

**WAR EAGLE MINING COMPANY INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007

(Prepared by Management Without Audit)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

*"Terence Schorn"*

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Terence Schorn  
President and Director

**WAR EAGLE MINING COMPANY INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Prepared by management without audit)

|   | September 30,<br>2007 | March 31,<br>2007 |
|---|-----------------------|-------------------|
| <b>ASSETS</b>   |                       |                   |
| <b>CURRENT</b>  |                       |                   |
| Cash and cash equivalents (note 3b)                                   | \$ 3,131,161          | \$ 5,222,338      |
| Accounts receivable   | 120,010               | 136,045           |
| Marketable securities (note 4)  | 100,001               | 100,001           |
| Prepaid expenses and deposits   | 75,979                | 54,276            |
| Share subscription receivable   | -                     | 150,000           |
|   | 3,427,151             | 5,662,660         |
| PETROLEUM INTERESTS (note 5)  | 1,602                 | 1,602             |
| RESOURCE PROPERTIES AND DEFERRED<br>EXPLORATION EXPENDITURES (note 6) | 9,030,199             | 6,656,448         |
|   | \$ 12,458,953         | \$ 12,320,710     |
| <b>LIABILITIES</b>  |                       |                   |
| <b>CURRENT</b>  |                       |                   |
| Accounts payable and accrued liabilities                              | \$ 454,549            | \$ 149,198        |
| Due to related parties (note 7)                                       | 11,371                | 6,423             |
|   | 465,920               | 155,621           |
| <b>SHAREHOLDERS' EQUITY</b>   |                       |                   |
| SHARE CAPITAL (note 8)  | 33,325,782            | 33,031,169        |
| WARRANTS (note 8)   | 375,169               | 375,169           |
| CONTRIBUTED SURPLUS (note 8)  | 1,708,269             | 1,633,599         |
| DEFICIT   | (23,416,188)          | (22,874,789)      |
|   | 11,993,033            | 12,165,089        |
|   | \$ 12,458,953         | \$ 12,320,710     |

COMMITMENTS (notes 6, 9 and 10)

CONTINGENCY (note 9)

SUBSEQUENT EVENTS (notes 6b, 8b, 8d and 11)

APPROVED BY THE BOARD OF DIRECTORS

*“Terence Schorn”*

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*“David Hackman”*

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(See accompanying notes to the Financial Statements)

**WAR EAGLE MINING COMPANY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Prepared by management without audit)

|  | For the three months ended<br>September 30, |                   | For the six months ended<br>September 30, |                      |
|--|---|-------------------|---|----------------------|
|  | 2007  | 2006              | 2007                                      | 2006                 |
| <b>ADMINISTRATIVE EXPENSES</b>                         |   |                   |   |                      |
| Consulting   | \$ 111,785                                  | \$ 12,500         | \$ 141,802                                | \$ 28,178            |
| Investor relations and news dissemination              | 69,776                                      | 63,057            | 117,457                                   | 98,941               |
| Management fees  | 27,000                                      | 27,000            | 71,500                                    | 54,000               |
| Office administration, rent and miscellaneous          | 60,873                                      | 21,844            | 143,406                                   | 45,940               |
| Professional fees                                      | 15,159                                      | 31,739            | 24,501                                    | 38,781               |
| Stock based compensation (note 8d)                     | 120,958                                     | -                 | 200,342                                   | 12,613               |
| Stock transfer and filing fees                         | 9,617                                       | 4,080             | 14,954                                    | 10,241               |
| Travel   | 51,189                                      | 12,078            | 82,715                                    | 53,412               |
|  | <u>466,357</u>                              | <u>172,298</u>    | <u>796,677</u>                            | <u>342,106</u>       |
| <b>OTHER (INCOME) AND EXPENSES</b>                     |   |                   |   |                      |
| Foreign exchange (gain) loss                           | (21,586)                                    | 11,551            | 2,889                                     | (18,027)             |
| Interest income  | (40,231)                                    | (20,568)          | (87,567)                                  | (33,718)             |
| Oil and Gas, net revenue                               | -   | (450)             | -   | (450)                |
|  | <u>(61,817)</u>                             | <u>(9,467)</u>    | <u>(84,678)</u>                           | <u>(52,195)</u>      |
| NET LOSS FOR THE PERIOD BEFORE<br>INCOME TAXES         | 404,540                                     | 162,831           | 711,999                                   | 289,911              |
| FUTURE INCOME TAXES (RECOVERY)                         | -   | -                 | (170,600)                                 | -                    |
| NET LOSS FOR THE PERIOD                                | 404,540                                     | 162,831           | 541,399                                   | 289,911              |
| DEFICIT, BEGINNING OF PERIOD                           | 23,011,648                                  | 21,334,385        | 22,874,789                                | 21,207,305           |
| DEFICIT, END OF PERIOD                                 | <u>23,416,188</u>                           | <u>21,497,216</u> | <u>\$ 23,416,188</u>                      | <u>\$ 21,497,216</u> |
| BASIC AND DILUTED NET LOSS PER<br>SHARE FOR THE PERIOD | <u>\$ 0.01</u>                              | <u>\$ 0.004</u>   | <u>\$ 0.01</u>                            | <u>\$ 0.007</u>      |

(See accompanying notes to the Financial Statements)

**WAR EAGLE MINING COMPANY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Prepared by management without audit)

|   | For the three months ended<br>September 30, |                                | For the six months ended<br>September 30, |                                |
|---|---|--------------------------------|---|--------------------------------|
|   | 2007  | 2006                           | 2007                                      | 2006                           |
| <b>CASH PROVIDED BY (USED IN):</b>                            |   |                                |   |                                |
| <b>OPERATING ACTIVITIES</b>                                   |   |                                |   |                                |
| Net loss for the period                                       | \$ (404,540)                                | \$ (162,831)                   | \$ (541,399)                              | \$ (289,911)                   |
| Operating items not involving cash:                           |   |                                |   |                                |
| Consulting  | -   | -                              | -   | 9,679                          |
| Stock based compensation                                      | 120,958                                     | -                              | 200,342                                   | 12,613                         |
| Future income taxes (recovery)                                | -   | -                              | (170,600)                                 | -                              |
|   | <u>(283,582)</u>                            | <u>(162,831)</u>               | <u>(511,657)</u>                          | <u>(267,619)</u>               |
| <br>Change in non-cash<br>operating working capital           | <br><u>272,324</u>                          | <br><u>97,912</u>              | <br><u>449,683</u>                        | <br><u>39,750</u>              |
|   | <u>(11,258)</u>                             | <u>(64,919)</u>                | <u>(61,974)</u>                           | <u>(227,869)</u>               |
| <b>FINANCING ACTIVITIES</b>                                   |   |                                |   |                                |
| Related party advances (repayments)                           | (4,224)                                     | -                              | 4,948                                     | (2,685)                        |
| Issuance of common shares for cash                            | 120,000                                     | 1,260,000                      | 339,600                                   | 2,325,680                      |
|   | <u>115,776</u>                              | <u>1,260,000</u>               | <u>344,548</u>                            | <u>2,322,995</u>               |
| <b>INVESTMENT ACTIVITIES</b>                                  |   |                                |   |                                |
| Deferred exploration expenditures                             | (1,494,108)                                 | (690,723)                      | (2,360,701)                               | (1,103,395)                    |
| Resource properties acquisition costs                         | -   | (169,665)                      | (13,050)                                  | (223,465)                      |
|   | <u>(1,494,108)</u>                          | <u>(860,388)</u>               | <u>(2,373,751)</u>                        | <u>(1,326,860)</u>             |
| <br><b>NET INCREASE (DECREASE) IN CASH</b>                    | <br><b>(1,389,590)</b>                      | <br><b>334,693</b>             | <br><b>(2,091,177)</b>                    | <br><b>768,266</b>             |
| <br><b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF PERIOD</b> | <br><b>4,520,751</b>                        | <br><b>6,037,319</b>           | <br><b>5,222,338</b>                      | <br><b>5,603,746</b>           |
| <br><b>CASH AND CASH EQUIVALENTS,<br/>END OF PERIOD</b>       | <br><b><u>\$ 3,131,161</u></b>              | <br><b><u>\$ 6,372,012</u></b> | <br><b><u>\$ 3,131,161</u></b>            | <br><b><u>\$ 6,372,012</u></b> |
| <br><b>SUPPLEMENTAL CASH FLOW<br/>INFORMATION</b>             |   |                                |   |                                |
| Interest paid   | \$ -  | \$ -                           | \$ -                                      | \$ -                           |
| Income taxes paid   | \$ -  | \$ -                           | \$ -                                      | \$ -                           |

(See accompanying notes to the Financial Statements)

**WAR EAGLE MINING COMPANY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED SEPTEMBER 30, 2007  
(Prepared by management without audit)

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1. BASIS OF PRESENTATION AND ABILITY TO CONTINUE AS A GOING CONCERN

While the information presented in the accompanying interim financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. These interim financial statements follow the same accounting policies and methods of their application as the March 31, 2007 annual financial statements. They do not, however, conform in all respects to the requirements of Canadian generally accepted accounting principles ("GAAP") for annual statements and as such these statements should be read in conjunction with our March 31, 2007 annual financial statements.

These financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

These consolidated financial statements have been prepared in accordance with GAAP with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issue of share capital. The Company has incurred significant operating losses and its ability to continue as a going concern is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. NATURE OF OPERATIONS

The Company, directly and through joint ventures, is in the process of exploring mineral resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

The Company prepares its accounts in accordance with accounting principles generally accepted in Canada.

The following is a summary of significant accounting policies used in the preparation of these financial statements:

a) Principles of Consolidation

These consolidated financial statements include the accounts of War Eagle Mining Company Inc., its wholly owned subsidiary, War Eagle Resources Corporation, a U.S. corporation, Tombstone Mining Inc, a company incorporated in the British Virgin Islands, a 99% interest in Minera Aguila Canadiense S.A de C.V., a Mexican corporation and a 99% interest in Tombstone Exploration de Mexico S.A. de C.V., a Mexican corporation.

**WAR EAGLE MINING COMPANY INC.**  
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3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b) Cash and Equivalents

Cash equivalents consists of highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

At September 30, 2007 the Company held term deposits totaling \$2,700,000 (2006 - \$6,257,343), bearing interest at rates ranging from 2.25% to 4.35% per annum.

c) Marketable Securities

Marketable securities are recorded at the lower of cost and market.

d) Resource Properties and Deferred Exploration Expenditures

The cost of resource properties acquired and related exploration costs are capitalized until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit-of-production method following the commencement of production or written-off if the properties are sold or abandoned.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

From time to time, the Company may grant options on properties it has acquired. Proceeds received are first applied to property acquisition costs already capitalized, then to deferred exploration costs and the remaining amount, if any, is recorded as income.

Management reviews capitalized costs on its mineral properties on an annual basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties.

The amounts recorded for mineral properties are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amount.

Expenditures on properties not acquired are recorded as reconnaissance expense.

e) Joint Venture Accounting

Where the Company's exploration and development activities are conducted with others, the accounts reflect only the Company's proportionate interest in such activities.

f) Share Issuance Costs

Commissions and other costs to or on behalf of underwriters on the issuance of the Company's shares are charged directly to deficit.

**WAR EAGLE MINING COMPANY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED SEPTEMBER 30, 2007  
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3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

g) Translation of Foreign Currencies

The Company follows the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars. Under this method, all monetary assets and liabilities expressed in foreign currencies are translated at rates of exchange in effect at the period end. All other assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or liabilities incurred. The resulting foreign currency translation gains and losses are included in the determination of loss for the period.

h) Loss Per Share

The loss per share amounts have been calculated based on the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding, during the three month period was 44,037,661 (2006 - 40,159,355), and for the six month period was 43,873,800 (2006 - 40,159,355).

The Company uses the treasury stock method of calculating fully diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact in 2007 and 2006 so it is not shown.

i) Financial Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

j) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

k) Measurement Uncertainty

The amounts recorded for petroleum interests and the future recovery of the recorded cost of the resource properties are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements is such that changes in estimates in future periods could be significant.

**WAR EAGLE MINING COMPANY INC.**  
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3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

l) Environmental and Reclamation Costs

The Company records a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value.

m) Stock-based Compensation Plan

The Company has adopted a new incentive stock option plan, which is described in note 8d.

All stock-based awards are measured and recognized using the fair-value method as determined by the Black-Scholes option pricing model. Awards that the Company has the ability to settle with stock are recorded as equity, whereas awards that the Company is required to, or has the practice of settling in cash are recorded as liabilities. Compensation costs are recorded in the statement of operations over the vesting period.

n) Flow-through Shares

The Company, on or after March 19, 2004 began accounting for flow-through shares in accordance with Abstract EIC 146 of the CICA. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient available discretionary deductible differences available to offset the renounced tax deductions, the realization of these differences will be credited to income at the date of renunciation.

o) Future Income Taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. To the extent the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess. Future income taxes assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

p) Non-monetary consideration

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of the agreement to issue or receive shares as determined by the Board of Directors.

**WAR EAGLE MINING COMPANY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MARKETABLE SECURITIES**

As at September 30, 2007 the Company held 500,000 (2006 - 500,000) common shares of Great Western Minerals Group Ltd., with a quoted market value of \$205,000 (2006 - \$225,000) and 500,000 (2006 - 500,000) common shares of Great Western Diamonds Corp., with a quoted market value of \$162,500 (2006 - \$280,000).

**5. PETROLEUM INTERESTS**

The Company holds fractional interests in a few oil and gas wells located in the USA. Revenue on the oil and gas wells is not material to the operations of the Company and is recorded on a cash basis. The carrying value of the properties have been written down to a nominal value and will be written off when they stop producing revenue or are sold or abandoned.

**6. RESOURCE PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

|                                    | March 31,<br>2007   | Additions           | September 30,<br>2007 |
|------------------------------------|---------------------|---------------------|-----------------------|
| Acquisition Costs:                 |                     |                     |                       |
| Canada:                            |                     |                     |                       |
| Antimony Mountain Joint Venture    | \$ 1                | \$ -                | \$ 1                  |
| George's Lake                      | 300,800             | -                   | 300,800               |
| MAC Property                       | 543,129             | 13,050              | 556,180               |
|                                    | 843,930             | 13,050              | 856,981               |
| Mexico:                            |                     |                     |                       |
| Tres Marias Property               | 772,436             | -                   | 772,436               |
|                                    | 1,616,366           | 13,050              | 1,629,417             |
| Deferred Exploration Expenditures: |                     |                     |                       |
| Canada:                            |                     |                     |                       |
| George's Lake                      | 108,694             | 20,327              | 129,021               |
| MAC Property                       | 527,244             | 942,372             | 1,469,616             |
|                                    | 635,938             | 962,699             | 1,598,637             |
| Mexico:                            |                     |                     |                       |
| Tres Marias Property               | 4,404,144           | 1,398,001           | 5,802,145             |
|                                    | 5,040,082           | 2,360,701           | 7,400,783             |
|                                    | <u>\$ 6,656,448</u> | <u>\$ 2,373,751</u> | <u>\$ 9,030,199</u>   |

a) Antimony Mountain Joint Venture

The Antimony Mountain prospect is located 65 kilometers northeast of Dawson City, Yukon. During the year ended March 31, 2005 the Company and another public company entered into a joint venture agreement to explore the prospect. The Company then transferred its interest in the project to the other company in exchange for the optional right to acquire a 100% working interest in the MAC Property, subject to a 0.5% net smelter royalty, (note 6c).

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6. RESOURCE PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(continued)

b) George's Lake Gold Property

During the year ended March 31, 2007 the Company acquired a 90% interest in the George's Lake gold property located northwest of La Ronge, Saskatchewan, Canada. The Company has the option to acquire an additional 5% property interest anytime by paying \$2,000,000. There is a 0.5% net smelter royalty (NSR) on the property which the Company can purchase anytime for a cash payment of \$250,000.

During the year ended March 31, 2007 the Company signed an option agreement with another public company whereby the other public company may acquire up to a 70% property interest in the George's Lake gold property by incurring exploration expenditures of \$1 million by December 31, 2008. In conjunction with the option agreement the Company has agreed to pay a finders fee of up to 200,000 common shares of which it has issued 10,000.

The Company has a commitment to issue 40,000 common shares in 2007 and 50,000 common shares in 2008 to a finder in the George's Lake option agreement dated October 20, 2006 to sell a 70% interest in the property.

On November 9, 2007, subsequent to the end of the quarter, the company terminated the above option agreement and entered into a new option agreement with another public company whereby the other public company may acquire up to a 70% interest in the property by incurring exploration expenditures of a total of \$1,500,000 by December 31, 2010. The exploration expenditures will be made according to the following schedule:

- i) \$750,000 on or before December 31, 2008 to earn 50%;
- ii) An additional \$375,000 on or before December 31, 2009 to earn an additional 10%;  
and
- iii) An additional \$375,000 on or before December 31, 2010 to earn an additional 10% for a total of 70% interest in the property.

c) MAC Property

On February 23, 2001, the Company signed an option agreement, with another public company, to purchase a 50% interest in the MAC property located in the south-western Northwest Territories.

During the year ended March 31, 2005 the Company transferred its interest in the Antimony Mountain Joint Venture (note 6a) to the other company and was granted the optional right to acquire a 100% interest in the MAC property, subject to a 2% net smelter royalty payable to the other company, for cash payments of \$22,000 by February 28, 2005 (paid), \$100,000 or issue common shares of equivalent value by February 14, 2006 (issued) and \$100,000 by February 14, 2007 (paid). Upon meeting the payment terms the Company now has the right to purchase 1% of the other company's net smelter royalty for \$1 million until February 14, 2010.

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6. RESOURCE PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
(continued)

c) MAC Property (continued)

On June 22, 2007, the Company entered into a Letter of Intent ("LOI") to allow an arms length third party corporation to earn up to a 70% interest in the Mac Property (the "Property") over a period of four years. Under the terms of the LOI, the third party corporation will be granted sole and exclusive right to earn up to 70% interest in the Property in consideration of incurring a total of \$2,800,000 in expenditures on the Property in accordance with the following schedule:

- i) \$1,400,000 on or before December 31, 2009 to earn a 25% interest in the Property;
- ii) An additional \$700,000 on or before December 31, 2010 to earn a 50% interest in the Property;
- iii) An additional \$700,000 on or before December 31, 2011 to earn the full 70% interest in the Property.

This transaction has not yet closed.

d) Tres Marias Property

On March 23, 2001, the Company signed a letter agreement with a private mining company to acquire a 100% interest in the private company's option agreement on the Tres Marias property in Chihuahua, Mexico. Under the terms of the letter agreement the Company paid \$10,000 US and issued 200,000 common shares.

The Company has assumed the rights and obligations of the option agreement to acquire a 100% interest in the Tres Marias Property. The terms of the option agreement were amended during the year ended March 31, 2003 in exchange for the Company issuing 525,000 common shares (issued) and was again amended during the year ended March 31, 2004. The new terms of the option agreement call for a 3% NSR on all production, except for oxide production where the NSR is 1.5%, and a 1% net profits royalty all payable to the optionor. The NSR can be bought down to a 0.5% NSR on all production including oxide production for \$500,000 US, subject to regulatory approval. If the NSR is bought down to 0.5% the NSR will cease once NSR payments after the buy down total \$2,000,000 US.

With a final payment of \$150,000 US paid on July 27, 2006 the Company completed its required payments and expenditures and has satisfied all of its obligations under the purchase option agreement for the Tres Marias property.

The Company also issued an additional 2.5% NSR to a third party during the year ended March 31, 2004 which was bought down to a 1.5% NSR during the year ended March 31, 2005 for \$123,090 (\$100,000 US).

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7. RELATED PARTY TRANSACTIONS

Amounts due to and from related parties do not bear interest, are unsecured, and have no fixed payment terms, accordingly the fair value cannot be readily determined. Amounts paid or accrued to various related parties for the three month period ended September 30, 2007 are as follows:

- a) An officer of the Company received \$6,000 (2006 - \$6,000) in consulting fees. On September 30, 2007 the Company owed this officer \$4,034 (2006 - \$Nil).
- b) A director and officer received management fees of \$27,000 (2006 - \$27,000). On September 30, 2007 the Company owed this director and officer \$7,337 (2006 - Nil).
- c) Exploration expenditures on the Tres Marias property include \$27,000 (2006 - \$27,000) for fees of a director of the Company.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SHARE CAPITAL

- a) Authorized: Unlimited common shares, without par value.
- b) Issued:

|                                       | Number of<br>Shares | Amount               | Warrants          | Contributed<br>Surplus |
|---------------------------------------|---------------------|----------------------|-------------------|------------------------|
| Balance March 31, 2006                | 35,958,943          | \$ 30,084,554        | \$ 369,744        | \$ 539,545             |
| Shares issued on exercise of options  | 276,450             | 154,953              | -                 | (44,373)               |
| Shares issued on exercise of warrants | 6,862,833           | 2,689,603            | (4,253)           | -                      |
| Shares issued for property            | 260,000             | 102,000              | -                 | -                      |
| Stock based compensation              | -                   | -                    | 9,678             | 1,138,427              |
| <b>Balance March 31, 2007</b>         | <b>43,358,226</b>   | <b>33,031,110</b>    | <b>375,169</b>    | <b>1,633,599</b>       |
| Shares issued on exercise of options  | 549,000             | 345,272              | -                 | (125,672)              |
| Shares issued on exercise of warrants | 200,000             | 120,000              | -                 | -                      |
| Stock based compensation              | -                   | -                    | -                 | 200,342                |
| Future income tax benefit renounced   | -                   | (170,600)            | -                 | -                      |
| <b>Balance September 30, 2007</b>     | <b>44,107,226</b>   | <b>\$ 33,325,782</b> | <b>\$ 375,169</b> | <b>\$ 1,708,269</b>    |

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8. SHARE CAPITAL (continued)

b) Issued: (continued)

The details for the share issuances during the six month period ended September 30, 2007 are as follows:

- i) The Company issued 549,000 common shares on the exercise of options for total proceeds of \$219,600. The fair market value of these options was \$125,672.
- ii) The Company issued 200,000 common shares on the exercise of options for total proceeds of \$120,000.
- iii) The Company also renounced Canadian Exploration Expenses of \$500,000 to flow through share investors. This created a future income tax benefit of \$170,600 that was renounced.

Subsequent to September 30, 2007, the company completed a private placement consisting of 8,480,000 units at \$0.50 per unit for total proceeds of \$4,240,000. Each unit consisted of one common share and one half of a share purchase warrant. Each full warrant entitles the holder to acquire one common share at a price of \$0.75 and has a life of 18 months. Finders' fees of \$267,275 in cash and 223,525 finders' warrants allowing the holder to acquire one common share at a price of \$0.75 per share over a life of 18 months were issued.

c) Warrants:

A summary of the status of the Company's outstanding warrants as of September 30, 2007 and 2006, and changes during the periods then ended is as follows:

|   | Six months ended<br>September 30, 2007 |  | Year ended<br>March 31, 2007 |  |
|---|--|--|------------------------------|--|
|   | Warrants                               | Weighted<br>Average<br>Exercise<br>Price | Warrants                     | Weighted<br>Average<br>Exercise<br>Price |
| Warrants outstanding, beginning of period | 9,273,333                              | \$ 0.61                                  | 16,898,659                   | \$ 0.51                                  |
| Issued                                    | -                                      | -  | 403,166                      | 0.67                                     |
| Exercised                                 | (200,000)                              | 0.60                                     | (6,862,833)                  | (0.39)                                   |
| Expired                                   | -                                      | -  | (1,165,659)                  | (0.47)                                   |
| Warrants outstanding, end of period       | <u>9,073,333</u>                       | <u>\$ 0.61</u>                           | <u>9,273,333</u>             | <u>\$ 0.61</u>                           |

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8. SHARE CAPITAL (continued)

c) Warrants: (continued)

The Company had the following warrants outstanding and exercisable at September 30, 2007 into a total of 9,711,833 common shares:

| Number of<br>Warrants | Expiry Date | Exercise price | Number of<br>Shares if<br>exercised |
|-----------------------|-------------|----------------|-------------------------------------|
| 8,176,500             | 7-Mar-08    | \$0.60         | 8,176,500                           |
| 443,333               | 7-Mar-08    | \$0.80         | 443,333                             |
| 423,500               | 7-Mar-08    | \$0.50/0.60    | 847,000 (i)                         |
| 30,000                | 7-Mar-08    | \$0.60/0.80    | 45,000 (ii)                         |
| <u>9,073,333</u>      |             |                | <u>9,511,833</u>                    |

- i) Each of these warrants allows the holder to purchase a unit for \$0.50 per unit, whereby each unit will consist of one common share and one non-transferable share purchase warrant. Each warrant will allow the holder to purchase an additional common share at \$0.60 until March 7, 2008;
- ii) Each of these warrants allows the holder to purchase a "flow-through" unit for \$0.60 per unit, whereby each unit will consist of one "flow-through" common share and one half non-transferable share purchase warrant. Each full warrant will allow the holder to purchase an additional common share at \$0.80 until March 7, 2008.

d) Options:

The Company has a stock option plan which provides that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding common shares of the Company at the award date. Options granted under the Plan may have a maximum term of five years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares as of the award date. All options granted under the Plan will become vested upon the expiry of the hold period of four months from the date of the grant of the option, except options granted to consultants performing investor relations activities, which options will become vested over a minimum period of twelve months with no more than one-fourth of the option vesting in any three month period.

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8. SHARE CAPITAL (continued)

d) Options: (continued)

A summary of the status of the Company's stock option plan as of September 30, 2007 and March 31, 2007, and changes during the periods then ended is as follows:

|  | Six months ended<br>September 30, 2007 |  | Year ended<br>March 31, 2007 |  |
|--|--|--|------------------------------|--|
|  | Shares                                 | Weighted<br>Average<br>Exercise<br>Price | Shares                       | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding, beginning of year | 4,234,000                              | \$ 0.58                                  | 3,580,450                    | \$ 0.59                                  |
| Granted                                | 650,000                                | 0.59                                     | 1,405,000                    | 0.57                                     |
| Exercised                              | (549,000)                              | (0.40)                                   | (276,450)                    | (0.40)                                   |
| Expired                                | -                                      | -  | (475,000)                    | (0.69)                                   |
| Options outstanding, end of period     | <u>4,335,000</u>                       | <u>\$ 0.60</u>                           | <u>4,234,000</u>             | <u>\$ 0.58</u>                           |

As at September 30, 2007 the Company had the following stock options outstanding and exercisable:

| Expiry<br>Date | Exercise<br>Price | Number of<br>Options Outstanding | Number of<br>Options Exercisable |
|----------------|-------------------|----------------------------------|----------------------------------|
| 11-Jan-08      | \$ 0.40           | 100,000                          | 100,000                          |
| 27-Jun-08      | \$ 0.77           | 110,000                          | 110,000                          |
| 16-Aug-08      | \$ 0.45           | 35,000                           | 35,000                           |
| 17-Aug-08      | \$ 0.47           | 165,000                          | 165,000                          |
| 19-Aug-08      | \$ 0.45           | 100,000                          | 100,000                          |
| 21-Jan-09      | \$ 0.40           | 335,167                          | 335,167                          |
| 8-Mar-09       | \$ 0.45           | 222,100                          | 222,100                          |
| 20-Mar-09      | \$ 0.72           | 747,733                          | 747,733                          |
| 22-Mar-09      | \$ 0.43           | 15,000                           | 15,000                           |
| 30-Mar-09      | \$ 0.90           | 731,667                          | 731,667                          |
| 25-May-09      | \$ 0.34           | 17,133                           | 17,133                           |
| 28-Sep-09      | \$ 0.25           | 16,200                           | 16,200                           |
| 26-Jan-10      | \$ 0.50           | 1,090,000                        | 545,000                          |
| 18-May-10      | \$ 0.60           | 300,000                          | 75,000                           |
| 29-May-10      | \$ 0.58           | 350,000                          | 87,500                           |
|                |                   | <u>4,335,000</u>                 | <u>3,302,500</u>                 |

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8. SHARE CAPITAL (continued)

d) Options: (continued)

During the six month period, the Company granted 650,000 stock options with a 3 year life. 300,000 of the options have an exercise price of \$0.60 per common share and the other 350,000 options have an exercise price of \$0.58 per common share. The fair value of these stock options is \$204,000 of which 75% of the options will vest during fiscal 2008 and 25% will vest during fiscal 2009.

During the six month period 549,000 options were exercised resulting in the issue of 549,000 shares and cash proceeds of \$219,000.

On September 27, 2007, the shareholders of the Company approved a new incentive stock option plan ("the 2007 Plan") which provides that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the 2007 Plan may not exceed 20% of the issued and outstanding common shares of the Company at the date of approval of the plan by the shareholders. Options granted under the 2007 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. All options granted under the 2007 Plan will become vested upon the expiry of the hold period of four months from the date of the grant of the option, except options granted to consultants performing investor relations activities, which will become vested over a minimum period of eighteen months with no more than one-fourth of the option vesting on the award date and one eighth of the option vesting every three months thereafter.

Subsequent to September 30, 2007, and pursuant to the 2007 Plan the Company issued 400,000 options with a 3 year life to a consultant. These options are exercisable at \$0.58 per share and have a fair market value of \$118,095.

9. CONTINGENCY

The Company has been informed that their 99% owned Mexican subsidiary, Minera Aguila Canadiense S.A. de C.V., has a potential liability of up to US\$560,000 for unpaid surface area taxes on various lapsed and dropped claims. Management is of the opinion that these taxes will not be paid as the claims have been abandoned. No liability has been recorded in these financial statements.

10. COMMITMENT

The Company has entered into two leases with arms length parties for office space in Tucson, Arizona for its US operations. One lease has a monthly cost of \$11,122 and terminates on November 1, 2010. The other lease has a monthly cost of \$2,656.33 and terminates on December 15, 2011.

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11. SUBSEQUENT EVENT

On November 6, 2007, the Company announced the signing of a letter of intent with a Spanish power generation company to begin testing fly ash from one of its largest power plants for contents of Germanium and Gallium. This testing will be followed by a feasibility study and economic proposal for a processing plant to be built on the property of the power plant to extract the Germanium and Gallium from the fly ash output of the plant.

The letter of intent also provides for the Company to use all or part of the power company's patented procedures for recovering Germanium and Gallium from the fly ash. Costs of the testing and feasibility studies are to be paid by the Company.