

**INTERNATIONAL NORTHAIR MINES LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**February 29, 2012**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
International Northair Mines Ltd.

We have audited the accompanying consolidated financial statements of International Northair Mines Ltd., which comprise the consolidated statements of financial position as at February 29, 2012, February 28, 2011 and March 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended February 29, 2012 and February 28, 2011, 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 International Northair Mines Ltd. as at February 29, 2012, February 28, 2011 and March 1, 2010 and its financial performance and its cash flows for the years ended February 29, 2012 and February 28, 2011 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 International Northair Mines Ltd. to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

June 26, 2012

**International Northair Mines Ltd.**  
**Consolidated Statements of Financial Position**

As at  
(Expressed in Canadian Dollars)

	February 29, 2012	February 28, 2011 (Note 16)	March 1, 2010 (Note 16)
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 366,034	\$ 904,869	\$ 410,207
Short-term deposits (Note 6)	3,502,000	127,750	227,750
Receivables	108,246	122,007	35,748
Due from related parties (Note 12)	90,641	77,274	73,700
Short-term investments (Note 7)	4,295	11,620	39,583
Prepaid expenses	61,051	10,158	8,120
	<b>4,132,267</b>	<b>1,253,678</b>	<b>795,108</b>
<b>Non-current assets</b>			
Taxes receivable	195,438	-	-
Equipment (Note 8)	74,938	31,350	45,933
Exploration and evaluation assets (Note 9)	4,538,199	1,652,574	1,081,851
	<b>\$ 8,940,842</b>	<b>\$ 2,937,602</b>	<b>\$ 1,922,892</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 404,966	\$ 214,273	\$ 68,370
Due to joint venture (Note 9)	103,443	-	-
	<b>508,409</b>	<b>214,273</b>	<b>68,370</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital (Note 10)	30,947,101	24,407,009	23,119,778
Reserves (Note 10)	2,237,885	1,011,699	924,206
Accumulated other comprehensive income	3,537	10,862	30,950
Deficit	(24,756,090)	(22,706,241)	(22,220,412)
	<b>8,432,433</b>	<b>2,723,329</b>	<b>1,854,522</b>
	<b>\$ 8,940,842</b>	<b>\$ 2,937,602</b>	<b>\$ 1,922,892</b>

Nature of business (Note 1)

Commitment (Note 14)

Subsequent events (Note 17)

APPROVED ON BEHALF OF THE BOARD JUNE 26, 2012:

"F. G. Hewett", Director

"Brian Irwin", Director



# International Northair Mines Ltd.

## Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended

(Expressed in Canadian Dollars)

	February 29, 2012	February 28, 2011 (Note 16)
<b>General and administrative expenses</b>		
Administrative recoveries	\$(66,056)	\$(86,248)
Amortization	15,592	14,583
Financing cost – warrants	-	122,949
Office, salaries and general	499,345	238,278
Professional fees	75,900	63,924
Regulatory compliance and transfer agent fees	34,111	20,371
Shareholder information and investor relations	191,305	76,618
Share-based payments (Note 10)	1,150,901	34,548
<b>Loss before the undernoted</b>	<b>1,901,098</b>	<b>485,023</b>
Write-down of taxes receivable	195,438	-
Gain on sale of short-term investments	-	(18,825)
Loss (gain) on foreign exchange	(9,869)	20,752
Interest income and other	(97,517)	(43,858)
Write-off of exploration and evaluation assets (Note 9)	60,699	42,737
<b>Net loss for the year</b>	<b>2,049,849</b>	<b>485,829</b>
<b>Other comprehensive loss</b>		
Unrealized loss on available-for-sale investments	7,325	1,263
Amounts reclassified upon realization	-	18,825
	<b>7,325</b>	<b>20,088</b>
<b>Comprehensive loss for the year</b>	<b>\$2,057,174</b>	<b>\$505,917</b>
<b>Loss per share – basic and diluted</b>	<b>\$0.03</b>	<b>\$0.01</b>
<b>Weighted average number of shares outstanding</b>	<b>67,294,915</b>	<b>39,336,388</b>

# International Northair Mines Ltd.

## Consolidated Statements of Cash Flows

For the Years Ended  
(Expressed in Canadian Dollars)

	February 29, 2012	February 28, 2011
Cash provided by (used in):		(Note 16)
<b>Operating activities</b>		
Net loss for the year	\$ (2,049,849)	\$ (485,829)
Items not affecting cash:		
Amortization	15,592	14,583
Financing cost - warrants	-	122,949
Gain on sale of short-term investments	-	(18,825)
Realized foreign exchange gain on short-term deposits	(15,990)	-
Share-based payments	1,150,901	34,548
Write-down of taxes receivable	195,438	-
Write-off of exploration and evaluation assets	60,699	42,737
	(643,209)	(289,837)
Changes in non-cash working capital (Note 15)	(413,829)	(69,716)
	(1,057,038)	(359,553)
<b>Investing activities</b>		
Exploration and evaluation costs	(2,783,177)	(489,712)
Due to joint venture partner	103,443	-
Purchase of equipment	(59,180)	-
Proceeds from sale of short-term investments	-	26,700
	(2,738,914)	(463,012)
<b>Financing activities</b>		
Net purchase of short-term deposits	(3,358,260)	100,000
Shares issued for private placement	5,138,000	-
Shares issued pursuant to stock options exercised	60,600	-
Shares issued pursuant to warrants exercised	1,694,270	1,229,315
Share issuance costs	(277,493)	(12,088)
	3,257,117	1,317,227
<b>Change in cash</b>	(538,835)	494,662
Cash – beginning of year	904,869	410,207
<b>Cash – end of year</b>	\$ 366,034	\$ 904,869

Supplemental disclosure with respect to cash flows (Note 15)

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

	Share Capital (Number of Shares)	Share Capital (Amount)	Reserves	Accumulated Comprehensive Income	Deficit	Total
<b>March 1, 2010</b> (Note 16)	<b>34,157,948</b>	<b>\$ 23,119,778</b>	<b>\$ 924,206</b>	<b>\$ 30,950</b>	<b>\$ (22,220,412)</b>	<b>\$ 1,854,522</b>
Fair value of early incentive option	-	-	122,949	-	-	122,949
Exercise of early incentive option	-	60,064	(60,064)	-	-	-
Units issued for warrants exercised	6,285,000	628,500	-	-	-	628,500
Fair value of warrants exercised	-	9,940	(9,940)	-	-	-
Share capital issued as Finders' Fee	120,875	12,088	-	-	-	12,088
Share issuance costs - units	-	(12,088)	-	-	-	(12,088)
Share issuance costs - cash	-	(12,088)	-	-	-	(12,088)
Warrants exercised	3,037,150	600,815	-	-	-	600,815
Share-based payments	-	-	34,548	-	-	34,548
Other comprehensive loss	-	-	-	(1,263)	-	(1,263)
Transfer of other comprehensive income to realized gain upon sale of short term investments	-	-	-	(18,825)	-	(18,825)
Net loss for the year	-	-	-	-	(485,829)	(485,829)
Return to treasury	(20)	-	-	-	-	-
<b>February 28, 2011</b> (Note 16)	<b>43,600,953</b>	<b>24,407,009</b>	<b>1,011,699</b>	<b>10,862</b>	<b>(22,706,241)</b>	<b>2,723,329</b>
Units issued for cash	17,126,666	5,138,000	-	-	-	5,138,000
Warrants issued as a Finder's Fee	-	(119,381)	119,381	-	-	-
Share issuance costs - cash	-	(277,493)	-	-	-	(277,493)
Warrants exercised	8,471,350	1,694,270	-	-	-	1,694,270
Fair value of warrants exercised	-	17,849	(17,849)	-	-	-
Share-based payments	-	-	1,150,901	-	-	1,150,901
Other comprehensive loss	-	-	-	(7,325)	-	(7,325)
Options exercised	360,000	60,600	-	-	-	60,600
Fair value of options exercised	-	26,247	(26,247)	-	-	-
Net loss for the year	-	-	-	-	(2,049,849)	(2,049,849)
<b>February 29, 2012</b>	<b>69,558,969</b>	<b>\$ 30,947,101</b>	<b>\$ 2,237,885</b>	<b>\$3,537</b>	<b>\$ (24,756,090)</b>	<b>\$ 8,432,433</b>

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**1. Nature of Business**

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

The Company is an exploration stage company which is engaged principally in the acquisition and exploration of mineral properties. These financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The Company has incurred a deficit of \$24,756,090 at February 29, 2012 and has no current source of revenue. During fiscal 2012 the Company raised capital to meet its working capital requirements for fiscal 2012 and part of 2013. 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.

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**2. Basis of Presentation**

**Statement of Compliance and Conversion 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"). These consolidated financial statements are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 16.

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**3. Significant Accounting Policies**

**a) 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.

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**a) Significant accounting estimates and judgments - Continued**

*Critical accounting estimates*

Significant assumptions 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 comprehensive loss. These estimates are derived using the Black-sholesoption 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.

**b) 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 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) 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 2012 and 2011.

**d) Share-based payments**

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.

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**d) Share-based payments- Continued**

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 share purchase options vest. The fair value of the share purchase options granted is measured taking into account the terms and conditions upon which the share purchase options were granted. Share-based payments 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 share purchase options that are expected to vest.

**e) 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 when either 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.

**f) 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;

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**f) Exploration and evaluation assets- Continued**

- 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 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.

**g) 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 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.

**h) Cash**

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

**i) Short-term deposits**

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

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**j) 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.

**k) 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”);
- 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 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.



**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**k) Financial instruments - Continued**

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.

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 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 trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables 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.

# International Northair Mines Ltd.

## Notes to the Consolidated Financial Statements

For the Year Ended February 29, 2012

(Expressed in Canadian Dollars)

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### 3. Significant Accounting Policies – Continued

#### k) Financial instruments - Continued

##### *(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:

- 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 and due to joint ventures 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.

#### l) 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.

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended February 29, 2012**

**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies – Continued**

**l) Income taxes- Continued**

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.

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.

**m) 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.

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
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(Expressed in Canadian Dollars)

**4. Capital management**

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

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and 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 29, 2012	February 28, 2011	March 1, 2010
Financial assets			
FVTPL Assets			
Cash	\$ 366,034	\$ 904,869	\$ 410,207
Short-term deposits	3,502,000	127,750	227,750
AFS Assets			
Short-term investments	4,295	11,620	39,583
Loans and receivables			
Receivables	108,246	122,007	35,748
Due from related parties	90,641	77,274	73,700
	<u>\$ 4,071,216</u>	<u>\$ 1,243,520</u>	<u>\$ 786,988</u>
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued liabilities	\$ 404,966	\$ 214,273	\$ 68,370
Due to joint venture	103,443	-	-
	<u>\$ 508,409</u>	<u>\$ 214,273</u>	<u>\$ 68,370</u>

# International Northair Mines Ltd.

## Notes to the Consolidated Financial Statements

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### 5. Financial instruments – Continued

#### *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:

	February 29, 2012	February 28, 2011	March 1, 2010
Level 1			
Cash	\$ 366,034	\$ 904,869	\$ 410,207
Short-term deposits	3,502,000	127,750	227,750
Short-term investments	4,295	11,620	39,583
Level 2	-	-	-
Level 3	-	-	-
Total	\$ 3,872,329	\$ 1,044,239	\$ 677,540

The carrying value of receivables, due from related parties, accounts payable and accrued liabilities, and due to joint venture 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 29, 2012	Cash and short-term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 332,159	\$ 16,309	\$ 132,811
Mexican peso	16,024	244,214	166,037
	<b>\$ 348,183</b>	<b>\$ 260,523</b>	<b>\$ 298,848</b>

# International Northair Mines Ltd.

## Notes to the Consolidated Financial Statements

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### 5. Financial instruments – Continued

February 28, 2011	Cash and short-term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 189,861	\$ -	\$ 38
Mexican peso	3,316	97,370	120,510
	\$ 193,177	\$ 97,370	\$ 120,548

March 1, 2010	Cash and short-term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 83,171	\$ 4,962	\$ 2,342
Mexican peso	2,707	53,252	66
	\$ 85,878	\$ 58,214	\$ 2,408

At February 29, 2012 with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by \$31,000.

#### 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 \$38,700.

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 29, 2012, the Company had cash and short term deposit balances of \$3,868,034 (February 28, 2011 - \$1,032,619; March 1, 2010 - \$637,957) to settle current liabilities of \$508,409 (February 28, 2011 - \$214,273; March 1 2010 - \$68,370).

#### 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.

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**6. Short-term deposits**

	February 29, 2012	February 28, 2011	March 1, 2010
Security deposits held as collateral for corporate credit cards	\$ 32,000	\$ 22,750	\$ 22,750
Security deposits held as other collateral	5,000	5,000	5,000
Guaranteed investment certificates	3,465,000	100,000	-
Treasury bill	-	-	200,000
	<b>\$ 3,502,000</b>	<b>\$ 127,750</b>	<b>\$ 227,750</b>

**7. Short-term investments**

	February 29, 2012	February 28, 2011	March 1, 2010
Marketable securities:			
Holdings in companies related by virtue of common directors/officers	\$ 4,295	\$ 11,620	\$ 8,083
Holdings in unrelated companies	-	-	31,500
	<b>\$ 4,295</b>	<b>\$ 11,620</b>	<b>\$ 39,583</b>

The Company classifies its short-term investments as available-for-sale, with revaluation gains and losses recognized in accumulated other comprehensive income. As of February 29, 2012, investments were measured at a fair value of \$4,295, after an unrealized loss of \$7,325 in the year ended February 29, 2012.

**8. Equipment**

	Office Equipment	Leasehold Improvements	Vehicle	Total
<b>Cost</b>				
Balance, March 1, 2010	\$ 131,851	\$ 10,512	\$ 36,760	\$ 179,123
Balance, February 28, 2011	\$ 131,851	\$ 10,512	\$ 36,760	\$ 179,123
Additions for the year	16,440	12,928	29,812	59,180
<b>Balance, February 29, 2012</b>	<b>\$ 148,291</b>	<b>\$ 23,440</b>	<b>\$ 66,572</b>	<b>\$ 238,303</b>
<b>Accumulated Amortization</b>				
Balance, March 1, 2010	\$ 94,500	\$ 6,065	\$ 32,625	\$ 133,190
Amortization for the year	8,895	4,447	1,241	14,583
Balance, February 28, 2011	\$ 103,395	\$ 10,512	\$ 33,866	\$ 147,773
Amortization for the year	8,341	775	6,476	15,592
<b>Balance, February 29, 2012</b>	<b>\$ 111,736</b>	<b>\$ 11,287</b>	<b>\$ 40,342</b>	<b>\$ 163,365</b>

**International Northair Mines Ltd.**  
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**8. Equipment - Continued**

**Carrying amounts**

March 1, 2010	\$	37,351	\$	4,447	\$	4,135	\$	45,933
February 28, 2011	\$	28,456	\$	-	\$	2,894	\$	31,350
<b>February 29, 2012</b>	<b>\$</b>	<b>36,555</b>	<b>\$</b>	<b>12,153</b>	<b>\$</b>	<b>26,230</b>	<b>\$</b>	<b>74,938</b>

**9. Exploration and evaluation assets**

	<b>La Cigarra, Mexico</b>	<b>El Reventon, Mexico</b>	<b>Sierra Rosario and Other</b>	<b>Total</b>
Balance at March 1, 2010	\$ 197,263	\$ 884,588	\$ -	\$ 1,081,851
Acquisition and tenure	32,663	9,499	8,525	50,687
Camp and general	21,019	-	-	21,019
Drilling	360,767	-	-	360,767
Field work and travel	59,881	-	22,423	82,304
Salaries and consulting	86,729	165	11,789	98,683
Write-offs	-	-	(42,737)	(42,737)
Balance at February 28, 2011	758,322	894,252	-	1,652,574
Acquisition and tenure	103,109	12,917	7,640	123,666
Camp and general	135,790	4,834	81,257	221,881
Drilling	1,592,183	-	-	1,592,183
Field work and travel	360,890	-	14,735	375,625
Salaries and consulting	635,405	600	69,026	705,031
Contributions from joint-venture partner	-	-	(72,062)	(72,062)
Write-offs	-	-	(60,699)	(60,699)
<b>Balance, February 29, 2012</b>	<b>\$ 3,585,699</b>	<b>\$ 912,603</b>	<b>\$ 39,897</b>	<b>\$ 4,538,199</b>

***La Cigarra, Mexico***

During fiscal 2010, the Company entered into an option agreement, through its wholly owned subsidiary Grupo Northair to acquire a 100% interest in the La Cigarra Project located in the State of Chihuahua, Mexico.

Grupo Northair can acquire a 100% ownership in the concessions by making payments over a five year period totalling US\$445,000 (US\$50,000 paid). Under a separate agreement, the Company was also required to pay US\$1,000 per month until October 1, 2010 for surface access to portions of the concessions. It also has a second agreement to allow drilling on portions of the concessions, for a payment of US\$2,000 per month. The Company has elected to continue these options and therefore pays US\$3,000 per month going forward. The Company also has an agreement to allow drilling to be conducted on land controlled by a local Ejido. During the year the Company expanded the project to include the La Borracha concession at a cost of US\$35,000.



**International Northair Mines Ltd.**  
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**9. Exploration and evaluation assets - Continued**

*El Reventon, Mexico*

The El Reventon project in Durango, Mexico was acquired by staking a 100% interest in certain claims and by entering into, on July 2006, an option agreement for an additional concession. Under the terms of the option Agreement (amended), the Company may earn a 100% interest in the optioned concession by making payments totalling US\$130,500 over a six year period.

*Sierra Rosario, Mexico*

During the year ended February 29, 2012, the Company received \$72,062 in joint venture cash recoveries for exploration expenditures and recorded as a liability \$103,443 received in excess of exploration costs incurred.

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 Northair. In consideration for Northair 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 Northair concurrently with the completion of the first payment and share issuance from American Consolidated to Sparton under their agreement.

*Brandywine, Canada*

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

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**10. Share Capital and Reserves**

*Authorized share capital*

Unlimited number of common shares without par value

*Shares Issued*

- a) During the year ended February 29, 2012, the Company completed a private placement by issuing 17,126,666 units at a price of \$0.30 per unit for total proceeds of \$5,138,000. Each unit is comprised of one common share and one half share purchase warrant, with each warrant entitling the holder to acquire a further common share at a price of \$0.50 per share for 12 months. A total of 834,833 finders' fee warrants were issued in conjunction with this private placement having the same characteristics as the warrants issued in the private placement. The finders' fee warrants have been valued at \$119,381. The finders' fee warrants were valued based upon the Black Scholes model utilizing the following assumptions:

Risk-free interest rate	1.69%
Expected dividend yield	Nil
Expected stock price volatility	159%
Expected life (in years)	0.76

The Company also paid \$277,493 share issuance costs associated with the private placement.

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**10. Share Capital and Reserves – Continued**

- b) During the year ended February 28, 2011, the Company offered an incentive program to encourage the early exercise of warrants issued in May, 2009. The incentive offer was applicable to 13,070,000 warrants, which could be exercised at a price of \$0.10 per share for total gross proceeds of \$1,307,000. The terms were such that each warrant holder who exercised its May 2009 warrants on or before May 11, 2010 would receive one unit (in lieu of one common share) consisting of one common share and one-half of one warrant. Each 2010 warrant would allow the holder to acquire one common share of the capital of the Company at an exercise price of \$0.20 for a period of 12 months following the date of the issuance of the units. The Company, as a result, incurred a non-cash incentive charge of \$122,949 as current period financing cost based upon the Black Scholes model which utilized the following assumptions:

Risk-free interest rate	1.63%
Expected dividend yield	Nil
Expected stock price volatility	84.8%
Expected life (in years)	0.08

Warrants unexercised under the incentive option continued to be exercisable for common shares of the Company on their original terms. All of the remaining 2009 warrants were exercised with 2,399,650 being exercised in 2011 for proceeds of \$473,315 and 5,916,350 exercised in fiscal 2012 for proceeds of \$1,183,270.

A commission was paid to finders consisting of \$12,088 cash and 120,875 common shares with a fair value of \$12,088.

All of these incentive warrants have been exercised with 637,500 being exercised in 2011 for proceeds of \$127,500 and 2,555,000 being exercised in 2012 for proceeds of \$511,000.

*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 13,839,793 options to directors, officers, employees or consultants. The vesting period of options outstanding range from the grant date to one year and expire 5 years from the grant date.

- a) Movements in share options during the year

The changes in share options during the year ended February 29, 2012 and the year ended February 28, 2011 were as follows:

	Options outstanding	Weighted Average exercise price
Balance, March 1, 2010	1,415,000	\$0.20
Granted	440,000	\$0.15
Expired	(100,000)	\$0.19
Forfeited	(300,000)	\$0.19
Balance, February 28, 2011	1,455,000	\$0.19
Granted	2,660,000	\$0.56
Exercised	(360,000)	\$0.17
Forfeited/Expired	(515,000)	\$0.49
Balance, February 29, 2012	<b>3,240,000</b>	

**International Northair Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**10. Share Capital and Reserves – Continued**

b) Fair value of share options granted

During the year ended February 29, 2012, the Company granted options to directors, officers and employees to purchase up to 2,660,000 common shares of the Company at a weighted average exercise price of \$0.56 per share. The estimated fair value of the stock options granted during the year ended February 29, 2012 was \$1,260,241 using the Black Scholes option pricing model.

During the year ended February 28, 2011, the Company granted options to employees to purchase up to 440,000 common shares of the Company at a weighted average exercise price of \$0.15 per share. The estimated fair value of the stock options granted during the year ended February 28, 2011 was \$32,837 using the Black Scholes option pricing model.

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

	<b>Year ended February 29, 2012</b>	Year ended February 28, 2011
Risk-free interest rate	<b>0.99% - 2.34%</b>	1.39%
Expected dividend yield	<b>Nil</b>	Nil
Expected stock price volatility	<b>112% - 234%</b>	177%
Expected life (in years)	<b>3.0 - 3.5</b>	2.5
Expected forfeiture rate	<b>0%</b>	n/a

During the year ended February 29, 2012 a total value of \$1,150,901 (2011 - \$34,548) has been recorded to reserves and to share-based payments. The portion of share-based payments recorded is based on the vesting schedule of the options.

c) Share options outstanding

A summary of the Company's options outstanding as at February 29, 2012 is as follows:

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
10,000	10,000	\$0.28	0.33	(1) June 6, 2012
120,000	120,000	\$0.21	0.33	January 4, 2013
10,000	10,000	\$0.22	1.00	February 28, 2013
80,000	80,000	\$0.15	1.33	June 13, 2013
280,000	280,000	\$0.15	1.92	February 9, 2014
15,000	15,000	\$0.15	2.67	October 30, 2014
150,000	150,000	\$0.15	3.00	March 11, 2015
150,000	150,000	\$0.15	3.16	April 21, 2015
1,150,000	1,025,000	\$0.71	3.41	May 19, 2016
750,000	600,000	\$0.495	3.75	July 18, 2016
50,000	50,000	\$0.305	3.92	Sept. 20, 2016
175,000	175,000	\$0.25	3.92	Sept. 28, 2016
300,000	150,000	\$0.24	4.80	Dec. 15, 2016
3,240,000	2,815,000			

(1) Subsequent to February 29, 2012 these options expired unexercised.

The weighted average exercise price of the options exercisable at February 29, 2012 is \$0.44.

**International Northair Mines Ltd.**  
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**10. Share Capital and Reserves – Continued**

*Warrants*

a) Movements in warrants during the year

The changes in share warrants during the year ended February 29, 2012 and the year ended February 28, 2011 were as follows:

	Warrants outstanding	Weighted average exercise price
Balance – March 1, 2010	14,601,000	\$0.10
Issued	3,192,500	\$0.20
Exercised	(9,322,150)	\$0.20
Balance –February 28, 2011	8,471,350	\$0.20
Issued	9,398,166	\$0.50
Exercised	(8,471,350)	\$0.20
<b>Balance –February 29, 2012</b>	<b>9,398,166</b>	<b>\$0.50</b>

b) Warrants outstanding

A summary of the Company's warrants outstanding as at February 29, 2012 is as follows:

Number	Exercise price	Expiry Date
9,398,166	\$0.50	(1) March 17, 2012

(1) Subsequent to February 29, 2012 those warrants expired unexercised

c) Shareholder Rights Plan

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

**International Northair Mines Ltd.**  
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**11. Income Taxes**

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

	2012	2011
Loss for the year	\$ (2,049,849)	\$ (485,829)
Expected income tax (recovery)	\$ (538,000)	\$ (137,000)
Change in statutory rates, foreign tax and other	(691,000)	(12,000)
Permanent Difference	433,000	56,000
Share issue cost	(73,000)	-
Change in unrecognized deductible temporary differences	869,000	93,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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

	2012	2011
Deferred Tax Assets (liabilities)		
Exploration and evaluation assets	\$ 475,000	\$ 475,000
Property and equipment	48,000	51,000
Canadian Eligible Capital		
Share issue costs	57,000	2,000
Deferred revenue		
Allowable capital losses	68,000	68,000
Non-capital losses available for future period	1,625,000	808,000
	2,273,000	1,404,000
Unrecognized deferred tax assets	(2,273,000)	(1,404,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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

	2012	2011	Expiry Date Range
<b>Temporary Differences</b>			
Exploration and evaluation assets	\$ (2,638,000)	\$ 247,000	No expiry date
Property and equipment	192,000	209,000	No expiry date
Share issue costs	229,000	10,000	2033 - 2036
Allowable capital losses	273,000	273,000	No expiry date
Non-capital losses available for future period	6,098,000	2,803,300	2015 – 2032

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

**International Northair Mines Ltd.**  
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**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
Avisar Chartered Accountants	Accounting fees
New Dimension Resources Ltd.	Administrative and salary recoveries
Mercator Minerals Ltd. (formerly Creston Moly Corp.)	Administrative recoveries
Capstone Mining Corp.	Administrative recoveries
North Arrow Minerals Inc.	Administrative recoveries
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 in which an officer of the Company is a partner.

	Note	Year ended February 29, 2012	Year ended February 28, 2011
Accounting fees		\$ 22,663	\$ 22,375
Administrative recoveries		\$ (66,056)	\$ (63,144)
Salary recoveries	(i)	\$ (426,500)	\$ (343,122)

- (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) *Related party balances*

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

	February 29, 2012	February 28, 2011	March 1, 2010
Mercator Minerals Ltd.	\$ 20,628	\$ 34,038	\$ 22,138
Capstone Mining Corp.	-	20,377	17,121
New Dimension Resources Ltd.	35,322	17,397	15,706
Troon Ventures Ltd.	(4,773)	5,275	3,918
JDS Energy and Mining	21,321	-	-
Strongbow Exploration Inc.	11,892	-	7,096
Stornoway Diamonds Corp.	2,985	-	5,100
Andagan Resource Corp.	-	-	2,515
Other	3,266	187	106
	<b>\$ 90,641</b>	<b>\$ 77,274</b>	<b>\$ 73,700</b>

**International Northair Mines Ltd.**  
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**12. Related party transactions – continued**

c) *Compensation of key management personnel*

	Year ended February 29, 2012	Yearended February 28, 2011
Management fees, directors' fees, salaries	\$ 235,696	95,400
Share-based payments	\$ 733,685	31,990

- Share-based payments represents the expense for the years ended February 29, 2012 and February 28, 2011.
- Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended February 29, 2012 and February 28, 2011.

d) *Employment contract*

During the year, the Company entered into an employment agreement requiring minimum annual payments totalling \$180,000. In addition, the agreement contains clauses which could provide for payments of up to 36months on the termination of the contract.

**13. Segmented information**

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

	February 29, 2012	February 28, 2011	March 1, 2010
Total Assets			
Canada	\$ 4,017,308	\$ 1,075,509	\$ 805,390
Mexico	4,923,534	1,862,093	1,117,502
Total	\$ 8,940,842	\$ 2,937,602	\$ 1,922,892

	February 29, 2012	February 28, 2011	March 1, 2010
Total Non-current Assets			
Canada	\$ 240,904	\$ 28,457	\$ 37,498
Mexico	4,567,671	1,655,467	1,090,286
Total	\$ 4,808,575	\$ 1,683,924	\$ 1,127,784

	Year endedFebruary 29, 2012	Year endedFebruary 28, 2011
Net Loss		
Canada	\$ 1,787,760	\$ 452,864
Mexico	262,089	32,965
Total	\$ 2,049,849	\$ 485,829

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**14. Commitment**

As at February 29, 2012, the commitment for rental of the Company's office space is as follows:

Year ending		
February 28, 2013	\$	269,771
February 28, 2014	\$	269,771
February 28, 2015	\$	269,771
February 29, 2016	\$	247,290

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

**15. Supplemental cash flow information**

	Year ended February 29, 2012	Year ended, February 28, 2011
<b>Changes in non-cash working capital:</b>		
<i>Increase in:</i>		
Receivables and taxes receivable	\$ (377,115)	\$ (86,259)
Due from related parties	(13,367)	(3,574)
Prepaid expenses	(50,893)	(2,038)
<i>Increase in:</i>		
Accounts payable and accrued liabilities	27,546	22,155
	<b>\$ (413,829)</b>	<b>\$ (69,716)</b>

<b>Schedule of non-cash investing and financing transactions:</b>	2012	2011
Fair value of warrants issued	\$ 119,381	\$ 122,949
Shares issued as finders' fees	\$ -	\$ 12,088
Change in exploration and evaluation assets included in accounts payable	\$ 163,147	\$ 41
Unrealized loss on short-term investments	\$ 7,325	\$ 1,263

<b>Supplementary disclosure of cash flow information:</b>	Year ended February 29, 2012	Year ended February 28, 2011
Cash paid for interest	\$ Nil	\$ Nil
Cash paid for income taxes	\$ Nil	\$ Nil



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**16. Transition to IFRS**

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS1") sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated March 1, 2010:

**a) IFRS 3 - Business Combinations**

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and will apply IFRS 3 to business combinations that occur on or after March 1, 2010.

**b) IFRS 2 - Share-based Payments**

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that were granted prior to November 7, 2002.

**IFRS**

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value. Awards based in a currency other than the Company's functional currency are translated at the foreign exchange rate in effect on the grant date of the award and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are included in the calculation of fair value of share-based awards, and are revised for actual forfeitures in subsequent periods.

**Canadian GAAP**

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value may be recognized on a straight-line basis over the vesting period.
- Forfeitures of awards may be recognized as they occur.

As at March 1, 2010, the application of IFRS 2 resulted in a \$676 decrease to the deficit and a corresponding \$676 decrease to reserves due to a revaluation of options granted prior to March 1, 2010 but which vested after March 1, 2010.

For the year ended February 28, 2011 there was an increase of \$216 in share-based payments from \$34,332 to \$34,548. These IFRS adjustments resulted in a cumulative decrease to the deficit and reserves of \$460 as at February 28, 2011.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated March 1, 2010:

**c) Estimates**

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective

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**16. Transition to IFRS - *continued***

evidence that those estimates were in error. The Company's IFRS estimates as of March 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

**d) Taxes**

According to IAS 12 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.

Under IFRS, temporary differences resulting from the initial recognition of assets or liabilities that do not affect accounting or taxable profit do not result in a deferred tax asset or liability. As of the date of transition, the Company has therefore derecognized the impact of deferred tax liabilities which had previously been recognized on the El Reventon and La Cigarra projects.

As at March 1, 2010, there was a decrease in the deferred tax liability from \$215,116 to \$Nil, a decrease of \$217,283 in the capitalized resource property costs from \$1,299,134 to \$1,081,851 and a corresponding increase in the deficit of \$2,167 resulting from the reversal of a tax recovery previously recorded under Canadian GAAP. For the year ended February 28, 2011, there was a reversal of a \$9,587 tax recovery recorded under Canadian GAAP and a reversal of a further \$26,566 capitalized to resource property costs with a corresponding \$16,979 recorded as a deferred tax liability. As a result of these IFRS adjustments, at February 28, 2011 there was a decrease in the deferred tax liability from \$232,095 to \$Nil, a decrease of \$243,849 in the capitalized resource property costs from \$1,896,423 to \$1,652,574, and an increase to the deficit of \$11,754.

**e) Warrants issued in private placements**

Under Canadian GAAP, the residual value method and the Black-Sholes method are available as options in order to value the convertible feature associated with the units issued in private placements.

The Company has used the Black-Scholes option-pricing model to measure the value of the warrants issued and has recognized a reduction in share capital and an increase to reserves. Under the IFRS framework, the valuation method with respect to the warrants issued is restricted to the residual value method. Under this method, the initial value of the units is determined based on the issue price of the units, which is compared to the market value of the shares on the date of issuance. Any difference between the market price and the issuance price is allocated to the value of the warrants and recorded as an increase to reserves and a decrease to share capital.

As a result of this change in policy, a reallocation of \$183,339 relating to the financial year ended February 28, 2010 has been reallocated from reserves to share capital effective March 1, 2010. A reallocation of \$51,568 on the exercise of warrants for the year ended February 28, 2011 has been reallocated from share capital to reserves, resulting in a cumulative impact on share capital and reserves of \$131,771 effective February 28, 2011. These reallocations had a \$nil effect on overall equity.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of loss and comprehensive loss, statement of financial position, statement of changes in equity and statement of cash flows for the year ended February 28, 2011 have been reconciled to IFRS, with the resulting differences explained.

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**16. Transition to IFRS- Continued**

The March 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Note	Canadian GAAP	March 1, 2010 Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		\$ 410,207	\$ -	\$ 410,207
Short-term deposits		227,750	-	227,750
Receivables		35,748	-	35,748
Due from related parties		73,700	-	73,700
Short-term investments		39,583	-	39,583
Prepaid expenses		8,120	-	8,120
		795,108	-	795,108
<b>Non-current assets</b>				
Equipment		45,933	-	45,933
Exploration and evaluation assets	(d)	1,299,134	(217,283)	1,081,851
		\$ 2,140,175	\$ (217,283)	\$ 1,922,892
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 68,370	\$ -	\$ 68,370
<b>Non-current liabilities</b>				
Deferred tax liability	(d)	215,116	(215,116)	-
		283,486	(215,116)	68,370
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	(e)	22,936,439	183,339	23,119,778
Reserves – warrants	(e)	466,353	(183,339)	283,014
Reserves – options	(b)	641,868	(676)	641,192
Accumulated other comprehensive income		30,950	-	30,950
Deficit	(b)(d)	(22,218,921)	(1,491)	(22,220,412)
		1,856,689	(2,167)	1,854,522
		\$ 2,140,175	\$ (217,283)	\$ 1,922,892

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**16. Transition to IFRS- Continued**

The February 28, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Note	Canadian GAAP	February 28, 2011 Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		\$ 904,869	\$ -	\$ 904,869
Short-term deposits		127,750	-	127,750
Receivables		122,007	-	122,007
Due from related parties		77,274	-	77,274
Short-term investments		11,620	-	11,620
Prepaid expenses		10,158	-	10,158
		1,253,678	-	1,253,678
<b>Non-current assets</b>				
Equipment		31,350	-	31,350
Exploration and evaluation assets	(d)	1,896,423	(243,849)	1,652,574
		\$ 3,181,451	\$ (243,849)	\$ 2,937,602
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 214,273	\$ -	\$ 214,273
<b>Non-current liabilities</b>				
Deferred tax liabilities	(d)	232,095	(232,095)	-
		446,368	(232,095)	214,273
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	(e)	24,275,238	131,771	24,407,009
Reserves – warrants	(e)	467,730	(131,771)	335,959
Reserves – options	(b)	676,200	(460)	675,740
Accumulated other comprehensive income		10,862	-	10,862
Deficit	(b)(d)	(22,694,947)	(11,294)	(22,706,241)
		2,735,083	(11,754)	2,723,329
		\$ 3,181,451	\$ (243,849)	\$ 2,937,602

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**16. Transition to IFRS- Continued**

The February 28, 2011 Canadian GAAP statement of loss and comprehensive loss for the year then ended has been reconciled to IFRS as follows:

	Note	Canadian GAAP	February 28, 2011 Effect of transition to IFRS	IFRS
<b>General and administrative expenses</b>				
Administrative recoveries		\$ (86,248)	\$ -	\$ (86,248)
Amortization		14,583	-	14,583
Financing costs - warrants		122,949	-	122,949
Office, salaries and general		238,278	-	238,278
Professional fees		63,924	-	63,924
Regulatory compliance and transfer agent fees		20,371	-	20,371
Shareholder information and investor relations		76,618	-	76,618
Share-based payments	(b)	34,332	216	34,548
<b>Loss before the undernoted</b>		484,807	216	485,023
Gain on sale of short-term investments		(18,825)	-	(18,825)
Loss on foreign exchange		20,752	-	20,752
Interest income and other		(43,858)	-	(43,858)
Write-off of exploration and evaluation assets		42,737	-	42,737
<b>Loss before income tax</b>		485,613	216	485,829
Deferred tax recovery	(d)	(9,587)	9,587	-
<b>Net loss for the year</b>		\$ 476,026	\$ 9,803	\$ 485,829
<b>Other comprehensive loss</b>				
Unrealized loss on available-for-sale investments		1,263	-	1,263
Amounts reclassified upon realization		18,825	-	18,825
		20,088	-	20,088
<b>Comprehensive loss for the year</b>		\$ 496,114	\$ 9,803	\$ 505,917

Upon transition to IFRS there were no significant changes to the statement of cash flows.

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**17. Subsequent Events**

Subsequent to February 29, 2012:

- a) The Company entered into an agreement whereby it has granted Focus Ventures Ltd. ("Focus") the option to acquire a 65% interest in its El Reventon Silver Project located in the state of Durango, Mexico. Under the terms of the agreement, Focus can earn its interest by the payment of US\$235,000 to the Company over 24 months and incurring US\$2,000,000 of exploration expenditures on the property over a three year period.
- b) The Company executed an agreement to acquire up to a 70% interest in a land position in the area of its La Cigarra Project. Under the terms of the agreement the Company can acquire its interest by the payment of US\$525,000, the issuance of 1,500,000 shares of the Company and the spending of US\$2,000,000 in exploration over a four year period. The agreement is subject to the private company assuring title to the land position.
- c) The Company announced that it had entered into an agreement with Coeur d'Alene Mines Corporation for a \$3 million financing and announced a non-brokered private placement for an additional minimum \$ 1 million. Both financings will consist of units issued at a price of \$0.28 per unit. Each unit will consist of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of \$0.40 for a period of eighteen months. The warrants will be subjected to an accelerated exercise provision if the shares of Northair trade at or above \$0.85 for 10 or more consecutive days. Subscriptions have been received for a total of \$4,473,616 of the placement. A finders' fee of up to 7% will be payable on a portion of the financings in cash and shares, at the election of the Company. The finders could also receive Finders' Warrants with the same terms and conditions as the warrants forming the units of the financings. The financing is subject to the approval of the TSX Venture Exchange.
- d) The Company reached agreement to acquire surface rights to land adjoining and overlying the La Cigarra Project at a cost of US\$825,000 over a two year period. In addition, a US\$200,000 amount will be payable should the Company announce development of a mine on the La Cigarra Project.
- e) The Company granted directors, officers, employees and consultants options to purchase 2,765,000 shares at a price of \$0.28 per share for a period of five years.