

**Northair Silver Corp.**

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**November 30, 2014**

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**Contact's Position**

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**Date of the Report:**

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**January 29, 2015**

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**Form 51-102F1**  
**Management Discussion and Analysis**  
**For**  
**Northair Silver Corp.**  
**(“Northair” or the “Company”)**

The following management discussion and analysis (the “MD&A”) of the Company has been prepared as of Jan 29, 2014 and is intended to supplement and complement the Company’s unaudited condensed interim consolidated financial statements for the nine months ended November 30, 2014. All financial information has been prepared in accordance with International Financial Reporting Standards and all amounts disclosed are Canadian dollars unless otherwise stated.

**Nature of Business**

Northair is a mineral exploration company actively engaged in the acquisition, exploration and development of strategic mineral properties in Mexico. The Company is listed on the TSX Venture Exchange and trades under the symbol “INM”. In Mexico, exploration is conducted by its wholly owned subsidiary, Grupo Northair de Mexico, S.A. de C.V. (“Grupo Northair”).

On November 20, 2014, the Company changed its name from International Northair Mines Ltd. to Northair Silver Corp.

**Highlights for the nine months ended November 30, 2014**

- The Company appointed Donald J. Birak to its Advisory Board.
- The Company announced that rock and soil samples taken around newly discovered old workings have identified a new and potentially important silver bearing target west of the Las Carolinas Zone. In addition, soil sampling by crews on a grid basis has identified a new silver/gold in soil anomaly northwest of the new silver zone. The Company closed a US\$4,000,000 Royalty Transaction (“Royalty Transaction” or “NSR”) with Coeur Capital, Inc. (“Coeur”) for the La Cigarra Project. Under the terms of the Royalty Agreement, the Company received US\$4,000,000 payable for a 2.5% NSR royalty on the La Cigarra silver project. Northair received US\$2,250,000 on May 30, 2014 for a 1.25% NSR; and a further US\$1,750,000 was paid on September 2, 2014 for an additional 1.25% NSR payable on future production from La Cigarra.
- The Company granted 5,615,000 stock options at weighted average price of \$0.16 to directors, officers, employees and consultants. All of the options are exercisable for a period of five years from the date of grant.
- The Company reported exploration results from the Ram Zone at the La Cigarra Project. Sampling of an underground adit, contained within and parallel to the north-south striking Ram Zone, returned an average silver grade of 554.8 g/t along 33.50 metres; with grades varying from 87.8 g/t silver to 2,850 g/t silver. In order to better determine the width of mineralization of the new zone, three trenches were excavated perpendicular to and above the sampled adit and within the Ram Zone anomaly. Results from the trenches returned the following silver values:
  - Trench #1 - 35.45 metres of 67.3 g/t silver (including 16.20 metres of 99.6 g/t silver and 4.85 metres of 141.4 g/t silver);
  - Trench #2 - 43.03 metres @ 32.2 g/t silver including two intervals of 13.80 metres @ 23.8 g/t silver and 13.73 metres of 71.3 g/t silver;

- Trench #3 - 13.60 metres @ 13.6 g/t silver including 2.60 metres of 32.8 g/t silver and 29.70 metres grading 14.2 g/t silver including 13.69 metres of 21.4 g/t silver;
- The Company reported further testing of the Ram Zone; where nine 6 metre-long sample pits were excavated approximately 150 metres south of Trench #3 to expose bedrock over a 200 meter-wide zone where previous soil sampling yielded highly anomalous silver values. Sampling of the nine test pits returned silver values varying from 0.7 g/t to 16.7 g/t with the average of all nine pits being 7.84 g/t. Results of the trenching and pit samples further confirm that the Ram Zone is a large, continuous mineralized system, which remains open along strike to the north and south and down dip to the west.
- The Company exercised an option to acquire a 100% interest in the six original mineral concessions at the La Cigarra silver project through Grupo Northair by making the final payment totalling US\$200,000;
- The Company announced the retirement of Mr. Fred Hewett as President and CEO and the appointment of Ms. Andrea Zaradic, P.Eng, to the position of President and CEO. Ms. Zaradic also agreed to join the Board of Directors to fill the opening created by Mr. Hewett's retirement. Mr. Hewett has agreed to maintain an ongoing involvement in the Company in an advisory role. In addition to Ms. Zaradic's appointment as President and CEO, Mr. David Ernst joined the Company as Vice President Exploration and Mr. John Robins, P.Geo. joined the Company's Advisory Board. In conjunction with Ms. Zaradic's appointment to the Board, Mr. Maurice Tagami, P. Eng and Mr. Tony Reda also joined the Company's Board;
- The Company completed a non-brokered private placement with the issuance of 39,995,000 units at a price of \$0.10 per unit for gross proceeds of \$3,999,500. Each unit consisted of one common share and one warrant. Each warrant will entitle the holder to purchase one common share of the company at a price of \$0.18 per common share for a period of 18 months from the closing of the private placement and \$0.25 per common share thereafter until the expiry of the warrants three years following closing of the private placement. The warrants are subject to a forced exercise provision whereby, if the closing price for the Company's common shares is \$0.55 or greater for a period of 10 consecutive trading days from a date beginning six months following the date of issue, and the Company so elects, the holders of warrants will have 30 days to exercise their warrants, otherwise, the warrants will expire on the 31st day;
- The Company made the final payment totaling \$250,000 to DFX Exploration Ltd. ("DFX") in order to acquire a 100% interest in a strategic portion of the Parral Concessions (the "Adjacent Property"), surrounding its 100% owned La Cigarra silver deposit;
- The Company announced exploration results of a new and potentially significant silver and gold occurrence known as La Colorada Zone. This area is defined by a northwest-southeast trending silver and gold soil anomaly measuring 1,400 meters long and 300 to 400 metres wide. Sampling included a 50 by 50 meter soil grid and 143 rock chip samples of which 16 returned greater than 10 g/t silver including a high silver value of 231 g/t. Additionally, 38 rock samples returned greater than 0.10 g/t gold, with 4 samples reporting over 1.0 g/t gold. The highest rock chip sample returned 21.3 g/t gold.
- The Company changed its name from International Northair Mines Ltd. to Northair Silver Corp. and announced results of its 2014 Annual General Meeting whereby Shareholders approved the business items of setting the size of the Board at seven including the election of each director nominee.

## **Highlights Subsequent to November 30, 2014**

- The Company announced the appointment of Mr. Robert J. Scott CA, CFA as Chief Financial Officer (CFO) to replace outgoing CFO Mr. Wayne Johnstone and the appointment of Ms. Annette Cusworth to the Company's Board of Directors. The Company also granted an aggregate of 1,000,000 common shares of the Company exercisable at a price of \$0.080 per common share to a director and an officer. The options will vest annually in equal tranches, with the first 25% of the options vesting on the grant date.
- The Company announced the results of its 2014 drilling program (the "Program") at its La Cigarra silver project (the "Property"). The Program consisted of seventeen core holes totaling 4,860 metres.
- The Company and its wholly owned subsidiary Grupo Northair de Mexico, S.A. de C.V. announced that it signed two binding agreements; one with Serengeti Resources Inc. ("Serengeti") to acquire 100% the Los Cuates gold project ("Los Cuates") adjacent to its Cigarra silver deposit, located in the state of Chihuahua, Mexico; and the other with Northern Empire Resources Corp. ("Northern Empire") whereby the Company will assign and transfer the El Reventon silver project ("El Reventon") located in Durango State, Mexico to Northern Empire.
- Subject to an Assignment Agreement dated December 19, 2014, the Company agreed to assign and transfer to Northern Empire its 100% interest in three mineral concessions comprising the El Reventon Project. In consideration of the El Reventon Assignment, Northern Empire has agreed to pay the Company the sum of \$10,000; issue to the Company 200,000 common shares in the capital of Northern Empire; and grant the Company a one percent net smelter royalty from any future production on the Project. Northern Empire shall be entitled at any time to buy-back the full net smelter royalty by paying to the Company \$1,000,000. The closing of the El Reventon Agreement shall be subject to receipt of all necessary regulatory approvals.
- The Company announced the results of its updated resource estimate prepared by Allan Armitage, PhD, P. Geo. and Joe Campbell, B.Sc., P. Geo., of GeoVector Management Inc. for its La Cigarra silver project. The updated resource estimate, constrained by a Whittle pit shell utilizing a \$22 per ounce ("oz") silver price and reported at a 35 g/t silver cut-off grade comprises 51,470,000 ounces of silver (18,540,000 tonnes) in the Measured and Indicated categories grading 86.3 g/t silver and 11,460,000 ounces silver (4,450,000 tonnes) in the Inferred category grading 80.0 g/t silver. The Company also prepared a +/-30% sensitivity analysis at a \$17/oz silver price and a \$29/oz silver price. Results of the sensitivity analysis included a 20% increase in the average M&I grade at \$17/oz silver with no loss of total ounces while the upside comparison using a \$29/oz silver saw a 30% increase in total contained silver ounces.

## **Exploration Update**

### ***Overview***

Northair continues to concentrate its exploration activities at the La Cigarra project in Mexico through Grupo Northair. The technical information below has been reviewed by David Ernst, the Company's Vice President Exploration, and also a Qualified Person under NI 43-101.

## **Project Discussion**

### ***La Cigarra Project, Chihuahua***

The La Cigarra Project is located near the city of Parral, in the state of Chihuahua in north central Mexico. La Cigarra consists of mineral concessions totalling approximately 32,000 hectares, which were acquired by the Company through option agreements, staking and purchase. Local topography is gentle and the property has good road access and infrastructure.

La Cigarra was identified as an acquisition target by exploration staff late in 2008, as part of the Company's generative exploration program. Reconnaissance and initial sampling results completed by Northair confirmed numerous silver occurrences along a 3 kilometre trend of mineralization. The Company defined three potentially significant zones of silver mineralization from its initial sampling.

In January 2014, the Company entered into a Letter Agreement (the "DFX Agreement") that significantly expanded its interest in a large land position (the "Parral Concessions") totaling approximately 22,000 hectares surrounding its original six La Cigarra Concessions. The DFX Agreement replaces an earlier agreement with DFX, and its relevant subsidiaries dated April 5, 2012 and allows Northair to acquire a 100% interest in a portion of the Adjacent Property immediately surrounding its 100% owned La Cigarra silver deposit. The DFX Agreement further allows Northair to acquire a 60% interest in the remaining portion of the Parral Concessions comprising 17,874 hectares surrounding the Adjacent Property (the "Outside Property").

In June 2014, the Company commenced a core drill program at La Cigarra. The program targeted 5,000 metres of drilling and focused on the expansion of the La Cigarra mineral resource by targeting down-dip and on strike projections of mineralization at the north end of the San Gregorio Zone and to the south of the Las Carolinas Zone. The program also included drilling on trend and further to the south where significant soil and rock geochemical anomalies and historic mine workings have been identified at the Las Venadas and Las Chinas zones. These targets are underlain by the same stratigraphy that hosts mineralization at the San Gregorio and the Las Carolinas zones and could potentially extend the La Cigarra mineral trend.

In December 2014, the Company reported the results of its core drill program which consisted of seventeen core holes totaling 4,860 metres. Drilling was distributed over several property wide targets with most work directed at in-filling and expanding the known San Gregorio and Las Carolinas resource area. Highlights of this program included holes CC-14-155, intercepting 138.3 g/t silver over 23.45 metres and CC-14-156 intercepting 137.4 g/t silver over 4.60 metres, as well as an interval of 1.65 metres grading 122.1 g/t silver, 2.31% lead and 5.80% zinc; representing some of the highest lead and zinc grades reported on the property to date. These results, combined with previous drilling in the area, support the possibilities to expand the resource to the southeast.

In January 2015, Northair announced the results of an updated NI 43-101 Resource Estimate completed by Allan Armitage, PhD, P. Geo. and Joe Campbell, B.Sc., P. Geo., of GeoVector Management Inc.

The resource estimate was calculated based on results from 156 of 171 holes totaling 30,443 metres within the potentially surface minable mineralized area comprised of the San Gregorio and Las Carolinas mineralized zones, which combine to form a total strike length of 2.4 kilometres. The resource estimate was constrained by a Whittle™ pit shell utilizing a \$22/oz silver price, an economic cutoff grade of 35 g/t of silver and metallurgical recoveries of 84% silver. Highlights of the mineral resource estimate are as follows:

- Measured and indicated mineral resources of 51,470,000 ounces of silver within 18,540,000 tonnes at an average grade of 86.3 g/t silver, representing a 14% increase in grade from the 2013 Resource Estimate;
- Inferred mineral resource of 11,460,000 ounces silver within 4,450,000 tonnes at an average grade of 80.0 g/t silver, representing a 31% increase in grade from the 2013 Resource Estimate;
- An increase of 17% in total ounces from the 2013 Resource Estimate;
- Higher than average grade is found in outcrop, which could improve project economics in the early years with significant by-products including gold, lead and zinc;
- The deposit remains open along the 6 kilometer strike and at depth with potential to also expand near surface mineralization along the outer perimeter of the deposit.

A summary of the mineral resource estimate contained within a resource pit shell utilizing a \$22 per ounce (“oz”) silver price and reported at a 35 g/t silver cut-off grade is tabulated below:

Resource Category*	Tonnes	In-Situ Grade				Contained Metal			
		Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (oz)	Au (oz)	Pb (lbs)	Zn (lbs)
Measured	3,620,000	88.9	0.074	0.14	0.19	10,340,000	9,000	10,920,000	15,510,000
Indicated	14,930,000	85.7	0.068	0.13	0.18	41,130,000	33,000	42,950,000	59,260,000
<b>Meas + Ind</b>	<b>18,540,000</b>	<b>86.3</b>	<b>0.069</b>	<b>0.13</b>	<b>0.18</b>	<b>51,470,000</b>	<b>41,000</b>	<b>53,870,000</b>	<b>74,770,000</b>
<b>Inferred</b>	<b>4,450,000</b>	<b>80.0</b>	<b>0.058</b>	<b>0.13</b>	<b>0.16</b>	<b>11,460,000</b>	<b>8,000</b>	<b>12,680,000</b>	<b>15,610,000</b>

*Note:\** Mineral resources are reported in relation to a conceptual pit shell at a 35 g/t silver cut-off grade and a \$22/oz silver price. Mineral resources that are not mineral reserves do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate and numbers may not add up due to rounding.

Northair is currently in the process of preparing drill permits for the next round of resource expansion drilling at La Cigarra. In addition, the Company is planning further metallurgical testing to confirm the process flow sheet and metallurgical performance with samples to be collected representing material from both the San Gregorio and Las Carolinas zones

### ***Sierra Rosario Project, Sinaloa***

In April of 2002, the Company staked the Sierra Rosario silver/gold project which is located in the state of Sinaloa, Mexico. The project is located approximately 25 linear kilometers northwest of Choix, Sinaloa; and 40 kilometers east of Alamos, Sonora. The property can be reached by road from Choix, and has good local infrastructure

Sierra Rosario contains granodiorite rocks overlain by weakly metamorphosed andesites. Intrusive rocks consisting of intermediate porphyry dikes and large intensely altered rhyolite porphyry are exposed at the San Rafael Zone. Northair’s exploration staff discovered multiple zones of gold and silver mineralization during their initial exploration programs with some of these zones showing small scale old mine workings.

As a result of a previous option arrangement, the project ownership is now split between the Company (50%) and American Consolidated Minerals Resources Corp. (50%) while the Company remains the Operator.

### ***El Reventon Project, Durango***

The El Reventon Project is comprised of approximately 3,400 hectares acquired by staking and a further 60 hectares which was the subject of an option agreement. The Company has acquired a 100% interest in the 60 hectare concession from the option by making payments totalling US\$151,000 under an amended agreement.

El Reventon is located in the municipality of Otaez, Durango and is approximately 170 kilometres northwest of the capital city of Durango. The project lies within the Sierra Madre Occidental geological province and a highly prospective mineral belt that includes the mines and districts of Bacis, Montoros, Metates, La Cienega and Topia. The property covers a series of occurrences aligned along a northeast trending belt consisting of low grade metasedimentary rocks overlain by andesite and rhyolite volcanics locally intruded by numerous dykes and stocks. The property's initial exploration focus has been on the Reventon Breccia which contains silver and base metal mineralization in an intensely altered andesite porphyry.

Subsequent to the period ended, the Company agreed to assign and transfer to Northern Empire its 100% interest in three mineral concessions comprising the El Reventon Project. Please see the "Highlights Subsequent to November 30, 2014" section for detail.

### **Financial Condition, Liquidity, Capital Resources, Operations and Financial Results**

#### ***Overall Performance***

During the nine months ended November 30, 2014, the Company initiated its 2014 drilling program, and continued its sampling programs in Mexico. In addition, the Company completed the acquisition of the La Cigarra concessions, made the initial payment to acquire ownership of the DFX Exploration Ltd. concessions adjacent to La Cigarra and raised proceeds by a net smelter royalty ("NSR") sale to fund ongoing work.

The Company completed the acquisition of the DFX adjacent concessions, raised \$3,995,000 by way of a private placement and received the US\$1,750,000 payment from Coeur Capital Inc. on the sale of a 1.25% NSR on the La Cigarra property.

At November 30, 2014, the Company's financial position was as follows:

	<b><u>November 30, 2014</u></b>	<u>February 28, 2014</u>	<u>February 28, 2013</u>
<b>Current assets</b>	<b>\$ 5,815,761</b>	\$ 901,308	\$ 2,921,307
<b>Non-current assets</b>	<b>10,104,974</b>	13,174,173	10,507,761
<b>Liabilities</b>	<b>(274,351)</b>	(162,283)	(728,022)
	<hr/>	<hr/>	<hr/>
<b>Shareholders' equity</b>	<b>\$ 15,646,384</b>	\$ 13,913,198	\$ 12,701,046

#### ***Financial Condition – November 30, 2014 compared to February 28, 2014***

At November 30, 2014, the Company had working capital of \$5,541,410 that included cash and short-term deposits of \$4,895,147, amounts receivable of \$816,839, other current assets of \$103,775 and current liabilities of \$274,351. This is compared to working capital of \$739,025 at February 28, 2014, that included cash and short-term deposits of \$742,604, amounts receivable of \$107,632, other current assets of \$51,072 and current liabilities of \$162,283. During the nine months ended November 30, 2014, the Company spent \$2,456,126 on its Mexican exploration and evaluation assets, incurred a \$2,550,922 loss from operations and raised \$4,144,888 as part of the royalty transaction with Coeur.

At November 30, 2014, the Company had a potential value added tax receivable of \$693,000 before deducting provisions taken in prior years as a result of the Mexican government's delays in payment.

### ***Financing/Use of Proceeds***

In the nine months ended November 30, 2014, the Company completed a private placement for \$3,999,500. These proceeds are used for funding its ongoing administration and exploration activities. During the first nine months of fiscal 2015, the Company negotiated the sale of an NSR on its La Cigarra Project to provide \$4,144,685 for working capital, the acquisition of mineral rights and continued exploration.

### ***Results of Operations***

The Company's net losses for the three and nine month periods ended November 30, 2014, were \$1,696,795 or \$0.01 per share and \$2,550,922 or \$0.02 per share respectively. This is compared with net losses of \$295,803 or \$0.00 per share and \$1,418,249 or \$0.01 per share for the comparative period ended November 30, 2013.

During the three and nine months ended November 30, 2014, general and administrative expenses were \$857,181 and \$1,190,310 respectively. This is compared to administrative expenses of \$173,086 and \$511,461 for the comparative three and nine months ended November 30, 2013.

The \$684,095 increase in administrative expenses for the three month period ended November 30, 2014 compared to the three month period ended November 30, 2013 was largely attributable to increased salaries expense which includes the previous CEO's retirement payment.

During the nine months ended November 30, 2014, exploration costs written-off totalled \$1,039,010 compared with \$16,743 in the comparative period. The increase is largely due to the anticipation of the subsequent Assignment Agreement of El Reventon in December 2014. The amounts written off reflect the expensing of general exploration activities undertaken by the Company in the review of opportunities in Mexico.

### **Geographical Segments**

The Company's business consists of mineral exploration and development and is focused on the advancement of its flagship La Cigarra silver project. Details on its geographical segments are as follows:

	<b>November 30, 2014</b>	February 28, 2014
Total Non-current Assets		
Canada	\$ 36,992	\$ 39,926
Mexico	10,067,982	13,134,247
Total	\$ 10,104,974	\$ 13,174,173
	<b>For the nine months ended November 30, 2014</b>	For the nine months ended November 30, 2013
Net Loss		
Canada	\$ 1,631,171	\$ 1,370,541
Mexico	919,751	47,708
Total	\$ 2,550,922	\$ 1,418,249



## Exploration and Evaluation Assets

At November 30, 2014, the Company's expenditures on exploration and evaluation assets consisted of the following:

	<b>Parral 1, Mexico</b>	<b>La Cigarra, Mexico</b>	<b>El Reventon, Mexico</b>	<b>Sierra Rosario and other</b>	<b>Total</b>
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 Drilling and data collection	35,510	151,312	-	38,732	225,554
Field work and travel	86,781	145,160	-	-	231,941
Salaries and consulting	5,475	38,939	518	-	44,932
Write-offs	144,651	828,547	3,796	502	977,496
	-	-	-	(38,397)	(38,397)
<b>February 28, 2014</b>	<b>1,908,465</b>	<b>8,731,311</b>	<b>957,652</b>	<b>281,802</b>	<b>11,879,230</b>
Acquisition and tenure	214,571	287,530	21,484	6,906	530,491
Camp and general Drilling and data collection	82,676	62,271	-	27,879	172,826
Field work and travel	243,705	915,513	-	-	1,097,223
Salaries, consulting and fees	3,321	17,956	-	-	21,277
Proceeds on sale of royalty	92,230	480,084	-	-	572,314
Write-offs	-	(4,144,888)	-	-	(4,144,888)
	(61,995)	-	(949,136)	(27,879)	(1,039,010)
<b>November 30, 2014</b>	<b>\$ 2,482,973</b>	<b>\$ 6,349,777</b>	<b>\$ 30,000</b>	<b>\$ 288,708</b>	<b>\$ 9,151,458</b>

## **Parral 1, Mexico**

During the year ended February 28, 2013, the Company executed an agreement with 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 prior to August 31, 2014 and \$250,000 paid subsequent to August 31, 2014) 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.

## **La Cigarra, Mexico**

Effective May 21, 2014, the Company entered into the Royalty Agreement to sell the NSR on the La Cigarra Project for gross proceeds of US\$4,000,000. Under the terms of the Royalty Agreement the Company received gross proceeds of US\$2,250,000 for an initial 1.25% NSR with a further US\$1,750,000 (received subsequent to August 31, 2014) to be paid for an additional 1.25%. A finder's fee of US\$80,000 was paid in connection with the closing of the transactions.

## **El Reventon, Mexico**

For the period ended a write off of \$ 949,136 was incurred in anticipation of the subsequent Assignment Agreement of the property. Subsequently to period end, subject to an Assignment Agreement dated December 19, 2014, the Company agreed to assign and transfer to Northern Empire its 100% interest in three mineral concessions comprising the El Reventon Project. In consideration of the El Reventon Assignment, Northern Empire has agreed to pay the Company the sum of \$10,000; issue to the Company 200,000 common shares in the capital of Northern Empire; and grant the Company a one percent (1%) net smelter royalty from any future production on the Project. Northern Empire shall be entitled at any time to buy-back the full net smelter royalty by paying to the Company \$1,000,000. The closing of the El Reventon Agreement shall be subject to receipt of all necessary regulatory approvals.

## **Brandywine, Canada**

The Company has maintained the Brandywine claim near Whistler, B.C. Although the nine unit claim is in good standing until August 3, 2015, the Company chose to abandon the Brandywine claim on October 20<sup>th</sup> 2014

### **Summary of Quarterly Results**

The following table sets out selected unaudited quarterly financial information of Northair and is derived from unaudited quarterly financial statements prepared by management.

<u>Quarter Ended</u>	<u>Revenues</u>	<u>Net Loss</u>	<u>Basic Loss per share</u>
November 30, 2014	\$ Nil	\$1,696,795	\$ 0.00
August 31, 2014	\$ Nil	\$363,020	\$ 0.00
May 31, 2014	\$ Nil	\$491,107	\$ 0.01
February 28, 2014	\$ Nil	\$440,054	\$ 0.00
November 30, 2013	\$ Nil	\$295,803	\$ 0.00
August 31, 2013	\$ Nil	\$456,226	\$ 0.00
May 31, 2013	\$ Nil	\$666,220	\$ 0.01
February 28, 2013	\$ Nil	\$808,586	\$ 0.01
November 30, 2012	\$ Nil	\$479,366	\$ 0.01

### **Variations of Quarterly Results**

The Company's quarterly results can be affected by many factors such as seasonal fluctuations, variations in capital markets, the write-off of capitalized amounts, the write-off of amounts receivable, stock-based compensation costs, tax recoveries/costs and legal matters. The Company's exploration activities in Mexico can be seasonal, with less work conducted during certain months due to the rainy season.

During fiscal 2014 and 2015, the Company has continued to be active in exploring in Mexico and its exploration expenditures for the periods reflect this activity.

During the third quarter of fiscal 2015, the Company incurred stock based payments of \$102,451 (2013 - \$38,119) and office, salaries and general costs of \$857,181 resulting in a loss of \$1,696,795 for the quarter. The loss for the third quarter was high than comparative quarter largely as a result of increased salaries due to the previous CEO's retirement payment and the write off of exploration and evaluation assets related to El Reventon.

During the second quarter of fiscal 2015, the Company incurred stock based payments of \$97,240 (2013- \$96,170) and office, salaries and general costs of \$190,523 (2013 - \$192,776) resulting in a loss of \$363,020 for the quarter. The loss for the second quarter was less than comparative quarter largely as a result of reduced professional and consulting fees. Professional and consulting costs incurred in the comparative quarter were greater as a result of the Company's need to secure additional funds which resulted in increased fees.

During the first quarter of fiscal 2015, the Company incurred stock based payments of \$157,917 and professional and consulting fees of \$128,507 resulting in a loss of \$491,107 for the quarter. In addition, the Company entered into an agreement for the sale of a NSR on its La Cigarra Property.

During the fourth quarter of the year ended February 28, 2014, the Company incurred stock based payments of \$24,783 and wrote-down its Mexican value added tax by \$125,574 resulting in a loss of \$440,054 for that quarter.

During the third quarter of fiscal 2014, the Company had stock based payments of \$38,119, shareholder information costs of \$64,216 and office, salaries and general of \$173,086 resulting in a loss of \$295,803 for that quarter.

During the second quarter of fiscal 2014, the Company had stock based payments of \$96,170, professional and consulting fees of \$102,907 and office, salaries and general of \$166,176 resulting in a loss of \$456,226 for the period.

During the first quarter of fiscal 2014, the Company had stock based payments of \$368,068, shareholder information costs of \$102,934 and office, salaries and general of \$172,199 resulting in a loss for the quarter of \$666,220.

During the fourth quarter of fiscal 2013, the increased activity level of the Company, the write-off of exploration and evaluation assets and a \$195,438 write-down of value added taxes due to delays in the collection of the tax from Mexican authorities constitute a loss of \$808,586.

During the third quarter of fiscal 2013, the Company had stock based payments of \$90,589 and office, salaries and general costs of \$177,185 resulting in a loss of \$479,366.

Stock based payments are non-cash charges to operations created on the granting/vesting of options and can have a significant impact on reported earnings/losses as a result of fluctuations in the price of the Company's shares.

### **Liquidity**

During the nine months ended November 30, 2014, the Company's cash position was increased by \$205,403 (2013- decreased by \$30,394) as a result of its operating, investing and financing activities. During the quarter, to increase its working capital the Company completed a \$3,995,000 financing and the sale of a 1.25% NSR for proceeds of US\$4,000,000.

### ***Operating activities***

The Company's operating activities used cash of \$1,458,667 (2013 - \$893,609) during the nine months ended November 30, 2014 as a result of funding a net loss of \$2,550,922 (2013 - \$1,418,249) adjusted for the changes in non-cash expenditures such as amortization of \$20,714 (2013 - \$25,342), share-based payments of \$357,608 (2013 - \$502,357) write-offs of \$1,039,010 (2013 - \$16,743) and changes to non-cash working capital.

### ***Investing activities***

The Company's investing activities generated cash of \$1,684,710 (2013 - use of cash of \$2,087,358) during the nine months ended November 30, 2014. The Company used \$2,456,126 (2013 - \$1,593,150) for work on its exploration and evaluation assets, \$4,052 (2013 - \$6,908) to purchase equipment and generated proceeds of \$4,144,888 (2013 - \$nil) on the sale of an NSR on its La Cigarra Project.

### ***Financing activities***

Financing activities used cash of \$20,640 (2013 - source of \$2,950,573) during nine months ended November 30, 2014 resulting from the net private placement proceeds of \$3,926,500 offset by the acquisition of \$3,947,140 in short term deposits.

## **Risks and Uncertainties**

### ***Industry***

An investment in natural resource companies involves a significant degree of risk. The degree of risk increases substantially where the Company's properties are in the exploration as opposed to the development stage. Investment in the securities of the Company should be considered as highly speculative due to the nature of the Company's business. The following additional risk factors should be given special consideration.

### ***Exploration, Development and Mining Risks***

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of base/precious metals, any of which could result in work stoppages, damage to property, and possible environmental damage. If any of the Company's exploration programs are successful, there is a degree of uncertainty attributable to the calculation of ore resources and corresponding grades being mined or dedicated to future production. Until ore is actually mined and processed, quantity of reserves and grade must be considered as estimates only. In addition, the quantity of reserves may vary depending on metal prices. Any material change in quantity of reserves, grade or recovery ratio, may affect the economic viability of the Company's properties. In addition, there can be no assurance that metal reserves in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. The Company closely monitors its activities and those factors, which could impact them, and employs experienced consulting, engineering, and legal advisors to assist in its risk management reviews.

The Company's properties are currently being assessed for exploration and as a result, the Company has no source of operating cash flow. Failure to obtain additional financing could result in a delay or indefinite postponement of further exploration. Development of the Company's mineral properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of bodies of ore. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes to extract the metal from the resources and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

### ***Foreign Operation Risks***

The Company's operations are affected in varying degrees by Mexican government regulations (both state and federal), including those with respect to restrictions on foreign investment, production, price controls, export controls, income taxes, and expropriation of property, employment, land use, water use, environmental legislation and mine safety. The regulatory environment is frequently in a state of change and new laws, regulations and requirements may be retroactive in their effect and implementation.

Northair's operations may also be affected in varying degrees by political and economic instability, economic and other sanctions imposed by other nations on Canada or Mexico, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation. These risks and uncertainties also include the rights of others, including local Ejido communities, to control the surface of the Company's concessions.

To mitigate some of these factors, the Company maintains its head office in Vancouver, Canada. With the exception of short term operational requirements for Grupo Northair, funds are maintained and controlled in Vancouver, both in Canadian and U.S. dollars. The Company hires consultants as necessary to provide geological and other services. Overhead costs in Mexico compare favorably with Canada and the political and economic climate is considered by the Company to be stable.

### ***Insurance***

The Company's involvement in the exploration for mineral properties may result in the Company becoming subject to liability for pollution, property damage, personal injury or other hazards. Although the Company has insurance to address many risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

### ***Environmental Risks***

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental legislation. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances used and or produced in association mining exploration and mining operations. The legislation also requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

The current or future operations of the Company, including development activities and commencement of production on its properties require permits from the applicable governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development or operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduced levels of production at producing properties or require abandonment or delays in development of new mining properties.

***Prices, Markets and Marketing of Base/Precious Metals***

The Company’s revenues, if any, are expected to be in large part derived from the mining and sale of base/precious metals or interests related thereto. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company’s control including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of base/precious metals, and therefore the economic viability of any of the Company’s exploration projects, cannot accurately be predicted.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as the proximity and capacity of milling facilities, mineral markets and processing equipment and governmental regulations including regulations relating to royalties, allowable production and importing and exporting of minerals.

***Substantial Capital Requirements; Liquidity***

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of its mineral properties in the future. The Company currently has no revenue and may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

**Commitments**

As at November 30, 2014, the commitment for rental of the Company’s office space is as follows:

Year ending	Amount
February 28, 2015	\$ 67,443
February 29, 2016	\$ 247,290

These amounts include the basic monthly rent, as well as the Company’s 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.

## Capital Resources

The Company has no operations that generate cash flow and its long-term financial success is dependent on management's ability to discover and develop economically viable mineral deposits. Exploration is a lengthy process that can take many years and is subject to factors that are beyond the Company's control.

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company raises money through equity sales, from the exercise of convertible securities and, in the past, from the sale of investments. Although the Company has had past success in obtaining financing, there can be no such assurance that it will be able to obtain adequate financing in the future or that the terms of any financing will be favourable. Many factors influence the Company's ability to raise funds, including the state of the resource market and commodities prices, the climate for mineral exploration, the Company's track record and the experience and caliber of its management.

Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and foreign exchange fluctuations. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

## Transactions with Related Parties

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 or former 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 nine months ended November 30, 2014	For the nine months ended, November 30,2013
Administrative recoveries	\$ (13,445)	\$ (18,015)
Consulting and financing cost	\$ 109,017	\$ 123,999
Salary recoveries	\$ (130,724)	\$ (158,607)

(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.*



b) Compensation of key management personnel

	<b>For the nine months ended November 30, 2014</b>	For the nine months ended, November 30, 2013
Management fees, directors' fees, salaries	<b>\$ 740,755</b>	\$ 289,125
Stock-based compensation (i)	<b>\$ 357,608</b>	\$ 335,183

(i) *Stock-based compensation represents the expense for the nine months ended November 30, 2014 and 2013.*

c) Employment agreements

- i) During the year ended February 28, 2013, the Company entered into employment agreements with certain senior employees and officers requiring minimum annual payments totalling \$308,500. 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 \$617,000.
- ii) In September, 2014, the Company entered into a retirement agreement with the chief executive officer which provided for the cancellation of his previous agreement for the consideration of a retirement payment of \$438,976. In addition, the Company entered into an agreement for a year term with a company related to the former chief executive officer for advisory services at a cost of \$196,000 per year.
- iii) In September, 2014, the Company entered into employment agreements with two senior officers requiring minimum annual payments of \$200,000 and US\$175,000. In addition, the agreements contain clauses which could provide for payments to these senior officers on the termination of these contracts of up to \$400,000 and US\$262,500 respectively.
- iv) During the quarter ended November 30, 2014, the Company entered into a \$50,000 loan agreement with a senior officer of the Company. The loan is repayable over a period of two years and was for the purchase of shares of the Company from treasury.

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 and non-interest bearing.

## Outstanding Share Data

The table below presents the Company's common share data as of January 29, 2015.

	Price	Expiry date	Number of common shares
Common shares, issued and outstanding			150,137,069
Securities convertible into common shares			
Warrants	\$0.25	July 22, 2015	1,776,947
	\$0.18	September 5, 2017	39,995,000
Options			
	\$0.15	March 11, 2015	75,000
	\$0.15	April 21, 2015	150,000
	\$0.25	July 24, 2015	225,000
	\$0.71	May 19, 2016	1,000,000
	\$0.495	July 18, 2016	450,000
	\$0.25	September 28, 2016	175,000
	\$0.24	December 15, 2016	205,000
	0.28	June 13, 2017	2,125,000
	\$0.29	January 10, 2018	345,000
	\$0.22	March 4, 2018	2,365,000
	\$0.15	May 30, 2019	2,305,000
	\$0.165	September 8, 2019	3,000,000
	\$0.080	December 17, 2019	1,000,000
			<b>205,329,016</b>

### *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.

### *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 expired at the annual general meeting of shareholders of the Company held in 2014. The term for the Rights Plan was extended to 2017 at the Company's annual general meeting of shareholders on November 20, 2014. The Rights Plan may be extended beyond 2017 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.

## **Basis of Presentation**

### ***Statement of Compliance to International Financial Reporting Standards***

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### ***Basis of Consolidation***

The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Grupo Northair. Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All intercompany balances and transactions have been eliminated.

### ***Significant Accounting Policies***

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

### ***Changes in Accounting Standards***

The IASB has issued a number of new standards of which certain applicable ones are disclosed below. Each of the new standards is effective for annual periods beginning on or after January 1, 2014 with early adoption permitted, except IFRS 7 which becomes effective January 1, 2015 and IFRS 9 which has a tentative effective date of January 1, 2018. The following is a brief summary of the new standards:

- IAS 36 – Impairment of assets – disclosure  
This standard has limited scope amendments to disclosure requirements in IAS 36, Impairment of Assets. The adoption of IAS 36 did not result in any change in the financial statements.
- IAS 32 – Financial instruments – presentation  
This standard has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The adoption of IAS 32 did not result in any change in the financial statements.
- IFRS 9 – Financial Instruments – classification and measurement  
This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments.

- IFRS 7 – Financial instruments – disclosure  
This standard has been amended to require additional disclosures on transition from IAS 39 to IFRS 9, effective for annual periods beginning on or after January 1, 2018.

### *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 stock 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.

## Financial Instruments

### *Categories of financial instruments*

	November 30, 2014	February 28, 2014
Financial assets		
FVTPL Assets		
Cash	\$ 311,007	\$ 105,604
Short-term deposits	4,584,140	637,000
AFS Assets		
Short-term investments	758	758
Loans and receivables		
Receivables	816,839	70,012
Due from related parties	33,607	37,620
Taxes receivable	64,035	388,800
	<u>\$ 5,810,386</u>	<u>\$ 1,239,794</u>
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 274,351	\$ 162,284
	<u>\$ 274,351</u>	<u>\$ 162,284</u>

### *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.

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

	November 30, 2014	February 28, 2014
Level 1		
Cash	\$ 311,007	\$ 105,604
Short-term deposits	4,584,140	637,000
Short-term investments	758	758
Level 2	-	-
Level 3	-	-
Total	<u>\$ 4,895,905</u>	<u>\$ 743,362</u>

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:

<b>November 30, 2014</b>	<b>Cash and short-term deposits</b>		<b>Receivables</b>		<b>Accounts payable and accrued liabilities</b>	
<b>US dollar</b>	\$	<b>1,903,201</b>	\$	<b>-</b>	\$	<b>107</b>
<b>Mexican peso</b>		<b>132,566</b>		<b>9,774</b>		<b>89,321</b>
	\$	<b>2,035,767</b>	\$	<b>9,774</b>	\$	<b>89,428</b>

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

At November 30, 2014, with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by \$216,500.

### **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 \$48,855.

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 November 30, 2014, the Company had cash and short term deposit balances of \$4,895,147 (February 28, 2014 - \$742,604) to settle current liabilities of \$274,351 (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.

**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 investments.

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 its exploration and development plans and operations through its current operating period.

**Forward-Looking Information**

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, permitting risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour

disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements which are filed and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.

#### **Additional Disclosure for Venture Issuers without Significant Revenue**

Additional disclosure concerning Northair's general and administrative expenses and resource property costs is provided in the Company's Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Exploration and Evaluation Assets contained in its Unaudited Consolidated Financial Statements for November 30, 2014 that is available on Northair's website at [www.northairsilver.com](http://www.northairsilver.com) or on its SEDAR Page Site accessed through [www.sedar.com](http://www.sedar.com).

#### **Approval**

The Board of Directors of Northair has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it. The exploration programs described were conducted under the direction of Mr. Fred Hewett, the Company's former President and CEO, and a Qualified Person under NI 43-101.

#### **Additional Information**

Additional information relating to Northair is on SEDAR at [www.sedar.com](http://www.sedar.com).