



WAR EAGLE MINING COMPANY INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2016



**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of War Eagle Mining Company Inc. for the nine months ended December 31, 2016 have been prepared by and are the responsibility of the Company's management and have been approved by the Company's audit committee.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

WAR EAGLE MINING COMPANY INC.
Condensed Consolidated Interim Statements of Financial Position
Expressed in Canadian Dollars

	Note	December 31 2016 \$	March 31 2016 \$
ASSETS			
Current assets			
Cash		566,602	544
Receivables	4	1,758,531	332,491
Prepaid expenses and deposits		6,688	-
Marketable securities	6	24,000	40,000
Total assets		2,355,821	373,035
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	401,922	749,913
Total current liabilities		401,922	749,913
EQUITY (DEFICIENCY)			
Share capital	7	40,252,361	40,252,361
Reserves	7	3,397,698	3,396,198
Deficit		(41,696,160)	(44,025,437)
Total equity (deficiency)		1,953,899	(376,878)
Total liabilities and equity		2,355,821	373,035

Corporate information and going concern (note 1, 2(c))

The condensed consolidated interim financial statements of the Company for the nine months ended December 31, 2016 were approved and authorized for issuance by the audit committee on February 17, 2017.

On behalf of the board of directors:

<u>“William S Hamilton”</u> William S Hamilton	Director	<u>“Don Padgett”</u> Don Padgett	Director
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See accompanying notes

WAR EAGLE MINING COMPANY INC.**Condensed Consolidated Interim Statements of Comprehensive Income (Loss)**

Unaudited – Prepared by Management

Expressed in Canadian Dollars

	Note	Three Months Ended		Nine Months Ended	
		December 31		December 31	
		2016	2015	2016	2015
		\$	\$	\$	\$
Operating expenses					
Consulting fees	10	10,500	28,500	43,110	94,925
Insurance		1,008	1,766	2,312	5,374
Investor relations		250	-	1,851	250
Management fees and salaries	10	53,419	72,000	188,419	216,000
Office and miscellaneous		1,197	3,831	5,248	5,066
Professional fees		4,585	-	16,871	5,801
Rent		648	823	1,883	1,854
Share-based compensation		1,500	-	1,500	-
Transfer agent and filing fees		6,519	946	9,545	3,569
Travel		-	4,022	440	13,527
Loss before other income (expenses)		(79,626)	(111,888)	(271,179)	(346,366)
Other income (expense)					
Impairment of exploration and evaluation assets		-	(31,205)	-	(59,002)
Gain on sale of subsidiary	4	21,694	-	2,450,044	-
Gain on settlement of debt	10	-	-	64,000	-
Foreign exchange gain		48,963	36	49,896	(5,084)
Realized gain on marketable securities	6	17,943	-	24,556	-
Unrealized gain (loss) on marketable securities	6	(7,900)	-	12,000	-
		80,700	(31,169)	2,600,456	(64,086)
Income (loss) and total comprehensive income (loss) for the period		1,074	(143,057)	2,329,277	(410,452)
Basic and diluted income (loss) and comprehensive income (loss) per common share		0.00	(0.01)	0.11	(0.02)
Weighted average number of common shares outstanding, basic and diluted		21,990,276	21,990,276	21,990,276	21,990,276

See accompanying notes.

WAR EAGLE MINING COMPANY INC.
Condensed Consolidated Interim Statements of Cash Flows
Unaudited – Prepared by Management
Expressed in Canadian Dollars

Nine months ended December 31	Note	2016 \$	2015 \$
Operating activities			
Income (Loss) for the period		2,329,277	(410,452)
Adjustments for			
Gain on sale of subsidiary		(2,450,004)	-
Gain on settlement of debt		(64,000)	-
Impairment of exploration and evaluation assets		-	59,002
Share-based compensation		1,500	-
Unrealized gain on marketable securities		(12,000)	-
Unrealized gain on receivable		(38,700)	-
Changes in non-cash operating working capital			
Foreign exchange gain on cash		(10,122)	-
Accounts receivable		48,869	25,403
Prepaid expenses		(6,688)	5,374
Marketable securities		35,900	-
Accounts payable and accrued liabilities		(347,991)	200,714
Cash used in operating activities		<u>(513,959)</u>	<u>(119,959)</u>
Investing activities			
Proceeds from sale of Tombstone		1,069,895	-
Exploration and evaluation assets		-	(59,002)
Cash used in investing activities		<u>1,069,895</u>	<u>(59,002)</u>
Foreign exchange effect on cash		<u>10,122</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents		566,058	(178,961)
Cash, beginning of period		<u>544</u>	<u>183,174</u>
Cash, end of period		<u>566,602</u>	<u>4,213</u>
Cash paid (received) for interest		\$ -	\$ -
Cash paid (received) for income tax		\$ -	\$ -

See accompanying notes.

WAR EAGLE MINING COMPANY INC.
Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)
Expressed in Canadian Dollars

	Note	Common shares	Reserves	Deficit	Total equity (deficiency)
		\$	\$	\$	\$
Balance March 31, 2015	7	40,252,361	3,205,553	(43,917,655)	(459,741)
Liabilities classified as equity	7	-	190,645	-	190,645
Loss for the period		-	-	(410,452)	(410,452)
Balance December 31, 2015		40,252,361	3,396,198	(44,328,107)	(679,548)
Balance March 31, 2016	7	40,252,361	3,396,198	(44,025,437)	(376,878)
Share-based compensation		-	1,500	-	1,500
Income for the period		-	-	2,329,277	2,329,277
Balance December 31, 2016	7	40,252,361	3,397,698	(41,696,160)	1,953,899

See accompanying notes.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

1. Corporate Information

War Eagle Mining Company Inc. (the “Company”) was incorporated under the laws of British Columbia on March 6, 1984. The Company is involved in the acquisition, exploration and, if warranted, development of mineral resource properties. The Company is listed on the TSX Venture Exchange (the “TSX-V”), under the symbol “WAR”, as a Tier 2 mining issuer.

These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The address of the Company’s corporate office and principal place of business is Suite 1100, 1111 Melville Street, Vancouver, British Columbia, Canada, V6E 3V6.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for the nine month period ended December 31, 2016 have been prepared in accordance with *IAS 34 Interim Financial Reporting* and should be read in conjunction with the Company’s March 31, 2016 audited annual financial statements which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company’s March 31, 2016 audited annual financial statements except for income tax expense which is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and at fair value through profit or loss (“FVTPL”). The condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of 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 condensed consolidated interim financial statements are disclosed in note 3.

c) Going concern of operations

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated revenue from operations. As of December 31, 2016, the Company’s deficit was \$41,696,160. The Company is dependent on its ability to raise additional debt or equity to raise sufficient cash resources to meet its current financial obligations. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. The Company had cash of \$566,602 at December 31, 2016 (March 31, 2016 - \$544). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

Adoption of New Accounting Pronouncements and Recent Developments

Standards, amendments and interpretations not yet effective

a) IFRS 9 Financial Instruments

As part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- deals with classification and measurement of financial assets;
- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

This Standard is to be adopted for accounting periods beginning or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact on its financial statements.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and specified how and when an entity will recognize revenue as well as requiring such entities to provide users of consolidated financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

This Standard is effective January 1, 2017. The Company does not expect this standard to have a significant impact on its financial statements.

c) IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact on the consolidated financial statements.

The Company does not expect to early adopt standards, amendments, and interpretations not yet effective.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

3. 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. 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 period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical 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 financial statements within the next financial year are discussed below:

Critical Judgments

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

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.

Income taxes

Significant judgment is 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 it has 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 there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. 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.

Going concern of operations

Management has made the determination that the Company will continue as a going concern for the next year.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements
Unaudited – Prepared by Management
Nine months ended December 31, 2016

3. Critical Accounting Estimates and Judgments (continued)

Estimates

Information about significant estimates 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 financial statements within the next financial year are:

Share-based payment transactions

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 share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 8.

Recoverability of receivables

The Company monitors its exposure for credit losses on its receivables on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based on the identification of specific balances where a risk of default has been identified based upon historical experience. As at December 31, 2016, the Company recognized an allowance of \$nil (March 31, 2016 - US\$1,850,000).

4. Receivables

In December 2013, the Company sold all of the shares of its then wholly-owned subsidiary, Tombstone Exploration de Mexico S.A. de C.V., which was the owner of Tres Marias property in Mexico to Contratista Y Operaciones Mineras S.A. de C.V. ("COMSA") for a consideration of US\$2,500,000 (\$2,710,032, based on the exchange rate in effect in December 2013), payable over a six year term, of which, the first US\$65,000 was paid at the closing of the transaction, US\$335,000 was paid during the year ended March 31, 2015 and an additional US\$600,000 in the nine months ended December 31, 2016. Due to uncertainty regarding the timing and amount of future cash flows, management determined that the gain on sale would be recorded as cash was received. The consideration is a partial recovery of funds that were advanced to the subsidiary. If the purchase price is not paid in full when due then after the grace period, the Company has the right to reacquire the Tres Marias property.

In August 2016, the Company entered into a new agreement with COMSA for the payment of US\$1,700,000, the balance of the US\$2,500,000 consideration for the sale of Tres Marias, where COMSA has agreed to make payments every quarter starting on December 31, 2016, with the final payment on March 31, 2018.

During the nine months ended December 31, 2016, the Company's management reassessed the expected future benefit of the receivable from COMSA to reflect US\$1,300,000 (\$1,746,810) as collectible (March 31, 2016 - US\$250,000). Originally, the Company was recognizing each receipt of payment as gain on sale of subsidiary because management had substantial doubt about COMSA's ability to pay and there was uncertainty about the timing of the payments. Based on the new agreement with COMSA in August 2016 and the evidence of up to date payments received from COMSA, the management is confident that COMSA will continue to make timely payments as per the schedule. Accordingly, the Company has recognized the outstanding amount as receivable as of December 31, 2016. The US\$ and CA\$ exchange rate has changed significantly from 1.084 in December 2013 to 1.3437 in December 2016 in favour of the Company's outstanding receivable.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

5. Exploration and Evaluation Assets

	March 31 2016 \$	Additions \$	Impairment \$	December 31 2016 \$
Deferred exploration expenditures				
Mexico:				
Terrazas	-	-	-	-

	March 31 2015 \$	Additions \$	Impairment \$	December 31 2015 \$
Deferred exploration expenditures				
Mexico:				
Terrazas	-	59,002	(59,002)	-

a) *Terrazas*

During the fiscal year ended March 31, 2013, the Company acquired Andromeda which holds an option to purchase surface rights to the Terrazas project located in the State of Chihuahua, Mexico. The Company can acquire the surface rights by making biannual instalments payments until December 2018 for a total purchase price of US \$400,000. As of December 31, 2016, the Company owes US\$115,000 and the agreement is in default.

The future minimum payments due under the contract at December 31, 2016 are:

Period ending March 31	US\$
2018	90,000
2019	90,000
	<u>180,000</u>

6. Marketable Securities

As at December 31, 2016, the Company holds 150,000 common shares (March 31, 2016 – 500,000) in a publicly-traded company with a fair value of \$24,000 (March 31, 2016 - \$40,000). As at December 31, 2016, the cost base of marketable securities held was \$12,000 (March 31, 2016 - \$40,000). During the nine months ended December 31, 2016, the Company recognized an unrealized gain on marketable securities of \$12,000 in the condensed consolidated interim statement of comprehensive income.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

7. Share Capital and Reserves

Authorized capital

Unlimited common shares, without par value.

Issued capital

	Number of Shares	Common Shares \$
December 31, 2016, March 31, 2016 and March 31, 2015	21,990,276	40,252,361

Reserves

The reserves recorded in equity on the Company's statement of financial position comprise the fair value of share-based compensation and warrants prior to exercise, and obligations to issue shares in accordance with debt settlement agreements in the amount of \$190,645 whereby the debt would be repaid only by converting into common shares of the Company at the time when and if the Company completes financing for the acquisition of the Terrazas property, at an issue price per share equal to the issue price per share of such financing.

8. Share-Based Compensation

In January 2015, the shareholders of the Company approved a new incentive stock option plan (the "2014 Plan") which provides that the aggregate number of common shares of the Company's capital issuable pursuant to options granted may not exceed 10% of the issued and outstanding shares. If the aggregate number of options granted exceeds the maximum allowed under the 2014 Plan, exercise of the options will require War Eagle shareholder approval. Options granted under the Plan may have a maximum term of five years and the exercise price of options granted will not be less than the discounted market price of the common shares as of the award date. The board of directors has the authority to set the vesting terms of options granted, subject to the rules of the TSX-V regarding options granted for investor relations services.

The weighted average grant-date fair value of options awarded in the nine months ended December 31, 2016 was \$0.006 (2015 - \$nil). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

Period ended December 31	2016	2015
Share price	\$0.03	-
Exercise price	\$0.10	-
Annualized stock price volatility	75.67%	-
Risk-free interest rate	0.75%	-
Expected option life	2.97 years	-
Dividend yield	0.0%	-

The stock price volatility was determined using the historical fluctuations in the Company's share price.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

8. Share-based Compensation (continued)

In January 2015, the shareholders of the Company approved a new incentive stock option plan (the “2014 Plan”) which provides that the aggregate number of common shares of the Company’s capital issuable pursuant to options granted may not exceed 10% of the issued and outstanding shares. If the aggregate number of options granted exceeds the maximum allowed under the 2014 Plan, exercise of the options will require War Eagle shareholder approval. Options granted under the Plan may have a maximum term of five years and the exercise price of options granted will not be less than the discounted market price of the common shares as of the award date. The board of directors has the authority to set the vesting terms of options granted, subject to the rules of the TSX-V regarding options granted for investor relations services.

The weighted average grant-date fair value of options awarded in the nine months ended December 31, 2016 was \$0.006 (2015 - \$nil). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

Period ended December 31	2016	2015
Share price	\$0.03	-
Exercise price	\$0.10	-
Annualized stock price volatility	75.67%	-
Risk-free interest rate	0.75%	-
Expected option life	2.97 years	-
Dividend yield	0.0%	-

The stock price volatility was determined using the historical fluctuations in the Company’s share price.

	Number of options	Weighted average exercise price \$
March 31, 2015	2,098,000	0.10
Cancelled	(600,000)	0.10
March 31, 2016	1,498,000	0.10
Granted	250,000	0.10
December 31, 2016	1,748,000	0.10

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

8. Share-based Compensation (continued)

The Company's outstanding and exercisable stock options at December 31, 2016 were:

Expiry Date	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
November 14, 2017	190,000	0.87	0.10	190,000	0.10
December 20, 2017	400,000	0.97	0.10	400,000	0.10
April 25, 2018	210,000	1.31	0.10	210,000	0.10
October 31, 2019	948,000	2.83	0.10	948,000	0.10
	1,748,000	2.01	0.10	1,748,000	0.10

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

9. Warrants

	Number of financing warrants	Weighted average exercise price \$
March 31, 2015	2,008,840	0.10
Expired	(2,008,840)	0.10
December 31, 2016 and March 31, 2016	-	-

10. Related Party Transactions

The Company entered into the following transactions with related parties not disclosed elsewhere in these consolidated financial statements as follows:

Key management personnel compensation

Nine months ended December 31	2016 \$	2015 \$
Management fees	158,734	216,000
Consulting fees	-	54,000
	158,734	270,000

As at December 31, 2016, \$133,000 (March 31, 2016 - \$528,500) in total is owing to officers and directors for services. The total amount of \$133,000 (March 31, 2016 - \$351,500) is owing to companies owned by officers and directors of the Company. These amounts owing have been included in accounts payable and accrued liabilities.

During the nine months ended December 31, 2016, an officer (and director) of the Company agreed to reduce the amount owed to his company by \$64,000. The Company recognized a gain on settlement of debt of \$64,000 in the condensed consolidated interim statement of comprehensive income.

Related party balances are due on demand, bear no interest and are unsecured.

Transactions with related parties were in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

11. Capital Management

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern in order to support ongoing exploration programs and development of its mining assets, to provide sufficient working capital to meet its ongoing obligations and to pursue potential investments.

The Company considers its capital to include equity and working capital. In order to maintain financial flexibility, the Company may from time to time issue shares and adjust its spending to manage current and projected capital levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its working capital which is calculated as follows:

	December 31 2016 \$	March 31 2016 \$
Current assets	2,355,821	373,035
Current liabilities	401,922	749,913
Working capital (deficiency)	1,953,899	(376,878)

The Company is an exploration stage company. The Company monitors its forecasted working capital requirements on a quarterly basis. The Company prepares expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The Company's board of directors approves annual budgets.

The Company is not subject to external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes to the Company's approach to capital management during the nine months ended December 31, 2016.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

12. Financial Instruments

Fair Value

The Company's financial instruments include cash, receivables, deposits and accounts payable. Fair value amounts disclosed in these consolidated financial statements represent the Company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. These estimates may change in subsequent reporting periods due to market conditions or other factors.

A fair value hierarchy is used to categorize the inputs used to measure fair value. Financial instruments measured at fair value are classified into one of six levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The six levels of the fair value hierarchy are as follows:

Level 1 - include financial assets and liabilities that are measured in whole or in significant part by reference to published quotes in an active market at the measurement date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company's marketable securities are measured using level 1 inputs.

Level 2 - include financial assets and liabilities using valuation technical based on assumptions that are supported by prices from observable current market transactions.

The Company has no assets or liabilities in this category.

Level 3 - include financial assets and liabilities measured using valuation techniques based on nonmarket observable inputs. This means that fair values are determined in whole or in part using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The Company has no assets or liabilities in this category.

The carrying value of cash, receivables, accounts payable and accrued liabilities, and other liabilities approximate their fair value due to the short-term nature and limited credit risk of these assets and liabilities.

Financial Instruments Risk Management

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. This note provides information about the Company's exposure to each of these risks, and the Company's objectives, policies and processes for measuring and managing such risks. The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Market risk

The Company's profitability and long-term viability will depend, in large part, on the market price of zinc and lead. The market prices for metals can be volatile and are affected by numerous factors beyond the Company's control, including: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities; the availability and costs of metal substitutes; expectations for inflation; and political and economic conditions, including interest rates and currency values. The Company cannot predict the effect of these factors on metal prices.

The market price of these minerals and metals may not remain at current levels. In particular, an increase in worldwide supply and consequent downward pressure on prices may result over the longer term from increased zinc and lead production from mines developed or expanded as a result of current metal price levels.

The Company's marketable securities are subject to market risk.

WAR EAGLE MINING COMPANY INC.

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12. Financial Instruments (continued)*Foreign currency exchange rate risk*

The Company is exposed to foreign currency fluctuations as it has cash, denominated in Canadian dollars and a certain portion of the Company's investing activities are conducted in US dollars. There are no exchange rate contracts in place. A change in the US dollar would not have a material effect on the Company's income (loss).

Financial instruments denominated in foreign currency are:

At December 31, 2016	US Dollars
Cash	414,881
Receivables	1,300,000
Accounts payable and accrued liabilities	11,254
Exchange rate - \$1.00 =	0.7442

At March 31, 2016	US Dollars
Cash	108
Receivables	250,000
Accounts payable and accrued liabilities	52,587
Exchange rate - \$1.00 =	.7713

Interest rate risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and cash equivalents, which receive interest based on market interest rates. In the nine months ended December 31, 2016, the Company did not receive any income from interest on its accounts.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in paying obligations as they come due. The Company's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consists of invoices payable to trade suppliers for capital expenditures, field operating activities, and general corporate expenses. All of the Company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

As at December 31, 2016, the Company has a working capital of \$1,953,899. The Company has deferred paying some of its trade payables until it is able to raise funds through share issuance or until it collects on its receivable from the sale of Tombstone.

Price Risk

As disclosed in Note 6, the Company holds marketable securities. The nature of these instruments exposes the Company to price risk although it is management's opinion that the Company's exposure to this risk is not significant.

WAR EAGLE MINING COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited – Prepared by Management

Nine months ended December 31, 2016

12. Financial Instruments (continued)

Credit Risk

Credit Risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of receivables.

13. Segment Reporting

The Company's activities are all in one industry segment of mineral property acquisition and exploration. The mineral properties are segmented by geographic location as disclosed in Note 5. Substantially all administrative expenses are incurred in Canada.

14. Supplemental Cash Flow Information

Nine months ended December 31	2016	2015
	\$	\$
Non-cash financing/investing activities:		
Transfer of other liabilities to reserves	-	190,645

15. Contingencies and Commitments

Former CEO Litigation

In August 2016, the Company terminated the services of Mr. Thomas Atkins, the former CEO, for non-performance. In October 2016, Mr. Atkins filed a lawsuit in the Supreme Court of Ontario for damages of \$205,000. The Company believes the lawsuit is without merit and has adequate defence. The Company has \$160,000 of accrual booked as a contingency.

Compensation Agreements

In February 2013, the Company approved 12 month compensation agreements for two individuals in management at \$10,000 each per month and for two individuals in management at \$3,000 each per month. The initial term of the contracts was 12 months to January 2014 which are automatically renewed for further incremental periods of 6 months at a time unless terminated by either party prior to expiry of the then term. Effective June 30, 2016 the compensation was reduced to \$5,000 per month for one individual and the other individual's services were terminated.

16. Income (loss) Per Share

Nine months ended December 31	2016	2015
	\$	\$
Income (loss) for the period	2,329,277	(410,452)
Weighted average number of common shares outstanding	21,990,276	21,990,276
Income (loss) per share, basic and diluted	0.11	(0.02)

Basic and diluted income (loss) per share for the nine months ended December 31, 2016 and 2015 were the same as stock options were out of the money.