



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2018 and 2017

Expressed in Canadian dollars

Evolving Gold Corp.

Expressed in Canadian Dollars

For the year ended March 31, 2018

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF EVOLVING GOLD CORP.

We have audited the accompanying consolidated financial statements of Evolving Gold Corp., which comprise the consolidated statements of financial position as at March 31, 2018 and 2017 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity (deficit) and cash flows for the years then ended, and 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.

Auditors' 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 auditors' 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 Evolving Gold Corp. as at March 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
July 27, 2018

Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

As at

	Note	March 31, 2018	March 31, 2017
Assets			
Current Assets			
Cash and cash equivalents	5	\$ 243,823	\$ 1,425,477
Available-for-sale securities	7	152,000	24,294
Securities held-for-trading	6	-	26,479
GST receivable		2,388	4,704
Prepaid expenses		51,117	52,754
		<u>449,328</u>	<u>1,533,708</u>
Non-Current Assets			
Property, plant and equipment	9	4,050	3,141
Reclamation bonds	10	18,900	55,101
		<u>22,950</u>	<u>58,242</u>
Total Assets		<u>\$ 472,278</u>	<u>\$ 1,591,950</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	11, 17	\$ 648,462	\$ 795,765
		<u>648,462</u>	<u>795,765</u>
Other Liabilities			
Asset retirement obligation	10	18,900	55,101
Other liability	12	-	1,999
		<u>18,900</u>	<u>57,100</u>
Shareholders' Equity			
Share Capital	12	85,230,416	85,207,747
Reserves	12, 13	342,707	294,303
Deficit		(84,708,286)	(83,671,201)
Accumulated Other Comprehensive Loss		(1,059,921)	(1,091,764)
Total Equity (Deficit)		<u>(195,084)</u>	<u>739,085</u>
Total Liabilities and Shareholders' Equity		<u>\$ 472,278</u>	<u>\$ 1,591,950</u>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

"R. Bruce Duncan"

Director

"Robert Horsley"

Director

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

Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Expressed in Canadian Dollars

Years ended

	Note	Year ended March 31,	
		2018	2017
Expenses			
Accounting and audit		\$ 42,015	\$ 48,369
Amortization	9	2,909	6,777
Bank charges and interest		2,908	4,474
Legal		7,547	21,911
Management fees	17	150,000	150,000
Mineral properties	8	585,350	509,464
Office, rent and salaries		315,431	324,398
Share-based payments	13, 17	59,823	261,502
Transfer agent and filing fees		14,707	19,165
		<u>(1,180,690)</u>	<u>(1,346,060)</u>
Other Items			
Recovery on disposal of mineral property		34,885	9,253
Gain on settlement of debt	11	5,621	-
Change in fair value of warrant liability	12	-	424
Change in fair value of held-for-trading securities	6	(26,631)	16,377
Flow-through premium recognized	12	1,999	54,201
Gain on disposition of available-for-sale securities		117,246	-
Foreign exchange		(11,787)	12,670
Interest and other income		115	120
		<u>(1,059,242)</u>	<u>(1,253,015)</u>
Net loss before income taxes			
Income taxes			
Deferred income tax recovery	14	22,157	-
		<u>(1,037,085)</u>	<u>(1,253,015)</u>
Net loss for the year			
Other comprehensive income to be recycled through profit or loss			
Change in fair value of available-for-sale securities	7	72,000	18,000
Realized gain on sale of available-for-sale securities		(18,000)	-
Deferred income tax expense		(22,157)	-
		<u>\$ (1,005,242)</u>	<u>\$ (1,235,015)</u>
Comprehensive loss for the year			
Loss per share:			
basic and diluted	19	\$ (0.07)	\$ (0.08)
Weighed average number of common shares outstanding			
basic and diluted		<u>15,627,446</u>	<u>15,177,104</u>

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

Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Expressed in Canadian Dollars

For the years ended March 31, 2018 and 2017

	Note	Share Capital		Reserves	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (deficit)
		Number of Shares	Amount				
Balance at March 31, 2016		13,472,378	\$ 84,780,461	\$ 39,331	\$ (82,418,186)	\$ (1,109,764)	\$ 1,291,842
Private placement	12	1,000,000	100,000	-	-	-	100,000
Flow through private placement	12	600,000	221,506	-	-	-	221,506
Shares issued for property	8	300,000	93,000	-	-	-	93,000
Stock options exercised	12	125,000	6,250	-	-	-	6,250
Share-based payments	13	-	-	261,502	-	-	261,502
Reserve adjustment re options		-	6,530	(6,530)	-	-	-
Change in fair value of available-for-sale securities	7	-	-	-	-	18,000	18,000
Loss for the year		-	-	-	(1,253,015)	-	(1,253,015)
Balance at March 31, 2017		15,497,378	\$ 85,207,747	\$ 294,303	\$ (83,671,201)	\$ (1,091,764)	\$ 739,085
Stock options exercised		225,000	11,250	-	-	-	11,250
Reserve adjustment re options		-	11,419	(11,419)	-	-	-
Share-based payments	13	-	-	59,823	-	-	59,823
Change in fair value of available-for-sale securities		-	-	-	-	31,843	31,843
Loss for the year		-	-	-	(1,037,085)	-	(1,037,085)
Balance at March 31, 2018		15,722,378	\$ 85,230,416	\$ 342,707	\$ (84,708,286)	\$ (1,059,921)	\$ (195,084)

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

Evolving Gold Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in Canadian Dollars

For the years ended March 31, 2018 and 2017

	Year ended March 31,	
	2018	2017
Operating Activities		
Net loss for the year	\$ (1,037,085)	\$ (1,253,015)
Items not involving cash		
Share-based payments	59,823	261,502
Amortization	2,909	6,777
Shares issued for property	-	93,000
Gain on settlement of debt	(5,621)	-
Flow-through premium recognized	(1,999)	(54,201)
Change in fair value of warrant liability	-	(424)
Change in fair value of held-for-trading securities	26,631	(16,377)
Gain on sale of available-for-sale securities	(117,246)	-
Foreign exchange	14,366	12,670
Recovery on disposal of mineral property	(34,885)	(9,253)
Deferred income tax recovery	(22,157)	-
Changes in assets and liabilities		
Receivables	2,316	834,065
Prepaid expenses	1,637	(19,382)
Accounts payable and accrued liabilities	(141,682)	(30,770)
Cash used in operating activities	<u>(1,252,993)</u>	<u>(175,408)</u>
Financing Activity		
Issuance of common stock	11,250	383,956
Cash provided by financing activity	<u>11,250</u>	<u>383,956</u>
Investment Activities		
Proceeds from disposition of available-for-sale securities	123,388	583,581
Proceeds from reclamation bond refunds	36,201	28,519
Acquisition of available-for-sale securities	(80,000)	-
Acquisition of property and equipment	(3,818)	-
Cash provided by investment activities	<u>75,771</u>	<u>612,100</u>
Effects of exchange rate changes	(15,682)	(11,383)
Net change in cash and cash equivalents	(1,181,654)	809,265
Cash and cash equivalents, beginning balance	<u>1,425,477</u>	<u>616,212</u>
Cash and cash equivalents, ending balance	<u>\$ 243,823</u>	<u>\$ 1,425,477</u>

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

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

For the years ended March 31, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Evolving Gold Corp. (the “Company” or “Evolving”) was incorporated as 6109527 Canada Ltd. on June 19, 2003, under the *Canada Business Corporation Act* and is in the business of acquiring, exploring and evaluating mineral properties. The Company is in the exploration stage and has interests in mineral properties located in Canada.

Effective December 7, 2010, the common shares of the Company were listed on the Toronto Stock Exchange (“TMX”) and trade under the symbol EVG. On July 25, 2014, the Company announced its listing on the Canadian Securities Exchange (“CSE”) and its delisting from the TMX. The head office, principal address and records office of the Company are located at Suite 605, 1166 Alberni Street, Vancouver, British Columbia, Canada, V6E 3Z3.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future. The Company has an accumulated deficit of \$84,708,286 since inception and expects to incur losses from operations for the foreseeable future. These conditions indicate the existence of material uncertainty, which casts significant doubt about the Company’s ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company’s operating and mineral property commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. Such adjustments have not been included in these consolidated financial statements and could be material.

2. BASIS OF PREPARATION

a) Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors on July 27, 2018.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale and held-for-trading financial assets and derivative liabilities, which are accounted for at fair value. The consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency, unless otherwise indicated (note 3). The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Details of subsidiaries are as follows:

	Incorporation Jurisdiction	Percentage owned	
		March 31, 2018	March 31, 2017
Evolving Gold Corporation (“Evolving US”)	USA	100%	100%
Rattlesnake Mining Corporation	Canada	100%	100%
Rattlesnake Mining Company (Wyoming)	USA	100%	100%

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

For the years ended March 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

a) Exploration and Evaluation Rights and Expenditures

All direct costs related to the acquisition of rights to explore mineral property interests and all exploration and evaluation expenditures are expensed in the period acquired until such time as it has been determined that a property has economically recoverable resources, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves as a depletion base.

b) Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in profit or loss. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in profit or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value, or revalued are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in profit or loss or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

d) Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to profit or loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Evolving Gold Corp.

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For the years ended March 31, 2018 and 2017

e) Property, Plant and Equipment

Recognition and Measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability would be recognized within provisions. Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land, which is not depreciated. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Office furniture and fixtures	over 3 years
Computer equipment	over 3 years
Leasehold improvements	over the term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

f) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income.

g) Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-Sale Financial Assets

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

For the years ended March 31, 2018 and 2017

income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost. On sale or impairment, the cumulative amount recognized in other comprehensive income is reclassified from accumulated other comprehensive income to profit or loss. Available-for-sale securities are included in this category.

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held-for-trading or is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future, it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Securities held-for-trading consisting of share purchase warrants held in other public companies not qualifying as subsidiaries or associates and cash and cash equivalents are included in this category. Related realized and unrealized gains and losses are included in profit or loss.

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity are measured at amortized cost using the effective interest method. The Company has no financial assets classified as held to maturity.

Impairment on Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as either FVTPL or other financial liabilities, based on the purpose for which the liability was incurred, and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument.

Other financial liabilities comprise trade payables and accrued liabilities and are subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the year that are unpaid.

h) Provisions

Asset Retirement Obligation

The Company is subject to various government laws and regulations relating to environmental disturbances caused by its exploration activities. The Company records the present value of the estimated future costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and revegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is included in profit or loss. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

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Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

i) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on 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 accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

j) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the residual value method. Under the residual value method, proceeds are allocated first to share capital up to the fair value of the common shares at the time of issuance, determined by reference to the quoted market price of the common shares on the issuance date, with the residual amount of proceeds, if any, allocated to the reserve for warrants.

The issuance of flow-through shares represents an issue of common shares and the sale of rights to tax deductions to the investors when the flow-through shares are issued. The sale of rights to tax deductions is deferred and presented as a liability in the consolidated statement of financial position. The proceeds received from flow-through shares are allocated between share capital, warrants, if any, and other liability using the residual method. Under the residual method, the proceeds are allocated first to share capital up to the fair value of the common shares at the time of issuance, determined by reference to the quoted market price of the common shares on the issuance date, with the residual amount of proceeds, if any, allocated to warrants based on their fair value, calculated using the Black-Scholes option pricing model, and then to other liability.

The Company fulfils its obligation to investors when it renounces the right to the tax deductions and the eligible expenditures are incurred. Upon fulfilment of the Company's obligation, the amount initially recognized as a liability is extinguished and recognized in profit or loss.

Evolving Gold Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the years ended March 31, 2018 and 2017

k) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is calculated by dividing the net income available to common shareholders by the weighted average number of shares outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. The calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively when the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split.

l) Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized over the vesting period, described as the period during which all the vesting conditions are to be satisfied. Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in stock option reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in stock option reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

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Recent Accounting Pronouncements

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Company. However, management has yet to assess the impact on the Company's operations.

IFRS 9 *Financial Instruments*

<i>Issued by IASB</i>	July 24, 2014 (final version)
<i>Incorporated into CPA Canada Handbook</i>	February 2014 (final version)
<i>Effective for annual periods beginning on or after</i>	January 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*

Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- *Classification and measurement of financial liabilities:*

When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*

Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

IFRS 16 *Leases*

<i>Issued by IASB</i>	January 13, 2016
<i>Incorporated into CPA Canada Handbook</i>	June 2016
<i>Effective for annual periods beginning on or after</i>	January 1, 2019

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

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- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both. Information about critical estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements are discussed below.

Estimates

a) Asset Retirement Obligation

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

b) Income Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

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c) Share-based Payment Transactions and Derivative Liabilities related to Equities

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

Judgments

a) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

b) Impairment of Available-for-Sale Securities

The determination of whether an investment is impaired requires significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period.

c) Going Concern

The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short- and long-term operating budget, expected profitability, investing and financing activities, and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates. As at March 31, 2018, cash and cash equivalents included \$243,823 (March 31, 2017: \$1,425,477) held in commercial deposit accounts with a Canadian chartered bank.

6. SECURITIES HELD-FOR-TRADING

In connection with the agreement undertaken with NV Gold Corporation ("NVX") during the year ended March 31, 2014 to option a 100% interest in the Rattlesnake property, the Company received consideration that included 2,000,000 NVX share purchase warrants in two tranches of 1,000,000 warrants each. These warrants were designated as securities held-for-trading measured at their fair value on initial recognition and with their related realized and unrealized gains and losses recorded in profit or loss.

The summary of the fair value of the securities held-for-trading is as follows:

	March 31, 2018	March 31, 2017
NV Gold Corporation		
Nil warrants (2017 - 360,000 warrants)	\$nil	\$26,479

NVX rolled back its share capital at the ratio of 1 new common share for each 5 old common shares. During the period:

- 200,000 warrants expired unexercised; and
- 160,000 warrants were exercised at a price of \$0.50 per share.

Accordingly, at March 31, 2018 there were no securities held-for-trading.

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At March 31, 2017 securities held-for-trading consisted of the following NVX warrants:

Number of warrants	Exercise price	Expiry
200,000	\$0.50	September 15, 2017
160,000	\$0.50	April 22, 2018
360,000		

The fair value of the securities held-for-trading was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2018	March 31, 2017
Share price	-	\$0.195
Exercise price	-	\$0.50
Risk-free interest rate	-	0.75%
Expected life (years)	-	0.73
Volatility	-	194.00%
Dividend rate	-	0.00%

7. AVAILABLE-FOR-SALE SECURITIES

Available for sale securities consist of investments in the common shares of various public companies and therefore have no fixed maturity date or coupon rate.

	Fair Value	
	March 31, 2017	March 31, 2017
Northern Empire Resources Corp. (formerly Prosperity Goldfields Corp.) ("Northern Empire") – Listed Company		
March 2018 – nil shares March 2017 – 1,151 shares	\$ -	\$ 173
NV Gold Corporation – Listed Company		
March 2018 – 160,000 shares; March 2017 – 123,700 shares	152,000	24,121
	\$ 152,000	\$ 24,294

During the year ended March 31, 2018:

- 1,151 common shares of Northern Empire were consolidated to 384 new common shares. The Company sold the 384 new common shares for proceeds of \$327;
- 123,700 shares of NV Gold Corporation were sold for proceeds of \$123,061; and
- 160,000 shares of NV Gold Corporation were acquired upon the exercise of 160,000 warrants at \$0.50 per share.

During the year ended March 31, 2017, the Company closed the sale of 2,200,000 GFG Resources (US) Inc. ("GFG") shares for \$583,581 (US\$495,000).

The fair values of Northern Empire and NV Gold have been determined directly by reference to published price quotations in an active market. During the year ended March 31, 2018 the Company recognized a gain on the sale of its available-for-sale securities of \$117,246 (March 31, 2017 – \$NIL).

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8. EXPLORATION AND EVALUATION EXPENDITURES

a) Expenditures During the Year

The Company's exploration and evaluation expenditures for the years ended March 31, 2018 and 2017 are summarized as:

	Lithium Lakes	Nicobi	Oxen	Toro	Jake Creek	March 31, 2018
Acquisition and land maintenance	\$ 13,977	\$ -	\$ 2,369	\$ 13,809	\$ -	\$ 30,155
Administration	-	-	-	-	-	-
Assaying	21,530	2,409	4,139	32,451	-	60,529
Consulting - geological	99,108	16,307	9,426	111,315	-	236,156
Field expenses and other	58,458	5,334	-	178,615	-	242,407
Reclamation	-	-	-	-	16,103	16,103
	\$ 193,073	\$ 24,050	\$ 15,934	\$ 336,190	\$ 16,103	\$ 585,350

	Lithium Lakes	Jake Creek	March 31, 2017
Acquisition and land maintenance	\$ 158,352	\$ 702	\$ 159,054
Assaying	8,248	-	8,248
Consulting - geological	178,707	38,993	217,700
Field expenses and other	104,619	19,843	124,462
	\$ 449,926	\$ 59,538	\$ 509,464

b) Transactions During the Period

On May 3, 2017, the Company acquired, by staking, the Oxen property containing 17 claims located in the Labrador Trough, Quebec (Note 8(c)). The 17 Oxen claims cover 788.59 hectares (7.88 square kilometres). These claims include zinc-copper-lead sulphide mineralization hosted in carbonatized basalt and black shales of the Baby formation.

On July 5, 2017, the Company announced it had staked 70 additional claims in the areas where strong geochemical anomalies were defined by the company's technical team, increasing the Toro project's footprint to a total of 130.32 square kilometres.

On September 27, 2017, the Company announced the acquisition of 10 new claims (the Pistol claim block) and five additional claims for the Toro property.

c) Properties

Lithium Lakes and related Properties

Project Name	Number of Claims	Project Size (Ha)
Lithium Lake	137	7,297.67
Toro	324	17,224.83
Nicobi	57	3,193.05
Oxen	17	788.59
Total	535	28,504.14

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Lithium Lakes

On June 16, 2016, the Company purchased the Lithium Lakes Property in Quebec, Canada. Pursuant to the purchase agreement, the Company issued to the vendor a total of 300,000 common shares fair valued at \$0.31 per share (\$93,000) (Note 12(a)). The Company also paid the vendor \$40,000. The Lithium Lakes claims are subject to a 1% net smelter returns royalty, whereby the Company will have the right, at any time, to acquire one-half of the royalty by paying \$500,000 to the royalty holder. During the year ended March 31, 2017, the Company increased its land position by staking several claims adjacent to its existing mineral claims.

Toro

On October 21, 2016, the Company claimed the Toro Property in the James Bay area of the Quebec province (Canada). It consists in 324 generally contiguous claims in nine blocks, covering about 17,224 hectares. The area is prospective for gold and base metals. During the year ended March 31, 2017, the Company increased its land position by staking several claims adjacent to its existing mineral claims.

Nicobi

On January 27, 2017, the Company claimed the Nicobi Property in the Abitibi area of the Quebec province (Canada). It consists in 57 contiguous claims, covering about 3,193 hectares. The area is prospective for gold and base metals.

Oxen

On February 7, 2017, the Company acquired the Oxen Property in the Ungava Bay area of the Quebec province (Canada). It consists in 17 contiguous claims, covering about 788 hectares. The area is prospective for gold and base metals.

Jake Creek Property

The Jake Creek Property was located in northern Humboldt County, Nevada, approximately 45 miles northeast of Winnemucca, and consisted of 699 generally contiguous, unpatented mining claims covering approximately 14,405 acres. The Company was the sole owner of the Jake Creek Property claim block and held an undivided 100% interest. As of September 30, 2016, the Company allowed the claims to lapse, and accordingly the Company no longer has any interest in these claims.

The property expenditures noted subsequent to the lapse of the claim areas results from expenses incurred to allow for the return of bonds held by various regulatory bodies, from closing the remaining minor facilities of the Company in Nevada, and general administrative costs of maintaining the subsidiary while the remaining bonds are outstanding.

Rattlesnake Property

On July 28, 2015, Rattlesnake Mining (Wyoming) Company, a wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement whereby it sold the Rattlesnake property to GFG, a private company incorporated in the United States, for cash consideration of US\$1,314,000 and 2,000,000 common shares at a fair value of US\$450,000 (Fully paid and received. During the year ended March 31, 2017, the shares were sold. (Note 7)). Rattlesnake Mining (Wyoming) Company retains a 2% net smelter return royalty with 1% available for purchase for US\$1,000,000 on production arising from the mining claims, save and except for 30 claims that are already subject to a pre-existing royalty. Rattlesnake Mining (Wyoming) Company may be entitled to an additional 1,500,000 common shares of GFG in the event an independent National Instrument 43-101 resource report defines an aggregate mineral resource (including the "inferred mineral resource" category within the meaning of National Instrument 43-101) for Rattlesnake Hills of at least 1,000,000 ounces of gold within four years of closing.

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9. PROPERTY, PLANT AND EQUIPMENT

	Office furniture and equipment	Computer equipment and software	Leasehold improvements	Total
Cost:				
March 31, 2017	\$ 50,043	\$ 12,702	\$ -	\$ 62,745
Additions	-	3,818	-	3,818
March 31, 2018	\$ 50,043	\$ 16,520	\$ -	\$ 66,563
Depreciation:				
March 31, 2017	\$ (50,043)	\$ (9,561)	\$ -	\$ (59,604)
Additions	-	(2,909)	-	(2,909)
March 31, 2018	\$ (50,043)	\$ (12,470)	\$ -	\$ (62,513)
Net book value: At March 31, 2018	\$ -	\$ 4,050	\$ -	\$ 4,050
	Office furniture and equipment	Computer equipment and software	Leasehold improvements	Total
Cost:				
March 31, 2016	\$ 51,034	\$ 69,410	\$ 21,824	\$ 142,268
Reallocations	(991)	2,814	(1,823)	-
Additions	-	-	-	-
Disposals	-	(59,522)	(20,001)	(79,523)
March 31, 2017	\$ 50,043	\$ 12,702	\$ -	\$ 62,745
Depreciation:				
March 31, 2016	\$ (50,043)	\$ (65,106)	\$ (15,914)	\$ (131,063)
Additions	-	(2,690)	(4,087)	(6,777)
Disposals	-	58,235	20,001	78,236
March 31, 2017	\$ (50,043)	\$ (9,561)	\$ -	\$ (59,604)
Net book value: At March 31, 2017	\$ -	\$ 3,141	\$ -	\$ 3,141

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10. ASSET RETIREMENT OBLIGATIONS

The Company continues to maintain reclamation bonds on deposit related to its former United States properties.

During the year ended March 31, 2016, the Company re-evaluated its asset retirement obligations, and determined that the obligations did not exceed the reclamation bonds held by various authorities with respect to its Nevada properties.

During the year ended March 31, 2017, reclamation work was completed on the Jake Creek property. The Company requested an evaluation of the work performed by the BLM, and was advised that 60% of the bond held would be refunded. Accordingly, the asset retirement obligation was reduced by \$28,519.

During the year ended March 31, 2018, the Company received further refunds totalling \$36,201 related to its former Nevada properties. Accordingly, the asset retirement obligation was reduced by the same amount, resulting in a recovery of \$34,885 during the period. The difference of \$1,316 reflects foreign exchange on the balances, which were held in US dollars.

The full repayment of the bonds may take up to three years, as the refund of the balance of the bond held is dependent upon the regrowth of native flora. The Company may be required to engage in additional reclamation work to complete said regrowth. The Company fulfills its site restoration obligations as required when a drill site is abandoned, and accordingly, no discounted present value was calculated due to the expected short-term nature of the obligation.

The reclamation bond balances and asset retirement obligations are as follows:

	March 31, 2018	March 31, 2017
Reclamation bonds	<u>\$ 18,900</u>	<u>\$ 55,101</u>
Asset retirement obligations	<u>\$ 18,900</u>	<u>\$ 55,101</u>

11. ACCOUNTS PAYABLE AND DEBT SETTLEMENTS

Accounts payable and accrued liabilities consists of trade payables, accruals for management salaries and other non-trade payables. A gain of \$5,621 was recorded during the year ended March 31, 2018 on certain debts deemed to no longer be owed by the Company.

12. SHARE CAPITAL AND RESERVES

a) Common Shares

The Company is authorized to issue an unlimited number of common shares, issuable in series. The holders of common shares are entitled to receive dividends, which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regard to the Company's residual assets.

The changes to share capital during the years ended March 31, 2018 and 2017 are summarized in the consolidated statement of changes in shareholders' equity (deficit).

During the year ended March 31, 2018, the Company completed the following transactions:

- 225,000 shares were issued for gross proceeds of \$11,250 as a result of the exercise of 225,000 stock options at \$0.05 per share.

During the year ended March 31, 2017, the Company completed the following transactions:

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- A private placement for 600,000 flow-through common shares at \$0.50 per share for gross proceeds of \$300,000. The Company paid \$18,000 in commissions plus expenses in connection with the private placement. As a result of the flow-through provisions in the agreement, the Company recorded \$56,200 of the proceeds as a liability related to the flow-through premium, and a gain of \$54,201 during the year amortizing the liability as a result of exploration expenditures incurred during the period. Proceeds received from the issuance of flow-through shares are restricted to be used only for certain Canadian resource property exploration expenditures incurred within a two-year period;
- A private placement for 1,000,000 units for gross proceeds of \$100,000. Each unit consisted of one common share in the capital of the Company and one common share purchase warrant, with each warrant being exercisable for the purchase of an additional common share for a period of three years from closing at \$0.15. No finders' fees or commissions were paid in connection with the private placement;
- The issue of 125,000 common shares for proceeds of \$6,250 upon the exercise of 125,000 stock options at \$0.05 per share; and
- The issue of 300,000 common shares for property at a fair value of \$93,000 (Note 8(c)).

b) Share Purchase Warrants

The following is a summary of changes in warrants for the years ended March 31, 2018 and 2017:

	March 31, 2018		March 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of year	1,000,000	\$ 0.15	428,571	\$ 1.12
Issued	-	\$ -	1,000,000	\$ 0.15
Expired	-	\$ -	(428,571)	\$ 1.12
Warrants outstanding, end of year	1,000,000	\$ 0.15	1,000,000	\$ 0.15

As at March 31, 2018 and 2017 the Company had total outstanding warrants as follows:

	Number of warrants	Exercise price	Expiry
Share purchase warrants	1,000,000	\$0.15	April 22, 2019
	1,000,000		

During the year ended March 31, 2017, 428,571 warrants exercisable at \$1.12 until August 23, 2016 expired, unexercised.

13. SHARE-BASED PAYMENTS

The Company established a share purchase option plan (the "Plan") in September 2004. In September 2007, shareholder approval was obtained to adopt a "rolling" stock option plan. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant, from time to time, incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants or advisors. All options granted under the Plan shall expire not later than the tenth anniversary of the date the options were granted. The exercise price of an option is determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the CSX on the last business day before the date on which the options are granted, less any discount permitted by the rules of the exchange. Vesting and terms are at the discretion of the Board of Directors. The vesting of options range from vested immediately, a vesting period of three months to a two-year period from the date of the grant at 25% and 20%, respectively. Options granted for investor relations vest in accordance with Canadian Securities Exchange regulations.

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Details of options outstanding as at March 31, 2018 and 2017 are as follows:

	Number of options	March 31, 2018 Weighted average exercise price	Number of options	March 31, 2017 Weighted average exercise price
Options outstanding, beginning of year	1,549,000	\$ 0.31	775,000	\$ 0.05
Options granted	225,000	\$ 0.20	899,000	\$ 0.50
Options exercised	(225,000)	\$ 0.05	(125,000)	\$ 0.05
Options outstanding, end of year	1,549,000	\$ 0.33	1,549,000	\$ 0.31
Options exercisable, end of year	1,174,333	\$ 0.30	1,249,333	\$ 0.21

As at March 31, 2018, the following options were outstanding:

Expiry Date	Exercise Price	Options Outstanding
December 19, 2019	\$0.05	425,000
July 25, 2021	\$0.50	750,000
September 30, 2021	\$0.50	149,000
September 5, 2022	\$0.20	225,000
		1,549,000

As at March 31, 2017, the following options were outstanding:

Expiry Date	Exercise Price	Options Outstanding
December 19, 2019	\$0.05	650,000
July 25, 2021	\$0.50	750,000
September 30, 2021	\$0.50	149,000
		1,549,000

Fair Value of Options Granted During the Period

During the year ended March 31, 2018, the Company granted 225,000 stock options at an exercise price of \$0.20 per share to a director. The options vest upon grant and expire in five years from the grant date. Stock-based compensation of \$59,823 was recognized as a result of the grant as well as previously issued grants which vested during the year.

During the year ended March 31, 2017, the Company granted 899,000 stock options at an exercise price of \$0.50 per share to officers, directors, and consultants. The options vest upon grant and expire in five years from the grant date. Stock-based compensation of \$261,502 was recognized as a result of the grants.

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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Options Issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

Amounts Capitalized Arising from Share-based Payment Transactions

No amounts were capitalized during the years ended March 31, 2018 and 2017.

The fair value pricing model inputs for options granted and vested during the years ended March 31, 2018 and 2017 included:

	March 31, 2018	March 31, 2017
Share price on grant date	\$.0195	\$0.36
Exercise price	\$0.20	\$0.50
Risk-free interest rate	0.75%	0.62%
Expected life (years)	5	5
Volatility	215%	170.73%
Dividend rate	0%	0%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

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14. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Net loss before income taxes	\$ (1,059,242)	\$ (1,253,015)
Tax recovery based on the statutory rate of 26.25% (2017: 26%)	(278,051)	(325,784)
Non-deductible (taxable) differences	15,888	68,422
Foreign income taxed at other than Canadian statutory rate	150,403	(217,636)
Effect of change in tax rates	6,574,170	-
Impact of under-provision in previous year	-	(60,399)
Impact of foreign exchange on tax assets and liabilities	777,152	(741,457)
Changes in unrecognized deferred tax assets	<u>(7,261,719)</u>	<u>1,276,854</u>
Income tax expense (recovery)	\$ (22,157)	\$ -

The Canadian federal corporate tax rate is 15% and the BC provincial tax rate is 11% prior to January 1, 2018. Effective January 1, 2018, BC provincial tax rate is 12%. The United States tax rate is 35% prior to January 1, 2018. Effective January 1, 2018, the United States tax rate is 21%.

Deferred Income Tax Assets and Liabilities

Significant components of the Company's deferred income tax assets and liabilities, after applying enacted corporate tax rates, are as follows:

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Share issue costs	\$ 16,000	\$ 30,000
Marketable securities	-	28,000
Capital assets	301,000	261,000
Mineral properties	28,544,000	27,757,000
Non-capital losses carried forward	86,430,000	68,776,000
Capital losses	166,000	306,000
	<u>115,457,000</u>	<u>97,158,000</u>
Unrecognized deferred tax asset	<u>(115,457,000)</u>	<u>(97,158,000)</u>
Net deferred tax assets	\$ -	\$ -

The Company has only recognized deferred income tax assets to the extent to which it is probable that sufficient taxable income will be realized, or taxable temporary differences will reverse, during the carry-forward periods to utilize the deferred tax assets.

As at March 31, 2018, the Company had accumulated non-capital losses totaling approximately \$15,370,000 in Canada expiring in various amounts from 2026 to 2038, and \$71,471,000 in the US expiring in various amounts from 2028 to 2038 that may be applied against future year's taxable income in Canada and US.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these unaudited condensed consolidated interim financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Interest Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to significant interest rate risk due to the short term to maturity of its financial instruments.

Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in commodity prices. The Company is not exposed to significant commodity price risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company has significant exposure to foreign exchange rate fluctuation. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in United States dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company holds balances in US dollars that could give rise to exposure to foreign exchange risk.

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Sensitivity to a plus or minus 10% change in the foreign exchange rate of the US dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$26,358 (March 31, 2017: \$4,500) as detailed below:

United States Dollar Denominated Balances	March 31, 2018	March 31, 2016
Cash	\$ 152,643	\$ 373,309
Accounts payable	(418,223)	(418,478)
	\$ (263,580)	\$ (45,169)
10% change in exchange rate impact	\$ (26,358)	\$ 4,517

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at March 31, 2018 and 2017 relating to cash and cash equivalents of \$243,823 and \$1,425,477 held in deposits at a Canadian chartered bank. The Company considers this credit risk to be minimal for all cash and cash equivalent assets based on changes that are reasonably possible at the reporting date

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditures.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

Accounts payable and other liabilities	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 5 years	Total
March 31, 2018	\$ 648,462	\$ -	\$ -	\$ -	\$ 648,462
March 31, 2017	\$ 795,765	\$ -	\$ -	\$ -	\$ 795,765

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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The consolidated statement of financial position carrying amounts for cash and cash equivalents and trade and other payables approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The available-for-sale securities, Northern Empire and NVX, are based on quoted prices and are therefore considered to be Level 1.

The fair value of the warrant liabilities is determined with the use of a fair value pricing model and is determined to be Level 3 liabilities.

16. CAPITAL MANAGEMENT

The Company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future development and production of the business.

The Company is not exposed to any externally imposed capital requirements nor were there any changes in the Company's capital management processes during the year ended March 31, 2018.

17. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include the Company's CEO and CFO. Payments to key management are recorded as management fees. Share-based payments were incurred for both key management and directors. No directors' fees were paid during the applicable years.

The following key management compensation was incurred:

	Year ended March 31,	
	2018	2017
Management fees and salaries	\$ 150,000	\$ 150,000
Share-based payments	52,609	185,467
	<u>\$ 202,609</u>	<u>\$ 335,467</u>

Management fees are payable in Canadian dollars. After allowing for offsetting accruals, write-downs, expense allocations and disbursements, unpaid and accrued management fees as of March 31, 2018 were \$52,250 (March 31, 2017 \$173,000).

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18. COMMITMENT

The Company has a lease expiring August 31, 2019 for office space occupied by its head office. Future minimum payments under the operating lease as at the end of the indicated periods are as follows:

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Within one year	\$ 82,721	\$ 86,861
After one year, but no more than two years	36,192	82,721
More than two years	-	36,192
	<u>\$118,913</u>	<u>\$205,774</u>

19. LOSS PER SHARE

Basic loss per share amounts is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. The basic and diluted loss per share is the same, as there are no instruments that have a dilutive effect on earnings. Diluted loss per share for each of years presented excludes the effect of potentially dilutive securities, including 1,549,000 share purchase options (March 31, 2017: 1,549,000 options) and 1,000,000 share purchase warrants (March 31, 2017: 1,000,000 warrants), as their inclusion in the calculation of diluted loss per share would have been anti-dilutive.