International
Northair Mines Ltd.

The Northair Group

2009 ANNUAL REPORT

INTERNATIONAL NORTHAIR MINES LTD.

A NORTHAIR GROUP COMPANY

Dear Fellow Shareholders

The past fiscal year has proved to be another challenging one, as the ongoing liquidity crisis severely affected all markets. In response to this tough financial environment, the Company took several positive steps to reduce its future cash flow commitments and strengthen its cash position. These actions have helped Northair create a strong foundation on which it can continue to pursue its corporate and exploration objectives.

In the spring of 2009, Northair completed an over-subscribed, non-brokered private placement which raised over $650,000. This was a considerable accomplishment for the Company, as the financing occurred in a challenging environment and at a time when raising equity was difficult. The enhanced cash position will allow Northair to focus its Mexican efforts and pursue additional acquisitions, develop projects and continue generative exploration, albeit on a reduced scale.

Although the generative program has been scaled back, on a positive note the Company has benefited from reduced competitor activity. This opportunity allowed Northair to negotiate very favorable terms to obtain an option to acquire a 100% ownership stake in the La Cigarra silver project located in the state of Chihuahua. To date, the Company's ongoing technical review of the property has defined three potentially significant zones of silver mineralization. Rock chip sampling within the project has returned some very encouraging results, including 6.5 metres of 347 g/t silver and 25.3 metres of 362.7 g/t silver. Northair believes that all three zones have excellent potential to host high grade vein as well as bulk tonnage open pittable silver deposits and that the project warrants an aggressive drill program. Completion of the agreement to acquire the La Cigarra Project will be subject to further legal due diligence, as well as approval by the Company's Board of Directors and the TSXV Exchange, and registration with the appropriate Mexican government authorities.

At the La India Project in Durango, Fresnillo PLC completed a first phase diamond drill program consisting of eight holes, totaling 867 metres. Fresnillo’s drilling encountered anomalous intervals of gold mineralization in all eight holes; however no mineralized intervals of potentially economic grades were reported. Fresnillo has fulfilled their initial property commitments, although they have not informed Northair of future plans for the project.

Upon further evaluation of the El Reventon silver-lead-zinc project in Durango and the Sierra Rosario silver-gold project in Sinoloa (a joint venture with Sparton Resources Inc), the Company has decided that it will solicit interest from possible joint venture partners in order to advance both properties.

Going forward, the Company is confident that it has made the necessary adjustments required to take advantage of current opportunities within the exploration industry. My thanks go out to all investors who continue to support our efforts.

On behalf of the Board of Directors,
INTERNATIONAL NORTHAIR MINES LTD.

“Fred G. Hewett”

Frederic G. Hewett, *P.Eng.*
President & C.E.O.
July 10, 2009

Exploration Update

Overview

International Northair Mines Ltd. (the "Company" or "Northair"), through its wholly owned subsidiary Grupo Northair de Mexico, S.A. de C.V., continues to explore within prospective mineral belts in Mexico that the Company believes provide opportunities for significant discoveries. Northair's corporate objective is to identify, explore and develop high grade as well as bulk tonnage gold and silver deposits. The generative program has been curtailed to allow the Company to concentrate on its existing properties, while the acquisition of La Cigarra during the past year has provided the Company with an exciting new exploration project as we look for partners to advance our other assets.

Project Discussion

La Cigarra Project, Chihuahua

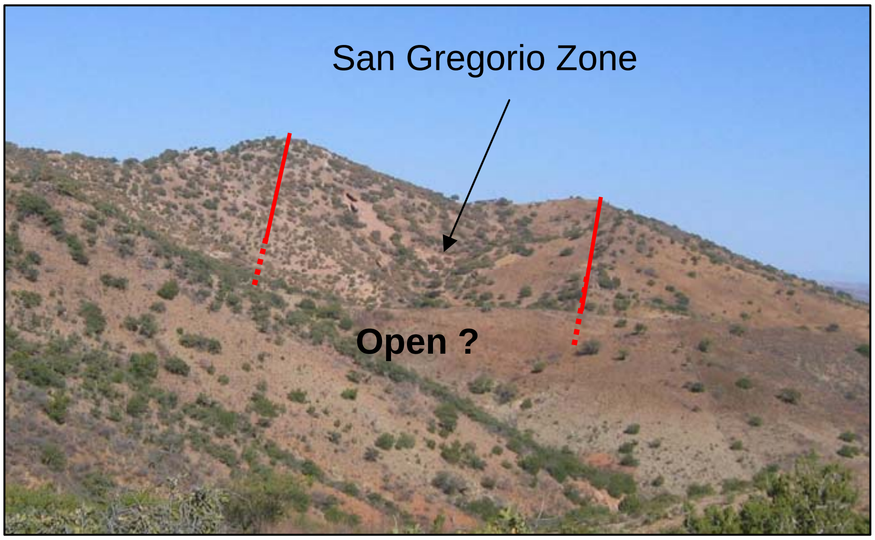
The La Cigarra Project is located outside the municipality of Parral, in State of Chihuahua along the eastern fringes of the Sierra Madre Occidental in north central Mexico. La Cigarra consists of 6 privately held concessions, totaling approximately 335 hectares and has good road access, topography and infrastructure.

La Cigarra was identified as an acquisition target by exploration staff late in 2008, as part of the Company's generative exploration program. Reconnaissance and initial sampling results completed by Northair confirmed numerous silver occurrences currently traced over a 3 kilometre trend of mineralization. The Company, through an ongoing technical review has defined three potentially significant zones of silver mineralization. Northair believes that all three zones have the potential to host high grade vein as well as bulk tonnage open pittable silver deposits.

The first of three zones sampled by Northair, the San Gregorio Zone, lies in the central portion of the property and contains two distinct areas referred to as East Hill and West Hill. East Hill contains mineralization exposed through limited outcrops and mine workings over a northwesterly trending zone of approximately 185 by 50 metres, dipping moderately to the northeast. To date, Northair has taken a total of 32 chip samples from East Hill, ranging in widths from 1.5 to 15 metres, with an average width of 4.3

metres. The 32 samples reported an average grade of 180 g/t silver including a low of 10 g/t silver over a width of 4 metres and a high of 991 g/t silver over a width of 3 metres.

West Hill, located parallel to the structural fabric of the East Hill area and 80 metres to the southwest, contains a northwesterly striking, moderately northeasterly dipping vein system. The main vein is open in both directions and has been traced on surface over a strike length of approximately 340 metres with exposed widths of mineralization that range up to 15 metres. To date, Northair has taken a total of 28 samples from surface outcrops and historic mine workings that range in sample width from 1.0 to 6 metres, with an average width of 3.3 metres. The 28 samples reported an average grade of 187.3 g/t silver, including a low of 12.9 g/t silver over a width of 3 metres and a high of 660 g/t silver over a width of 2 metres.



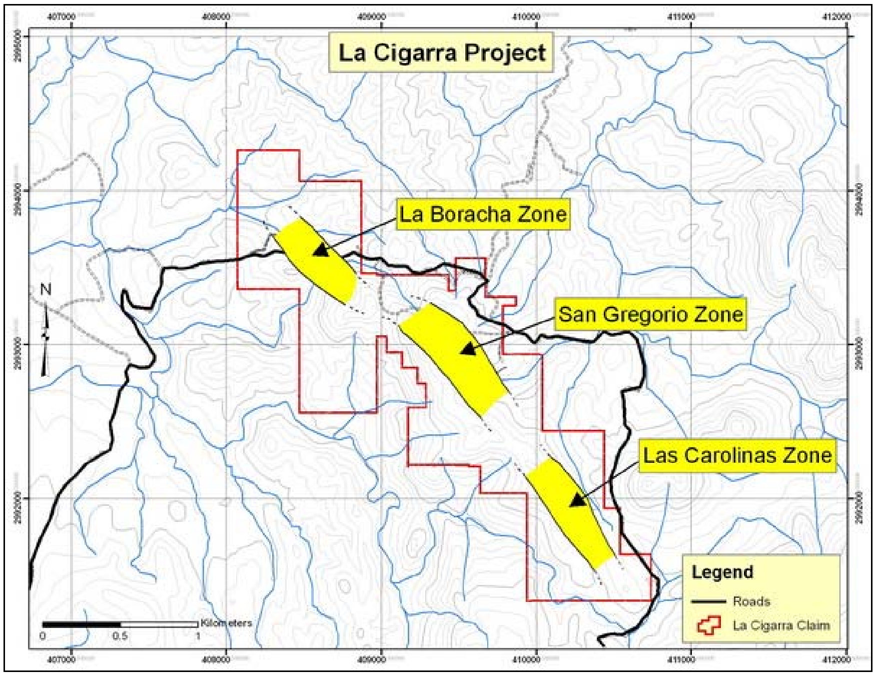
Looking Northwesterly Along Postulated Strike of Mineralization

The second of three zones, the La Boracha Zone, is situated in the most northern portion of the property and hosts three significant areas of mineralization. In the centre of the zone, where numerous prospects and small mine workings exist, the Company has sampled vein and stockwork mineralization that occurs within a large elbow shaped area known as El Codo. The El Codo area measures approximately 450 metres in length by 50 to 75 metres in width and contains mineralization that occurs in moderately dipping shale and siltstone locally intruded by altered rhyolite dikes and sills. To date, the Company has taken 51 rock chip samples (ranging in widths from 2.5 to 10 metres, with an average width of 4.8 metres) from outcrops and old mine workings within the area. The 51 samples reported an average grade of 82 g/t silver, including a low of 7 g/t silver over 4.5 metres and a high of 348 g/t silver over 3 metres. Included were two separate sets of continuous sampling in both limbs of the area, including 32 metres of 75.7 g/t silver, with a low of 43.2 g/t silver and a high of 98 g/t silver; and 15 metres of 185 g/t silver, with a low of 108 g/t silver and a high of 336 g/t silver.

Reconnaissance to the northwest of the El Codo area has discovered a second area of mineralization, where continuous sampling over 25.3 metres reported an average grade of 362.7 g/t silver, with a low of 10.6 g/t silver, and a high of 1,940 g/t silver. Although additional field work is required, it is possible that this second area may extend approximately 100 metres to the southeast and connect with the El Codo area.

The third area of mineralization, southeast of El Codo, contains a northwesterly striking, moderately northeasterly dipping classic vein system that shows evidence of minor historic development. The vein has been traced on surface and underground workings for approximately 250 metres. High grade mineralization within the vein occurs in shoots, which appear to average between 1 to 2 metres in width. Grades are erratic, with sample results ranging from a low of 12.5 g/t silver over 5 metres to a high of 1,030 g/t silver over 1 metre.

The third of three zones, the Las Carolinas Zone is located 800 metres southeast from the San Gregorio Zone. To date, the Company has completed a first phase of geologic mapping and rock chip sampling within the Las Carolinas Zone, which contains some of the largest old mine workings within the property. Mineralization has been traced over a strike length of approximately 500 metres, and is open in both directions. The zone is generally estimated to range up to 50 metres in width, although additional mapping and sampling is necessary to confirm its dimensions. The mineralization mapped thus far is associated with intensely altered dike swarms intruding Cretaceous sedimentary rocks. The Company has taken 35 rock chip samples, ranging in widths from 2 to 10 metres, with an average width of 4.1 metres. The 35 samples reported an average grade of 192.3 g/t silver including a low of 4.3 g/t silver over 10 metres and a high of 334 g/t silver over 4 metres. Of particular interest is evidence of strong silver values reported in several samples taken from altered rhyolite dikes, including 5 metres of 215 g/t silver.



La Cigarra Project - Mineralized Zones

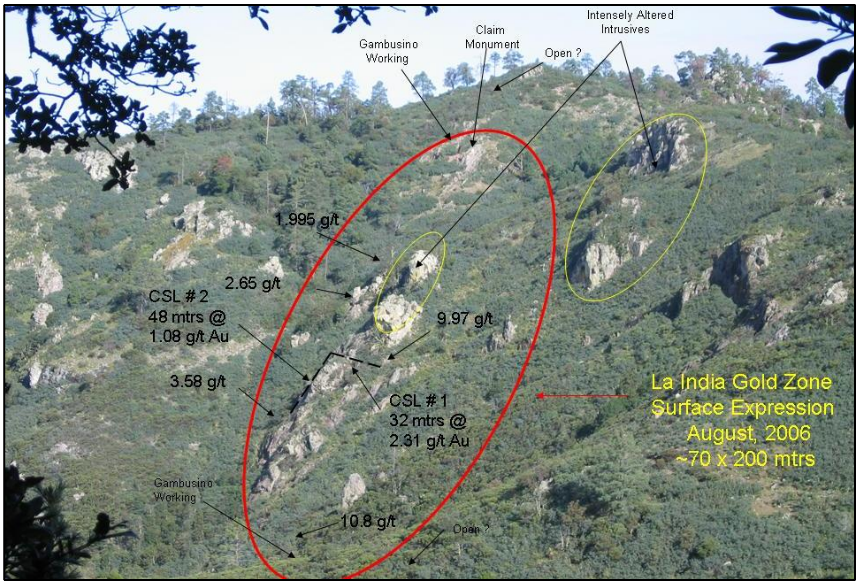
La Cigarra contains, post-mineral Oligocene rhyolite volcanics belonging to the “Upper Volcanic Complex” overlie Cretaceous age sediments. The sediments are generally non-calcareous, and include shale, siltstone and sandstone. Sedimentary rocks are locally intruded by rhyolite dikes, sills and small stocks, and range in texture from aphanitic to porphyritic. Intrusive rocks are more common along the areas of higher topography of the Sierra de Hoyas, and are frequently highly silicified. There is a significant structural deformation within the project area. Stratigraphy generally dips moderately from northwest to northeast. Preliminary mapping indicates there may be a general anticlinal feature paralleling the Sierra. There are numerous regional deep seated northwest extensional fault systems within the project, which coincide with the regional Parral mineral belt. These faults are associated with controlling intrusive emplacement and mineralization. A secondary northeast set of faulting is also apparent.
Grupo Northair can acquire a 100% ownership in the concessions by making payments over a 5 year period totaling US$445,000. A payment of US$5,000 is due upon signing the formal option agreement. Signing of the formal agreement will be subject to further legal due diligence by Grupo Northair, as well as approval by the Company’s Board of Directors and the TSXV Exchange, and registration with the appropriate Mexican government authorities.

La India Project, Durango

The La India Project located approximately 140 kilometres north of the capital city of Durango, was acquired in the fall of 2006.

La India is an iron oxide low sulfidation gold system with mineralization occurring in an intrusive rhyolite breccia that was initially estimated by the Company to be at least 70 by 300 meters in surface exposure.

The mineralized breccia zone contains hydrothermal and explosive fragments of rhyolite porphyry cemented by a matrix of siliceous iron oxide. High density (<1 cm wide) stockworking quartz veinlets cut both the matrix and fragments of the breccia, which intrudes rhyolite volcanics. The area is also cut by several large regional extensional faults. Two small gambusino workings have been found within the project area, but there is no evidence that the property has been examined by other modern exploration companies. The Company completed two phases of rock chip sampling with the results of 100 samples returning a global average of 9.844 g/t gold. Highlighted intervals of continuous chip sampling include 15 metres @ 2.42 g/t gold, 32 metres @ 2.31 g/t gold, and 48 metres @ 1.08 g/t gold.



Northair Surface Sampling at La India Gold Zone

In May 2008, the Company signed binding agreements with Fresnillo PLC (“Fresnillo”), a subsidiary of Industrias Peñoles, S.A. de C.V. to explore the La India Project. The agreements allow Fresnillo, or a subsidiary of Fresnillo, to earn a 60% equity participation in a Joint Venture company to be incorporated by the parties upon Fresnillo completing exploration expenditures on the La India Project of US$1,750,000, paying Northair US$210,000 and purchasing Northair shares from treasury valued at US$210,000 (at a 20% premium to market at the time of purchase) over a four year period.

Fresnillo can increase its equity participation in the Joint Venture Company to 80% by preparing a scoping study on the resources found. If Northair elects not to participate in additional funding of the project, Northair will retain a 1% net smelter return royalty interest. The agreements contain a provision whereby, if Northair becomes aware of an entity acquiring more than 50% of the voting shares of Northair, Fresnillo is granted the option to either buy Northair’s interest in the project, or offer to Northair Fresnillo’s interest in the project, at a price to be determined by an independent duly qualified international appraiser. In the event that Fresnillo elects to offer its interest to Northair and Northair fails to complete the acquisition within 45 business days, Fresnillo shall have the option to sell its interest to a third party at an equal or higher price.

Fresnillo commenced exploration in mid 2008 and in a January 2009 report provided to Northair, offered details of its initial exploration program on the property. The program included geological mapping and over 2,000 rock chip samples within the project area. Fresnillo's geological mapping increased the size of the breccia and has defined an irregular surface area of mineralization having an exposed strike length of approximately 400 metres with widths ranging up to 60 metres. From the maps provided by Fresnillo, Northair calculates that Fresnillo has taken 158 rock chip samples within the main breccia zone reporting an average grade of 0.63 g/t gold.

In spring of 2009, Fresnillo completed a first phase diamond drill program, which consisted of eight holes, totaling 867 metres in length. The Fresnillo program tested two mineralized zones, the South Breccia previously outlined on surface by Northair and the North Breccia discovered by Fresnillo and located approximately 500 metres north of the South Breccia. Fresnillo's drilling encountered anomalous intervals of gold mineralization in all eight holes; however no mineralized intervals of potentially economic grades were reported.

Top Arrow - Fresnillo Drill Location
Bottom Arrow - Drill Access

Although Fresnillo has not informed Northair of its future plans for the project, they have fulfilled their initial commitments by expending well in excess of US$100,000 on exploration over the past year and paying Northair US$50,000 (a US$25,000 cash payment, purchasing US$25,000 of Northair shares from treasury at a 20% premium to market) on May 28, 2009 and making the annual option payment due to the underlying vendor. At the onset of the first option year just concluded, Fresnillo initially made a cash/share purchase of US$30,000 and reimbursed Northair for underlying option payments and carrying costs.

El Reventon Project, Durango

The El Reventon Project is comprised of approximately 3,400 hectares acquired by staking and a further 60 hectares which is the subject of an option agreement. The Company may acquire a 100% interest from the option or by making payments totaling US$151,000 over a four year period.

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

Within the Reventon Breccia, outcrops of the porphyry display intense hydrothermal brecciation, with micro and macro breccia textures. The entire exposed zone has strong epithermal silica flooding and replacement within the matrix and breccia fragments. Mineralization occurs as disseminations, veining, stockworking, and aggregates of coarse pyrite, galena and sphalerite, contained within the intrusive as well as the adjacent volcanics. The exposed outcrop of the intrusive and mineralized breccia is an irregular shape with surface dimensions of approximately 70 by 70 metres. In 2006, a total of 51 samples taken from the breccia averaged 103.9 g/t silver, 0.74% lead and 0.79% zinc. Company geologists believe that the Reventon Breccia could be significantly larger than currently exposed, due to extensive cover by Quaternary deposits and altered post mineral volcanics. In addition, the depth potential is considered excellent.

In addition to the Reventon Breccia, the Company has identified other mineral occurrences on the property – the most note worthy being the Los Alisos, La Estrella and the El Portrero Zones. The Los Alisos Zone occurs approximately 500 metres to the south of the Reventon Breccia. The Los Alisos and Reventon Breccia zones appear to be geologically similar in that they have a comparable geochemical signature and both occur in diorite porphyry. The area between the two zones is covered by post-mineral volcanics and agglomerate; however the Los Alisos Zone may be open to the north and the east.

The La Estrella Zone is a high grade silver-gold polymetallic vein system, located two kilometres southwest of the Reventon Breccia. 24 samples taken from the zone average 0.825 g/t gold and 385 g/t silver over sample widths from .85 to 5 metres. A system of veins and stockworks ranging from approximately 1 to 15 metres in width, has been mapped and sampled in old underground workings and limited surface outcrop over a defined strike length of approximately 180 metres. The zone remains open in both strike directions. Geologic mapping indicates that La Estrella sits in a north westerly striking belt of mineralization that contains numerous old workings and occurs over a distance of 2.3 kilometres.

The third zone, the El Portrero Zone is located approximately one kilometre northeast of the Reventon Breccia, and contains dozens of prospects and small mine workings over an area of approximately 150 by 225 metres. The zone is postulated as a potential bulk mineable silver target with vein, stockwork and disseminated mineralization occurring in silicified diorite porphyry. A total of 61 samples taken from the zone average 23 g/t silver over widths ranging from 1.5 to 7 metres. The Portrero East Zone lies about 200 metres to the east of the main Portrero Zone, and contains high-level epithermal quartz stockwork and silica replacement in diorite porphyry exposed over an area of approximately 75 by 115 metres. Ten panel samples from this zone average 28 g/t silver.

In the fall of 2007, the Company completed a successful initial diamond drill test of the Reventon Breccia that totalled 660 metres in six NQ holes, in which all holes intercepted significant zones of mineralized breccia. Results for the drill program included 33.5 metres of 179 g/t silver, 22.8 metres of 94.7 g/t silver and 56.4 metres g/t silver, with associated lead and zinc values.

Drilling at Reventon Breccia

In March 2008, the Company conducted a second phase reverse circulation drill program totalling 2,170 metres in 17 holes at the Reventon Breccia and Los Alisos Zone. The result of the program was successful in increasing the size of the Reventon Breccia with highlights including 91.4 metres of 87 g/t silver containing an intercept of 19.8 metres of 176.4 g/t silver; and 80.8 metres of 71.9 g/t silver containing an intercept of 7.6 metres of 234.5 g/t silver.

Exploration programs have increased the Company's understanding of the Reventon Breccia. Although, the porphyry is only exposed on surface in an erosional window within the volcanics measuring approximately 70 by 70 metres, the Company's drill programs have outlined a much larger irregular zone of altered diorite porphyry concealed by the volcanics. Alteration and mineralization appear to increase to the north and northeast, as well as the apparent true thickness of the zone, which varies from 40 to 120 metres. Future work programs should concentrate on the expansion of the Reventon Breccia by drilling.

The Company is presently considering further exploration options for its El Reventon Project, which include soliciting interest from potential joint venture partners.

Sierra Rosario Project, Sinaloa

In April of 2002, the Company staked the Sierra Rosario concession along the western flanks of the Sierra Madre Occidental geological province approximately 40 kilometres east of Alamos, Sonora.

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

Northair's field programs concentrated primarily in the San Rafael Zone, located in the northern portion of the property, which contains strong epithermal silver with gold mineralization having a surface expression of approximately 200 by 70 metres. First phase mapping and sampling by Northair within the San Rafael Zone returned an average of 181 g/t silver and 0.321 g/t gold from 23 chip channel samples.

In 2004 the project was optioned to Sparton Resources Inc. Sparton has earned a 51% interest in the project by paying Northair $130,000 in cash, issuing 275,000 common shares and incurring $800,000 in exploration expenditures and a joint venture will be formed shortly. The work completed by Sparton was concentrated on the southern portion of the property and involved geological mapping, sampling and electrical and magnetic geophysical surveys as well as detailed soil sampling. Sparton completed an approximate 775 meter diamond drill program in 2006 to test the La Josca Zone. The seven holes tested a 500-metre-long portion of the 1.1-kilometre-long La Josca structure with modest results.

The San Rafael Zone remains the principal target area on the property. Geological and geophysical surveys have delineated a well defined magnetic anomaly associated with the San Rafael rhyolite porphyry body and also located a similar anomaly which is covered by upper volcanic series tuffs and may represent a new buried intrusion. Both skarn and structurally controlled mineralization containing barite, copper, gold, and silver are present in the area and values of up to 7.28% copper and 13 g/t gold were obtained from samples taken from boulders in a gully below an old mine dump. Strong base/precious metal mineralization is located in a shear fracture zone east of the main rhyolite intrusive as well as in fault zones associated with rhyolite dykes in limestone on the east side of the property where there is a large multi element soil anomaly.

Trenching at the San Rafael Zone

In the spring of 2008, Sparton and the Company completed the construction of a new 7.5 kilometre road to the San Rafael Zone and the area of the newly discovered Dulces Nombres, and Descubriadora Zones. This road provided the infrastructure necessary to mechanically trench San Rafael. A total of 321 samples were taken in 20 sample lines from outcrops in roads and trenches throughout the zone with highlights of the trenching program including 34.8 metres of 192 g/t silver with 0.22 g/t gold; and 27 metres of 91.8 g/t silver with 0.15 g/t gold. There appears to be excellent potential the San Rafael Zone to be far more extensive than the present surface exposure and drilling will be required to establish the grades and geometry of the intrusive at depth.

Northair and Sparton are presently reviewing their exploration plans and are considering bringing in another partner to advance the project.

El Tesoro Project, Durango

The Company continues to maintain an interest in this project, located 65 kilometres south of El Salto, Durango. The property is leased to Compania Mineral San Valentin, S.A. de C.V., who is currently mining and processing material from the Company's and other adjacent concessions. The property is not considered a key asset of the Company.

Form 51-102F1
Management Discussion and Analysis
For
International Northair Mines Ltd.
("Northair" or the "Company")

The following management discussion and analysis (the "MD&A") of the Company has been prepared as of June 23, 2009 and is intended to supplement and complement the Company's audited consolidated financial statements for the year ended February 28, 2009. All financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") unless otherwise stated and all amounts disclosed are Canadian dollars unless otherwise stated.

Nature of Business

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

In addition, Northair provides management and/or administrative services to other resource companies, including but not limited to, New Dimension Resources Ltd., Tenajon Resources Corp. and Troon Ventures Ltd. (collectively referred to herein as the "Northair Group" or the "Group"). Each company within the Group is related to Northair through directors and/or officers in common. (See "Transactions with Related Parties").

Highlights for the year ended February 28, 2009

El Reventon

- Commenced and completed a second phase reverse circulation drill program at the El Reventon Project, located in the state of Durango, Mexico, where core drilling in 2007 had returned significant silver values. The results from the 2,170 metre/17 reverse circulation drill hole program, was successful in further expanding the Reventon Breccia. The zone, which had no previous drilling until acquired by the Company in 2007, has now been tested by 21 drill holes. Twelve holes from the second phase program intersected significant silver values. Highlights include 91.4 metres of 87 grams per tonne silver containing an intercept of 19.8 metres of 176.4 grams per tonne sliver; and 80.8 metres of 71.9 grams per tonne silver containing an intercept of 7.6 metres of 234.5 grams per tonne silver. The Company is currently assessing its plans for the property, which could include bringing in a joint venture partner.

La India

- Signed binding agreements, with Fresnillo PLC ("Fresnillo"), a subsidiary of Industrias Peñoles, S.A. de C.V. ("Peñoles"), to form a joint venture on Northair's La India Project, located in the state of Durango, Mexico. The agreements allow Fresnillo to earn a 60% equity participation in a Joint Venture company to be incorporated by the parties upon Fresnillo completing exploration expenditures on the La India Project of US$1,750,000, paying Northair US$210,000 and purchasing Northair shares from treasury valued at US$210,000 over a four year period. Fresnillo can increase its equity participation in the Joint Venture Company to 80% by preparing a scoping study on the resources found. If Northair elects not to participate in additional funding of the project, Northair will retain a 1% net smelter return royalty interest.

Highlights for the year ended February 28, 2009 - continued

- Fresnillo completed a geological mapping and sampling program on the La India Project, and announced a planned first phase diamond drill program.

Sierra Rosario

- Continued exploration at the Sierra Rosario Project located in the state of Sinaola, Mexico. The joint venture with Sparton Resources Inc. completed approximately 7.5 kilometres of new road to reach the San Rafael Zone and the area of the recently discovered Dulces Nombres and Descubriadora Zones. This road provided the infrastructure necessary to mechanically trench San Rafael and design a drill program.
- Completed a trenching and surface sampling program at San Rafael. Results included 34.8 metres of 192 grams per tonne silver and 0.22 grams per tonne gold and 27 metres 91.8 grams per tonne of silver and 0.15 grams per tonne of gold.
- The joint venture is currently reviewing its plans for the property, which could include bringing in a joint venture partner.

Highlights subsequent to the year ended February 28, 2009

- The Company closed its non-brokered private placement with the issuance of 13,070,000 units at a price of $0.05 per unit for gross proceeds of $653,500. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company for 24 months from the closing date at a price of $0.10 for the 12 months immediately following the closing date and $0.20 thereafter.

  The warrants will be subject to an accelerated exercise provision if the share price of the Company trades at or above $0.35 for 10 or more consecutive trading days. Net proceeds of this private placement will be used to further the Company's exploration projects, fund possible new acquisitions and for general working capital.

  The Company issued 815,500 brokers units and 815,500 broker warrants, with similar terms as the private placement, as finder's fees.

  The common shares issued and the common shares underlying the warrants are subject to a four month hold period that expires on September 20, 2009.

- The Company entered into an option to acquire a 100% interest in the La Cigarra Project located in the state of Chihuahua, Mexico. The Company's wholly-owned subsidiary, Grupo Northair de Mexico, S.A. de C.V. ("Grupo Northair"), has signed a Letter of Intent with the concession owners and has commenced its due diligence.

  La Cigarra consists of 7 privately held concessions, totaling approximately 335 hectares. Grupo Northair can acquire a 100% ownership in the concessions by making payments over a 5 year period totaling US$445,000. Signing of the formal agreement will be subject to further technical and legal due diligence by Grupo Northair, as well as approval by the Company's Board of Directors and the TSX Venture, and registration with the appropriate Mexican government authorities. Encouraging results have been received from initial sampling.

Highlights subsequent to the year ended February 28, 2009 - continued

- Fresnillo completed a first phase drill program on the La India property. Eight holes totaling 867 metres were drilled on two targets. Anomalous intervals of gold mineralization were reported in all eight holes, however no intervals of potentially economic grades were encountered. Fresnillo has not informed the Company of its future plans for the property.
- The Company issued 397,714 common shares for consideration of US$25,000 and received US$25,000 in option payments from Fresnillo pursuant to the La India mineral property agreement and its first anniversary.
- Fresnillo has paid US$12000 + IVA to the Company to make the option payment due July 17, 2009 to the underlying vendor.

Selected Annual Information

The following table summarizes selected financial data for the Company for each of the three most recently completed financial years. The information set forth below should be read in conjunction with the consolidated audited financial statements, prepared in accordance with Canadian generally accepted accounting principles, and related notes.

	Years Ended February 28, (audited)		
	2009	**2008**	**2007**
Total Revenues	$ Nil	$ Nil	$ Nil
General and administrative expenses	442,567	409,639	327,928
Resource costs written off	527,963	382,369	274,495
Other (income) expenses	803,202	(20,650)	541,351
Loss (income) for the year	806,076	(20,650)	541,351
Basic and diluted loss per share	0.04	0.00	0.04
Total Assets	1,875,876	2,888,274	2,408,143
Total long term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

Results of Operations

Twelve months ended February 28, 2009

The Company's net loss for the year ended February 28, 2009 (the "Current Period") was $806,076 or $0.04 per share compared with net income of $20,650 or $0.00 per share for the year ended February 29, 2008 (the "Comparative period").

Results of Operations - ***continued***

General and administrative expenses were slightly higher in the Current Period at $442,567 compared with $409,639 in the Comparative Period due mainly to; higher office costs ($419,657 compared with $322,546) mainly resulting from higher salary costs, partially offset by higher administrative recoveries ($184,156 compared with $158,530) as the Company was able to recover more of the common office costs from the Group companies. A reduction in the amount of stock based compensation recorded ($25,316 compared with $73,371), due to a decrease in stock options granted to employees, consultants, directors and officers also contributed to the change for the year.

Write-off of general exploration costs was higher in the Current Period at $527,963 compared with $382,369 in the Comparative Period.

In the Current Period the Company sold short-term investments realizing a gain of $189,985 compared with $724,344 in the Comparative Period. The Company also wrote down its short-term investments by $45,177 in the Current Period.

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

	Canada		Mexico		Total	
	2009	2008	**2009**	2008	**2009**	2008
Capital assets	**$ 58,196**	$ 103,154	**$ 1,155,738**	$ 1,103,562	**$ 1,213,934**	$ 1,206,716
Total assets	**$ 684,209**	$ 1,749,765	**$ 1,191,667**	$ 1,138,509	**$ 1,875,876**	$ 2,888,274
Net income (loss)	**$ 101,890**	$ 275,929	**$ 704,188**	$ (255,279)	**$ 806,078**	$ 20,650

Three months ended February 28, 2009

The Company's net loss for the three month period ended February 28, 2009 (the "Current Period") was $427,417 or $0.02 per share compared with a net loss of $240,260 or $0.01 per share for the year ended February 29, 2008 (the "Comparative period").

General and administrative expenses were slightly higher in the Current Period at $116,103 compared with $85,318 in the Comparative Period due mainly to; higher office costs ($107,173 compared with $67,688) mainly resulting from higher salary costs, partially offset by higher administrative recoveries ($44,526 compared with $38,481) as the Company was able to recover more of the common office costs from the Group companies. A reduction in the amount of stock based compensation recorded ($13,111 compared with $54,299), due to a decrease in stock options granted to employees, consultants, directors and officers also contributed to the change for the year.

Write-off of general exploration costs was higher in the Current Period at $304,071 compared with $174,727 in the Comparative Period.

Exploration Update

Overview

International Northair Mines Ltd. continues to concentrate its exploration activities in Mexico through its wholly owned subsidiary, Grupo Northair de Mexico, S.A. de C.V. However, the recent economic climate has necessitated the Company to significantly reduce its generative exploration program while continuing with property solicitation and advanced stage project evaluation. Projects that have evolved from the Company's generative program are outlined below.

Project Discussion

El Reventon Project

The El Reventon Project is comprised of approximately 3,400 hectares acquired by staking and a further 60 hectares which is the subject of an option agreement. The Company may acquire a 100% interest from the optionor by making payments totaling US$151,000 over a five year period.

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

Within the Reventon Breccia, outcrops of the porphyry display intense hydrothermal brecciation, with micro and macro breccia textures. The entire exposed zone has strong epithermal silica flooding and replacement within the matrix and breccia fragments. Mineralization occurs as disseminations, veining, stockworking, and aggregates of coarse pyrite, galena and sphalerite, contained within the intrusive as well as the adjacent volcanics. The exposed outcrop of the intrusive and mineralized breccia is an irregular shape with surface dimensions of approximately 70 by 70 metres. Original sampling by the Company of the breccia averaged 103.9 grams per tonne silver, 0.74% lead and 0.79% zinc from 51 samples. Company geologists believe that the Reventon Breccia could be significantly larger than currently exposed, due to extensive cover by Quaternary deposits and altered post mineral volcanics.

In addition to the Reventon Breccia, the Company has identified other mineral occurrences on the property – the most noteworthy being the Los Alisos, the El Portrero, and the La Estella Zones. The El Portrero Zone is a potential bulk tonnage silver zone located approximately one kilometre northeast of the Reventon Breccia; while the La Estrella Zone is a high grade polymetallic vein system located two kilometres southwest of the Reventon Breccia. The Los Alisos Zone occurs approximately 500 metres to the south of the Reventon Breccia. The Los Alisos and Reventon Breccia zones appear to be geologically similar in that they have a comparable geochemical signature and both occur in diorite porphyry. The area between the two zones is covered by post-mineral volcanics and agglomerate; however the Los Alisos Zone may be open to the north and the east.

In the fall of 2007, the Company completed an initial diamond drill test of the Reventon Breccia that totaled 660 metres in six NQ holes, in which all holes intercepted significant zones of mineralized breccia. Results for the drill program included 33.5 metres of 179 grams per tonne silver, 22.8 metres of 94.7 grams per tonne silver and 56.4 metres grams per tonne silver, with associated lead and zinc values.

El Reventon Project - continued

In March 2008, the Company conducted a second phase reverse circulation drill program totaling 2,170 metres in 17 holes at the Reventon Breccia and Los Alisos Zone. The result of the program was successful in increasing the size of the Reventon Breccia with highlights including 91.4 metres of 87 grams per tonne silver containing an intercept of 19.8 metres of 176.4 grams per tonne sliver; and 80.8 metres of 71.9 grams per tonne silver containing an intercept of 7.6 metres of 234.5 grams per tonne silver.

Exploration programs have increased the Company's understanding of the Reventon Breccia. Although the porphyry is only exposed on surface in an erosional window within the volcanics measuring approximately 70 by 70 metres, the Company's drill programs have outlined a much larger irregular zone of altered diorite porphyry concealed by the volcanics. Alteration and mineralization appear to increase to the north and northeast, as well as the apparent true thickness of the zone, which varies from 40 to 120 metres. Further exploration will be required to define the extent of the mineralized system and the Company is considering its future exploration plans.

Sierra Rosario Project

In April of 2002, the Company staked a concession covering the Sierra Rosario Project in the state of Sinaloa, Mexico. The Sierra Rosario property lies along the western flanks of the Sierra Madre Occidental geological province approximately 40 kilometres east of Alamos, Sonora.

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

Northair's field programs concentrated primarily in the San Rafael Zone which contains strong epithermal silver with gold mineralization having a surface expression of approximately 200 by 70 metres. First phase mapping and sampling by Northair within the San Rafael Zone returned an average of 181 grams per tonne silver and 0.321 grams per tonne gold from 23 chip channel samples.

The project, optioned to Sparton Resources Inc in 2004, is currently being explored by a joint venture with Sparton, who have earned a 51% interest in the project by paying Northair $130,000 in cash, issuing 275,000 common shares and incurring $800,000 in exploration expenditures. The work completed by Sparton, concentrated on the southern portion of the property, involved geological mapping, sampling and electrical and magnetic geophysical surveys as well as detailed soil sampling. Sparton completed an approximate 775 metre diamond drill program in 2006 to test high priority targets in the La Josca Zone. Results of the seven hole program, which tested a 500-metre-long portion of the 1.1-kilometre-long La Josca structure, were modest.

The San Rafael Zone remains the principal target area on the property as geophysical work, in particular a magnetic survey, delineated a well defined magnetic anomaly associated with the San Rafael rhyolite porphyry body and also located a similar anomaly which is covered by upper volcanic series tuffs and may represent a new buried intrusion. Both skarn and structurally controlled mineralization containing barite, copper, gold, and silver are present in the area and values of up to 7.28% copper and 13 grams per tonne gold were obtained from samples taken from boulders in a gully below an old mine dump.

Sierra Rosario Project - continued

Strong base/precious metal mineralization is located in a shear fracture zone east of the main rhyolite intrusive as well as in fault zones associated with rhyolite dykes in limestone on the east side of the property where there is a large multi element soil anomaly.

In the spring of 2008, Sparton and the Company completed the construction of a new 7.5 kilometre road to the San Rafael Zone and the area of the newly discovered Dulces Nombres, and Descubriadora Zones. This road provided the infrastructure necessary to mechanically trench San Rafael and design a drill program based on assay results and exposed geology. Results of a trenching program included 34.8 metres of 192 grams per tonne silver and 0.22 grams per tonne gold and 27 metres 91.8 grams per tonne silver and 0.15 grams per tonne gold. The Joint Venture is considering its exploration plans.

La India Project

The La India Project is located approximately 140 kilometres north of the capital city of Durango, in the state of Durango, Mexico.

La India, which was acquired in late 2006, is an iron oxide low sulfidation gold system with mineralization occurring in an intrusive rhyolite breccia that is currently estimated to be at least 70 by 300 metres in surface exposure. During its initial field evaluation the Company took a total of 16 reconnaissance samples. The average value of these samples was 1.486 grams per tonne gold, with a high of 10.8 grams per tonne and a low value of 0.02 grams per tonne. Samples consisted of panel grabs as well as continuous chips taken over intervals ranging from 2 to 10 metres. The mineralized breccia zone contains hydrothermal and explosive fragments of rhyolite porphyry cemented by a matrix of siliceous iron oxide. High density (<1 cm wide) stockworking quartz veinlets cut both the matrix and fragments of the breccia, which intrudes rhyolite volcanics. The area is also cut by several large regional extensional faults. Regional reconnaissance indicates that the exploration potential around the known breccia is good. Two small gambusino workings have been found within the project area, but there is no evidence that the property has been examined by other modern exploration companies. The Company completed two phases of rock chip and stream sediment sampling comprised of 100 samples averaging of 9.84 grams per tonne gold. Highlighted intervals of continuous chip sampling include 15 metres @ 2.42 grams per tonne gold, 32 metres @ 2.31 grams per tonne gold, and 48 metres @ 1.08 grams per tonne gold.

In May 2008, the Company signed binding agreements with Fresnillo PLC ("Fresnillo"), a subsidiary of Industrials Peñoles, S.A. de C.V. to explore the La India Project. The agreements allow Fresnillo, or a subsidiary of Fresnillo, to earn a 60% equity participation in a Joint Venture company to be incorporated by the parties upon Fresnillo completing exploration expenditures on the La India Project of US$1,750,000, paying Northair US$210,000 and purchasing Northair shares from treasury valued at US$210,000 (at a 20% premium to market at the time of purchase) over a four year period.

Fresnillo can increase its equity participation in the Joint Venture Company to 80% by preparing a scoping study on the resources found. If Northair elects not to participate in additional funding of the project, Northair will retain a 1% net smelter return royalty interest. The agreements contain a provision whereby, if Northair becomes aware of an entity acquiring more than 50% of the voting shares of Northair, Fresnillo is granted the option to either buy Northair's interest in the project, or offer to Northair Fresnillo's interest in the project, at a price to be determined by an independent duly qualified international appraiser. In the event that Fresnillo elects to offer its interest to Northair and Northair fails to complete the acquisition within 45 business days, Fresnillo shall have the option to sell its interest to a third party at an equal or higher price.

La India Project - continued

Fresnillo commenced exploration with surface geological mapping, sampling and definition of drill targets and completed an initial eight hole diamond drill program in May of 2009. Anomalous intervals of gold mineralization were encountered in all drill holes, however no intervals of potentially economic grades were encountered. Fresnillo has not informed the Company of its future plans for the property.

During the year ended February 28, 2009, Fresnillo purchased 84,499 shares for cash proceeds of $12,709 in conjunction with the terms of the joint venture agreement.

El Tesoro Project

The El Tesoro Project, located in the state of Durango, was acquired in February of 2003. Between 2003 and 2005, Northair explored El Tesoro by field programs including geologic mapping, sampling, trenching and a twenty hole reverse circulation drill program totaling 1,832 metres. Results were marginal and in December 2005, Grupo Northair entered into an agreement with Compania Minera San Valentin S.A de C.V., which allows San Valentin to lease the Company's remaining El Tesoro concessions.

Under the agreement, San Valentin will pay Grupo Northair US$2,000 per month for the rights to explore and mine the G Zone and US$3,000 per month for the rights for the remainder of the concessions. It is anticipated that the lease will run for a period of 15 years, during which time San Valentin has the option to purchase the G Zone for US$200,000 and the remainder of the concessions for US$300,000 for a total purchase price of US$500,000. Grupo Northair retains a back in right for 49% of the G Zone if San Valentin exercises the purchase option. During the term of the lease, San Valentin will be responsible for all taxes, permitting and environmental aspects of the concessions. The terms of the agreement have been modified several times as San Valentin has encountered mining and milling problems. It is not clear if San Valentin will be able to maintain their lease.

Risks and Uncertainties

The Company has no recent history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholder's investment and the likelihood of success must be considered in light of its early stage of operations.

The Company's operations are affected in varying degrees by Mexican government regulations (both state and federal), including those with respect to restrictions on foreign investment, production, price controls, export controls, income taxes, and expropriation of property, employment, land use, water use, environmental legislation and mine safety. The regulatory environment is frequently in a state of change and new laws, regulations and requirements may be retroactive in their effect and implementation. Northair's operations may also be affected in varying degrees by political and economic instability, economic and other sanctions imposed by other nations on Canada or Mexico, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation.

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

Given the early stage of its operations, there is no assurance that the Company will be successful in achieving a return on shareholders' investment. The Company's financial success is dependent on the acquisition of properties which could be economically viable to develop.

Mineral exploration is a speculative venture. There is no assurance that the Company's exploration activities will result in any discoveries of commercial bodies of ore. The success of the operations and activities of the Company is dependent to a large extent on the efforts and abilities of its management. Locating mineral deposits depends upon a number of factors, including the expertise and skill of the exploration personnel involved.

James R. Robinson, Vice President, Exploration devotes all of his time and attention to the Company's exploration and development activities. Fred G. Hewett, President and Chief Executive Officer devotes 50% of his time to the Company's affairs. The remaining members of management devote less than 50% of their attention to the Company's activities. The loss of the services of any of its management could have a material adverse effect on the Company. To date, the Company has not engaged in succession planning.

Summary of Quarterly Results

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

Quarter Ended	Revenues	Net Income (Loss)	Basic Earnings (Loss) per share
February 28, 2009	Nil	(427,417)	(0.02)
November 30, 2008	Nil	(222,749)	(0.01)
August 31, 2008	Nil	(149,906)	(0.01)
May, 31, 2008	Nil	(6,004)	(0.00)
February 29, 2008	Nil	(240,260)	(0.01)
November 30, 2007	Nil	369,783	0.02
August 31, 2007	Nil	(183,804)	(0.01)
May 31, 2007	Nil	74,931	0.00

The Company's exploration activities are seasonal, with less work conducted in Mexico during certain summer months due to the rainy season. Accordingly, the Company's administrative expenses will typically decline for the same period. The Company's practice is to write-off resources properties when the property is of no further interest and displays limited economic potential. These write-offs affect the Company's quarterly results.

In addition, the Company's quarterly results from operations are also affected by the market for securities. The Company's primary source of funding is through the issuance of share capital. When the capital markets are depressed, the Company's activity level normally declines accordingly. As capital markets strengthen and the Company is able to secure equity financing with favorable terms, the Company's activity levels and the size and scope of planned exploration projects will also increase. Stronger capital markets allowed the Company to realize gains from the sale of investments. These gains help to offset the Company's administrative expenses, and contribute to an overall reduction in the Company's reported quarterly and annual losses.

Liquidity

Working capital as at February 28, 2009 was $574,252 compared with $1,455,812 at February 29, 2008.

Cash and cash equivalents were $476,630 at February 28, 2009 compared with $794,401 at February 29, 2008.

During the Current Period the Company used $382,475 in operating activities before changes in non-cash working capital, primarily for administrative costs.

Investing activities used $354,111 in the Current Period; the net of $267,223 from the sale of short-term investments was offset by $81,669 used for additions to plant property and equipment related to office lease hold improvements and $753,757 used for work on resource properties. The funds for resource properties were used to advance the work on El Reventon and Sierra Rosario properties and general exploration activity in Mexico and Canada.

Financing activities provided $12,709 in the Current Period from the issuance of share capital related to the La India mineral property agreement.

Commitments

The Company has a lease agreement for its office space. The minimum annual commitments for rental expenses are as follows:

March 1, 2009 – February 28, 2010	363,406
March 1, 2010 – January 31, 2011	333,124
Total	696,530

In addition to the basic monthly rent, the Company must also pay a proportionate share of the building's operating costs and property taxes. In addition to the basic monthly rent, the Company must also pay a proportionate share of the building's operating costs and property taxes. The Company has sub-lease agreements with several arms lengths parties which allow it to recover a portion of the minimum annual rental commitments.

Capital Resources

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

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

The Company has reduced its exploration costs and believes it currently has sufficient financial resources to meet its administrative overhead expenses for the next twelve months. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and foreign exchange fluctuations. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

Except as disclosed elsewhere in the financial statements, related party transactions are as follows:

The Company paid or accrued $7,500 (2008 - $Nil) to a company controlled by an officer.

Administrative recoveries during the year ended February 28, 2009 of $184,156 (2008 - $158,530) are primarily recovered from various companies with certain officers and directors in common.

Transactions with Related Parties – *continued*

Based on time spent, the Company recovered salaries during the year ended February 28, 2009 of $881,871 (2008 - $981,228) from companies with certain officers and directors in common. These amounts have been recorded against office, salaries and general expense.

During the year ended February 28, 2009 salaries of $276,000 (2008 - $276,000) were paid to two directors of the Company. Included in accounts payable and accrued liabilities is $7,841 (2008 - $Nil) due to directors, officers, and companies with directors or officers in common.

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

Outstanding Share Data

The table below presents the Company's common share data as of June 23, 2009.

	Price	Expiry date	Number of common shares
Common shares, issued and outstanding			34,057,984
Securities convertible into common shares			
Warrants			
	$0.10	May 19, 2011	14,701,000
Options	$0.23	September 14, 2010	50,000
	$0.30	September 26, 2011	270,000
	$0.32	January 24, 2012	50,000
	$0.30	April 16, 2012	35,000
	$0.28	June 6, 2012	10,000
	$0.21	January 4, 2013	305,000
	$0.22	February 28, 2013	10,000
	$0.15	June 13, 2013	110,000
	$0.12	July 31, 2013	20,000
	$0.15	February 9, 2014	485,000
			50,103,984

During the year ended February 28, 2009, the Company issued 84,499 shares to Fresnillo for total cash proceeds of $12,709 in conjunction with the terms of the La India joint venture agreement.

Outstanding Share Data - *continued*

Private Placements

Subsequent to February 28, 2009, the Company closed its non-brokered private placement with the issuance of 13,070,000 units at a price of $0.05 per unit for gross proceeds of $653,500. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company for 24 months from the closing date at a price of $0.10 for the 12 months immediately following the closing date and $0.20 thereafter.

The warrants will be subject to an accelerated exercise provision if the share price of the Company trades at or above $0.35 for 10 or more consecutive trading days. Net proceeds of this private placement will be used to further the Company's exploration projects, fund possible new acquisitions and for general working capital.

Warrants

During the year ended February 28, 2009, 3,642,150 warrants expired without exercise.

Subsequent to February 28, 2009, the Company issued 815,500 brokers units and 815,500 broker warrants, with similar terms as the private placement, as finder's fees.

Stock options

During the year ended February 28, 2009, the Company granted a total of 640,000 (2008 – 530,000) stock options to certain officers, directors, employees and consultants of the Company. The options granted had a total fair value of $24,935 (2008 - $72,296) and a weighted average grant-date fair value of $0.04 (2008 - $0.17). The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model, with the following assumptions:

	2009	2008
Expected dividend yield	Nil	Nil
Expected stock price volatility	62-77%	63%
Risk free interest rate	1.85-3.30%	3.83%
Expected life of options	5 years	5 years

Changes in Accounting Policies

Capital Disclosures

Effective March 1, 2008, the Company adopted CICA Handbook Section 1535 – Capital Disclosures. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

i. its objectives, policies and processes for managing capital;
ii. summary quantitative data about what the Company views as capital;
iii. whether during the period, it complied with any externally imposed capital requirements to which it is subject;
iv. when the entity has not complied with such requirement, the consequences of such non-compliance.

The Company has included the capital disclosures recommended by the new Handbook section in Note 6 to the audited consolidated financial statements.

Financial Instruments – Presentation and Disclosure

Effective March 1, 2008, the Company adopted CICA Handbook Sections 3862 (Disclosures) and Section 3863 (Presentation). These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

The Company has included the financial instrument disclosures recommended by the new Handbook section in Note 5 to the audited consolidated financial statements.

Going Concern

The Company has considered the amendments to CICA HB Section 1400 General Standards of Financial Statement Presentation. The amendments apply to interim and annual financial statements for the fiscal years beginning on or after January 1, 2008 and require the Company to carefully assess and disclose the material uncertainties that may put in question its ability to continue as a going concern. The Company has taken into account all available information about the future as well as other factors and concluded that the going concern basis of accounting is appropriate.

Accounting policies to be implemented effective March 1, 2009

Goodwill and Intangible Assets

In February 2008, the CICA issued section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Intangible Assets,” and CICA Section 3450, “Research and Development Costs,” and amendments to Accounting Guideline (AcG) 11, “Enterprises in the Development Stage,” and EIC-27, “Revenues and Expenditures during the Pre-operating Period” and CICA Section 1000, “Financial Statement Concepts.” The standard intends to reduce the differences with International Financial Reporting Standards (“IFRS”) in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of CICA Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed.

This standard will be effective for the Company beginning on March 1, 2009. The Company is currently evaluating the impact of adopting this standard in 2009.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. In July 2008, the AcSB announced that early adoption will be allowed in 2009 subject to seeking and obtaining exemptive relief. The Company is currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

The Company has appointed a project manager to lead the conversion to IFRS. The project manager is working with other members of the finance group to develop and execute an implementation plan. An initial diagnostic review of significant IFRS differences is currently underway to identify the key areas which are likely to be impacted by accounting policy changes. After which, the Company will perform a more detailed review of the impact of IFRS on the Company’s consolidated financial statements and other areas of the Company. Any changes required to systems and controls will be identified as the project progresses.

Draft financial statements and disclosure information will be prepared for each quarter in 2010 and reporting under IFRS will commence in the first quarter of 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Accounting policies to be implemented effective March 1, 2009- continued

Business Combinations

In October 2008, the CICA issued Handbook section 1582, Business Combinations, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is considering early adoption to coincide with the adoption of International Financial Reporting Standards. This adoption is not expected to have an impact on the Company's financial position, earnings or cash flows.

Non-controlling interest

In October 2008, the Accounting Standards Board ("AcSB") issued Handbook section 1602, Non-controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is effective for fiscal years beginning on or after January 2011. This adoption is not expected to have an impact on the Company's financial position, earnings or cash flows.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard will be effective for the Company beginning on March 1, 2009. The Company is currently evaluating the impact of adopting this standard in 2009.

Financial Instruments

The Company's financial instruments consist of cash, short-term investments, short-term deposits, receivables, due from related parties, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, foreign exchange, commodity price or credit risks arising from the financial instruments. The Company may be exposed to liquidity risk such that the Company may not be able to meet its obligations as they fall due. The Company manages this risk by forecasting anticipated investing and financing activities.

Management of Financial Risk

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.

Sensitivity analysis

The Company’s financial instruments consist of cash and cash equivalents, short term deposits, receivables, due from related parties, short-term investments, accounts payable and accrued liabilities.

The Company has classified its cash and cash equivalents as held-for-trading, and are measured at fair value. Receivables and due from related parties are designated as “loans and receivables” and are measured at amortized cost. Short term investments are designated as available for sale and are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

As at February 28, 2009, the carrying amount of accounts receivable and payable equals fair market value. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Cash and cash equivalents include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by $4,089.
- Price risk is remote since the Company is currently not a producing entity.

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 policy 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.

The Company is exposed to credit risk in the amount of its receivables and amounts due from related parties. 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.

Foreign 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 operating results and the financial position of the Company are reported in Canadian dollars. Fluctuations in the US/Canadian dollar exchange rate will, consequently, have an impact upon the reported operations of the Company and may affect the value of the Company’s assets and liabilities. The Company currently does not enter into financial instruments to manage foreign exchange risk.

Management of Financial Risk - *continued*

Foreign currency risk - continued

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

February 28, 2009		Cash and cash equivalents		Receivables		Accounts payable and accrued liabilities
US dollar	$	29,475	$	-	$	13,356
Mexican peso		6,143		38,232		99
	$	35,618	$	38,232	$	13,455

February 29, 2008		Cash and cash equivalents		Receivables		Accounts payable and accrued liabilities
US dollar	$	33,421	$	38,631	$	31,751
Mexican peso		6,889		36,492		430
	$	40,310	$	75,123	$	32,181

At February 28, 2009 with other variables unchanged, a +/-10% change in exchange rates would increase/decrease pre-tax loss by +/- $5,628.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalent 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, 2009, the Company had a cash and cash equivalents and short term deposits balance of $476,630 (February 28, 2008 - $794,401) to settle current liabilities of $87,690 (February 28, 2008 - $225,746).

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.

Equity market risk

The Company is exposed to equity price risk arising from marketable securities. Marketable securities are classified as available for sale. The Company intends to liquidate the marketable securities when market conditions are conducive to a sale of these securities. At February 28, 2009 with other variables unchanged, a +/-10% change in equity prices would increase/decrease pre-tax earnings by +/- $1,726.

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 as well as cash and cash equivalents, receivables, short-term investments and deposits, due from related parties and investment tax credit receivable balances.

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

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 expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating period.

Forward-Looking Information

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, permitting risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements which are filed and available for review on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Additional Disclosure for Venture Issuers without Significant Revenue

Additional disclosure concerning Northair's general and administrative expenses and resource property costs is provided in the Company's audited Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Audited Consolidated Financial Statements for February 28, 2009 and February 29, 2008 that is available on Northair's website at www.northair.com/Northair/ or on its SEDAR Page Site accessed through www.sedar.com

Approval

The Board of Directors of Northair has approved the disclosure contained in this annual MD&A. A copy of this Annual MD&A will be provided to anyone who requests it.

Additional Information

Additional information relating to Northair, including the Company's Annual Information Form is on SEDAR at www.sedar.com

INTERNATIONAL NORTHAIR MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2009 and 2008

Canadian Funds

AUDITORS' REPORT

To the Shareholders of
International Northair Mines Ltd.

We have audited the consolidated balance sheet of International Northair Mines Ltd. as at February 28, 2009 and the consolidated statements of loss (income), comprehensive loss (income), cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at February 29, 2008 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated June 26, 2008.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

June 17, 2009

NEXIA INTERNATIONAL
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International Northair Mines Ltd. *Statement 1*

(An Exploration Stage Company)

Consolidated Balance Sheets

Canadian Funds

ASSETS		**As at February 28, 2009**		As at February 29, 2008
Current				
Cash and cash equivalents	**$**	**408,880**	$	726,651
Short-term deposits *(Note 7)*		**67,750**		67,750
Receivables		**60,105**		89,477
Due from related parties		**91,734**		489,532
Short-term investments *(Note 8)*		**17,266**		301,350
Prepaid expenses		**16,207**		6,798
		661,942		1,681,558
Property, plant and equipment *(Note 9)*		**66,631**		111,589
Resource property costs *– Schedule 1 (Note 10)*		**1,147,303**		1,095,127
	$	**1,875,876**	$	2,888,274

LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**87,690**	$	225,746
Future income tax liability *(Note 16)*		**179,372**		123,994
		267,062		349,740
SHAREHOLDERS' EQUITY				
Share capital *(Note 11) – Statement 5*		**22,448,486**		22,435,777
Warrants *(Note 11) – Statement 5*		**266,943**		266,943
Contributed surplus *(Note 11) - Statement 5*		**628,967**		603,651
Accumulated other comprehensive income - *Statement 5*		**8,633**		170,302
Deficit - *Statement 5*		**(21,744,215)**		(20,938,139)
		1,608,814		2,538,534
	$	**1,875,876**	$	2,888,274

Nature of operations and going concern *(Note 1)*
Commitments *(Note 14)*
Subsequent events *(Note 18)*

ON BEHALF OF THE BOARD:

"F. G. Hewett", Director

"D. Bruce McLeod", Director

- See Accompanying Notes -

International Northair Mines Ltd. *Statement 2*

(An Exploration Stage Company)

Consolidated Statements of Loss (Income)

Canadian Funds

		For the year ended February 28, 2009		For the year ended February 29, 2008
General and administrative expenses				
Administrative recoveries *(Note 12)*	$	**(184,156)**	$	(158,530)
Amortization		**19,343**		21,995
Office, salaries and general		**419,657**		322,546
Professional fees		**61,308**		51,346
Regulatory compliance and transfer agent fees		**27,673**		29,054
Shareholder information and investor relations		**73,426**		69,857
Stock-based compensation *(Note 11)*		**25,316**		73,371
Loss before the undernoted		**442,567**		409,639
Gain from property option agreement		**-**		(37,467)
Gain on disposal of equipment		**(7,087)**		-
Gain on foreign exchange		**(4,324)**		(5,484)
Gain on sale of short-term investments *(Note 8)*		**(189,985)**		(724,344)
Interest income and other		**(11,109)**		(45,363)
Write down on short term investments *(Note 8)*		**45,177**		-
Write-off of exploration costs *(Note 10)*		**527,963**		382,369
Loss (income) before income taxes		**803,202**		(20,650)
Future income tax expense *(Note 16)*		**2,874**		-
Net loss (income)	$	**806,076**	$	(20,650)
Loss (income) per share – basic and diluted	$	**0.04**	$	0.00
Weighted average number of shares outstanding – basic and diluted		**19,744,906**		19,690,272

International Northair Mines Ltd. *Statement 3*

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss (Income)

Canadian Funds

		For the year ended February 28, 2009		For the year ended February 29, 2008
Net loss (income)	$	**806,076**	$	(20,650)
Other comprehensive loss:				
Unrealized gains on available-for-sale investments *(Note 8)*		**(8,633)**		(82,206)
Amounts reclassified upon realization *(Note 8)*		**170,302**		299,310
		161,669		217,104
Comprehensive loss	$	**967,745**	$	196,454

International Northair Mines Ltd. *Statement 4*

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

Canadian Funds

Cash provided by (used in):		For the year ended February 28, 2009		For the year ended February 29, 2008
Operating activities				
Net income (loss)	**$**	**(806,076)**	$	20,650
Items not affecting cash:				
Amortization		**19,343**		21,995
Future income tax expense		**2,874**		-
Gain from property option agreement		**-**		(37,467)
Gain on disposal of equipment		**(7,087)**		-
Gain on sale of short term investments		**(189,985)**		(724,344)
Stock-based compensation		**25,316**		73,371
Write down of short term investments		**45,177**		-
Write-off of exploration costs		**527,963**		382,369
		(382,475)		(263,426)
Changes in non-cash working capital *(Note 15)*		**406,106**		181,181
		23,631		(82,245)
Investing activities				
Mineral property acquisition costs		**(187,208)**		(29,154)
Resource Mineral property exploration costs		**(566,549)**		(843,197)
Mineral property recoveries		**194,092**		81,184
Proceeds from disposal of property and equipment		**20,000**		-
Proceeds from sale of short-term investments		**267,223**		836,793
Property, plant and equipment additions		**(81,669)**		(8,386)
		(354,111)		37,240
Financing activities				
Capital lease obligation repayments		**-**		(8,813)
Shares issued pursuant to mineral property agreement		**12,709**		-
		12,709		(8,813)
Change in cash and cash equivalents		**(317,771)**		(53,818)
Cash and cash equivalents – beginning of year		**726,651**		780,469
Cash and cash equivalents – end of year	**$**	**408,880**	$	726,651

Supplemental cash flow information *(Note 15)*

International Northair Mines Ltd. <u>*Statement 5*</u>

(An Exploration Stage Company)

Consolidated Statements of Shareholders' Equity

Canadian Funds

	Share Capital (Number of Shares)	Share Capital (Amount)	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
February 28, 2007	19,690,272	$ 22,435,777	$ 266,943	$ 530,280	$ -	$ (20,958,789)	$ 2,274,211
Change in accounting policy, net of future income taxes	-	-	-	-	387,406	-	387,406
Stock based compensation	-	-	-	73,371	-	-	73,371
Other comprehensive loss	-	-	-	-	(217,104)	-	(217,104)
Net income for the year	-	-	-	-	-	20,650	20,650
February 29, 2008	19,690,272	22,435,777	266,943	603,651	170,302	(20,938,139)	2,538,534
Shares issued pursuant to property agreement	84,498	12,709	-	-	-	-	12,709
Stock based compensation	-	-	-	25,316	-	-	25,316
Other comprehensive loss	-	-	-	-	(161,669)	-	(161,669)
Net loss for the year	-	-	-	-	-	(806,076)	(806,076)
February 28, 2009	**19,774,770**	**$ 22,448,486**	**$ 266,943**	**$ 628,967**	**$ 8,633**	**$ (21,744,215)**	**$ 1,608,814**

International Northair Mines Ltd. *Schedule 1*

(An Exploration Stage Company)

Consolidated Schedule of Resource Property Costs

For the year ended

Canadian Funds

	Acquisition Costs	Exploration Costs	**Total February 28, 2009**
Mexico			
El Reventon			
Balance – beginning of year	$ 42,624	$ 721,444	**$ 764,068**
Acquisition and tenure	131,275	-	**131,275**
Camp and general	-	43,475	**43,475**
Field work and travel	-	51,646	**51,646**
Salaries and consulting	-	40,615	**40,615**
Ending balance – El Reventon	173,899	857,180	**1,031,079**
El Tesoro			
Balance – beginning of year	10,637	229,703	**240,340**
Write-offs	(10,637)	(229,703)	**(240,340)**
Ending balance – El Tesoro	-	-	**-**
La India			
Balance – beginning of year	22,764	67,955	**90,719**
Acquisition and tenure	53,334	-	**53,334**
General	-	12,136	**12,136**
Salaries and consulting	-	1,920	**1,920**
Recoveries - option payments (cash)	-	(55,315)	**(55,315)**
Ending balance – La India	76,098	26,696	**102,794**
Sierra Rosario			
Balance – beginning of year	-	-	**-**
Acquisition and tenure	2,599	-	**2,599**
Field work and travel	-	109,936	**109,936**
Salaries and consulting	-	39,672	**39,672**
Recoveries - option payments (cash)	-	(138,777)	**(138,777)**
Ending balance – Sierra Rosario	2,599	10,831	**13,430**
General exploration			
Balance – beginning of year	-	-	**-**
Field work and travel	-	36,153	**36,153**
Salaries and consulting	-	-	**-**
Write-offs	-	(36,153)	**(36,153)**
Ending balance – general exploration	-	-	**-**
Canada			
General exploration			
Balance – beginning of year	-	-	**-**
Field work and travel	-	67,300	**67,300**
Salaries and consulting	-	184,170	**184,170**
Write-offs	-	(251,470)	**(251,470)**
Ending balance – general exploration	-	-	**-**
Balance –February 28, 2009	$ 252,596	$ 894,707	**$ 1,147,303**

- See Accompanying Notes -

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1. Nature of operations and going concern

International Northair Mines Ltd. ("the Company") is an exploration stage company which is engaged principally in the acquisition, exploration and development of mineral properties and in providing administration services to other companies. The recovery of the Company's investment in resource properties and attainment of profitable operations is principally dependent upon financing being arranged by the Company to continue operations, explore and develop the resource properties and the discovery, development and sale of ore reserves. The outcome of these matters cannot presently be determined because they are contingent on future events.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Several adverse conditions cast doubt on the validity of this assumption. The Company has incurred operating losses over the past several fiscal years, has no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further exploration and development of its mineral property projects.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the financing necessary to complete the exploration and development of its mineral projects by issuance of share capital or through joint ventures, and to realize future profitable production or proceeds from the disposition of its mineral interests. Subsequent to the year-end, the Company closed a $653,500 non-brokered private placement financing consisting of 13,070,000 units priced at $0.05 per unit *(Note 18)*. However, there can be no assurance that management's future financing actions will be successful.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used, such adjustments could be material.

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2. Significant accounting policies

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned Mexican subsidiary, Grupo Northair de Mexico, S.A. de C.V. ("Grupo Northair"). Inter-company balances are eliminated upon consolidation.

b) Management's estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reported periods. Significant areas of estimation relate to the assessment of impairment of mineral claim interests and related deferred exploration costs, stock based compensation, future site restoration costs and the future income tax valuation allowance. Actual results could differ from those estimates. By their nature, these estimates are subject to a degree of uncertainty, and the impact on the financial statements of future changes in such estimates could be material.

c) Cash and cash equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with maturities at point of purchase of three months or less. The Company places its cash and cash investments with institutions of high credit worthiness.

2. Significant accounting policies - *continued*

d) 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.

e) Property, plant and equipment

Items are recorded at cost. The Company provides for amortization on the following basis:

Office furniture and equipment	- 20% to 30% declining balance
Equipment under capital lease	- over the lease term using the straight-line method
Leasehold improvements	- 33% declining balance
Computer software	- 100% declining balance

One-half of the above rates are applied in the year of acquisition.

f) Mineral properties

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral 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 obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

Title to mineral 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 mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

g) Property option agreements

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 resource property costs or recoveries when the payments are made or received.

2. Significant accounting policies - *continued*

h) Long-lived asset impairment

Long-lived assets are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value.

Fair value is generally determined using a discounted cash flow analysis.

i) Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which it is incurred and when a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow.

As at February 28, 2009 and February 29, 2008, the Company did not have any asset retirement obligations.

j) Capital lease obligations

Leases are classified as either capital or operating. Leases that transfer substantially all of the benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded with its obligation. Payments made under operating leases are expensed as incurred. The Company's capital lease expired in fiscal 2008.

k) Future income taxes

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

l) Stock-based compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the measurement date is accrued and charged to operations on a straight-line basis over the vesting period, with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

2. Significant accounting policies - *continued*

m) Loss per share

Basic loss per share is computed by dividing income 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 dilutive effect of convertible securities is reflected in the diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in the diluted loss per share by application of the treasury stock method. At February 28, 2009, the Company had no items which would have a dilutive effect on the loss per share.

n) Foreign currency translation

The Company's subsidiary is an integrated foreign operation and the results and financial position are translated into the Company's functional currency, the Canadian dollar, using the temporal method as follows:

- Monetary assets and liabilities at year-end rates;
- All other assets and liabilities at historical rates; and
- Revenue and expense and exploration and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year that they occur.

o) Financial instruments

The Canadian Institute of Chartered Accountants ("CICA") Handbook establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to contractual provisions of the financial instrument or a derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in the Company's loss for the period. Financial assets held-to-maturity, loans and receivables and financial liabilities, other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in other comprehensive income ("OCI") upon adoption.

2. Significant accounting policies - *continued*

o) Financial instruments - *continued*

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in the Company's loss for the period, except for derivatives that are designated as a cash flow hedge, the fair value change for which is recognized in OCI. The Company has elected to recognize all transaction costs to the carrying amount (for non-trading instruments) that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument on initial recognition. CICA Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the immediate expensing of any related transaction costs, fees or premiums.

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, short-term investments, receivables, due from related parties and accounts payable and accrued liabilities. The Company has classified each of its significant categories of financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Short-term deposits	Held-for-trading
Short term investments	Available-for-sale
Due from related parties	Loans and receivables
Receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

Amounts due from related parties are carried at cost. Fair value adjustments, if any, are not reasonably determinable by management as comparable interest rate and risk profiles are not available.

3. Change in accounting policies

a) Capital disclosures

Effective March 1, 2008, the Company adopted CICA Handbook Section 1535 – Capital Disclosures. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

i. its objectives, policies and processes for managing capital;
ii. summary quantitative data about what the Company views as capital;
iii. whether during the period, it complied with any externally imposed capital requirements to which it is subject;
iv. when the entity has not complied with such requirement, the consequences of such non-compliance.

The Company has included the capital disclosures recommended by the new Handbook section in Note 6 to these consolidated financial statements.

3. Change in accounting policies - *continued*

b) Financial instruments – presentation and disclosure

Effective March 1, 2008, the Company adopted CICA Handbook Sections 3862 (Disclosures) and Section 3863 (Presentation). These standards replace CICA Section 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel.

The Company has included the financial instrument disclosures recommended by the new Handbook section in Note 5 to these consolidated financial statements.

c) Going concern

The Company has considered the amendments to CICA Handbook Section 1400 General Standards of Financial Statement Presentation. The amendments apply to interim and annual financial statements for the fiscal years beginning on or after January 1, 2008 and require the Company to carefully assess and disclose the material uncertainties that may put in question its ability to continue as a going concern. The Company has taken into account all available information about the future as well as other factors and concluded that the going concern basis of accounting is appropriate.

4. Recent accounting pronouncements not yet adopted

a) Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Intangible Assets,” and Section 3450, “Research and Development Costs,” and amendments to Accounting Guideline (AcG) 11, “Enterprises in the Development Stage,” and EIC-27, “Revenues and Expenditures during the Pre-operating Period” and Section 1000, “Financial Statement Concepts.” The standard intends to reduce the differences with International Financial Reporting Standards (“IFRS”) in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed.

This standard will be effective for the Company beginning on March 1, 2009. The Company is currently evaluating the impact of adopting this standard in 2009.

4. Recent accounting pronouncements not yet adopted - *continued*

b) International financial reporting standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. In July 2008, the AcSB announced that early adoption will be allowed in 2009 subject to seeking and obtaining exemptive relief. The Company is currently assessing the financial reporting impact of the transition to IFRS and the changeover date.

c) Business combinations

In October 2008, the CICA issued Handbook Section 1582, Business Combinations, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is considering early adoption to coincide with the adoption of International Financial Reporting Standards. This adoption is not expected to have an impact on the Company's financial position, earnings or cash flows.

d) Non-controlling interest

In October 2008, the CICA issued Handbook Section 1602, Non-controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is effective for fiscal years beginning on or after January 2011. This adoption is not expected to have an impact on the Company's financial position, earnings or cash flows.

e) Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that adoption of these new requirements will have no impact on the Company's consolidated financial statements.

f) Mining exploration costs

On March 27, 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

This standard will be effective for the Company beginning on April 1, 2009. The Company is currently evaluating the impact of adopting this standard in 2009.

5. Management of financial risk

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.

Sensitivity analysis

The Company's financial instruments consist of cash and cash equivalents, short term deposits, receivables, due from related parties, short-term investments, accounts payable and accrued liabilities.

The Company has classified its cash and cash equivalents as held-for-trading, and are measured at fair value. Receivables and due from related parties are designated as "loans and receivables" and are measured at amortized cost. Short term investments are designated as available for sale and are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

As at February 28, 2009, the carrying amount of accounts receivable and payable equals fair market value. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Cash and cash equivalents include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by $4,089.
- Price risk is remote since the Company is currently not a producing entity.

Foreign 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 operating results and the financial position of the Company are reported in Canadian dollars. Fluctuations in the US/Canadian dollar exchange rate will, consequently, have an impact upon the reported operations of the Company and may affect the value of the Company's assets and liabilities.

The Company currently does not enter into financial instruments to manage foreign exchange risk.

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 policy 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.

The Company is exposed to credit risk in the amount of its receivables and amounts due from related parties. 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.

5. Management of financial risk - *continued*

Foreign currency risk - *continued*

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

February 28, 2009	Cash and cash equivalents	Receivables	Accounts payable and accrued liabilities
US dollar	$ 29,475	$ -	$ 13,356
Mexican peso	6,143	38,232	99
	$ 35,618	$ 38,232	$ 13,455

February 29, 2008	Cash and cash equivalents	Receivables	Accounts payable and accrued liabilities
US dollar	$ 33,421	$ 38,631	$ 31,751
Mexican peso	6,889	36,492	430
	$ 40,310	$ 75,123	$ 32,181

At February 28, 2009 with other variables unchanged, a +/-10% change in exchange rates would increase/decrease pre-tax loss by +/- $5,628.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalent 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, 2009, the Company had a cash and cash equivalents and short term deposits balance of $476,630 (2008 - $794,401) to settle current liabilities of $87,690 (2008 - $225,746).

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.

Equity market risk

The Company is exposed to equity price risk arising from marketable securities. Marketable securities are classified as available for sale. The Company intends to liquidate the marketable securities when market conditions are conducive to a sale of these securities. At February 28, 2009 with other variables unchanged, a +/-10% change in equity prices would increase/decrease pre-tax earnings by +/- $1,726.

6. 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 as well as cash and cash equivalents, receivables, short term investments and investment tax credit receivable balances.

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

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 expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating period.

7. Short-term deposits

Included in short-term deposits of $67,750 (2008 - $67,750) is $55,750 (2008 - $55,750) held as collateral for corporate credit cards, $5,000 (2008 - $5,000) held as other collateral, and $7,000 (2008 - $7,000) held as other investments.

8. Short-term investments

	February 28, 2009	February 29, 2008
Marketable securities:		
Holdings in companies related by virtue of common directors/officers	$ **1,516**	$ 256,350
Holdings in unrelated companies	**15,750**	45,000
	$ **17,266**	$ 301,350

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 28, 2009, investments were measured at a fair value of $17,266, after an unrealized gain of $8,633 and a realized loss of $45,177 was charged against these short-term investments to reflect an other than temporary decline in their fair market value. During the year ended February 28, 2009, short-term investments were sold for a realized gain of $189,985 and accordingly $170,302 was reclassified from other comprehensive income.

During the prior year, the Company prospectively adopted the CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale. In accordance with the new standards, as of March 1, 2007 the Company classified its investments as available for sale. Accordingly, investments with a book value of $216,997 were measured as of March 1, 2007 at a fair value of $604,404 which resulted in a revaluation gain of $387,406. As of February 29, 2008, investments were measured at a fair value of $301,350 and resulted in a revaluation gain of $82,206 and $299,310 reclassified to income upon realization. The revaluation gains have been recognized in accumulated other comprehensive income.

9. Property, plant and equipment

	February 28, 2009			February 29, 2008		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Office furniture and equipment	**$ 131,851**	**$ 80,424**	**$ 51,427**	$ 177,913	$ 87,672	$ 90,241
Leasehold improvements	**10,512**	**1,212**	**9,300**	-	-	-
Equipment under capital lease	**-**	**-**	**-**	25,221	12,308	12,913
Vehicle	**36,760**	**30,856**	**5,904**	36,760	28,325	8,435
	$ 179,123	**$ 112,492**	**$ 66,631**	$ 239,894	$ 128,305	$ 111,589

10. Resource property costs

El Reventon, Mexico

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

El Tesoro, Mexico

The Company has a property position located in Pueblo Nuevo Municipality, State of Durango, Mexico, consisting of four mineral concessions known as La Lajita, Tesoro 1, Tesoro 2 and Tesoro 3, all of which were acquired by staking.

In 2005 the Company's wholly-owned subsidiary, Grupo Northair, entered into an agreement with Compania Minera San Valentin, S.A. de C.V. ("San Valentin") whereby, for up to 15 years, San Valentin may purchase the G Zone for US$200,000 and the remainder of the concessions for a further US$300,000. During the option period San Valentin must pay to Grupo Northair US$3,000 per month. Should San Valentin exercise the purchase option, Grupo Northair will retain a 49% back-in right for the G Zone. San Valentin has encountered mining dilution and ground control problems in their underground excavation on the Company's and adjacent claims. In view of the circumstances, the scheduled dates and amounts of the monthly payments have been modified. The Company has received total payments of US$25,350. It is not clear if San Valentin will be able to maintain their lease. During the year ended February 29, 2008 capitalized exploration costs relating to the San Valentin's activities on the El Tesoro property were written off.

During the year ended February 28, 2009, the Company wrote off all the mineral exploration costs related to the El Tesoro mineral property.

La India, Mexico

The Company acquired the La India project in Durango, Mexico by staking a 100% interest in certain claims and by entering into, in February 2007, an option agreement for an additional concession. Under the terms of the option agreement, the Company may earn a 100% interest in the optioned concession by making payments totalling US$171,000 over a four year period.

In June 2008 the Company finalized an agreement with Fresnillo PLC ("Fresnillo"), a subsidiary of Industrias Penoles, SA de CV, ("Penoles") to form a joint venture on the Company's La India project. Fresnillo can earn a 60% interest in the project by completing exploration expenditures on the La India project of US$1,750,000, paying the Company US$210,000 and purchasing shares of the Company from treasury valued at US$210,000 (a 20% premium to market at the time of the purchase) over a four year period. Fresnillo can increase its interest in the project to 80% by preparing a scoping study on any resource found. If the Company elects not to participate in additional funding of the project, it will retain a 1% NSR interest.

During the year ended February 28, 2009, Fresnillo purchased 84,499 shares for cash proceeds of $12,709 in conjunction with the terms of the joint venture agreement.

10. Resource property costs - *continued*

Sierra Rosario, Mexico

The Company acquired, by staking, two concessions in the state of Sinaloa Mexico, known as Sierra Rosario ("Rosario"). Sparton Resources Inc. has earned a 51% interest in the property by making cash payments totalling $130,000, issuing 275,000 shares, and incurring exploration expenditures totalling $800,000.

Brandywine, Canada

The Company maintains the Brandywine claim near Whistler, B.C. The nine unit claim is in good standing until August 3, 2010.

Exploration costs written-off

	February 28, 2009	February 29, 2008
Canada – general exploration	**$ 251,470**	$ 16,640
Mexico – El Tesoro and general exploration and property examinations	**276,493**	365,729
	$ 527,963	$ 382,369

11. Shareholders' equity

Authorized share capital

Unlimited number of common shares without par value

During the year ended February 28, 2009, the Company issued 84,499 shares to Fresnillo for total cash proceeds of $12,709 in conjunction with the terms of the La India joint venture agreement. *(See note 10)*

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 3,938,054 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.

11. Shareholders' equity - *Continued*

Stock options – continued

A summary of the Company's stock options is as follows:

	Options outstanding	Weighted Average exercise price
Balance – February 28, 2007	1,385,000	$0.43
Granted	530,000	$0.24
Cancelled	(425,000)	$0.29
Balance – February 29, 2008	1,490,000	$0.41
Granted	640,000	$0.15
Cancelled	(785,000)	$0.53
Balance – February 28, 2009	1,345,000	$0.21

As at February 28, 2009, the following stock options are outstanding:

Number	Price per share	Expiry date	Options exercisable	
50,000	$0.23	September 14, 2010	50,000	$0.23
270,000	$0.30	September 26, 2011	270,000	$0.30
50,000	$0.32	January 24, 2012	50,000	$0.32
35,000	$0.30	April 16, 2012	35,000	$0.30
10,000	$0.28	June 6, 2012	10,000	$0.28
305,000	$0.21	January 4, 2013	305,000	$0.21
10,000	$0.22	February 28, 2013	10,000	$0.22
110,000	$0.15	June 13, 2013	73,333	$0.15
20,000	$0.12	July 31, 2013	6,667	$0.12
485,000	$0.15	February 9, 2014	315,000	$0.15
1,345,000	$0.21		1,125,000	$0.25

During the year ended February 28, 2009, the Company granted a total of 640,000 (2008 – 530,000) stock options to certain officers, directors, employees and consultants of the Company. The options granted had a total fair value of $24,935 (2008 - $72,296) and a weighted average grant-date fair value of $0.04 (2008 - $0.17). The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2009	2008
Expected dividend yield	Nil	Nil
Expected stock price volatility	73.70%	63%
Risk free interest rate	2.17%	3.83%
Expected life of options	5 years	5 years

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

11. Shareholders' equity - *Continued*

Stock options – continued

Stock-based compensation

For the year ended February 28, 2009 a total value of $25,316 (2008 - $73,371) has been recorded to contributed surplus and to stock-based compensation expense. The portion of stock-based compensation recorded is based on the vesting schedule of the options.

Warrants

A summary of the Company's share purchase warrants is as follows:

	Warrants outstanding		Weighted average exercise price
Balance – February 28, 2007	3,642,150	$	0.40
Issued	-	$	-
Exercised/Cancelled	-	$	-
Balance – February 29, 2008	3,642,150	$	0.50*
Issued	-	$	-
Expired	(3,642,150)	$	0.50*
Balance – February 28, 2009	-	$	-

*After November 24, 2007 the exercise price increased to $0.50 per share. The warrants expired without exercise on November 24, 2008.

As at February 28, 2009, there are no share purchase warrants outstanding.

12. Related party transactions

The Company paid or accrued $7,500 (2008 - $Nil) to a company controlled by an officer.

Administrative recoveries during the year ended February 28, 2009 of $184,156 (2008 - $158,530) are primarily recovered from various companies with certain officers and directors in common.

Based on time spent, the Company recovered salaries during the year ended February 28, 2009 of $881,871 (2008 - $981,228) from companies with certain officers and directors in common. These amounts have been recorded against office, salaries and general expense.

During the year ended February 28, 2009 salaries of $276,000 (2008 - $276,000) were paid to two directors of the Company. Included in accounts payable and accrued liabilities is $7,841 (2008 - $Nil) due to directors, officers, and companies with directors or officers in common.

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

13. Segmented information

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

	Canada		Mexico		Total	
	2009	2008	**2009**	2008	**2009**	2008
Capital assets	**$ 58,196**	$ 103,154	**$ 1,155,738**	$ 1,103,562	**$ 1,213,934**	$ 1,206,716
Total assets	**$ 684,209**	$ 1,749,765	**$ 1,191,667**	$ 1,138,509	**$ 1,875,876**	$ 2,888,274
Net loss (income)	**$ 101,888**	$ 275,929	**$ 704,188**	$ (255,279)	**$ 806,076**	$ (20,650)

14. Commitments

As at February 28, 2009, the twelve month commitments for rental of the Company's office space are as follows:

March 1, 2009 – February 28, 2010	$ 363,406
March 1, 2010 – January 31, 2011	333,124
Total	$ 696,530

In addition to the basic monthly rent, the Company must also pay 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

Changes in non-cash working capital:		February 28, 2009		February 29, 2008
(Increase) decrease in:				
Short-term deposits	$	-	$	605,417
Receivable		29,372		(46,845)
Due from related parties		445,639		(393,540)
Prepaid expenses		(9,409)		(5,918)
(Decrease) increase in:				
Accounts payable and accrued liabilities		(59,496)		22,067
	$	406,106	$	181,181

Schedule of non-cash investing and financing transactions		Year ended February 28, 2009		Year ended February 29, 2008
Shares received pursuant to a property option agreement	$	-	$	26,500
Future income tax capitalized to mineral property costs	$	52,504	$	123,994
Property and equipment include in accounts payable	$	-	$	46,530
Resource property costs included in accounts payable	$	-	$	32,030

Supplementary disclosure of cash flow information:		Year ended February 28, 2009		Year ended February 29, 2008
Cash paid for interest	$	Nil	$	Nil
Cash paid for income taxes	$	Nil	$	Nil

16. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earning before income taxes. These differences result from the following items:

		Year ended February 28, 2009		Year ended February 29, 2008
Income (loss) before income taxes	$	**(803,202)**	$	20,650
Canadian federal and provincial income tax rate		**30.75%**		33.7%
Income tax expense (recovery) based on the above rates	$	**(246,985)**	$	6,957
Increase (decrease) due to:				
Non-deductible and non-taxable items		**88,098**		10,243
Losses and temporary differences for which no future income tax asset has been recognized		**61,506**		110,148
Change in long term Canadian income tax rates		**13,160**		
Expiry of losses and increase in valuation allowance with respect to losses		**74,645**		-
Use of previously unrecognized temporary differences		**-**		(122,016)
Difference between foreign and Canadian tax rates		**12,450**		(5,332)
Income tax expense	$	**2,874**	$	-

The components of future income taxes are as follows:

		February 28, 2009		February 29, 2008
Future income tax assets				
Non-capital losses	**$**	**539,006**	$	456,005
Capital losses		**107,898**		99,575
Property, plant and equipment		**41,716**		28,827
Resource property costs		**476,134**		514,224
Other		**12,973**		48,340
Future income tax assets		**1,177,727**		1,146,971
Valuation allowance		**(1,045,695)**		(964,330)
Future income tax assets *(net)*		**132,032**		182,641
Future income tax liabilities				
Resource properties		**311,404**		306,635
Future income tax liabilities		**311,404**		306,635
Net future income tax liability	**$**	**179,372**	$	123,994

16. Income taxes - *continued*

The Company has non-capital loss carry-forwards of approximately $2,082,927 (2008 - $1,665,929) that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Mexican operations and expire as follows:

2009	$ 19,125
2010	55,713
2011	74,412
2012	4,669
2013	46,957
2014	135,709
2015	170,947
2017	158,651
2018	134,004
2019	4,798
2026	306,767
2027	243,682
2028	314,472
2029	413,021
	$ 2,082,927

A full valuation allowance has been recorded against the net potential future income tax assets associated with these loss carry-forwards and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

17. Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

18. Subsequent events

Subsequent to February 28, 2009, the Company:

a) Closed its non-brokered private placement with the issuance of 13,070,000 units at a price of $0.05 per unit for gross proceeds of $653,500. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company for 24 months from the closing date at a price of $0.10 for the 12 months immediately following the closing date and $0.20 thereafter.

   The warrants will be subject to an accelerated exercise provision if the share price of the Company trades at or above $0.35 for 10 or more consecutive trading days. Net proceeds of this private placement will be used to further the Company's exploration projects, fund possible new acquisitions and for general working capital.

   The Company issued 815,500 brokers units and 815,500 broker warrants, with similar terms as the private placement, as finder's fees. The common shares issued and the common shares underlying the warrants are subject to a four month hold period that expires on September 20, 2009.

18. Subsequent events - *continued*

b) Entered into an option to acquire a 100% interest in the La Cigarra Project located in the State of Chihuahua, Mexico. The Company's wholly-owned subsidiary, Grupo Northair, has signed a Letter of Intent with the concession owners and has commenced its due diligence.

La Cigarra consists of 7 privately held concessions, totaling approximately 335 hectares. Grupo Northair can acquire a 100% ownership in the concessions by making payments over a 5 year period totaling US$445,000. Signing of the formal agreement will be subject to further technical and legal due diligence by Grupo Northair, as well as approval by the Company's Board of Directors and the TSX Venture Exchange, and registration with the appropriate Mexican government authorities.

c) Issued 397,714 common shares for consideration of US$25,000 and received US$25,000 in option payments pursuant to the La India mineral property agreement.

CORPORATE INFORMATION

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Brian C. Irwin
Director

James R. Robinson, *B.Sc.*
Vice President – Exploration

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