

INTERNATIONAL NORTHAIR MINES LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the interim consolidated financial statements for the six months ended August 31, 2012.

International Northair Mines Ltd.

Condensed Interim Consolidated Statements of Financial Position

Unaudited – Prepared by Management

As at

(Expressed in Canadian Dollars)

ASSETS	August 31, 2012	February 29, 2012
Current		
Cash	\$ 292,865	\$ 366,034
Short-term deposits	5,277,000	3,502,000
Receivables	83,795	108,246
Due from related parties	137,615	90,641
Short-term investments	2,526	4,295
Prepaid expenses	97,261	61,051
	5,891,062	4,132,267
Non-current assets		
Taxes receivable	512,109	195,438
Property and equipment (Note 9)	933,955	74,938
Resource property costs	7,106,440	4,538,199
	\$ 14,443,566	\$ 8,940,842
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 320,867	\$ 404,966
Due to property vendors (Note 9)	481,000	-
Due to joint venture	8,629	103,443
	810,496	508,409
SHAREHOLDERS' EQUITY		
Share capital	36,805,537	30,947,101
Reserves	2,673,297	2,237,885
Accumulated other comprehensive income	1,768	3,537
Deficit	(25,847,532)	(24,756,090)
	13,633,070	8,432,433
	\$ 14,443,566	\$ 8,940,842

Commitment (Note 13)

APPROVED ON BEHALF OF THE BOARD ON October 27, 2012:

"F. G. Hewett", Director

"Brian Irwin", Director

International Northair Mines Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

	For the three months ended August 31, 2012	For the three months ended August 31, 2011	For the six months ended August 31, 2012	For the six months ended August 31, 2011
General and administrative expenses				
Administrative recoveries	\$ (10,068)	\$(19,732)	\$(20,100)	\$ (45,406)
Amortization	7,214	4,155	13,179	6,118
Office, salaries and general	147,089	116,055	317,440	171,371
Professional and consulting fees	94,297	24,852	130,434	44,278
Regulatory compliance and transfer agent fees	9,637	9,667	12,109	13,881
Shareholder information and investor relations	122,968	43,213	219,049	94,185
Share based payments	298,867	294,589	342,505	842,193
Loss before the undernoted	670,004	472,799	1,014,616	1,126,620
Loss (gain) on foreign exchange	11,792	10,688	34,531	15,369
Interest income and other	(23,776)	(35,120)	(56,663)	(51,508)
Write-off of exploration costs	73,980	55,087	98,958	69,336
Net loss for the period	732,000	503,454	1,091,442	1,159,817
Other comprehensive loss				
Unrealized loss on available-for-sale investments	1,516	1,516	1,769	4,547
Comprehensive loss for the period	\$733,516	\$504,970	\$1,093,211	\$ 1,164,364
Loss per share – basic and diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Weighted average number of shares outstanding – basic and diluted	84,713,022	69,219,621	77,177,537	65,097,901

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

International Northair Mines Ltd.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

	For the six months ended August 31, 2012		For the six months ended August 31, 2011	
Cash provided by (used in):				
Operating activities				
Net loss for the period	\$	(1,091,442)	\$	(1,159,817)
Items not affecting cash:				
Amortization		13,179		6,118
Stock-based compensation		342,505		842,193
Write-off of exploration costs		98,958		69,336
		<u>(636,800)</u>		<u>(242,170)</u>
Changes in non-cash working capital		<u>(355,401)</u>		<u>(251,357)</u>
		<u>(992,201)</u>		<u>(493,527)</u>
Investing activities				
Mineral property costs		(2,771,301)		(1,170,243)
Purchase of property and equipment- net		(391,196)		(42,968)
Due to joint venture partner		(94,814)		-
		<u>(3,257,311)</u>		<u>(1,213,211)</u>
Financing activities				
Purchase /Redeem short-term deposits		(1,775,000)		(5,451,160)
Shares issued for private placement		6,099,616		5,138,000
Shares issued pursuant to stock options		-		7,500
Shares issued pursuant to warrants exercised		-		1,694,270
Cash issuance costs		(148,273)		(277,493)
		<u>4,176,343</u>		<u>1,111,117</u>
Change in cash		(73,169)		(595,621)
Cash – beginning of period		366,034		904,869
Cash – end of period	\$	292,865	\$	309,248

Supplemental cash flow information (Note 14)

International Northair Mines Ltd.

(An Exploration Stage Company)

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited – Prepared by Management

Canadian Funds

	Share Capital (Number of Shares)	Share Capital (Amount)	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
February 28, 2011	43,600,953	\$ 24,407,009	\$ 1,011,699	\$ 10,862	\$ (22,706,241)	\$ 2,723,329
Units issued for cash	17,126,666	5,138,000	-	-	-	5,138,000
Broker warrants issued as Finder's Fee	-	(119,381)	119,381	-	-	-
Share issuance costs - cash	-	(277,493)	-	-	-	(277,493)
Warrants exercised	8,471,350	1,694,270	-	-	-	1,694,270
Fair value of warrants exercised	-	17,849	(17,849)	-	-	-
Share-based payments	-	-	842,193	-	-	842,193
Other comprehensive loss	-	-	-	(4,547)	-	(4,547)
Options exercised	50,000	7,500	-	-	-	7,500
Fair value of options exercised	-	1,340	(1,340)	-	-	-
Net loss for the period	-	-	-	-	(1,159,817)	(1,159,817)
August 31, 2011	69,248,969	\$ 30,869,094	\$ 1,954,084	\$ 6,315	\$ (23,866,058)	\$ 8,963,435
February 29, 2012	69,558,969	\$ 30,947,101	\$ 2,237,885	\$ 3,537	\$(24,756,090)	\$8,432,433
Share-based payments	-	-	342,505	-	-	342,505
Other comprehensive loss	-	-	-	(1,769)	-	(1,769)
Units issued for cash	21,784,344	6,099,616	-	-	-	6,099,616
Broker warrants issued as Finder's Fee	-	(92,907)	92,907	-	-	-
Share issuance costs - cash	-	(148,273)	-	-	-	(148,273)
Net loss for the period	-	-	-	-	(1,091,442)	(1,091,442)
August 31, 2012	91,343,313	\$ 36,805,537	\$ 2,673,297	\$ 1,768	\$(25,847,532)	\$ 13,633,070

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

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

1. Nature of Business

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

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

The Company is an exploration stage company which is engaged principally in the acquisition and exploration of mineral properties. These financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The Company has incurred a deficit of \$25,847,532 at August 31, 2012 and has no current source of revenue. During fiscal 2012 and 2013 the Company raised capital to meet its working capital requirements for fiscal 2012 and part of 2013. The Company’s continuation as a going concern is dependent on its’ ability to attain profitable operations and generate funds therefrom and/or raise funds sufficient to meet current and future obligations. There can be no assurances that management’s future plans for the Company will be successful. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of assets and liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of Presentation

Statement of Compliance and Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board (“ASCB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles (“GAAP”) for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company adopted IFRS for the period beginning March 1, 2011 with a transition date of March 1, 2010.

These condensed interim consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

3. Significant accounting policies

Significant accounting estimates and judgments

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

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – *Continued*

Significant accounting estimates and judgments - *Continued*

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

Critical accounting estimates

Significant assumptions relate to, but are not limited to, the following:

- The carrying value and the recoverability of resource property costs, which are included in the statements of financial position;
- The future site restoration costs;
- The inputs used in accounting for the valuation of warrants on private placements;
- The inputs used in accounting for share-based compensation expense which is included in the statement of comprehensive loss;
- The future income tax asset valuation allowance.

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

4. Capital management

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

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

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

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

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

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

5. Financial instruments

Categories of financial instruments

	August 31, 2012	February 29, 2012
Financial assets		
FVTPL Assets		
Cash	\$ 292,865	\$ 366,034
Short-term deposits	5,277,000	3,502,000
AFS Assets		
Short-term investments	2,526	4,295
Loans and receivables		
Receivables	83,795	108,246
Due from related parties	137,615	90,641
	\$ 5,793,801	\$ 4,071,216
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 320,867	\$ 404,966
Due to property vendors	481,000	-
Due to joint venture	8,629	103,443
	\$ 810,496	\$ 508,409

Fair value of financial instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

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

	August 31, 2012	February 29, 2012
Level 1		
Cash	\$ 292,865	\$ 366,034
Short-term deposits	5,277,000	3,502,000
Short-term investments	2,526	4,295
Level 2	-	-
Level 3	-	-
Total	\$ 5,572,391	\$ 3,872,329

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

5. Financial instruments – Continued

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

Financial Risk Management

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

a) Currency Risk

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

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

August 31, 2012	Cash and short-term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 149,887	\$ -	\$ 575,947
Mexican peso	30,630	595,904	48,295
	\$ 180,517	\$ 595,904	\$ 624,242

February 29, 2012	Cash and short-term deposits	Receivables	Accounts payable and accrued liabilities
US dollar	\$ 332,159	\$ 16,309	\$ 132,811
Mexican peso	16,024	244,214	166,037
	\$ 348,183	\$ 260,523	\$ 298,848

At August 31, 2012 with other variables unchanged, a +/-10% change in exchange rates would decrease/increase pre-tax loss by \$15,200.

a) Interest Rate and Credit Risk

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

Cash and short-term deposits include deposits which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect annual net loss by \$56,000.

Receivables are largely 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.

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

5. Financial instruments – Continued

b) Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at August 31, 2012, the Company had cash and short term deposit balances of \$5,569,865 (February 29, 2012 - \$3,868,034) to settle current liabilities of \$810,496 (February 29, 2012 - \$508,409).

c) Commodity Price Risk

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

6. Short-term deposits

	August 31, 2012	February 29, 2012
Security deposits held as collateral for corporate credit cards	\$ 32,000	\$ 32,000
Security deposits held as other collateral	5,000	5,000
Guaranteed investment certificates	5,240,000	3,465,000
Treasury bill	-	-
	\$ 5,277,000	\$ 3,502,000

7. Short-term investments

	August 31, 2012	February 29, 2012
Marketable securities:		
Holdings in companies related by virtue of common directors/officers	\$ 2,526	\$ 4,295

The Company classifies its short-term investments as available for sale, with revaluation gains and losses recognized in accumulated other comprehensive income. As of August 31, 2012, investments were measured at a fair value of \$2,526, after an unrealized loss of \$1,769 in the six months ended August 31, 2012.

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

8. Property and equipment

	Office Equipment	Leasehold Improvements	Vehicle	Property	Total
Cost					
Balance, February 28, 2011	\$ 131,851	\$ 10,512	\$ 36,760	\$ -	\$ 179,123
Additions for the period	16,440	12,928	29,812	-	59,180
Balance, February 29, 2012	148,291	23,440	66,572	-	238,303
Additions	10,618	-	26,207	835,371	872,196
Balance, August 31, 2012	\$ 158,909	\$ 23,440	\$ 92,779	\$ 835,371	\$1,110,499

Accumulated Depreciation

Balance, February 28, 2011	\$ 103,395	\$ 10,512	\$33,866	\$ -	\$ 147,773
Depreciation for the period	8,341	775	6,476	-	15,592
Balance, February 29, 2012	111,736	11,287	40,342	-	163,365
Depreciation for the period	5,909	1,553	5,717	-	13,179
Balance, August 31, 2012	\$ 117,645	\$ 12,840	\$ 46,059	\$ -	\$ 176,544

Carrying amounts

At February 29, 2012	\$ 36,555	\$ 12,153	\$ 26,230	\$ -	\$ 74,938
At August 31, 2012	\$ 41,264	\$ 10,600	\$ 46,720	\$ 835,371	\$933,955

9. Resource property costs

	La Cigarra, Mexico	El Reventon, Mexico	Sierra Rosario and Other	Total
Balance, February 28, 2011	\$758,322	\$894,252	\$ -	\$ 1,652,574
Acquisition and tenure	103,109	12,917	7,640	123,666
Camp and general	135,790	4,834	81,257	221,881
Drilling	1,592,183	-	-	1,592,183
Field work and travel	360,890	-	14,735	375,625
Salaries and consulting	635,405	600	69,026	705,031
Contributions from joint-venture partner	-	-	(72,062)	(72,062)
Write-offs	-	-	(60,699)	(60,699)
Balance, February 29, 2012	3,585,699	912,603	39,897	4,538,199

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

	La Cigarra, Mexico	El Reventon, Mexico	Sierra Rosario and Other	Total
Acquisition and tenure	63,827	19,015	6,443	89,285
Camp and general	106,344	-	109,189	215,533
Drilling and analysis	1,447,634	-	298,593	1,746,227
Field work and travel	206,807	-	92,211	299,018
Consulting and staff	498,295	-	88,358	586,653
Contributions from joint- venture partner	-	-	(269,517)	(269,517)
Write-offs	-	-	(98,958)	(98,958)
Balance, August 31, 2012	\$ 5,908,606	\$ 931,618	\$ 266,216	\$ 7,106,440

La Cigarra, Mexico

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

Grupo Northair can acquire a 100% ownership in the concessions by making payments over a five year period totalling US\$445,000 (US\$70,000 paid). The Company also has an agreement to allow drilling to be conducted on land controlled by a local Ejido. During fiscal 2012, the Company expanded the project to include the La Borracha concession at a cost of US\$35,000.

During the period the Company executed an agreement to acquire up to a 70% interest in a land position in the area of its La Cigarra Project. Under the terms of the agreement the Company can acquire its interest by the payment of US\$525,000, the issuance of 1,500,000 shares of the Company and the spending of US\$2,000,000 in exploration over a four year period. The agreement was subject to the private company assuring title to the land position, which was received subsequent to August 31, 2012.

The Company also reached agreement to acquire surface rights to land adjoining and overlying the La Cigarra Project at a cost of US\$825,000 (US\$350,000 paid). In addition, a US\$200,000 amount will be payable should the Company announce development of a mine on the La Cigarra Project.

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\$130,500 over a six year period.

The Company entered into an agreement whereby it has granted Focus Ventures Ltd. (“Focus”) the option to acquire an 80% interest in its’ El Reventon Silver Project located in the state of Durango, Mexico. Under the terms of the agreement, Focus can earn its interest by the payment of US\$235,000 to the Company over 24 months and incurring US\$2,000,000 of exploration expenditures on the property over a three year period.

Sierra Rosario, Mexico

During the six months ended August 31, 2012, the Company received \$174,703 in joint venture cash recoveries for exploration expenditures and reduced the liability by \$94,814 as a result of expenditures.

During the year ended, February 29 2012, the Company executed an agreement with Sparton Resources Inc. (“Sparton”) and American Consolidated Metals Corp. (“American Consolidated”) to facilitate the acquisition

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

9. Resource property costs- *continued*

by American Consolidated of Sparton's 50% interest in the Sierra Rosario Property located in the state of Sinaloa, Mexico. Sparton held a 51% interest in Sierra Rosario under a Joint Venture Agreement with Northair. In consideration for Northair waving its right of first refusal to match the American Consolidated offer, Sparton transferred a 1% interest and operatorship in the Sierra Rosario Property to Northair concurrently with the completion of the first payment and share issuance from American Consolidated to Sparton under their agreement.

Brandywine, Canada

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

10. Share Capital and Reserves

Authorized share capital

Unlimited number of common shares without par value

Shares Issued

- a) During the period the Company completed a 21,784,344 unit non-brokered private placement at a price of \$0.28 per unit for gross proceeds of \$6,099,616. Each unit consisted of one share and one half share purchase warrant. Each full warrant shall enable the holder to purchase a share in the Company at a price of \$0.40 for a period of eighteen months. The warrants are subject to an accelerated exercise provision if the shares of Northair trade at or above \$0.85 for 10 or more consecutive days. Finders' fees consisting of \$117,216 and 347,200 Finders' Warrants were payable on a portion of the financings. The Finders' Warrants have the same terms and conditions as the warrants forming the units of the financings and were valued at \$92,907 based on the Black Scholes model using the following assumptions:

Risk-free interest rate	.99%
Expected dividend yield	Nil
Expected stock price volatility	142%
Expected life (in years)	1.5

The Company also paid \$31,057 share issuance costs associated with the private placement.

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

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

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

International Northair Mines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six month period ended August 31, 2012

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

10. Share Capital and Reserves – Continued

Stock options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant up to a total of 13,839,793 options to directors, officers, employees or consultants. The vesting period of options outstanding range from the grant date to one year and expire 5 years from the grant date.

a) Movements in share options during the year

The changes in share options during the six months ended August 31, 2012 and the year ended February 29, 2012 were as follows:

	Options outstanding	Weighted Average exercise price
Balance, February 28, 2011	1,455,000	\$0.19
Granted	2,660,000	\$0.56
Exercised	(360,000)	\$0.17
Forfeited/Expired	(515,000)	\$0.49
Balance, February 29, 2012	3,240,000	\$0.46
Granted	2,765,000	\$0.28
Forfeited/Expired	(30,000)	\$0.28
Balance, August 31, 2012	5,975,000	\$0.37

b) Fair value of share options granted

During the six months ended August 31, 2012, the Company granted options to directors, officers and employees to purchase up to 2,675,000 common shares of the Company at a weighted average exercise price of \$0.28 per share. The estimated fair value of the stock options granted during the period ended August 31, 2012 was \$454,375 using the Black Scholes option pricing model.

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

Risk-free interest rate	0.99% - 2.34%
Expected dividend yield	Nil
Expected stock price volatility	97% - 234%
Expected life (in years)	3.0 - 3.5
Expected forfeiture rate	0-7%

During the six months ended August 31, 2012 a total value of \$342,505 (2011 - \$842,193) has been recorded to reserves and to share-based payments. The portion of share-based payments recorded is based on the vesting schedule of the options.

A summary of the Company's options outstanding as at August 31, 2012 is as follows:

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
120,000	120,000	\$0.21	0.67	January 4, 2013
10,000	10,000	\$0.22	0.75	February 28, 2013
80,000	80,000	\$0.15	1.08	June 13, 2013
280,000	280,000	\$0.15	1.67	February 9, 2014
15,000	15,000	\$0.15	2.42	October 30, 2014
150,000	150,000	\$0.15	2.75	March 11, 2015

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10. Share Capital and Reserves – Continued

Options outstanding	Options exercisable	Price per share	Remaining contractual life (years)	Expiry date
150,000	150,000	\$0.15	2.90	April 21, 2015
1,150,000	1,150,000	\$0.71	3.16	May 19, 2016
750,000	750,000	\$0.495	3.50	July 18, 2016
50,000	50,000	\$0.305	3.67	Sept. 20, 2016
175,000	175,000	\$0.25	3.67	Sept. 28, 2016
280,000	193,333	\$0.24	4.55	Dec. 15, 2016
2,765,000	1,550,000	\$0.28	4.83	June 13, 2017
5,975,000	4,673,333			

The weighted average exercise price of the options exercisable at August 31, 2012 is \$0.39.

Warrants

a) Movements in warrants during the year

The changes in share warrants during the three months ended August 31, 2012 and year ended February 29, 2012 were as follows:

	Warrants outstanding	Weighted average exercise price
Balance –February 28, 2011	8,471,350	\$0.20
Issued	9,398,166	\$0.50
Exercised	(8,471,350)	\$0.20
Balance –February 29, 2012	9,398,166	\$0.50
Issued	*11,239,372	\$0.40
Expired	(9,398,166)	\$0.50
Balance, August 31, 2012	11,239,372	\$0.40

- Warrants expire December 28, 2013

b) Shareholder Rights Plan

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

11. Related party transactions

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

International Northair Mines Ltd.

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11. Related party transactions- *continued*

a) *Related party transactions*

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

	Nature of transactions
Avisar Chartered Accountants	Accounting fees
New Dimension Resources Ltd.	Administrative and salary recoveries
Mercator Minerals Ltd. (formerly Creston Moly Corp.)	Administrative recoveries
Capstone Mining Corp.	Administrative recoveries
Troon Ventures Ltd.	Administrative recoveries

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

	Note	For the six months ended August 31, 2012	For the six months ended August 31, 2011
Accounting fees		\$ -	\$ 20,412
Administrative recoveries		\$ (17,254)	\$ (45,406)
Salary recoveries	(i)	\$ (107,369)	\$ (166,623)
Professional and consulting fees		\$ 72,202	\$ -

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

b) *Compensation of key management personnel*

	Note	For the six months ended August 31, 2012	For the six months ended August 31, 2011
Management fees, directors' fees, salaries		181,600	73,600
Stock-based compensation	(i)	243,132	842,193

(i) Stock-based compensation represents the expense for the six months ended August 31, 2012 and 2011.

(ii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the six months ended August 31, 2012 and 2011.

c) *Employment contract*

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

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11. Related party transactions- *continued*

d) Consulting agreement

During the period the Company entered into an agreement with a related party for the provision of consulting services at a fee of US\$24,000 per month. Under the terms of the agreement the contract may be cancelled with 30 days written notice.

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

12. Segmented information

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

Total Assets	August 31, 2012	February 29, 2012
Canada	\$ 5,695,400	\$ 4,017,308
Mexico	8,748,166	4,923,534
Total	\$ 14,443,566	\$ 8,940,842

Total Non-current Assets	August 31, 2012	February 29, 2012
Canada	\$ 44,007	\$ 45,466
Mexico	8,508,497	4,763,109
Total	\$ 8,552,504	\$ 4,808,575

Net Loss (Income)	Six Months August 31, 2012	Six Months August 31, 2011
Canada	\$ 964,213	\$ 1,085,673
Mexico	127,229	74,144
Total	\$ 1,091,442	\$ 1,159,817

13. Commitment

As at August 31, 2012, the commitment for rental of the Company's office space is as follows:

Year ending	
February 28, 2013	\$ 134,886
February 28, 2014	\$ 269,771
February 28, 2015	\$ 269,771
February 29, 2016	\$ 247,290

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13. Commitment - continued

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

14. Supplemental cash flow information

	For the six months ended August 31, 2012	For the six months ended, August 31, 2011
Changes in non-cash working capital:		
<i>(Increase) decrease in:</i>		
Receivables	\$ 24,451	\$ (185,406)
Taxes receivable	(316,671)	-
Due from related parties	(46,974)	(63,966)
Prepaid expenses	(36,210)	(4,910)
<i>(Decrease) increase in:</i>		
Accounts payable and accrued liabilities	20,003	2,925
	<u>\$ (355,401)</u>	<u>\$ (251,357)</u>

	For the six months ended August 31, 2012	For the six months ended, August 31, 2011
Schedule of non-cash investing and financing transactions:		
Fair value of broker warrants issued	\$ 92,907	\$ 119,381
Change in resource property costs included in accounts payable	\$ 104,102	\$ 72,712

	For the six months ended August 31, 2012	For the six months ended, August 31, 2011
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ Nil	\$ Nil
Cash paid for income taxes	\$ Nil	\$ Nil