INTERNATIONAL NORTHAIR MINES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2014

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the interim consolidated financial statements for the three months ended May 31, 2014.

International Northair Mines Ltd.

Condensed Interim Consolidated Statements of Financial Position

Unaudited – Prepared by Management
As at

(Expressed in Canadian Dollars)

ASSETS	**May 31, 2014**	February 28, 2014
Current		
Cash	**$ 567,280**	$ 105,604
Short-term deposits	**2,044,500**	637,000
Receivables	**455,726**	70,012
Due from related parties	**62,231**	37,620
Short-term investments	**758**	758
Prepaid expenses	**50,606**	50,314
	3,181,101	901,308
Non-current assets		
Taxes receivable	**86,685**	388,800
Property and equipment	**898,055**	906,143
Exploration and evaluation assets	**9,696,310**	11,879,230
	$ 13,862,151	$ 14,075,481
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 282,143**	$ 162,283
SHAREHOLDERS' EQUITY		
Share capital	**39,493,056**	39,493,056
Reserves	**3,575,846**	3,417,929
Deficit	**(29,488,894)**	(28,997,787)
	13,580,008	13,913,198
	$ 13,862,151	$ 14,075,481

Nature of Business (Note 1)
Commitment (Note 13)

APPROVED ON BEHALF OF THE BOARD ON July 24, 2014:

"F. G. Hewett", Director

"Brian Irwin", Director

- See accompanying notes to the condensed interim consolidated financial statements -

International Northair Mines Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

		For the three months ended May 31, 2014		For the three months ended May 31,2013
General and administrative expenses				
Administrative recoveries	**$**	**(4,482)**	$	(9,707)
Amortization		**8,088**		8,428
Office, salaries and general		**142,606**		172,199
Professional fees and consulting		**128,507**		23,488
Regulatory compliance and transfer agent fees		**5,740**		130
Shareholder information and investor relations		**47,074**		102,934
Share based payments		**157,917**		368,068
Loss before the undernoted		**485,450**		665,540
Loss (gain) on foreign exchange		**(2,433)**		3,967
Interest income and other		**(4,512)**		(6,283)
Write-off of exploration costs		**12,602**		2,996
		5,657		680
Net Loss for the period		**(491,107)**		(666,220)
Other comprehensive loss				
Unrealized loss on available-for-sale investments		**-**		(506)
Comprehensive loss for the period	**$**	**(491,107)**	$	(666,726)
Net Loss per share – basic and diluted	**$**	**(0.01)**	$	(0.01)
Weighted average number of shares outstanding – basic and diluted		**110,142,069**		91,663,313

International Northair Mines Ltd.
Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

Cash provided by (used in):		For the three months ended May 31, 2014		For the three months ended May 31,2013
Operating activities				
Net loss for the period	**$**	**(491,107)**	$	(666,220)
Items not affecting cash:				
Amortization		**8,088**		8,428
Unrealized foreign exchange loss		**-**		3,700
Stock-based compensation		**157,917**		368,068
Write-off of exploration costs		**12,602**		2,996
		(312,500)		(283,028)
Changes in non-cash working capital		**11,373**		(11,093)
		(301,127)		(294,121)
Investing activities				
Mineral property costs		**(272,548)**		(481,073)
Proceeds on net smelter royalty- net		**2,442,851**		-
Purchase of equipment		**-**		(5,404)
		2,170,303		(486,477)
Financing activities				
Redeem/purchase short-term deposits		**(1,407,500)**		800,000
Change in cash		**461,676**		19,402
Cash – beginning of period		**105,604**		166,347
Cash – end of period	**$**	**567,280**	**$**	185,749

Supplemental cash flow information (Note 14)

- See accompanying notes to the condensed interim consolidated financial statements -

International Northair Mines Ltd.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited – Prepared by Management
Canadian Funds

	Share Capital (Number of Shares)	Share Capital (Amount)	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
February 28, 2013	91,663,313	$ 36,938,758	$ 2,897,014	$ 758	$ (27,135,484)	$12,701,046
Share-based payments	-	-	368,068	-	-	368,068
Other comprehensive loss	-	-	-	(506)	-	(506)
Net loss for the period	-	-	-	-	(666,220)	(666,220)
May 31, 2013	91,663,313	$ 36,938,758	$ 3,265,082	$ 252	$(27,801,704)	$ 12,402,388

	Share Capital (Number of Shares)	Share Capital (Amount)	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
February 28, 2014	**110,142,069**	**$39,493,056**	**$ 3,417,929**	**$ -**	**$(28,997,787)**	**$13,913,198**
Share-based payments	**-**	**-**	**157,917**	**-**	**-**	**157,917**
Net loss for the period	**-**	**-**	**-**	**-**	**(491,107)**	**(491,107)**
May 31, 2014	**110,142,069**	**$ 39,493,056**	**$ 3,575,846**	**$ -**	**$ (29,488,894)**	**$ 13,580,008**

1. Nature of Business

International Northair Mines Ltd. (the "Company" or "Northair") is incorporated under the laws of the Province of British Columbia, Canada. The Company's corporate office, registered address and records office is located at 625 Howe Street, Suite 860, Vancouver, British Columbia.

The condensed interim consolidated statements of financial position and statements of comprehensive loss of the Company are presented in Canadian dollars, which is the functional currency of the Company and of its Mexican subsidiary, Grupo Northair de Mexico, S.A. de C.V. ("Grupo Northair"). The Company trades its shares on the TSX Venture Exchange.

The Company is an exploration stage company which is engaged principally in the acquisition and exploration of mineral properties. These financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The Company has incurred a deficit of $29,488,894 at May 31, 2014 and has no current source of operating revenue. During fiscal 2014 and 2015 the Company raised capital to meet its working capital requirements for fiscal 2014 and part of 2015. The Company's continuation as a going concern is dependent on its' ability to attain profitable operations and generate funds therefrom and/or raise funds sufficient to meet current and future obligations. There can be no assurances that management's future plans for the Company will be successful. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of assets and liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, these unaudited condensed interim consolidated financial statements do not include all of the information and notes to the financial statements required by IFRS for yearend reporting purposes and should be read in conjunction with the audited annual financial statements of the Company. The accounting policies applied by the Company in these unaudited financial statements are the same as those applied by Northair in its most recent annual financial statements.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Grupo Northair. All intercompany balances and transactions have been eliminated.

3. Significant accounting policies

Refer to the audited financial statements for the year ended February 28, 2014 for a summary of significant accounting policies.

New Accounting Pronouncements
Accounting Standards Issued and Effective March 1, 2014

On March 1, 2014, the Company adopted the "Amendment to IAS 32 Financial Instruments: Presentation". The adoption of this standard did not have a significant impact on the Company's financial statements.

3. Significant accounting policies - continued

Accounting Standards Issued and Effective January 1, 2015

IFRS 9, *Financial Instruments*, published by the IASB in November 2009, which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The IASB has indefinitely postponed the mandatory adoption date of this standard.

Significant accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, the valuation of share based payments and the valuation of deferred tax amounts.

Significant assumptions and critical judgments exercised relate to, but are not limited to, the following:

- The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position;
- Environmental rehabilitation is calculated using available market factors;
- The inputs used in accounting for share-based payment expense which is included in the statement of loss and comprehensive loss. These estimates are derived using the Black-Sholes option pricing model or are based on the value of comparable goods and services. Inputs are determined using readily available market data.
- The recognition of deferred tax assets is determined on whether it is more probable than not that these assets will be recovered.
- The determination of the Company's subsidiary's functional currency.

4. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

(Expressed in Canadian Dollars)

4. Capital management - continued

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations.

The Company may require additional funding to carry out its exploration and development plans and operations through its current operating period.

5. Financial instruments

Categories of financial instruments

		May 31, 2014		February 28, 2014
Financial assets				
FVTPL Assets				
Cash	**$**	**567,280**	$	105,604
Short-term deposits		**2,044,500**		637,000
AFS Assets				
Short-term investments		**758**		758
Loans and receivables				
Receivables		**455,726**		70,012
Due from related parties		**62,231**		37,620
Taxes receivable		**86,685**		388,800
	$	**3,217,180**	$	1,239,794

Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	**$**	**282,143**	$	162,283
	$	**282,143**	$	162,283

Fair value of financial instruments

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:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

5. Financial instruments - continued

The Company's classifications of financial instruments within the fair value hierarchy are summarized below:

		May 31, 2014		February 28, 2014
Level 1				
Cash	$	**567,280**	$	105,604
Short-term deposits		**2,044,500**		637,000
Short-term investments		**758**		758
Level 2		**-**		-
Level 3		**-**		-
Total	**$**	**2,612,538**	**$**	743,362

The carrying value of receivables, taxes receivable, accounts payable and accrued liabilities, and due to related parties approximates their fair value because of the short-term nature of these instruments.

Financial Risk Management

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

a) Currency Risk

The Company is primarily exposed to currency fluctuations relative to the Canadian dollar through expenditures that are denominated in US dollars and Mexican pesos. Also, the Company is exposed to the impact of currency fluctuations on its monetary assets and liabilities.

The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in currencies other than Canadian dollars:

May 31, 2014		Cash and short-term deposits		Receivables		Accounts payable and accrued liabilities
US dollar	$	2,487,549	$	385,000	$	80,884
Mexican peso		5,720		95,139		6,301
	$	**2,493,269**	$	**480,139**	$	**87,185**

February 28, 2014		Cash and short-term deposits		Receivables		Accounts payable and accrued liabilities
US dollar	$	36,892	$	-	$	20,970
Mexican peso		14,664		397,258		17,087
	$	51,556	$	397,258	$	38,057

At May 31, 2014, with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by $289,000.

(Expressed in Canadian Dollars)

5. Financial instruments – continued

b) Interest Rate and Credit Risk

The Company has cash balances and no interest-bearing debt. The Company has no significant concentrations of credit risk arising from operations. The Company's current practice is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Cash and short-term deposits include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect annual net loss by $26,000.

Receivables include amounts due from government agencies and are unsecured and non-interest bearing. Amounts due from related parties include recoveries for administrative services provided to companies with certain officers and directors in common, such amounts are based on time spent, unsecured, non-interest bearing and due on demand. Management believes that the credit risk concentration with respect to receivables is limited.

c) Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at May 31, 2014, the Company had cash and short term deposit balances of $2,611,780 (February 28, 2014 - $742,604) to settle current liabilities of $282,143 (February 28, 2014 - $162,283).

d) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of gold and silver. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

6. Short-term Deposits

		May 31, 2014		February 28, 2014
Security deposits held as collateral for corporate credit cards	**$**	**32,000**	$	**32,000**
Security deposits held as other collateral		**5,000**		**5,000**
Guaranteed investment certificates		**2,007,500**		**600,000**
	$	**2,044,500**	$	**637,000**

7. Short-term Investments

		May 31, 2014		February 28, 2014
Marketable securities:				
Holdings in companies related by virtue of common directors/officers	**$**	**758**	$	**758**
	$	**758**	$	**758**

(Expressed in Canadian Dollars)

7. Short-term Investments - continued

The Company classifies its short-term investments as available-for-sale, with revaluation gains and losses recognized in accumulated other comprehensive income. As of May 31, 2014, investments were measured at a fair value of $758.

8. Property and equipment

	Office Equipment	Leasehold Improvements	Vehicle	Property	Total
Cost					
Balance, February 28, 2013	$ 173,385	$ 23,440	$ 92,779	$ 835,371	$ 1,124,975
Additions	6,909	-	-	-	6,909
Balance, February 28, 2014	**180,294**	**23,440**	**92,779**	**835,371**	**1,131,884**
Additions	**-**	**-**	**-**	**-**	**-**
Balance, May 31, 2014	**$ 180,294**	**$ 23,440**	**$ 92,779**	**$ 835,371**	**$ 1,131,884**
Accumulated Amortization					
Balance, February 28, 2013	$ 124,825	$ 14,390	$ 53,475	$ -	$192,690
Additions	15,671	3,103	14,277	-	33,051
Balance, February 28, 2014	**140,496**	**17,493**	**67,752**	**-**	**225,741**
Additions	**3,744**	**775**	**3,569**		**8,088**
Balance, May 31, 2014	**$ 144,240**	**$ 18,268**	**$ 71,321**	**$ -**	**$ 233,829**
Carrying amounts					
February 28, 2014	$ 39,798	$5,947	$ 25,027	$ 835,371	$ 906,143
May 31, 2014	**$36,054**	**$ 5,172**	**$21,458**	**$ 835,371**	**$898,055**

(Expressed in Canadian Dollars)

9. Exploration and Evaluation Assets

	Parral 1, Mexico	La Cigarra, Mexico	El Reventon, Mexico	Sierra Rosario and Other	Total
February 28, 2013	**$ 552,383**	**$ 7,338,329**	**$932,137**	**$274,294**	**$ 9,097,143**
Acquisition and tenure	1,083,665	229,024	21,201	6,671	1,340,561
Camp and general	35,510	151,312	-	38,732	225,554
Drilling and data collection	86,781	145,160	-	-	231,941
Field work and travel	5,475	38,939	518	-	44,932
Salaries and consulting	144,651	828,547	3,796	502	977,496
Write-offs	-	-	-	(38,397)	(38,397)
February 28, 2014	**1,908,465**	**8,731,311**	**957,652**	**281,802**	**11,879,230**
Acquisition and tenure	-	**1,321**	**-**	**-**	**1,321**
Camp and general	**14,492**	**12,302**	**-**	**12,602**	**39,396**
Drilling and data collection	**36,718**	**15,976**	**-**	**-**	**52,694**
Field work and travel	**3,321**	**2,363**	**-**	**-**	**5,684**
Salaries and consulting	**90,961**	**82,477**	**-**	**-**	**173,438**
Net recovery on sale of royalty	**-**	**(2,442,851)**	**-**	**-**	**(2,442,851)**
Write-offs	-	**-**	**-**	**(12,602)**	**(12,602)**
May 31, 2014	**$2,053,957**	**$6,402,899**	**$957,652**	**$281,802**	**$9,696,310**

La Cigarra, Mexico

During the year ended February 28, 2010, the Company entered into an option agreement, through its wholly owned subsidiary Grupo Northair to acquire a 100% interest in the La Cigarra Project located in the State of Chihuahua, Mexico. Grupo Northair can acquire a 100% ownership in the concessions by making payments over a five year period totalling US$445,000 (final payment made subsequently).

During the year ended February 29, 2012, the Company expanded the project to include the La Borracha concession at a cost of US$35,000.

During fiscal 2013, the Company also acquired surface rights to land adjoining and overlying the La Cigarra Project at a cost of US$825,000 (paid). In addition, a US$200,000 amount will be payable should the Company announce development of a mine on the La Cigarra Project. These rights are capitalized to property and equipment.

During the year ended February 28, 2014, the Company reached an agreement to allow access and conduct exploration on a portion of the land for future construction, mining and processing.

9. Exploration and Evaluation Assets - continued

Parral 1, Mexico

During the year ended February 28, 2013, the Company executed an agreement with DFX Exploration Ltd. ("DFX") to acquire up to a 70% interest in a land position in the area of its La Cigarra Project, consisting of the adjacent and outside properties. Under the terms of the agreement, the Company paid $175,000 and issued 450,000 shares, valued at $101,500, during the past two years. In addition, the Company has purchased 1,000,000 common shares in DFX at a price of $0.25 per share and has recorded the share purchase as an acquisition cost. Effective March 24, 2014, the Company entered into an agreement with DFX, amending the original agreement in order to acquire a 100% interest in the adjacent property and a 60% interest in the outside property, subject to a 1% net smelter royalty payable to the original property vendor. To acquire the 100% interest in the adjacent property the Company must pay DFX $450,000 ($200,000 paid) in cash and issue 5,000,000 common shares (issued with a fair value of $750,000). Subsequent to earning its interest in the adjacent property, the Company will be required to issue an additional 3,000,000 common shares to DFX if it completes 20,000 meters of diamond drilling on the property, commences commercial production on the property or if the Company is acquired by another company. In addition, DFX will be paid an upfront bonus of $0.10 per silver ounce equivalent up to a maximum of 50 million ounces if prior to September 30, 2016, at least 50 million silver equivalent ounces are estimated to exist on the adjacent property in a NI 43-101 technical report prepared by the Company. If silver equivalent ounces are produced from the adjacent property, DFX will be paid $0.10 per silver equivalent ounce from production to a maximum of (i) 135 million ounces, in the event that DFX received the upfront bonus or (ii) 185 million ounces if the upfront bonus was not applicable.

In order for the Company to exercise the option and acquire a 60% interest in the outside property, the Company must incur an aggregate of $500,000 in exploration expenses on the property, after which a joint venture will be formed with all exploration costs paid on a pro rata basis.

Effective May 21, 2014, the Company entered into an Agreement to sell a 2.5% Net Smelter Royalty ("NSR") on the La Cigarra Project for gross proceeds of US$4,000,000. Under the terms of the Agreement the Company received gross proceeds of US$2,250,000 for an initial 1.25% NSR with a further US$1,750,000 to be paid for an additional 1.25%. A finder's fee to a maximum of US$80,000 is to be paid in connection with the closing of the transaction.

El Reventon, Mexico

The El Reventon project in Durango, Mexico was acquired by staking a 100% interest in certain claims and by entering into, on July 2006, an option agreement for an additional concession. Under the terms of the option agreement, the Company earned a 100% interest in the optioned concession by making payments totalling US$151,000 (paid).

During the year ended February 28, 2013, the Company entered into an agreement whereby it granted Focus Ventures Ltd. ("Focus") the option to acquire up to 80% interest in the El Reventon Silver Project located in the state of Durango, Mexico. Under the terms of the agreement, Focus can earn its interest by the payment of US$235,000 (US$10,000 received) to the Company over 24 months, incurring US$2,000,000 of exploration expenditures on the property over a three year period and the maintenance of the underlying option agreement and costs. During the year ended February 28, 2014, Focus terminated its option agreement with the Company.

(Expressed in Canadian Dollars)

9. Exploration and Evaluation Assets - continued

Sierra Rosario, Mexico

During the year ended February 29, 2012, the Company executed an agreement with Sparton Resources Inc. ("Sparton") and American Consolidated Metals Corp. ("American Consolidated") to facilitate the acquisition by American Consolidated of Sparton's 50% interest in the Sierra Rosario Property located in the state of Sinaloa, Mexico. Sparton held a 51% interest in Sierra Rosario under a Joint Venture Agreement with the Company. In consideration for the Company waving its right of first refusal to match the American Consolidated offer, Sparton transferred a 1% interest and operatorship in the Sierra Rosario Property to the Company concurrently with the completion of the first payment and share issuance from American Consolidated to Sparton under their agreement.

Brandywine, Canada

The Company maintains the Brandywine claim near Whistler, B.C. The nine unit claim is in good standing until August 3, 2015.

10. Share Capital and Reserves

Authorized share capital

Unlimited number of common shares without par value
Unlimited number of preferred shares with rights and restrictions to be determined on issuance

Shares Issued

a) During the year ended February 28, 2014, the Company completed a non-brokered private placement consisting of 9,600,000 shares at a price of $0.14 per share and a second non-brokered private placement consisting of 3,553,896 units at a price of $0.145 per unit for gross proceeds of $1,859,315. Under the terms of the second private placement each unit consisted of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of $0.25 per share for a period of two years. Finders' fees and costs totalling $119,992 were payable in conjunction with the financing.

b) During the year ended February 28, 2013, the Company completed a 21,784,344 unit non-brokered private placement at a price of $0.28 per unit for gross proceeds of $6,099,616. Each unit consisted of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of $0.40 for a period of eighteen months. The warrants are subject to an accelerated exercise provision if the shares of the Company trade at or above $0.85 for 10 or more consecutive days. Finders' fees consisting of $117,216 and 347,200 Finders' Warrants valued at $53,285 were payable on a portion of the financings. The Finders' Warrants were valued based on the Black Scholes model using the following assumptions:

Risk-free interest rate	0.99%
Expected dividend yield	Nil
Expected stock price volatility	142%
Expected life (in years)	1.5

The Company also paid $31,058 share issuance costs associated with the private placement.

(Expressed in Canadian Dollars)

10. Share Capital and Reserves - continued

Stock options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant up to a total of 18,332,662 options to directors, officers, employees or consultants. The vesting period of options outstanding range from the grant date to one year and expire 5 years from the grant date.

a) Movements in share options during the period

The changes in share options were as follows:

	Options outstanding	Weighted Average exercise price
Balance, February 28, 2013	7,000,000	$0.37
Granted	3,030,000	$0.22
Exercised	(75,000)	(0.15)
Forfeited/Expired/Cancelled	(1,366,666)	(0.32)
Balance, February 28, 2014	8,588,334	$0.33
Granted	2,615,000	$0.15
Forfeited/Expired/Cancelled	(183,334)	$0.39
Balance, May 31, 2014	**11,020,000**	**$0.28**

b) Fair value of share options granted

During the three months ended May 31, 2014, the Company granted options to directors, officers, employees and consultants to purchase up to 2,615,000 common shares of the Company at a weighted average exercise price of $0.15 per share. The estimated fair value of the stock options granted during the three months ended May 31, 2014 was $336,471 using the Black Scholes option pricing model.

The Company has used the following assumptions in its option pricing model:

	Three months ended May 31, 2014	Three months ended May 31, 2013
Risk-free interest rate	**1.1%**	1.1%
Expected dividend yield	**Nil**	Nil
Expected stock price volatility	**137%**	127.0%
Expected life (in years)	**5.0**	3.0
Expected forfeiture rate	**0%**	7%

During the three months ended May 31, 2014 a total value of $157,917 (2013 - $368,068) has been recorded to reserves and to share-based payments. The portion of share-based payments recorded is based on the vesting schedule of the options.

(Expressed in Canadian Dollars)

10. Share Capital and Reserves - continued

Stock options - continued

c) Share options outstanding

A summary of the Company's options outstanding as at May 31, 2014 is as follows:

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
15,000	15,000	$0.15	0.42	October 30, 2014
125,000	125,000	$0.15	0.78	March 11, 2015
150,000	150,000	$0.15	0.89	April 21, 2015
1,075,000	1,075,000	$0.71	1.97	May 19, 2016
650,000	650,000	$0.495	2.14	*July 18, 2016
50,000	50,000	$0.305	2.31	September 20, 2016
175,000	175,000	$0.25	2.33	September 28, 2016
255,000	255,000	$0.24	2.55	December 15, 2016
2,550,000	2,550,000	$0.28	3.04	*June 13, 2017
470,000	470,000	$0.29	3.62	*January 10, 2018
2,665,000	2,665,000	$0.22	3.76	March 4, 2018
225,000	225,000	$0.25	1.17	July 24, 2015
2,615,000	1,215,000	$0.15	5.00	May 30, 2019
11,020,000	9,620,000			

* Subsequent to May 31, 2014, the following options were cancelled:
- 100,000 exercisable at price of $0.495 per share to July 18, 2016
- 75,000 exercisable at a price of $0.28 per share to June 13, 2017
- 25,000 exercisable at a price of $0.29 per share to January 10, 2018

Warrants

a) Movements in warrants during the year

The changes in share warrants during the three months ended May 31, 2014 and the year ended February 28, 2014 were as follows:

	Warrants outstanding	Weighted average exercise price
Balance, February 28, 2013	11,239,372	$0.40
Issued	**1,776,947**	**$0.25**
Cancelled/Expired	**(11,239,372)**	**$0.40**
Balance, February 28, 2014 and May 31, 2014	**1,776,947**	**$0.25**

b) Warrants outstanding

A summary of the Company's warrants outstanding as at May 31, 2014 is as follows:

Number	Exercise price	Expiry Date
1,776,947	$0.25	July 22, 2015

(Expressed in Canadian Dollars)

10. Share Capital and Reserves - continued

Shareholder Rights Plan

The Company's board of directors approved the adoption of a Shareholder Rights Plan (the "Rights Plan"). Shareholder approval of the Rights Plan was obtained at the Company's annual general meeting of shareholders held on August 16, 2011. The Rights Plan has an initial term which expires at the annual general meeting of shareholders of the Company to be held in 2014, unless terminated earlier. The Rights Plan may be extended beyond 2014 by resolution of shareholders at such meeting. Under the terms of the Rights Plan, should a transaction or event occur, holders will be entitled to acquire common shares at a 50% discount to the market price. Certain persons or groups may be exempt from the dilutive effects of the Rights Plan. The Rights Plan has received the approval of the TSX Venture Exchange.

11. Related party transactions

Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

a) Related party transactions

Certain companies which have an officer and/or director in common or which have a partner who is an officer of the Company render services or are charged for certain services as follows:

	Nature of transactions
New Dimension Resources Ltd.	Administrative and salary recoveries
Mercator Minerals Ltd. (formerly Creston Moly Corp.)	Administrative recoveries
Condire Investors LLC.	Consulting
North Arrow Minerals Inc.	Administrative recoveries
Grenville Strategic Royalty Corp. (formerly Troon Ventures Ltd.)	Administrative recoveries

The Company incurred the following transactions in the normal course of operations in connection with companies which have an officer and/or director in common or with a company.

			For the three months ended May 31,2014		For the three months ended May 31, 2013
Administrative recoveries		**$**	**(4,482)**	$	(7,883)
Consulting		**$**	**53,500**	$	-
Salary recoveries	**(i)**	**$**	**(45,245)**	$	(54,023)

(i) The Company recovered salaries from companies with certain officers and directors in common. These amounts have been recorded against office, salaries and general expense.

Included in accounts payable and accrued liabilities is $53,500 (2013 - $nil) due to related parties for consulting.

(Expressed in Canadian Dollars)

11. Related party transactions - continued

b) Compensation of key management personnel

		For the three months ended May 31, 2014	For the three months ended May 31, 2013
Management fees, directors' fees, salaries		**$ 96,375**	$ 104,375
Stock-based compensation	(i)	**$ 156,614**	$ 278,880

(i) Stock-based compensation represents the expense for the three months ended May 31, 2014 and 2013.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three months ended May 31, 2014 and 2013.

c) Employment contract

During the year ended February 28, 2013, the Company entered into employment agreements with certain senior employees and officers requiring minimum annual payments totalling $495,500. In addition, the agreements contain clauses which could provide for payments to be made to these employees or officers upon the conclusion of a change in control or similar transaction. On the event of such a transaction the Company could become liable for the payment of salaries of $1,181,000.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by all the related parties. Amounts due from related parties are unsecured, non-interest bearing and due on demand.

12. Segmented information

The Company's business consists of mineral exploration and development. Details on geographic segments are as follows:

Total Assets	May 31, 2014	February 28, 2014
Canada	**$ 2,781,440**	$ 877,030
Mexico	**11,080,711**	13,198,451
Total	**$ 13,862,151**	$ 14,075,481

Total Non-current Assets	May 31, 2014	February 28, 2014
Canada	**$ 36,487**	$ 39,926
Mexico	**10,644,563**	13,134,247
Total	**$ 10,681,050**	$ 13,174,173

(Expressed in Canadian Dollars)

12. Segmented information - continued

Net Loss		**Three Months May 31, 2014**	Three Months May 31, 2013
Canada	**$**	**488,078**	$ 636,342
Mexico		**3,029**	29,878
Total	**$**	**491,107**	$ 666,220

13. Commitment

As at May 31, 2014, the commitment for rental of the Company's office space is as follows:

Year ending		
February 28, 2015	$	202,328
February 29, 2016	$	247,290

The rental cost includes the basic monthly rent as well as a proportionate share of the building's operating costs and property taxes. The Company has sub-lease agreements which allow it to recover a portion of the minimum annual rental commitments.

14. Supplemental cash flow information

Changes in non-cash working capital:		**For the three months ended May 31, 2014**		For the three months ended, May 31, 2013
(Increase) decrease in:				
Receivables	**$**	**(385,714)**	$	(12,906)
Taxes receivable		**302,115**		(6,114)
Due from related parties		**(24,611)**		56,059
Prepaid expenses		**(292)**		(642)
(Decrease) increase in:				
Accounts payable and accrued liabilities		**119,875**		(47,490)
	$	**11,373**	$	(11,093)

Schedule of non-cash investing and financing transactions:		**For the three months ended May 31, 2014**		For the three months ended, May 31, 2013
Change in resource property costs included in accounts payable	**$**	**15**	$	5,488
Unrealized loss on marketable securities	**$**	**-**	$	506

14. Supplemental cash flow information - continued

Supplementary disclosure of cash flow information:		For the three months ended May 31, 2014		For the three months ended, May 31, 2013
Cash paid for interest	**$**	**Nil**	$	Nil
Cash paid for income taxes	**$**	**Nil**	$	Nil