14,845
Total liabilities		92,674	84,591	24,206
SHAREHOLDERS' EQUITY				
Share capital	10	93,961	81,504	58,939
Contributed surplus		7,767	5,568	3,344
Accumulated other comprehensive loss		(977)	(2,395)	(2,798)
Deficit		(54,545)	(47,736)	(42,788)
		46,206	36,941	16,697
Non-controlling interests	7	1,221	488	4,221
Total shareholders' equity		47,427	37,429	20,918
Total liabilities and shareholders' equity		\$ 140,101	\$ 122,020	\$ 45,124
Nature of Operations and Going Concern	1			
Subsequent events	14			

On behalf of the Board of Directors:

(signed) "Jeffrey Mason"
Director

(signed) "Ian Slater"
Director

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

RED EAGLE MINING CORPORATION
Consolidated statements of loss and comprehensive loss
(thousands of US dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016 (note 2)	June 30, 2017	June 30, 2016 (note2)
Expenses				
Salaries and benefits	\$ 863	\$ 323	\$ 1,723	\$ 754
Mineral property exploration cost	916	307	1,470	602
Mine site expenses (note 2)	1,348	-	1,348	-
Office and administration	466	499	1,164	1,042
Professional fees	117	83	190	228
Investor relations and business development	84	189	180	283
Operating loss	3,794	1,401	6,075	2,909
Other expenses (income)				
Interest and other expense (income)	790	(20)	878	(23)
Foreign exchange gain	(245)	(890)	(23)	(2,250)
Net loss	\$ 4,339	\$ 491	\$ 6,930	\$ 636
Other comprehensive loss (gain)				
Foreign currency translation difference for foreign operations	(1,032)	276	(1,442)	(1,162)
Total comprehensive loss (gain) for the period	\$ 3,307	\$ 767	\$ 5,488	\$ (526)
Net loss attributable to:				
Equity holders of the parents	4,226	299	6,762	233
Non-controlling interests	113	192	168	403
	\$ 4,339	\$ 491	\$ 6,930	\$ 636
Total comprehensive loss (income) attributable to:				
Equity holders of the parents	3,213	575	5,344	(929)
Non-controlling interests	94	192	144	403
	\$ 3,307	\$ 767	\$ 5,488	\$ (526)
 Basic and diluted loss per share	 \$ 0.02	 \$ 0.00	 \$ 0.03	 \$ 0.00
 Weighted average number of common shares outstanding	 265,006,440	 213,427,582	 258,136,138	 198,993,791

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

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

	Number of shares	Attributable to equity holders of the parent					Non- controlling interests	Total
		Share capital	Contributed surplus	Accumulated other comprehensive (loss) gain	Deficit	Total		
Balance as at December 31, 2015	181,429,252	\$ 58,939	\$ 3,344	\$ (2,798)	\$ (42,788)	\$ 16,697	\$ 4,221	\$ 20,918
Shares issued	34,751,117	10,277	(28)	-	-	10,249	-	10,249
Share-based payments	-	-	198	-	-	198	-	198
Share options and warrants exercised	3,550,000	71	(71)	-	-	-	-	-
Total comprehensive (loss) gain	-	-	-	1,162	(233)	929	(403)	526
Acquisition of non-controlling interests	-	-	-	-	1,120	1,120	(1,179)	(59)
Balance as at June 30, 2016	219,730,369	\$ 69,287	\$ 3,443	\$ (1,636)	\$ (41,901)	\$ 29,193	\$ 2,639	\$ 31,832
Balance as at December 31, 2016	241,005,121	\$ 81,504	\$ 5,568	\$ (2,395)	\$ (47,736)	\$ 36,941	\$ 488	\$ 37,429
Shares issued (note 10b)	23,000,000	12,309	-	-	-	12,309	-	12,309
Share-based payments (note 10)	-	-	2,371	-	-	2,371	-	2,371
Share options and warrants exercised	1,020,000	148	(148)	-	-	-	-	-
Expiry of share options	-	-	(24)	-	24	-	-	-
Total comprehensive (loss) gain	-	-	-	1,418	(6,762)	(5,344)	(144)	(5,488)
Contributions from non-controlling interests (note 10c)	-	-	-	-	(71)	(71)	877	806
Balance as at June 30, 2017	265,025,121	\$ 93,961	\$ 7,767	\$ (977)	\$ (54,545)	\$ 46,206	\$ 1,221	\$ 47,427

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

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

		Three Months Ended		Six Months Ended	
		June 30,	June 30,	June 30,	June 30,
	Note	2017	2016	2017	2016
			(note 2)		(note 2)
OPERATING ACTIVITIES					
Net loss		\$ (4,339)	\$ (491)	\$ (6,930)	\$ (636)
Adjustments for items not affecting cash:					
Share-based payments	10	624	117	1,345	168
Depreciation	4	186	107	371	157
Accretion expense		30	31	64	32
Foreign exchange loss (gain)		26	(591)	10	(1,921)
		(3,473)	(827)	(5,140)	(2,200)
Net changes in non-cash working capital items:					
Amounts receivable		629	1,345	(124)	69
Inventory		747	-	(92)	-
Prepaid expenses		(230)	(547)	(1,044)	(147)
Accounts payable and accrued liabilities		(136)	(5,002)	989	(854)
Net cash outflows from operating activities		(2,463)	(5,031)	(5,411)	(3,132)
FINANCING ACTIVITIES					
Issuance of common shares, net of issue costs	10	36	9,107	12,309	9,095
Long-term debt, net of deferred costs		(1,657)	(5)	(1,702)	29,167
Contributions from non-controlling interests (note 10c)		706	493	706	493
Net cash inflows (outflows) from financing activities		(915)	9,595	11,313	38,755
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(2,888)	(8,924)	(9,223)	(25,057)
Settlement of mineral property obligations	5c	-	-	(625)	(623)
Acquisition of California Gold mineral properties	5b	-	-	(451)	-
Non-current tax credit receivable		131	(1,740)	20	(1,740)
Acquisition of subsidiary		-	(553)	-	(553)
Net cash outflows from investing activities		(2,757)	(11,217)	(10,279)	(27,973)
Net foreign exchange differences		750	(834)	707	(535)
Net (decrease) increase in cash and cash equivalents		(5,385)	(7,487)	(3,670)	7,115
Cash and cash equivalents, beginning of period		5,917	22,063	4,202	7,461
Cash and cash equivalents, end of period		\$ 532	\$ 14,576	\$ 532	\$ 14,576

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

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company is primarily engaged in the development and operation of the San Ramon Gold Mine and Mill. The Company also owns an 88% controlling interest in Red Eagle Exploration Limited ("Red Eagle Exploration") which holds exploration projects in Colombia.

Going concern

These unaudited condensed interim 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 during the six months ended June 30, 2017 of \$6,930 (2016: \$636). As at June 30, 2017, the Company had cash and cash equivalents of \$532 (2016: \$4,202) and a working capital deficiency of \$83,358 (2016: \$25,674). As at June 30, 2017, the Company defaulted on certain covenants under its credit agreement and therefore all debt is classified as a current liability (note 9). The working capital deficiency excluding the reclassified debt would be \$15,188 (2016: \$9,058). On August 11, 2017, the Company signed an amendment to the credit agreement (note 14b), is no longer in default and will reclassify a portion of the debt to long-term in subsequent quarters.

The Company is focused on the development of the mine. To improve ground stability and minimize gold losses, the Company is implementing paste backfill. While the add-on paste backfill plant is being constructed, production crews have been diverted to underground mine development. In order to fund the add-on paste backfill plant and to provide working capital before gold production resumes, the Company has successfully completed a rights offering on August 11, 2017 for gross proceeds of CAD \$29,970,391 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 purchase warrant exercisable into one common share of the Company at CAD \$0.50 per common share for a period of five years from the issue date.

The Company's ability to continue operations in the normal course of business is dependent upon the successful execution of paste backfill and mine development in order to resume gold production and generate sufficient cash flows from operations. The nature and significance of these conditions, along with the current portion of long-term debt outstanding, may cast significant doubt about the appropriateness of the going concern assumption. 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 unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting and accordingly they do not contain all information and disclosures required for complete financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Therefore, they should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

The unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis and are presented in thousands of US dollars.

The unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2017 were authorized for issue by the Board of Directors, on August 14, 2017.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

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

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 this 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;
- 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 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 functional currency of all entities in the group and the functional currencies of all non-Canadian entities in the group 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.

Significant Management Judgments and Estimations

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 subsequently did not consistently achieve planned operating levels due to ground stability conditions. To address this issue, an add-on paste backfill plant is being constructed, during which time, the processing plant will be on stand-by for operational readiness. Costs related to continued mine development are being capitalized. 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. For the three and six months ended June 30, 2017, approximately \$1,348 in costs related to the plant and site support activities were recorded to mine site expenses in the consolidated statements of comprehensive loss.

RED EAGLE MINING CORPORATION**Notes to unaudited condensed interim consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (CONTINUED)***Impairment*

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.

As at June 30, 2017, the Company's decision to suspend milling operations and refocus on mine development while a new paste backfill plant is constructed 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 "cash-generating unit" or "CGU") and concluded that there is no impairment of the CGU at June 30, 2017.

3. INVENTORY

As at	June 30, 2017	December 31, 2016	January 1, 2016
Finished goods	\$ 682	\$ 553	\$ -
Work in process	-	482	-
Materials and supplies	2,910	2,465	-
	<u>\$ 3,592</u>	<u>\$ 3,500</u>	<u>\$ -</u>

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

4. PROPERTY, PLANT AND EQUIPMENT

	Construction work-in- progress					
	Mine	Mill	Mineral property	Other equipment	Total	
Cost						
Balance, January 1, 2016	\$ 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 8)	-	-	1,227	-	1,227	
Balance, December 31, 2016	\$ 21,463	\$ 62,502	\$ 6,449	\$ 3,423	\$ 93,837	
Additions	7,774	11,139	179	263	19,355	
Reclamation costs (note 8)	-	-	105	-	105	
Balance, June 30, 2017	\$ 29,237	\$ 73,641	\$ 6,733	\$ 3,686	\$ 113,297	
Accumulated depreciation						
Balance, January 1, 2016	\$ -	\$ -	\$ -	\$ (632)	\$ (632)	
Depreciation	-	-	-	(491)	(491)	
Disposals	-	-	-	58	58	
Balance, December 31, 2016	\$ -	\$ -	\$ -	\$ (1,065)	\$ (1,065)	
Depreciation	-	-	-	(371)	(371)	
Balance, June 30, 2017	\$ -	\$ -	\$ -	\$ (1,436)	\$ (1,436)	
Net book value, June 30, 2017	\$ 29,237	\$ 73,641	\$ 6,733	\$ 2,250	\$ 111,861	
Net book value, December 31, 2016	\$ 21,463	\$ 62,502	\$ 6,449	\$ 2,358	\$ 92,772	
Net book value, January 1, 2016	\$ 1,235	\$ 9,468	\$ 3,403	\$ 712	\$ 14,818	

Additions under construction work-in-progress is net of a credit for pre-production revenue of \$4,711 (2016: \$305).

Impairment Assessment

The Company performed an impairment assessment of the San Ramon Mill and Mine and concluded that there is 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, which includes estimates such as the cost of future expansion plans and eventual disposal. 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. 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 discount rates and gold prices used in the cash flow projection. The impact of a 1% change in discount rate is approximately \$4,000 with all other variables held constant. The impact of a \$50/oz change in gold price is approximately \$12,000 with all other variables held constant. The carrying value of the CGU exceeds the recoverable amount in all reasonable sensitivity ranges.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

5. MINERAL PROPERTIES

Mineral Properties

Mineral properties consist solely of an option on the California Gold Project and 100% of each of the Vetás Gold and Santa Ana Silver Projects owned by Red Eagle Exploration. The Santa Rosa Mineral Property is included in Property, Plant and Equipment.

a) Santa Rosa

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

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 \$8,333,333. The Company had the option to sell an additional 1% royalty for CAD \$4,166,666 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 \$8,333,333 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 mineral concession contracts totaling 35,910 hectares adjacent to the Company's Santa Rosa Gold Project. The consideration for the transaction was the issuance of 905,000 common shares, reimbursement of current year concession fees and the granting of a 1.5% NSR royalty over the properties acquired. LMM's royalty does not cover these properties.

On May 28, 2014, the Company executed a purchase agreement with AngloGold Ashanti Colombia S.A., to acquire 100% of contiguous mineral concession contracts totaling 1,673 hectares within the Company's Santa Rosa Gold Project. In consideration for the property, the Company paid \$375 to AGAC and grant AGAC a 2% NSR royalty over the properties acquired.

Mineral Property Obligations

b) California Gold Project

On February 15, 2017, Red Eagle Exploration announced an option to purchase 100% of six exploitation mining concessions from local miners for aggregate consideration of \$5,684 in cash and \$7,562 which is payable in shares of Red Eagle Exploration. Initial payments of \$345 and 2,180,985 common shares of Red Eagle Exploration were paid upon closing.

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

The balance of the payments for both acquisitions are due over a two-year period subsequent to title transfer, 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 in the event that any are included in a NI 43-101 Technical Report. The eight properties, which collectively comprise the California Gold Project, total 250 hectares in the California-Vetas Gold District located in Santander, Colombia.

RED EAGLE MINING CORPORATION**Notes to unaudited condensed interim consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***5. MINERAL PROPERTIES (CONTINUED)****c) Vetas Gold Project**

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.

6. OTHER RECEIVABLES

As at	June 30, 2017	December 31, 2016	January 1, 2016
VAT credits receivable	\$ 2,377	\$ 2,397	\$ 842
Deposits, mill equipment and suppliers	1,127	1,849	7,883
	<u>\$ 3,504</u>	<u>\$ 4,246</u>	<u>\$ 8,725</u>

As at June 30, 2017, the Company recognized value added tax ("VAT") credits receivable of \$2,377 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.

7. NON-CONTROLLING INTERESTS

The Company has an 88% interest in Red Eagle Exploration as at June 30, 2017. Red Eagle Exploration completed a private placement financing during the six months ended June 30, 2017, which diluted the Company's ownership interest from 92% at January 1, 2017. The following table summarizes the Red Eagle Exploration financial information included in the unaudited condensed interim consolidated financial statements, before any inter-company eliminations:

	June 30, 2017
Total assets	\$ 17,464
Total liabilities	680
Net loss	1,868

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

8. 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 June 30, 2017. The reclamation provision has been recorded using a discount rate of approximately 6.8% and an inflation factor of approximately 5.8% as established by a Colombian financial institution.

The following is a summary of the reclamation provision as at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016	January 1, 2016
San Ramon Gold Mine	\$ 1,674	\$ 1,509	\$ 205
Vetas Gold Project	276	271	258
	<u>\$ 1,950</u>	<u>\$ 1,780</u>	<u>\$ 463</u>

The following are changes in reclamation provision during the six months ended June 30, 2017 and year ended December 31, 2016:

	San Ramon Gold Mine	Vetas Gold Project
Balance, January 1, 2016	\$ 205	\$ 258
Change in estimate	1,227	(9)
Accretion expense	77	22
Balance, December 31, 2016	\$ 1,509	\$ 271
Change in estimate	105	1
Accretion expense	60	4
Balance, June 30, 2017	<u>\$ 1,674</u>	<u>\$ 276</u>

9. LONG-TERM DEBT

	Credit Facility
Balance, January 1, 2016	\$ 14,118
Principal, net of fees	41,173
Interest expense, including amortization	9,417
Production payments	(9)
Balance, December 31, 2016	\$ 64,699
Interest expense, including amortization	5,171
Credit facility repayments	(1,580)
Production payments	(122)
Balance, June 30, 2017	\$ 68,168

The US \$60,000 credit facility has a five year term with a principal holiday and capitalized interest for 18 months from the first advance which occurred in November 2015. Principal repayments commenced on May 1, 2017 and contractually were due to be made in forty-two equal monthly amortization amounts of \$1,579. The credit facility is secured by all of the Company's property and assets.

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

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

9. LONG-TERM DEBT (CONTINUED)

For the six months ended June 30, 2017, the Company capitalized \$5,170 of interest on the credit facility to construction work in progress.

The Company is required to maintain the following financial covenants:

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

The Commercial Production Start Date under the terms of the credit facility was achieved at the end of the first quarter of 2017, which was defined as the Santa Rosa processing plant operating, over 30 consecutive days, at an average of at least 75% of design capacity.

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 and the Company entered into a forbearance agreement (the "Forbearance Agreement") with the Lenders. Under the terms of the Forbearance Agreement, the Company confirmed the existence of events of non-compliance with covenants of the credit facility and the Lenders agreed to refrain from exercising any rights or remedies under the credit facility until August 11, 2017. As a result of the Company being in default under the credit agreement, and not having the unconditional right to defer any debt repayment for a period of 12 months or more, the Company has classified the entire debt balance of \$68,168 as a current liability as at June 30, 2017.

Subsequent to June 30, 2017, the Company entered into a bridge funding agreement for \$6,500, an amendment to the credit agreement and is no longer in default (refer to note 14). In the subsequent quarter, the Company will reclassify a portion of the debt balance to a long-term liability.

10. SHARE CAPITAL

a) Authorized share capital

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

b) Issued during the six months ended June 30, 2017

On February 21, 2017, the Company completed a bought deal financing for gross proceeds of \$13,119 (CAD \$17,250,000), consisting of 23,000,000 common shares at a price of CAD \$0.75 per share.

c) Red Eagle Exploration shares issued during the six months ended June 30, 2017

During the six months ended June 30, 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 2,701,352 common shares to meet initial option payments for the California Gold Project.

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 \$1,028,208). 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.

RED EAGLE MINING CORPORATION
Notes to unaudited condensed interim consolidated financial statements
(amounts are in thousands of US dollars, unless otherwise stated)
10. SHARE CAPITAL (CONTINUED)
d) Share Purchase Options

Information regarding share purchase options outstanding at June 30, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
Outstanding, January 1, 2016	14,365,000	\$ 0.33	\$ 0.19
Granted	5,045,000	0.68	0.33
Exercised	(845,000)	0.45	0.24
Expired	(75,000)	0.28	0.15
Forfeited	(625,000)	0.55	0.28
Outstanding, December 31, 2016	17,865,000	\$ 0.42	\$ 0.23
Granted	350,000	0.84	0.40
Exercised	(1,020,000)	0.32	0.18
Expired	(112,500)	0.57	0.28
Forfeited	(37,500)	0.80	0.39
Outstanding, June 30, 2017	17,045,000	\$ 0.43	\$ 0.24

Expiry date	Options outstanding	Options exercisable	Exercise price in CAD \$	Weighted average remaining contractual life (years)
December 6, 2017	1,505,000	1,505,000	\$ 0.55	0.4
April 9, 2019	1,700,000	1,700,000	0.33	1.8
May 6, 2020	2,620,000	2,620,000	0.33	2.9
October 7, 2020	6,600,000	6,600,000	0.275	3.3
February 24, 2021	125,000	62,500	0.375	3.7
April 22, 2021	175,000	175,000	0.57	3.8
June 14, 2021	400,000	300,000	0.71	4.0
July 8, 2021	300,000	300,000	0.77	4.0
August 18, 2021	150,000	75,000	0.86	4.1
October 17, 2021	875,000	437,500	0.80	4.3
December 19, 2021	2,245,000	1,622,500	0.65	4.5
February 21, 2021	350,000	87,500	0.84	4.6
	17,045,000	15,485,000	\$ 0.43	3.1

The fair value of each outstanding share purchase option grant was estimated using the Black-Scholes option pricing model, and for the six months ended June 30, 2017, with the following weighted average assumptions:

	June 30, 2017
Risk free interest rate	0.9%
Expected volatility	75%
Expected life (years)	2.9
Expected dividends (yield)	0%
Weighted average fair value per option in CAD \$	\$ 0.40

RED EAGLE MINING CORPORATION**Notes to unaudited condensed interim consolidated financial statements***(amounts are in thousands of US dollars, unless otherwise stated)***10. SHARE CAPITAL (CONTINUED)****d) Share purchase options (continued)**

The share-based payments expense related to share purchase options for the three and six months ended June 30, 2017 was \$132 (2016: \$124) and \$327 (2016: \$198), respectively, of which \$68 (2016: \$4) and \$167 (2016: \$27), respectively, have been capitalized to Property, plant and equipment.

e) Warrants

Information regarding warrants outstanding at June 30, 2017 is as follows:

For the year ended	Number of outstanding warrants	Weighted average exercise price in CAD \$
Balance, January 1, 2016	8,375,000	\$ 0.275
Exercised	(3,375,000)	0.25
Balance, December 31, 2016 and June 30, 2017	5,000,000	\$ 0.275

Expiry date	Warrants outstanding	Weighted average exercise price in CAD \$	Weighted average remaining contractual life (years)
July 16, 2020	5,000,000	0.275	3.1
	5,000,000	\$ 0.275	3.1

f) Deferred and Restricted Share Units

Deferred and restricted share units granted to directors and certain senior officers of the Company outstanding at June 30, 2017 is as follows:

	Number of deferred share units	Number of restricted units
Outstanding, June 30, 2017 and December 31, 2016	625,000	975,000

Compensation expense for deferred and restricted share units is measured at fair value based on the binomial option pricing model and is recognized over the vesting period. The fair value of deferred and restricted share units as at June 30, 2017 was \$901 compared with the recorded contributed surplus of \$835. The difference between the fair value and the recorded contributed surplus of \$66 will be recognized over the weighted average remaining vesting period of approximately 0.1 years.

For the three and six months ended June 30, 2017, share-based payment expense related to deferred and restricted units included in net loss was \$32 (2016: nil) and \$359 (2016: nil), respectively, and for the three and six months ended June 30, 2017, nil (2016: nil) and \$200 (2016: nil), respectively, was capitalized to Property, Plant, and Equipment.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

10. SHARE CAPITAL (CONTINUED)

g) Red Eagle Exploration Warrants and Share Purchase Options

Share Purchase Options

Information regarding Red Eagle Exploration's share purchase options outstanding at June 30, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$	Weighted average measurement date fair value in CAD \$
Outstanding, January 1, 2016	3,810,000	\$ 0.48	\$ 0.32
Granted	18,975,000	0.16	0.14
Expired	(2,105,000)	0.57	0.36
Outstanding, December 31, 2016	20,680,000	\$ 0.18	\$ 0.15
Granted	5,200,000	0.15	0.12
Expired	(206,250)	0.16	0.14
Forfeited	(618,750)	0.16	0.14
Outstanding, June 30, 2017	25,055,000	\$ 0.17	\$ 0.14

Expiry date	Options outstanding	Options exercisable	Exercise price in CAD \$	Weighted average remaining contractual life (years)
December 14, 2017	635,000	635,000	\$ 0.90	0.5
December 20, 2018	570,000	570,000	0.13	1.5
May 29, 2019	500,000	500,000	0.12	1.9
November 11, 2021	13,850,000	10,425,000	0.16	4.4
November 21, 2021	4,000,000	2,000,000	0.16	4.4
December 16, 2021	300,000	150,000	0.11	4.5
February 21, 2022	200,000	50,000	0.20	4.7
June 26, 2022	5,000,000	4,250,000	0.15	5.0
	25,055,000	18,580,000	\$ 0.17	4.3

The fair value of each outstanding share purchase option grant was estimated using the Black-Scholes option pricing model, and for the six months ended June 30, 2017, with the following weighted average assumptions:

	June 30, 2017
Risk free interest rate	1.1%
Expected volatility	139.6%
Expected life (years)	5.0
Expected dividends (yield)	0%
Weighted average fair value per option in CAD \$	\$ 0.12

The share-based payments expense related to share purchase options for the three and six months ended June 30, 2017 was \$527 (2016: nil) and \$825 (2016: nil), respectively, recorded in the consolidated statements of comprehensive loss.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

10. SHARE CAPITAL (CONTINUED)

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

Warrants

Information regarding Red Eagle Exploration's warrants outstanding at June 30, 2017 is as follows:

	Number of outstanding	Weighted average exercise price in CAD \$
Outstanding, January 1, 2016	-	\$ -
Issued	25,310,000	0.10
Outstanding, December 31, 2016	25,310,000	\$ 0.10
Issued (note 10c)	6,854,722	0.25
Exercised	(500,000)	0.10
Outstanding, June 30, 2017	31,664,722	\$ 0.13

Expiry date	Warrants outstanding	Weighted average exercise price in CAD \$	Weighted average remaining contractual life (years)
May 11, 2021	24,810,000	\$ 0.10	3.9
June 23, 2022	6,854,722	0.25	5.0
	31,664,722	\$ 0.13	4.1

Of the 24,810,000 outstanding Red Eagle Exploration warrants, 16,933,333 warrants are held by Red Eagle Mining. Red Eagle Exploration has the right to call the warrants.

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

11. RELATED PARTY TRANSACTIONS

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

For the three months ended	June 30, 2017	June 30, 2016
Share-based payments	\$ 791	\$ 74
Employee salaries and benefits	418	589
Director fees	124	109
	<u>\$ 1,333</u>	<u>\$ 772</u>

The following table provides the total amount of transactions entered into by the Company with related parties during the six months ended June 30, 2017 and 2016, and the outstanding balances as at June 30, 2017 and December 31, 2016:

For the six months ended	June 30, 2017	June 30, 2016
Purchases:		
Mine development and operating costs by Stracon GyM to which its CEO, Steve Dixon, is a director and a shareholder of the Company	\$ 9,831	\$ 5,932
Costs recharged from a company controlled by directors, Robert Bell, Tim Petterson, and Ian Slater	\$ 315	\$ 631
Legal fees to Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 140	\$ 133
As at	June 30, 2017	December 31, 2016
Amounts owed:		
Stracon GyM to which its CEO, Steve Dixon, is a director and a shareholder of the Company	\$ 11,341	\$ 6,336
Farris, Vaughan, Wills & Murphy LLP in which a director, Jay Sujir, is a partner	\$ 214	\$ 69
A company controlled by directors, Robert Bell, Tim Petterson, and Ian Slater	\$ 34	\$ -
Amounts due from:		
A company controlled by directors, Robert Bell, Tim Petterson, and Ian Slater, for an adjustment from accrued to actual costs	\$ -	\$ 156

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

12. COMMITMENTS AND CONTINGENCIES

The Company has commitments and certain operational commitments as at June 30, 2017 as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Operational	5,501	5,201	1,459	12,161
	<u>\$ 5,501</u>	<u>\$ 5,201</u>	<u>\$ 1,459</u>	<u>\$ 12,161</u>

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

RED EAGLE MINING CORPORATION

Notes to unaudited condensed interim consolidated financial statements

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

13. FINANCIAL INSTRUMENTS

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 six months ended June 30, 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-term maturities of these instruments. The Company currently has no financial instruments measured at fair value. The carrying value of the long-term debt approximates its fair value.

b) Financial Risk Management

Liquidity Risk

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

The Company's capital management objectives include working to ensure that it has sufficient liquidity to fund Company activities. The Company endeavours 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 predominantly through external financing initiatives. Refer to Note 1 – Nature of Operations and Going Concern.

14. SUBSEQUENT EVENTS

a) Bridge Funding Agreement

On July 24, 2017, the Company obtained a bridge loan of \$6,500 added to the existing credit facility. Upon completion of the successful rights offering and entering into an amendment to the credit agreement, the bridge loan was repaid out of Orion and LMM's participation in the rights offering on August 11, 2017.

b) Amendment to the Credit Agreement

On August 11, 2017, the Company entered into an amendment to the credit agreement. Highlight of the new terms of the Credit Facility are the following:

- Interest will be capitalized and the interest rate will be increased to LIBOR plus 11%
- Monthly principal payments of \$1,600 commence on April 1, 2018
- Financial covenants are waived until July 1, 2018
- Covenant that the Company receives at least \$4,000 in cash from sources including but not limited to a combination of one or more of the following: issuance of equity of the Company, sale of gold, sale of Red Eagle Exploration shares, incurrence of subordinated debt and reduction in projected expenses, by October 31, 2017 or provide a plan to receive \$4,000 in cash by December 31, 2017.

c) Successful Completion of the Rights Offering

The Company has successfully completed a rights offering on August 11, 2017 for gross proceeds of CAD \$29,970,391 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 purchase warrant exercisable into one common share of the Company at CAD \$0.50 per common share for a period of five years from the issue date.