



WAR EAGLE
MINING COMPANY INC.

WAR EAGLE MINING COMPANY INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017



Crowe MacKay LLP
Member Crowe Horwath International
1100 - 1177 West Hastings Street
Vancouver, BC V6E 4T5
+1.604.687.4511 Tel
+1.604.687.5805 Fax
+1.800.351.0426 Toll Free
www.crowemackay.ca

Independent Auditor's Report

To the Shareholders of War Eagle Mining Company Inc.

We have audited the accompanying consolidated financial statements of War Eagle Mining Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, and the consolidated statements of comprehensive income (loss), changes in equity (deficiency) 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of War Eagle Mining Company Inc. and its subsidiaries as at March 31, 2017 and March 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of War Eagle Mining Company Inc. to continue as a going concern.

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, British Columbia
July 26, 2017**

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

	Note	March 31 2017 \$	March 31 2016 \$
ASSETS			
Current assets			
Cash		682,272	544
Receivables	6	1,489,299	332,491
Prepaid expenses and deposits		5,701	-
Marketable securities	8	-	40,000
Total assets		2,177,272	373,035
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13, 19	340,131	749,913
Total current liabilities		340,131	749,913
EQUITY (DEFICIENCY)			
Share capital	10	40,252,361	40,252,361
Reserves	10	3,397,698	3,396,198
Deficit		(41,812,918)	(44,025,437)
Total equity (deficiency)		1,837,141	(376,878)
Total liabilities and equity (deficiency)		2,177,272	373,035

Corporate information and going concern (Note 1)

The annual consolidated financial statements of the Company for the year ended March 31, 2017 were approved and authorized for issuance by the board of directors on July 26, 2017.

On behalf of the board of directors:

<u>"William S Hamilton"</u> William S Hamilton	Director	<u>"Don Padgett"</u> Don Padgett	Director
---	----------	-------------------------------------	----------

See accompanying notes.

WAR EAGLE MINING COMPANY INC.
Consolidated Statements of Comprehensive Income (Loss)
Expressed in Canadian Dollars

Year ended March 31	Note	2017	2016
		\$	\$
Operating expenses			
Consulting fees		53,610	51,425
Insurance		3,299	6,929
Investor relations		1,851	250
Management fees and salaries	13	244,419	360,000
Office and miscellaneous		6,518	5,760
Professional fees		36,814	20,039
Rent		2,500	2,472
Share-based compensation	11,13	1,500	-
Transfer agent and filing fees		16,081	9,442
Travel		475	17,926
Loss before other income (expenses)		(367,067)	(474,243)
Other income (expenses)			
Foreign exchange gain (loss)		25,076	(5,167)
Gain on sale of subsidiary	6	2,422,526	324,128
Gain on sale exploration and evaluation assets	7	-	47,500
Gain on settlement of debt	13	64,000	-
Realized gain on marketable securities	8	34,642	-
Royalty income	6	33,342	-
		2,579,586	366,461
Income (loss) and total comprehensive income (loss) for the year		2,212,519	(107,782)
Basic and diluted income (loss) per common share	20	0.10	(0.00)
Weighted average number of common shares outstanding, basic and diluted		21,990,276	21,990,276

See accompanying notes.

WAR EAGLE MINING COMPANY INC.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

Year ended March 31	Note	2017 \$	2016 \$
Operating activities			
Income (loss) for the year		2,212,519	(107,782)
Adjustments for			
Share-based compensation		1,500	-
Foreign exchange		(25,485)	5,167
Gain on sale of exploration and evaluation assets		-	(47,500)
Gain on sale of subsidiary		(2,422,526)	-
Gain on settlement of debt		(64,000)	-
Realized gain on marketable securities		(34,642)	-
Changes in non-cash operating working capital			
Receivables		16,836	(306,461)
Prepaid expenses and deposits		(5,701)	6,929
Accounts payable and accrued liabilities and other liabilities		(345,782)	264,684
Cash used in operating activities		<u>(667,281)</u>	<u>(184,963)</u>
Investing activities			
Exploration and evaluation assets	7	-	7,500
Proceeds from sale of Tombstone	6	1,271,852	-
Proceeds from sale of marketable securities	8	74,642	-
Cash provided by investing activities		<u>1,346,494</u>	<u>7,500</u>
Foreign exchange effect on cash		<u>2,515</u>	<u>(5,167)</u>
Increase (decrease) in cash		681,728	(182,630)
Cash, beginning of year		<u>544</u>	<u>183,174</u>
Cash, end of year		<u>682,272</u>	<u>544</u>

Cash paid (received) for interest	\$	-	\$	-
Cash paid (received) for income tax	\$	-	\$	-

Supplemental cash flow information (Note 18)

See accompanying notes.

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

	Note	Common shares	Reserves	Deficit	Total equity (deficiency)
		\$	\$	\$	\$
Balance March 31, 2015	10	40,252,361	3,205,553	(43,917,655)	(459,741)
Liabilities reclassified to equity	9	-	190,645	-	190,645
Loss for the year		-	-	(107,782)	(107,782)
Balance March 31, 2016	10	40,252,361	3,396,198	(44,025,437)	(376,878)
Share-based compensation	11	-	1,500	-	1,500
Income for the year		-	-	2,212,519	2,212,519
Balance March 31, 2017	10	40,252,361	3,397,698	(41,812,918)	1,837,141

See accompanying notes.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

1. Corporate Information and going concern

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 consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated revenue from operations. The Company incurred an income of \$2,212,519 during the year ended March 31, 2017 (March 31, 2016 – loss of \$107,782) and, as of that date the Company's deficit was \$41,812,918 (March 31, 2016 - \$44,025,437). The Company had cash of \$682,272 at March 31, 2017 (March 31, 2016 - \$544). 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 pursue the acquisition and exploration of mineral resource properties. 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. 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.

These consolidated 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 consolidated financial statements for the year ended March 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Standards Interpretations Committee.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and assets and liabilities at fair value through profit or loss ("FVTPL"). The consolidated financial statements are presented in Canadian dollars.

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 or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

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.

a) *Principles of consolidation*

These consolidated financial statements include the accounts of War Eagle Mining Company Inc. and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an investee, so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the group until the date on which control ceases.

These consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

	<u>Incorporation</u>	<u>Percentage of Ownership</u>	
		2017	2016
Andromeda Resources Inc. ("Andromeda")	Canada	100%	100%
RD Minerals S.A. de C.V. (owned by Andromeda)	Mexico	100%	100%

All significant intercompany transactions have been eliminated.

b) *Foreign currency transactions*

The Company's presentation currency is the Canadian dollar. The functional currency for the Company and its subsidiary Andromeda, being the currency of the primary economic environment in which the companies operate, is the Canadian dollar. The functional currency of RD Minerals S.A de C.V. is the Mexican Peso.

Foreign currency accounts are translated into the functional currency as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the functional currency 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 the functional currency by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into the functional currency 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 a revalued amount are translated into the functional currency by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income/loss or other comprehensive income/loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

3. Summary of Significant Accounting Policies (continued)

b) *Foreign currency transactions (continued)*

Parent and Subsidiary Companies

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at monthly average exchange rates during the year.

Exchange differences arising on translation of foreign operations are transferred directly to exchange difference on translating foreign operations on the statement of comprehensive loss and are reported as a separate component of equity titled "Cumulative Translation Differences". These differences are recognized in profit or loss in the year in which the operation is disposed of.

c) *Mineral exploration and evaluation expenditures*

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss. The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs. Mineral exploration and evaluation expenditures are classified as intangible assets.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

3. Summary of Significant Accounting Policies (continued)

d) *Financial instruments*

Financial assets

Financial assets are classified as 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:

Financial assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets are classified as FVTPL where the asset is either

- Held for trading or
- It is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss. The Company classified its marketable securities as financial assets at FVTPL.

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.

The Company classifies its cash and receivables as loans and receivables.

Held to maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment. The Company does not have any financial assets classified as held to maturity.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale investments. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/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 loss/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 loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

The Company does not have any financial assets classified as available-for-sale.

Derecognition of financial assets

The Company derecognizes the financial assets when:

- The contractual rights to the cash flows from the financial asset expire;
- The contractual rights to the cash flows from the financial asset are retained, but a contractual obligation to pay the cash flows to another party with material delay is assumed by the Company; or
- When the Company transfers substantially all the risks and rewards of ownership of the financial asset.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

3. Summary of Significant Accounting Policies (continued)

d) *Financial instruments (continued)*

Impairment of 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

The Company classifies its financial liabilities in the following categories: FVTPL and other financial liabilities.

FVTPL

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. The Company does not have any liabilities classified as FVTPL.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date. Other financial liabilities include accounts payable and accrued liabilities.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as at FVTPL, which are expensed as incurred, are included in the initial carrying value of such instruments.

e) *Provisions*

Decommissioning provision

The Company is subject to various government laws or regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal or constructive obligations required to restore the exploration sites in the period 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 capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

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

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

3. Summary of Significant Accounting Policies (continued)

f) Income taxes

Income tax expense comprises current and deferred tax. 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 period-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 which 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 period 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.

g) Share capital

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, options, and share warrants 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.

Warrants that are part of units are valued using a residual value method which involves comparing the selling price of the units to the Company's share price on the announcement date of the financing. The market value is then applied to the common share and any residual amount is assigned to the warrant.

If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in reserves.

h) Earnings / loss per share

Basic earnings/loss per share is computed by dividing the income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period. Diluted earnings/loss per common share is computed by dividing the income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. Stock options are not included in the computation of loss per share for the year ended March 31, 2016 as such inclusion would be anti-dilutive.

At March 31, 2017, the Company had stock options outstanding that could result in the issuance of up to 1,748,000 additional common shares. All the options outstanding as of March 31, 2017 are out of the money.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

3. Summary of Significant Accounting Policies (continued)

i) *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 non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognized for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts 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 the Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in share-based payment reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in 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.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

4. 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 the 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 the consolidated financial statements.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2015 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, 2018. The Company is currently evaluating the impact on the consolidated 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 Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

5. 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 consolidated financial statements within the next financial year are discussed below:

Critical Judgments

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 that it is probable that taxable profit will be available against which a deductible temporary difference 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 Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

5. 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 consolidated 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 11.

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 March 31, 2017, the Company recognized an allowance of US \$nil (March 31, 2016 – US \$1,850,000). See Note 6. The US\$ and CA\$ exchange rate has changed significantly from 1.084 in December 2013 to 1.331 in March 2017 in favour of the Company's outstanding receivable.

6. Sale of a subsidiary

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\$1,000,000 in the year ended March 31, 2017. Due to uncertainty regarding the timing and amount of future cash flows, management had determined that the gain on sale would be recorded on receipt of cash. 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 remaining balance of the US\$2,500,000 from the sale of Tres Marias, where COMSA has agreed to make payments every quarter starting on September 30, 2016, with the final payment on March 31, 2018. In the new agreement, the Company also negotiated additional royalty payments as below:

- COMSA will pay War Eagle 25% of the germanium value recovered from any zinc-germanium concentrate sales starting September 30, 2016.
- COMSA will pay War Eagle 25% of the lead value recovered from any lead concentrate sales after June 30, 2016.
- COMSA will pay War Eagle 25% of the zinc sales for price received in excess of \$1.00 per pound of zinc sales after December 31, 2016.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

6. Sale of a subsidiary (continued)

The payment schedule as per the new agreement is:

	US\$
September 30, 2016 (received)	200,000
December 31, 2016 (received)	200,000
March 31, 2017 (received)	200,000
June 30, 2017 (received subsequently)	300,000
September 30, 2017	300,000
December 31, 2017	300,000
March 31, 2018	200,000
Total	1,700,000

As of March 31, 2017, the Company has received the quarterly payments up to March 31, 2017 and the balance of the receivable is US\$1,100,000.

During the year ended March 31, 2017, the Company's management reassessed the expected future benefit of the receivable from COMSA to reflect US\$1,100,000 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 March 31, 2017.

7. Exploration and Evaluation Assets

George's Lake

In March 2016, the Company completed the sale of the George's Lake property, which was fully impaired previously, for aggregate proceeds of \$7,500 in cash and 500,000 common shares in securities of the purchaser with a deemed value of \$0.08 per common share. The Company recognized a gain on sale of the property of \$47,500. The Company is entitled to a royalty of 1% net smelter returns, which the purchaser may buy-back upon payment of \$500,000 to the Company.

Terrazas

During the fiscal year ended March 31, 2013, the Company acquired Andromeda which held an option to purchase surface rights to the Terrazas project located in the State of Chihuahua, Mexico. During the fiscal year ended March 31, 2017, the Company decided not to pursue the Terrazas project and absolved itself of any further commitments.

8. Marketable Securities

As at March 31, 2016, the Company held 500,000 common shares in a publicly-traded company with a fair value of \$40,000. As at March 31, 2016, the cost base of marketable securities held was \$40,000.

During the year ended March 31, 2017, the Company sold all of the 500,000 common shares in the publicly-traded company with a fair value of \$40,000 for proceeds of \$74,642 and recognized a gain of \$34,642.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

9. Other Liabilities

The Company entered into debt settlement agreements with certain vendors of the interest in the Terrazas project in the amount of \$190,645. As per the agreements, 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 acquisition of the Terrazas property, at an issue price per share equal to the issue price per share of such financing. During the year ended March 31, 2017, the Company decided not to pursue the Terrazas property. See note 7.

10. Share Capital and Reserves*Authorized capital*

Unlimited common shares, without par value.

Issued capital

	Number of Shares	Common Shares \$
March 31, 2017, 2016 and 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.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

11. Share-Based Compensation

In October 2016, the shareholders of the Company renewed the 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 Mining Company Inc. 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 year ended March 31, 2017 was \$0.006 (March 31, 2016 - \$nil). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

Year ended March 31	2017	2016
Share price	\$ 0.03	-
Exercise price	\$ 0.10	-
Annualized stock price volatility	75.67 %	-
Risk-free interest rate	0.75 %	-
Expected option life (years)	2.97	-
Dividend yield	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
March 31, 2017	1,748,000	0.10

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

11. Share-Based Compensation (continued)

The Company's outstanding and exercisable stock options at March 31, 2017 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	0.62	0.10	190,000	0.10
December 20, 2017	400,000	0.72	0.10	400,000	0.10
April 25, 2018	210,000	1.07	0.10	210,000	0.10
October 31, 2019	948,000	2.58	0.10	948,000	0.10
	1,748,000	1.76	0.10	1,748,000	0.10

12. Warrants

	Number of warrants	Weighted average exercise price \$
March 31, 2015	2,008,840	0.10
Expired	(2,008,840)	0.10
March 31, 2017 and 2016	-	-

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

13. 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

Year ended March 31	2017	2016
	\$	\$
Management fees	244,500	360,000
Share-based compensation	1,500	-
	<u>246,000</u>	<u>360,000</u>

As at March 31, 2017, \$69,650 (March 31, 2016 - \$528,500) in total is owing to officers and directors for services. The total amount includes: \$69,650 (March 31, 2016 - \$351,500) 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 year ended March 31, 2017, 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 consolidated 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.

14. 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:

	March 31	March 31
	2017	2016
	\$	\$
Current assets	2,177,272	373,035
Current liabilities	340,131	749,913
Working capital (deficiency)	<u>1,837,141</u>	<u>(376,878)</u>

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 is not subject to external capital 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 year ended March 31, 2017.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

15. Financial Instruments

Fair Value

The Company's financial instruments include cash, receivables, marketable securities and accounts payable and accrued liabilities. 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 three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three 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.

Level 2 - include financial assets and liabilities using valuation techniques 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 and accounts payable and accrued 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 base metals. 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 base metal production from mines developed or expanded as a result of current metal price levels.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

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

The Company is exposed to foreign currency fluctuations as it has cash, receivables and accounts payable and accrued liabilities denominated in US dollars. There are no exchange rate contracts in place. A 10% change in the US dollar will affect profit/loss by approximately \$217,000.

Financial instruments denominated in foreign currencies are:

At March 31, 2017	US Dollars
Cash	502,386
Receivables	1,100,000
Accounts payable and accrued liabilities	26,216
Exchange rate - \$1.00 =	.7513

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as it did not hold any funds in interest bearing 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 March 31, 2017, the Company has a working capital of \$1,837,141.

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. As of March 31, 2017, COMSA owes US\$1,100,000 to the Company.

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 March 31, 2017.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

16. Income Tax

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

Year ended March 31	2017	2016
	\$	\$
Income (loss) before income taxes	2,212,519	(107,782)
Statutory Canadian corporate tax rate	26.00%	26.00%
Income tax expense (recovery) at statutory rates	575,255	(28,023)
Non-deductible items for tax purposes	(319,042)	-
Change in tax benefits not recognized (recognized)	(256,213)	28,023
Income tax expense (recovery)	-	-

The significant components of the Company's deferred income tax assets and liabilities are as follows:

As at March 31	2017	2016
	\$	\$
Deferred income tax assets relating to:		
Exploration and evaluation assets	1,813,595	1,813,595
Share issuance costs	-	261
Cumulative eligible costs	4,923	4,923
Net capital losses available	1,020,251	1,339,683
Non-capital losses available for future periods	2,148,924	2,085,445
Marketable securities	130,000	130,000
	5,117,693	5,373,907
Unrecognized deferred tax assets	(5,117,693)	(5,373,907)
	-	-

The Company has not recognized deferred tax assets due to the uncertainty of future taxable income.

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

16. Income Tax (continued)

At March 31, 2017, the Company has non-capital losses of approximately \$8,366,000 (March 31, 2016 - \$8,122,000) which may be available to offset future income for Canadian tax purposes. Non-capital losses expire as follows:

Expiry Date	\$
2037	244,000
2036	165,000
2035	431,000
2034	539,000
2033	205,000
2032	892,000
2031	832,000
2030	1,025,000
2029	1,583,000
2028	1,386,000
2027	625,000
2026	439,000
	<u>8,366,000</u>

In addition, the Company has available unclaimed resource expenses and net capital losses of approximately \$14,681,000 (March 31, 2016 - \$17,138,000) for Canadian tax purposes which may be carried forward indefinitely.

17. Segment Reporting

The Company's activities are all in one industry segment of mineral property acquisition and exploration. Substantially all administrative expenses are incurred in Canada.

18. Supplemental Cash Flow Information

Year ended March 31	2017	2016
	\$	\$
Non-cash financing/investing activities:		
Fair value of marketable securities from sale of exploration and evaluation asset	-	40,000
Transfer of other liabilities to reserves	-	190,645

WAR EAGLE MINING COMPANY INC.

Notes to the Annual Consolidated Financial Statements

Year Ended March 31, 2017

Expressed in Canadian Dollars

19. 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 and also claimed damages of \$500,000 for undisclosed claims. The Company has also counter-claimed for \$500,000 for damages suffered by the Company. The Company believes the lawsuit is without merit and has adequate defence. The Company has made a provision of \$160,000 for this 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. Subsequent to the year ended March 31, 2017, the compensation was increased to \$10,000 per month for the CEO.

20. Income (Loss) Per Share

Year ended March 31	2017	2016
	\$	\$
Income (loss) for the year	2,212,519	(107,782)
Weighted average number of common shares outstanding	21,990,276	21,990,276
Income (loss) per share, basic and diluted	0.10	(0.00)

Stock options are not included in the computation of loss per share for the year ended March 31, 2016 as such inclusion would be anti-dilutive.

At March 31, 2017, the Company had stock options outstanding that could result in the issuance of up to 1,748,000 additional common shares. All the options outstanding as of March 31, 2017 were out of the money.