

NORTHAIR SILVER CORP.
(formerly International Northair Mines Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

February 28, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Northair Silver Corp.
(Formerly International Northair Mines Ltd.)

We have audited the accompanying consolidated financial statements of Northair Silver Corp. (formerly International Northair Mines Ltd.), which comprise the consolidated statements of financial position as at February 28, 2015 and 2014 and the consolidated **statements** of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Northair Silver Corp.(formerly International Northair Mines Ltd.) as at February 28, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Northair Silver Corp. (formerly International Northair Mines Ltd.) to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

June 29, 2015

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Consolidated Statement of Financial Position
As at February 28
(Expressed in Canadian Dollars)

ASSETS	2015	2014
Current		
Cash	\$ 84,863	\$ 105,604
Short-term deposits (Note 6)	4,134,264	637,000
Receivables	66,527	70,770
Due from related parties (Note 12)	86,716	37,620
Prepaid expenses	57,550	50,314
	<u>4,429,920</u>	<u>901,308</u>
Non-current assets		
Taxes receivable	653,255	388,800
Property and equipment (Note 8)	882,882	906,143
Exploration and evaluation assets (Note 9)	8,934,008	11,879,230
	<u>14,900,065</u>	<u>14,075,481</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 66,036	\$ 162,283
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	43,397,993	39,493,056
Reserves (Note 10)	3,692,399	3,417,929
Deficit	(32,256,363)	(28,997,787)
	<u>14,834,029</u>	<u>13,913,198</u>
	<u>\$ 14,900,065</u>	<u>\$ 14,075,481</u>

Nature of business (Note 1)

Commitment (Note 14)

APPROVED ON BEHALF OF THE BOARD JUNE 29, 2015:

“”, Director

“”, Director

The accompanying notes are an integral part of these consolidated financial statements

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended February 28
(Expressed in Canadian Dollars)

	2015	2014
General and administrative expenses		
Administrative recoveries	\$ (26,694)	\$ (28,667)
Amortization (Note 8)	34,894	33,051
Office, salaries and general (Note 7)	1,073,839	695,353
Professional fees and consulting	412,450	186,068
Regulatory compliance and transfer agent fees	60,803	34,598
Shareholder information and investor relations	253,280	269,114
Stock-based compensation (Note 10)	274,470	527,140
Loss before the undernoted	2,083,042	1,716,657
Write-down of taxes receivable	-	125,574
Loss (gain) on foreign exchange	(452,451)	(858)
Interest income and other	(25,905)	(17,467)
Write-off of exploration and evaluation assets	1,342,252	38,397
Loss on assignment of exploration and evaluation assets (Note 9)	311,638	-
Net (loss) for the year	(3,258,576)	(1,862,303)
Other comprehensive (loss)		
Unrealized loss on available-for-sale investments	-	(758)
Comprehensive (loss) for the year	\$ (3,258,576)	\$ (1,863,061)
Net loss per share - basic and diluted	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding	129,427,329	99,944,850

The accompanying notes are an integral part of these consolidated financial statements

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Consolidated Statements of Cash Flows

For the Years Ended February 28,
(Expressed in Canadian Dollars)

	2015	2014
Operating activities		
Loss for the year	\$ (3,258,576)	\$ (1,862,303)
Items not affecting cash:		
Amortization	34,894	33,051
Stock-based compensation	274,470	527,140
Loss on assignment	311,638	-
Unrealized gain on foreign exchange	(331,835)	-
Write-down of taxes receivable	-	125,574
Write-off of exploration and evaluation assets	1,342,252	38,397
	(1,627,157)	(1,138,141)
Changes in non-cash working capital (Note 15)	(386,252)	3,458
	(2,013,409)	(1,134,683)
Investing activities		
Exploration and evaluation costs	(3,037,346)	(2,082,424)
Proceeds from sale of NSR	4,270,000	-
Proceeds from assignment	32,139	-
Purchase of equipment	(11,633)	(494,209)
	1,253,160	(2,576,633)
Financing activities		
Net purchase of short-term deposits	(3,165,429)	1,900,000
Shares issued for private placement	3,999,500	1,859,315
Shares issued pursuant to stock options exercised	-	11,250
Share issuance costs	(94,563)	(119,992)
	739,508	3,650,573
Change in Cash	(20,741)	(60,743)
Cash - beginning of year	105,604	166,347
Cash - end of year	\$ 84,863	\$ 105,604
Supplementary disclosure of cash flow information		
Cash paid for interest	\$ Nil	\$ Nil
Cash paid for income taxes	\$ Nil	\$ Nil

Supplemental disclosure with respect to cashflows (Note 15)

The accompanying notes are an integral part of these consolidated financial statements

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Capital stock (Number of shares)	Capital stock (amount)	Reserves	Other comprehensive loss	Deficit	Total
February 28, 2013	91,663,313	\$ 36,938,758	\$ 2,897,014	\$ 758	\$ (27,135,484)	12,701,046
Stock-based compensation	-	-	527,140	-	-	527,140
Other comprehensive loss	-	-	-	(758)	-	(758)
Options exercised	75,000	11,250	-	-	-	11,250
Fair value of options exercised	-	6,225	(6,225)	-	-	-
Units issued for cash	13,153,896	1,859,315	-	-	-	1,859,315
Share issuance costs - cash	-	(119,992)	-	-	-	(119,992)
shares issued for property	5,250,000	797,500	-	-	-	797,500
Shares returned to treasury	(140)	-	-	-	-	-
Loss for the year	-	-	-	-	(1,862,303)	(1,862,303)
February 28, 2014	110,142,069	\$ 39,493,056	\$ 3,417,929	\$ -	\$ (28,997,787)	13,913,198
Stock-based compensation	-	-	274,470	-	-	274,470
Units issued for cash, net of issuance costs	39,995,000	3,904,937	-	-	-	3,904,937
Net loss for the year	-	-	-	-	(3,258,576)	(3,258,576)
February 28, 2015	150,137,069	\$ 43,397,993	\$ 3,692,399	\$ -	\$ (32,256,363)	14,834,029

The accompanying notes are an integral part of these consolidated financial statements

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

1. Nature of Business

Northair Silver Corp. (formerly International Northair Mines Ltd.) (“the Company”) 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 V6C 2T6.

The consolidated financial statements 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 consolidated 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 \$32,256,363 as at February 28, 2015 and has no current source of revenue. During fiscal 2015 the Company raised capital to meet its working capital requirements for fiscal 2015 and part of 2016. 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

Statement of Compliance to International Financial Reporting Standards

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Consolidation

These 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.

New Accounting Pronouncements

The Company has adopted the following revised standards effective March 1, 2014.

- *IAS 36 – Impairment of assets – disclosure*

This standard has limited scope amendments to disclosure requirements in IAS 36, Impairment of Assets. The adoption of this standard had no material impact on the Company’s consolidated financial statements.

- *IAS 32 – Financial instruments – presentation*

Northair Silver Corp.
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Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

2. Basis of Presentation- continued

New Accounting Pronouncements- continued

This standard has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The adoption of this standard had no material impact on the Company's consolidated financial statements.

The IASB has also issued several new standards which have not yet been adopted by the Company: IFRS 9, which becomes effective for annual periods beginning on or after January 1, 2018. The following is a brief summary of the new standards:

• *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. The extent of the impact of adoption of IFRS 9 has not yet been determined.

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 compensation and the valuation of deferred tax amounts.

Significant assumptions and critical judgements exercised in applying accounting policies 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;
- The application of the inputs used in accounting for stock-based compensation expense which is included in the statements of loss and comprehensive loss. These estimates are derived using the Black-Scholes option pricing model or are based on the value of comparable goods and services. Inputs are determined using readily available market data.

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

2. Basis of Presentation- continued

Significant accounting estimates and judgments - continued

- 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.

3. Significant Accounting Policies

a) Foreign currencies

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of both the Company and its subsidiary, Grupo Northair, is the Canadian Dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21").

Any transactions in currencies other than the functional currency have been translated to the Canadian dollar in accordance with IAS 21. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The Company's presentation currency is the Canadian dollar ("C\$").

b) Loss per share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. The calculation proved to be anti-dilutive for fiscal 2015 and 2014.

c) Stock-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period during which the stock options vest. The fair value of the stock options granted is measured taking into account the terms and conditions upon which the stock options were granted. Stock-based compensation to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

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Notes to the Consolidated Financial Statements
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3. Significant Accounting Policies - continued

d) Property and equipment

Equipment is stated at cost less accumulated amortization and any impairment in value.

The initial cost of an asset is comprised of its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as an additional cost of equipment.

Assets are amortized using the straight-line method based on the estimated life of the asset.

The remaining useful lives, residual values and amortization method are reviewed and adjusted, if appropriate, at financial year-end to ensure that the periods and method of amortization are consistent with the expected pattern of economic benefits from the items of equipment.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of equipment is derecognized either when it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of equipment are included in the statement of loss and comprehensive loss in the period of retirement or disposal.

e) Exploration and evaluation assets

Exploration costs are capitalized under intangible assets on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Exploration and evaluation assets include overheads on the acquisition, exploration and evaluation of interest in licenses. When it is determined that such costs will be recouped through successful development and exploitation, expenditures are transferred to tangible assets and depreciated over the expected productive life of the asset. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one or more of the following circumstances apply:

- Unexpected geological occurrences that render the resource uneconomic;
- Title to the asset is compromised;
- Fluctuations in metal prices that render the project uneconomic;
- Variation in the currency of operations; and
- Threat to political stability in the country of operation.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation assets or recoveries when the payments are made or received.

The recoverability of the amounts capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the

Northair Silver Corp.
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Notes to the Consolidated Financial Statements
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3. Significant Accounting Policies – continued

e) Exploration and evaluation assets

underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof. Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

f) Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss for the period. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

g) Cash

Cash consists of cash on hand, deposits in banks and highly liquid investments.

h) Short-term deposits

Short-term deposits are investments which are transitional or current in nature, with an original maturity greater than three months.

i) Short-term investments

Investments in which the Company has less than a 20% interest and where the Company has no significant influence, are measured at fair market value. These investments are designated as available-for-sale and are recorded at fair value with unrealized gains and losses recorded in other comprehensive income.

j) Financial instruments

Financial assets

Financial assets are classified into one of the following categories:

- fair value through profit or loss ("FVTPL");
- available for sale ("AFS");

Northair Silver Corp.
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Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

j) Financial instruments

- held-to-maturity (“HTM”); and,
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(i) FVTPL financial assets

Financial instruments are classified as FVTPL when the financial instrument is held for trading or it is designated as FVTPL.

A financial instrument is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial instruments classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial instrument.

The Company has classified cash and short-term deposits as FVTPL.

(ii) AFS financial assets

Investments held by the Company that are classified as AFS are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in accumulated other comprehensive income. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in accumulated other comprehensive income is included in the statement of loss and comprehensive loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences due to a change in amortized cost of the asset is recognized in profit or loss, while all other changes are recognized in equity.

The Company has classified short-term investments as AFS financial assets.

(iii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.

(iv) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Northair Silver Corp.
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Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

j) Financial instruments

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Company has classified receivables, taxes receivable and due from related parties as loans and receivables.

(v) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial instrument, or, where appropriate, a shorter period.

(vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial instruments are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial instrument, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial instruments carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial instrument's original effective interest rate.

The carrying amount of all financial instruments, excluding receivables, taxes receivable and due from related parties, is directly reduced by the impairment loss. The carrying amount of receivables, taxes receivable and due from related parties is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial instrument cannot exceed its amortized cost had impairment not been recognized.

(vii) Derecognition of financial assets

A financial instrument is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial instrument and all risks and rewards of ownership to another entity.

Financial liabilities

Financial liabilities are classified into one of the following categories:

Northair Silver Corp.
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3. Significant Accounting Policies – continued

j) Financial instruments

- fair value through profit or loss (“FVTPL”); or
- other financial liabilities;

The classification is determined at initial recognition and depends on the nature and purpose of the financial liability.

(i) FVTPL financial liabilities

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

(ii) Other financial liabilities

This category includes amounts due to related parties and accounts payable and accrued liabilities. These are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company has classified accounts payable and accrued liabilities as other financial liabilities.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial liability and allocates interest expense over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial liability, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial instruments classified as FVTPL.

(iv) Derecognition of financial liabilities

Financial liabilities are derecognized when the Company’s obligations are discharged, cancelled or they expire.

k) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statements of loss and comprehensive loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Northair Silver Corp.
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Notes to the Consolidated Financial Statements
For the Year Ended February 28, 2015

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

k) Income taxes

The effect on tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities that do not affect accounting or taxable profit
- goodwill

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

l) Environmental rehabilitation

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets. The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period. The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is limited.

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.

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4. Capital Management – continued

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.

5. Financial Instruments

Categories of financial instruments

	February 28, 2015	February 28, 2014
Financial assets		
FVTPL Assets		
Cash	\$ 84,863	\$ 105,604
Short-term deposits	4,134,264	637,000
Loans and receivables		
Receivables	66,527	70,770
Due from related parties	86,716	37,620
Taxes receivable	653,255	388,800
	<u>\$ 5,025,625</u>	<u>\$ 1,239,794</u>

	February 28, 2015	February 28, 2014
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 66,036	\$ 162,283
	<u>\$ 66,036</u>	<u>\$ 162,283</u>

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.

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5. Financial Instruments – continued

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

	February 28, 2015	February 28, 2014
Level 1		
Cash	\$ 84,863	\$ 105,604
Short-term deposits	4,134,264	637,000
Level 2	-	-
Level 3	-	-
Total	\$ 4,219,127	\$ 742,604

The carrying value of receivables, taxes receivable, due from related parties and accounts payable and accrued liabilities approximated 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:

February 28, 2015	Cash and short- term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 1,690,814	\$ -	\$ -
Mexican peso	41,246	-	6,392
	\$ 1,732,060	\$ -	\$ 6,392

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 February 28, 2015 with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by \$15,000.

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5. Financial Instruments – continued

b) Interest Rate and Credit Risk

The Company has significant 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 \$39,000.

Receivables are primarily amounts due from government agencies and are unsecured and non-interest bearing. Amounts due from related parties are 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 remote.

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 February 28, 2015, the Company had cash and short term deposit balances of \$4,219,127 (February 28, 2014 - \$742,604) to settle current liabilities of \$66,036 (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

	February 28, 2015		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		4,097,264		600,000
	\$	4,134,264	\$	637,000

7. Office, salaries and general

	February 28, 2015		February 28, 2014	
Rent	\$	87,220	\$	96,385
Salaries – regular		371,970		453,920
Salaries – lump sum, retirement payment		477,914		-
General		136,735		145,048
	\$	1,073,839	\$	695,353

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8. Property and equipment

	Office Equipment	Leasehold improvement	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	11,633	-	-	-	11,633
Balance, February 28, 2015	\$ 191,927	\$ 23,440	\$ 92,779	\$ 835,371	\$ 1,143,517
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	16,491	3,096	15,307	-	34,894
Balance, February 28, 2015	\$ 156,987	\$ 20,589	\$ 83,059	\$ -	\$ 260,635
Carrying amounts					
February 28, 2014	\$ 39,798	\$ 5,947	\$ 25,027	\$ 835,371	\$ 906,143
Balance, February 28, 2015	\$ 34,940	\$ 2,851	\$ 9,720	\$ 835,371	\$ 882,882

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9. Exploration and Evaluation Assets

	La Cigarra, Mexico	El Reventon, Mexico	Sierra Rosario and Other	Total
February 28, 2013	\$ 7,890,712	\$ 932,137	\$ 274,294	\$ 9,097,143
Acquisition and tenure	1,312,689	21,201	6,671	1,340,561
Camp and general	186,822	-	38,732	225,554
Drilling and data collection	231,941	-	-	231,941
Field work and travel	44,414	518	-	44,932
Salaries, consulting and fees	973,198	3,796	502	977,496
Write-offs	-	-	(38,397)	(38,397)
February 28, 2014	10,639,776	957,652	281,802	11,879,230
Acquisition and tenure	842,216	63,317	17,563	923,096
Camp and general	13,144	-	-	13,144
Drilling and data collection	928,605	-	-	928,605
Field work and travel	174,207	-	-	174,207
Salaries, consulting and fees	913,218	12,350	14,048	939,616
Proceeds on sale of royalty	(4,270,000)	-	-	(4,270,000)
Loss on assignment	-	-	(311,638)	(311,638)
Write-offs	(338,933)	(1,003,319)	-	(1,342,252)
February 28, 2015	\$ 8,902,233	\$ 30,000	\$ 1,775	\$ 8,934,008

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 acquired a 100% ownership in the concessions by making payments over a five year period totalling US\$445,000.

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, 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 (now renamed as “Parral 2”) and Outside Properties (now renamed as “Parral 1”). 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 (the “DFX Agreement”), amending the original agreement in order to acquire a 100% interest in Parral 2 and

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9. Exploration and Evaluation Assets- continued

La Cigarra, Mexico

a 60% interest in Parral 1, subject to a 1% net smelter royalty payable to the original property vendor. To acquire the 100% interest in the Adjacent Property the Company paid DFX \$450,000 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 Parral 2 in a NI 43-101 technical report prepared by the Company. If silver equivalent ounces are produced from Parral 2, 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.

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.

During the year ended February 28, 2015, 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 and a further US\$1,750,000 for an additional 1.25%. A finder's fee of US\$80,000 was paid in connection with the closing of the transactions. Subsequent to the year ended February 28, 2015, the Company terminated the DFX Agreement and wrote off capitalized costs of \$338,933 related to Parral 1. The Company has maintained its 100% interest in Parral 2.

El Reventon, Mexico

During the year ended February 28, 2015, subject to an assignment agreement dated December 19, 2014, the Company agreed to assign and transfer to Northern Empire Resources Corp. ("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 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. As a result, the Company wrote off capitalized costs of \$1,003,319 to reflect the fair value of the property at \$30,000. Subsequent to the year end, the Company has received a payment of \$10,000 and 200,000 shares from Northern Empire.

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.

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9. Exploration and Evaluation Assets- continued

Sierra Rosario, Mexico

Subsequent to February 28, 2015, the Company agreed to assign and transfer to Starcore International Mines Ltd. ("Starcore") its right, title and interest (50% interest) in the mineral concessions comprising the Sierra Rosario Project. As consideration, Starcore has agreed to pay Northair the sum of \$25,000 (received); make an additional payment of \$7,139 (received) associated to the outstanding joint venture costs; and grant Northair a one percent (1%) net smelter royalty from any future production on the Project. Starcore retains the right to buy-back the full net smelter royalty by paying to Northair \$1,000,000. As a result, the Company recorded a loss on assignment of \$311,638.

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 during the year ended February 28, 2015

Los Cuates, Mexico

The Company has also acquired additional claims known as the Los Cuates property for US\$1,533 and a 1% NSR, which can be repurchased for US\$1,000,000.

10. Capital Stock 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, 2015, 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 entitles 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. Finders' fees totaling \$94,563 were paid in connection with the financing.
- b) 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 paid in conjunction with the financing.

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10. Capital Stock 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 three years and expire five 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 29, 2013	7,000,000	\$0.37
Granted	3,030,000	0.22
Exercised	(75,000)	(0.15)
Forfeited/Expired	(1,366,666)	(0.32)
Balance, February 28, 2014	8,588,334	0.33
Granted	7,715,000	0.14
Forfeited/Expired/Cancelled	(1,983,334)	(0.29)
Balance, February 28, 2015	14,320,000	\$0.23

b) Fair value of share options granted

During the year ended February 28, 2014, the Company granted options to directors, officers, employees and consultants to purchase up to 3,030,000 common shares of the Company at a weighted average exercise price of \$0.22 per share. The estimated fair value of the stock options granted during the year ended February 28, 2014 was \$465,522 using the Black Scholes option pricing model.

During the year ended February 28, 2015, the Company granted options to employees to purchase up to 7,715,000 common shares of the Company at a weighted average exercise price of \$0.14 per share. The estimated fair value of the stock options granted during the year ended February 28, 2015 was \$503,996 using the Black Scholes option pricing model.

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

	Year ended February 28, 2015	Year ended February 28, 2014
Risk-free interest rate	0.70 - 1.50%	1.1 - 1.33%
Expected dividend yield	Nil	Nil
Expected stock price volatility	98% - 107%	105% - 130%
Expected life (in years)	5	2.0 - 3.0
Expected forfeiture rate	0%	0%

During the year ended February 28, 2015 a total value of \$274,470 (2013 - \$527,140) has been recorded to reserves and to stock-based compensation. The portion of stock-based compensation recorded is based on the vesting schedule of the options.

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10. Capital Stock and Reserves- continued

Stock options- continued

c) Share options outstanding

A summary of the Company's options outstanding as at February 28, 2015 is as follows:

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
75,000	75,000	\$0.15	0.03	*March 11, 2015
150,000	150,000	\$0.15	0.14	*April 21, 2015
1,000,000	1,000,000	\$0.71	1.22	May 19, 2016
450,000	450,000	\$0.495	1.39	*July 18, 2016
175,000	175,000	\$0.25	1.58	September 28, 2016
175,000	175,000	\$0.24	1.80	December 15, 2016
2,055,000	2,055,000	\$0.28	2.29	*June 13, 2017
295,000	295,000	\$0.29	2.87	*January 10, 2018
2,315,000	2,315,000	\$0.22	3.01	*March 4, 2018
225,000	225,000	\$0.25	0.40	July 24, 2015
2,305,000	1,588,333	\$0.15	4.25	*May 30, 2019
3,000,000	750,000	\$0.165	4.53	September 8, 2019
1,000,000	250,000	\$0.08	4.80	December 17, 2019
1,100,000	275,000	\$0.08	4.91	January 26, 2020
14,320,000	9,778,333			

*Subsequent to February 28, 2015:

i) Options were cancelled as follows:

- 75,000 exercisable at price of \$0.15 per share to March 11, 2015
- 150,000 exercisable at a price of \$0.15 per share to April 21, 2015
- 150,000 exercisable at a price of \$0.495 per share to July 18, 2016
- 300,000 exercisable at a price of \$0.28 per share to June 13, 2017
- 50,000 exercisable at a price of \$0.29 per share to January 10, 2018
- 250,000 exercisable at a price of \$0.22 per share to March 4, 2018
- 375,000 exercisable at a price of \$0.15 per share to May 30, 2019

Warrants

a) Movements in warrants during the year

The changes in share warrants were as follows:

	Warrants outstanding	Weighted average exercise price
Balance, February 29, 2013	11,239,372	\$0.40
Issued	1,776,947	0.25
Exercised/Expired	(11,239,372)	0.40
Balance, February 28, 2014	1,776,947	0.25
Issued	39,995,000	0.18
Balance, February 28, 2015	41,771,947	\$0.18

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10. Capital Stock and Reserves- continued

b) Warrants outstanding

A summary of the Company's warrants outstanding as at February 28, 2015 is as follows:

Number	Exercise price	Expiry Date
1,776,947	\$0.25	July 22, 2015
39,995,000	\$0.18	September 5, 2017

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 had an initial term which expired at the annual general meeting of shareholders of the Company to be 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.

11. Income Taxes

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

	2015		2014	
Loss for the year	\$	(3,258,875)	\$	(1,862,303)
Expected income tax (recovery)	\$	(847,000)	\$	(483,000)
Change in statutory rates, foreign tax and other		480,000		129,000
Permanent difference		45,000		180,000
Share issue cost		(39,000)		(31,000)
Change in unrecognized deductible temporary differences		361,000		205,000
Total income tax expense (recovery)	\$	-	\$	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

	2015		2014	
Deferred tax assets (liabilities)				
Exploration and evaluation assets	\$	164,000	\$	164,000
Property and equipment		91,000		88,000
Share issue costs		68,000		78,000
Allowable capital losses		71,000		71,000
Non-capital losses available for future period		1,879,000		1,427,000
		2,273,000		1,828,000
Unrecognized deferred tax assets		(2,273,000)		(1,828,000)
Net deferred tax assets	\$	-	\$	-

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11. Income Taxes- continued

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2015	2014	Expiry Date Range
Temporary Differences			
Exploration and evaluation assets	\$ (7,034,000)	\$ (9,979,000)	No expiry date
Property and equipment	338,000	332,000	No expiry date
Share issue costs	262,000	298,000	2033 - 2036
Allowable capital losses	273,000	273,000	No expiry date
Non-capital losses available for future period	13,958,000	15,398,000	2016 – 2035

Tax attributes are subject to review, and potential adjustment, by tax authorities

12. 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 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.	Chris Curran	Administrative and salary recoveries
Mercator Minerals Ltd.	Mike Wang	Administrative recoveries
Condire Investors LLC.	Ryan Schedler	Consulting
North Arrow Minerals Inc.	Brenda Nowak	Administrative recoveries
Grenville Strategic Royalty Corp.	Andrea Zaradic	Administrative recoveries
Corex Management	Robert Scott	Accounting
Mortimer Mining Services	Fred Hewett	Consulting

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.

	Note	Year ended February 28, 2015	Year ended February 28, 2014
Accounting		\$ 23,306	\$ -
Administrative recoveries		\$ (18,037)	\$ (22,652)
Salary recoveries	(i)	\$ (163,439)	\$ (211,210)
Financing costs		\$ -	\$ 79,558
Consulting		\$ 102,100	\$ 44,441

(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.

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12. Related Party Transactions- continued

b) Related party balances

The Company is owed the following amounts from related parties primarily for reimbursements of shared office costs:

	February 28, 2015	February 28, 2014
Mercator Minerals Ltd.	\$ -	\$ 4,070
New Dimension Resources Ltd.	29,476	7,844
Grenville Strategic Royalty Corp.	204	7,634
North Arrow Minerals Inc.	15,113	17,898
Other	41,923	174
	\$ 86,716	\$ 37,620

c) Compensation of key management personnel

	Year ended February 28, 2015	Year ended February 28, 2014
Management fees, directors' fees, salaries	\$ 718,723	\$ 318,000
Stock-based compensation	\$ 140,196	\$ 314,210

- Stock-based compensation represents the expense for the years ended February 28, 2015 and February 28, 2014.

d) Consulting contract

During the year end February 28, 2014, the Company entered into agreements with Condire Investors LLC., a party related by a director, under which the Company paid Condire \$44,441 for planning, advisory and due diligence services, financing costs of \$79,558 and granted 225,000 stock options.

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.

13. Segmented Information

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

	February 28, 2015	February 28, 2014
Total Assets		
Canada	\$ 4,405,959	\$ 877,030
Mexico	10,494,106	13,198,451
Total	\$ 14,900,065	\$ 14,075,481

Northair Silver Corp.
(formerly International Northair Mines Ltd.)
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13. Segmented Information- continued

	February 28, 2015	February 28, 2014
Total Non-current Assets		
Canada	\$ 37,253	\$ 39,926
Mexico	10,432,892	13,134,247
Total	\$ 10,470,145	\$ 13,174,173
	Year ended February 28, 2015	Year ended February 28, 2014
Loss		
Canada	\$ 1,664,729	\$ 1,687,858
Mexico	1,593,847	174,445
Total	\$ 3,258,576	\$ 1,862,303

14. Commitment

As at February 28, 2015, the commitment for rental of the Company's office space is as follows:

Year ending February 28, 2016	\$ 277,316
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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.

15. Supplemental cash flow information

	Year ended February 28, 2015	Year ended, February 28, 2014
Changes in non-cash working capital:		
<i>Increase(decrease) in:</i>		
Receivables and taxes receivable	\$ (260,212)	\$ (38,078)
Due from related parties	(49,096)	68,230
Prepaid expenses	(7,236)	(7,695)
<i>Increase(decrease) in:</i>		
Accounts payable and accrued liabilities	(69,708)	(18,999)
	\$ (386,252)	\$ 3,458
	Year ended February 28, 2015	Year ended February 28, 2014
Schedule of non-cash investing and financing transactions:		
Change in exploration and evaluation assets included in accounts payable	\$ 26,539	\$ (59,440)
Unrealized gain on short-term investments	\$ -	\$ 758
Shares issued in acquisition of exploration and evaluation assets	\$ -	\$ 797,500