INTERNATIONAL NORTHAIR MINES LTD.

A NORTHAIR GROUP COMPANY

# 2008 ANNUAL REPORT

# INTERNATIONAL NORTHAIR MINES LTD.

**A NORTHAIR GROUP COMPANY**

## Letter to the Shareholders

During the past year our Mexican exploration programs have continued to generate positive results. The El Reventon and Sierra Rosario Projects have advanced and a joint venture agreement has been signed on the La India Project. All three projects warrant drill programs which will complement our continued generative and acquisition thrust.

At El Reventon, a successful second phase drill program was conducted in March. The drill program, totaling 2,170 metres in 17 reverse circulation drill holes, intersected significant silver values in 12 of the 15 holes drilled on the Reventon Breccia. The Company is pleased by these results and further work will be necessary to evaluate the significance of the zone.

At the Sierra Rosario Project, significant progress has been made with the construction of a 7.5 kilometre access road to the San Rafael Zone. The road has provided access for a mechanical trenching program and the preparation of drill sites for a proposed fall program. New targets have been also identified at the adjacent Dulces Nombres and Descubriadora Zones.

At the La India Project, Fresnillo PLC, a subsidiary of Industrials Peñoles, S.A. de C.V has entered into an agreement with the Company and has commenced exploration with surface geological mapping, sampling and definition of drill targets. Fresnillo has indicated that they will conduct an initial drill program on the project later this year. Our partnership with Mexico's premier silver producer is a vote of confidence for the Company's generative exploration program and we look forward to further positive developments with the Peñoles group of companies.

The generative program has continued aggressively and although the Company has not made any additional acquisitions, numerous potentially attractive projects have been reviewed and I am confident that we will increase our property portfolio.

Going forward, the Company is focused on programs which will allow us to meet our exploration goals and enhance our project and generative programs.

In closing, I wish to thank our shareholders for their support during a year which proved to be challenging for the entire industry. I would like to emphasize that the Company is committed to our shareholders and will continue to make every effort to increase shareholder value.

**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, 2008

# INTERNATIONAL NORTHAIR MINES LTD.

**A NORTHAIR GROUP COMPANY**

**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., the Company maintains generative exploration programs focused within prospective mineral belts that possess potential opportunities for significant discovery. To successfully maximize results, the Company combines reconnaissance geological and geochemical programs in conjunction with property solicitation and advanced stage project evaluation. Further project acquisitions are currently under review. 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 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.

**Drilling at Reventon Breccia**

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.

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. Further exploration will be required to define the extent of the mineralized system.

### *Sierra Rosario Project*

In April of 2002, the Company staked a concession covering the Sierra Rosario Project in the state of Sinaloa. 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 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 high priority targets in 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.

**Trenching at the San Rafael Zone**

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 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.

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 provides the infrastructure necessary to mechanically trench San Rafael and design a drill program based on assay results and exposed geology. The Company expects an initial drill program of the San Rafael Zone to commence later in 2008.

### *La India Project*

The La India Project located in the Sierra San Francisco, 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 is currently estimated to be at least 70 by 300 meters 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 g/t gold, with a high of 10.8 g/t and a low value of 0.02 g/t. 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 has completed two phases of rock chip and stream sediment sampling.

**Surface Mineralization at La India**

To date, 100 samples have been taken from the zone by the Company with 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.

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.

Fresnillo has commenced exploration with surface geological mapping, sampling and definition of drill targets and has indicated that it will conduct an initial drill program on the La India Project later this year.

***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. The drill program tested portions of five of the seven known gold bearing zones but did not delineate cohesive continuity of high grade gold mineralization. Consequently, the Company terminated the high cost option agreements on four privately held concessions as of March 2005. The Company continues to maintain its wholly owned concessions within the El Tesoro property, which total nearly 3,000 hectares. These concessions cover the G Zone where no drilling has been conducted, but where surface trenching returned values of 18.86 g/t gold and 13.09 g/t silver over 12 metres. In addition, significant gold and silver stream sediment anomalies which lie on the Company's claims to the north, south and east of known mineralization provide further potential on the wholly owned concessions. 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.

San Valentin has notified the Company that it is currently mining several zones of mineralization identified by Grupo Northair, and continues exploration of the land position. Some material will be processed at San Valentin's nearby milling facility at Calaveras, Durango, for recovery of gold and silver, while other material may be heap-leached on site in the El Tesoro area. The terms of the agreement were modified commencing in April 2006 to allow San Valentin to overcome some mining problems. It is not clear if San Valentin will be able to maintain their lease.

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

The following management's discussion and analysis of the Company has been prepared as of June 26, 2008 and should be read in conjunction with the Company's audited consolidated financial statements and notes for the years ended February 29, 2008 and February 28, 2007. All financial information is in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") 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., Sherwood Copper Corporation, 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 29, 2008**

- Announced the identification of four silver bearing targets from the ongoing field program at El Reventon Project and subsequently drilled two of the targets on El Reventon Breccia.
    - El Reventon Breccia is the priority target, where a total of 51 surface samples taken from the exposed breccia over an area of approximately 70 meters by 70 meters, averaged 103.9 grams per tonne silver, 0.75 percent lead and 0.79 percent zinc.
    - Los Alisos Zone, approximately 500 metres to the south, a secondary target, reported values from trenching of 88 grams per tonne silver over 15 meters.
    - La Estrella Zone, a high grade silver-gold polymetallic vein system, located two kilometres southwest of the Reventon Breccia reported twenty-four samples averaging 0.825 g/t gold and 385 g/t silver over sample widths from 0.75 to 5 meters.
    - The Portrero Zone located approximately one kilometer northeast of the Reventon Breccia contains dozens of prospects and small mine workings over an area of approximately 150 by 225 meters. The zone is a potential bulk mineable silver target with vein, stockwork and disseminated mineralization occurring in silicified diorite porphyry. A total of sixty-one samples taken from the zone average 23 grams per tonne silver over widths ranging from 1.5 to 7 meters.
- Announced the results from the initial El Reventon Project drill program started in June 2007. The phase-one drill program focused on the Reventon Breccia zone and totaled 660 metres in six NQ core holes. All drill holes intercepted significant zones of mineralized breccia, with highlights including 33.5 metres of 179 grams per tonne silver, 22.8 metres of 94.7 grams per tonne silver and 56.4 metres of 84.5 grams per tonne silver, with associated lead and zinc values.
- Announced in November 2007 the signing of a Letter of Intent with Exploraciones Mineras Parreña, S.A. de C.V., a subsidiary of Minas Peñoles, S.A. de C.V., ("Peñoles") to form a joint venture on the Company's La India project, located in the State of Durango, Mexico. Subsequent to the year end a binding agreement was signed. Please see the Exploration Update for details.
- Announced in January 2008, the discovery of high-grade mineralization within the Company's wholly owned Sierra Rosario Project, which is currently under option to Sparton Resources Inc. The new zone of mineralization, referred to as "Dulces Nombres", was discovered by ongoing exploration programs that resumed in the fall of 2007. A total of 35 chip samples that average 0.71 gram/tonne gold, 263 gram/tonne

- silver, and 0.35% copper have been taken to date from the zone. These samples were continuous chip samples, ranging from 1.0 to 3.0 metres in length.
- Announced in June 2008, the assay results from a second phase drill program recently completed at the El Reventon Project. The drill program, totaling 2,170 metres in 17 reverse circulation drill holes, was successful in further exploring and expanding the Reventon Breccia. Twelve of the holes intersected significant silver values, highlights included 91.4 metres of 87 g/t 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. For further details please see the Company's press release of June 25, 2008.

**Highlights Subsequent to the Year Ended February 29, 2008**

- Commenced a second phase reverse circulation drill program at the El Reventon Project. The program will total 2,000 metres in approximately 15 holes and is designed to test the size potential of the Reventon Breccia zone, where core drilling in 2007 by the Company returned significant silver values.

**Selected Annual Information**

The following table summarizes selected financial data for Northair 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 and the related notes thereto.

| | YEAR ENDED | | |
|---|---|---|---|
| | **February 29, 2008** | **February 28, 2007** | **February 28, 2006** |
| Total revenue | $ Nil | $ Nil | $ Nil |
| General and administrative expenses, net | 409,639 | 327,928 | 403,620 |
| Write off of exploration costs | 382,369 | 274,495 | 359,844 |
| Gain on sale of investments | 724,344 | - | 118,353 |
| Net income (loss):<br>- In total<br>- Basic and diluted net income (loss) per Share | 20,650<br>0.00 | (541,351)<br>(0.04) | (595,476)<br>(0.05) |
| Total Assets | 2,888,274 | 2,408,143 | 1,433,055 |
| Total long-term financial liabilities | Nil | Nil | 8,627 |
| Total cash dividends declared | Nil | Nil | Nil |

The write-off of exploration costs and the gain from investments typically have had the most significant impact on the Company's results from year to year.

**Results of Operations**

*Year Ended February 29, 2008*
The Company's net income for the year ended February 29, 2008 (the "Current Year") was $20,650, or $0.00 per share as compared to a loss of $541,351 or $0.04 per share for the year ended February 28, 2007 (the "Comparative Year").

General and administrative expenses were higher in the Current Period at $409,639 compared with $327,928 in the Comparative Period due mainly to higher office costs ($344,541 compared with $293,350) due mainly to higher salary costs, higher shareholder and investor relations ($69,857 compared with $53,953), higher professional fees ($51,346 compared with $41,356) and a lower charge out of administrative recoveries ($158,530 compared with $163,751).

Write-off of exploration costs was higher in the Current Period at $382,369 compared with $274,495.

In the Current Period the Company sold short-term investments realizing a gain of $724,344, no short-term investments were sold in the Comparative Period.

Details on the geographical segments are as follows:

| | Canada | | Mexico | | Total | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Capital assets | **$ 103,154** | $ 66,619 | **$ 1,103,562** | $ 531,387 | **$ 1,206,716** | $ 598,006 |
| Total assets | **$ 1,749,765** | $ 1,883,817 | **$ 1,138,509** | $ 524,326 | **$ 2,888,274** | $ 2,408,143 |
| Net income (loss) | **$ 275,929** | $ (284,968) | **$ (255,279)** | $ (256,383) | **$ 20,650** | $ (541,351) |

## Exploration Update

***Overview***

The Company continues to focus its exploration efforts in Mexico, where it believes it enjoys a field advantage over many of its competitors. Utilizing its subsidiary, Grupo Northair, Northair maintains a project generation program focused within prospective mineral belts that have a good opportunity for significant discovery. The Company utilizes a strategy combining reconnaissance geological and geochemical programs combined with property solicitation and evaluation of advanced stage projects.

Current projects that evolved from this program are discussed below. Further project acquisitions are currently under consideration.

***El Reventon Project***

The El Reventon Project near Durango, Mexico was acquired in April 2006. The property 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 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 Upper Jurassic low grade metasedimentary rocks overlain by andesite and rhyolite volcanics belonging to the Inferior and Superior Super Groups 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.

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. Initial surface sampling by the Company returned encouraging silver and associated lead and zinc values. 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 September 2007 the Company completed an initial drill program of the breccia which successfully tested the breccia depth. Six holes totaling 660 metres produced encouraging results as listed below.

**Reventon Breccia**

| HOLE | From (metres) | To (metres) | Total (metres) | Silver (g/t) | Lead (%) | Zinc (%) |
|---|---|---|---|---|---|---|
| **DDH-07-01** | 1.5 | 57.9 | 56.4 | 84.5 | 0.44 | 1.11 |
| includes | 6.1 | 19.8 | 13.7 | 109.0 | 0.48 | 2.40 |
| includes | 32.0 | 56.4 | 24.4 | 116.0 | 0.62 | 0.88 |
| | 65.5 | 67.1 | 1.6 | 445.0 | 1.57 | 1.64 |
| | | | | | | |
| **DDH-07-02** | 0.0 | 21.3 | 21.3 | 64.7 | 0.30 | 0.81 |
| | 44.2 | 48.8 | 4.6 | 131.7 | 0.11 | 2.38 |
| | 67.1 | 79.2 | 12.1 | 83.9 | 0.35 | 0.38 |
| | | | | | | |
| **DDH-07-03** | 7.6 | 36.6 | 29.0 | 40.8 | 0.28 | 0.64 |
| | 48.8 | 50.3 | 1.5 | 107.0 | 0.31 | 0.24 |
| | 62.5 | 65.5 | 3.0 | 183.5 | 1.00 | 0.58 |
| | 74.7 | 97.5 | 22.8 | 94.7 | 0.33 | 0.92 |
| includes | 74.7 | 80.8 | 6.1 | 196.3 | 0.55 | 1.73 |
| | | | | | | |
| **DDH-07-04** | 0.0 | 4.6 | 4.6 | 105.3 | 0.59 | 1.37 |
| | 10.7 | 30.5 | 19.8 | 60.9 | 0.30 | 0.29 |
| includes | 16.8 | 21.3 | 4.5 | 113.3 | 0.46 | 0.63 |
| | 57.9 | 59.4 | 1.5 | 246.0 | 0.55 | 1.27 |
| | | | | | | |
| **DDH-07-05** | 0.0 | 33.5 | 33.5 | 179.0 | 0.94 | 0.89 |
| includes | 0.0 | 16.8 | 16.8 | 253.0 | 0.95 | 0.51 |
| includes | 24.4 | 30.5 | 6.1 | 227.5 | 2.17 | 2.83 |
| | 48.8 | 70.1 | 21.3 | 62.8 | 0.27 | 0.14 |
| includes | 48.8 | 51.8 | 3.0 | 54.0 | 0.21 | 0.34 |
| includes | 54.9 | 59.4 | 4.5 | 177.3 | 0.66 | 0.12 |
| | | | | | | |
| **DDH-07-06** | 3.0 | 39.6 | 36.6 | 79.9 | 0.85 | 1.12 |
| includes | 12.2 | 18.3 | 6.1 | 169.3 | 2.20 | 1.80 |
| includes | 24.4 | 27.4 | 3.0 | 149.5 | 1.39 | 1.35 |
| includes | 33.5 | 38.1 | 4.6 | 124.0 | 1.27 | 1.89 |
| | 59.4 | 67.1 | 7.7 | 93.6 | 0.37 | 0.26 |

The Company commenced a second phase reverse circulation drill program on the Reventon Breccia in March 2008. The program was designed to test the size potential of the zone. Results are expected in the 2$^{nd}$ Quarter.

Other significant mineral occurrences on the property are:

The Los Alisos Zone, which lies in close proximity to the Reventon Breccia, approximately 500 metres to the south. An excavated trench reported values of 88 grams per tonne silver over 15 metres within a broader zone of anomalous silver values. 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. Two drill holes in conjunction with the second phase of drilling the Reventon Breccia have been scheduled.

The La Estrella Zone is high grade silver-gold polymetallic vein system, located two kilometres southwest of the Reventon Breccia. 24 initial samples taken from the zone average 0.825 grams per tonne gold and 385 grams per tonne silver over sample widths from 0.85 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 northwest striking belt of mineralization that occurs over a distance of 2.3 kilometres.

A third zone, the Portrero Zone is located approximately one kilometer 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 has been explored 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 averaged 23 grams per tonne 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 grams per tonne silver.

***La India Project***
The La India Project, located in the Sierra San Francisco area approximately 140 kilometres north of the capital city of Durango, was acquired in August and September 2006.

The Company controls concessions covering approximately 1,800 hectares through staking and the option to purchase a 300 hectare privately held concession. Northair can acquire a 100 percent interest in the optioned concession by paying US$171,000 over a four-year period.

The La India Project contains low sulfidation gold mineralization in transitional rhyolite volcanic pyroclastics that have been intruded by numerous rhyolite stocks, dikes and sills. Geological mapping completed by Northair has defined an irregular surface area of mineralization, with exposed widths ranging from 25 to 70 metres and a strike length of at least 200 metres. Assay results received from Northair samples taken within the exposed mineralized area returned an average grade of 0.965 g/t gold including 32 metres @ 2.31 g/t gold. Reconnaissance exploration has indicated that the zone is traceable through intermittent outcrops for several hundred additional meters in strike length and remains open.

Northair has announced the signing of binding agreements subject to regulatory approval, with Fresnillo PLC (“Fresnillo”), a subsidiary of Industrias Peñoles, S.A. de C.V. (“Peñoles”), to form a joint venture on 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 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 has informed Northair that exploration on the project has commenced with surface geological mapping, sampling and definition of drill targets. An initial drill program is planned.

***Sierra Rosario Project***
In April of 2002, the Company staked a concession covering the Sierra Rosario Project in the state of Sinaloa. The Sierra Rosario property lies along the western flanks of the Sierra Madre Occidental geological province approximately 40 kilometres east of Alamos, Sonora. The project was optioned to Sparton Resources Inc. in early 2004. Sparton can earn a 51 percent interest in the project by paying Northair $130,000 in cash, issuing 275,000 common shares and incurring $800,000 in exploration expenditures over a four year period. To date, the Company has received cash payments of $130,000 and 275,000 common shares of Sparton. It is anticipated that Sparton will earn its interest by mid 2008.

Sierra Rosario contains basement rocks of Laramide age granodiorite overlain by weakly metamorphosed andesite belonging to the Lower Volcanic Complex. These rocks are overlain by Cretaceous massive limestone and calcareous sandstone, and younger rhyolite ignimbrite belonging to the Upper Volcanic Complex. Intrusive rocks consisting of intermediate porphyry dikes and a 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 preliminary exploration programs. Some of these zones have small scale mine workings and there are over 100 pits within the alluvium where gambusinos have mined gold.

Northair's initial field programs concentrated primarily in the San Rafael Zone which contains strong epithermal silver with gold mineralization within intensely altered rhyolite porphyry 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.

Sparton's field programs have confirmed Northair's exploration results, and have indicated that Sierra Rosario contains numerous mineralized zones. In the fall of 2005, Sparton completed a sampling, geological mapping and geophysical survey program on the property. Each of the three separate zones of mineralization explored by Sparton, referred to as La Josca, Las Tahunas and San Rafael, is an area of historical production from small underground and open cut excavations. The La Josca and Las Tahunas zones of mineralization, which contain free gold, are at least partly responsible for the widespread placer gold occurrences in the southern portion of the property.

The work initially completed by Sparton involved electrical and magnetic geophysical surveys to systematically cover these areas as well as detailed soil sampling along the zones to extend them through overburden covered areas.

The soil sampling and geophysical surveys over the Las Tahunas Zone disclosed a distinct electrical ("VLF") anomaly approximately 200 metres long. It is located along strike with mineralization found in a trench near high grade (up to 33 grams per tonne gold) mineralization from boulders associated with the old mine workings.

Work at the La Josca Zone succeeded in extending this mineralized zone to over 1.1 kilometres in strike length. Sparton completed an approximate 775 metre diamond drill program in 2006 to test high priority targets in the La Josca Zone. The seven holes tested a 500-metre-long portion of the 1.1 kilometer-long La Josca structure with modest results.

The San Rafael Zone remains the principal target area on the property and the geophysical work, in particular the 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 percent copper and 13 grams per tonne 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. In the fall of 2007, the company discovered the "Dulces Nombres" Zone, with 35 chip samples returning an average grade of 0.71 grams per tonne gold, 263 g/t silver, and 0.35% copper. Road construction has commenced to access the San Rafael Zone and surrounding area, with trenching planned. With positive trenching results, a surface reverse circulation drill program is anticipated.

***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. The drill program tested portions of five of the seven known gold bearing zones but did not delineate cohesive continuity of high grade gold mineralization. Consequently, the Company terminated the high cost option agreements on four privately held concessions as of March 2005. The Company continues to maintain its wholly owned concessions within the El Tesoro property, which total nearly 3,000 hectares. These concessions cover the G Zone where no drilling has been conducted, but where surface trenching returned values of 18.86 grams per tonne gold and 13.09 grams per tonne silver over 12 metres. In addition, significant gold and silver stream sediment anomalies which lie on the Company's claims to the north, south and east of known mineralization provide further potential on the wholly owned concessions. 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 percent 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 with San Valentin have been modified several times due to problems they have encountered with their mining and milling activities. It is not clear if San Valentin will be able to maintain their lease. As a result, the Company recorded a partial write down on the property of $80,113.

**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. Recent gains in the Canadian Dollar against the U.S. Dollar have reduced the Company's cost of operations in Mexico significantly.

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 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 |
| February 28, 2007 | Nil | (178,196) | (0.01) |
| November 30, 2006 | Nil | (180,453) | (0.01) |
| August 31, 2006 | Nil | (116,577) | (0.01) |
| May 31, 2006 | Nil | (66,125) | (0.01) |

The Company's exploration activities are seasonal, with less work conducted in Mexico during the 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 29, 2008 was $1,455,812 compared with $1,676,205 at February 28, 2007.

Cash and cash equivalents were $726,651 at February 29, 2008 compared with $780,469 at February 28, 2007.

During the Current Period the Company used $263,425 in operating activities before changes in non-cash working capital, primarily for administrative costs.

Investing activities provided $37,240 in the Current Period, the net of $836,793 from the sale of short-term investments was offset by $8,386 used for additions to plant property and equipment and $791,167 used for work on resource properties. The funds for resource properties were used to advance the work on the Company's El Reventon property in Mexico and general exploration activity in Mexico.

Financing activities used $8,813 in the Current Period for the capital lease obligations.

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

| | | |
|---|---|---|
| 2009 | | 142,851 |
| 2010 | | 135,044 |
| 2011 | | 123,790 |
| Total | $ | 401,685 |

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 a sub-lease agreement with Strongbow Exploration Inc. The Company may recover approximately two-thirds of the minimum annual rent commitment pursuant to this sub-lease agreement. In addition, the Company offsets some of this contractual obligation through administrative services agreements with other companies (see "Transactions with Related Parties").

**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 currently has sufficient financial resources to meet its administrative overhead expenses and to undertake all of its planned exploration activities 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. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. 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**

The Company provides management and/or administrative services to other resource companies, including but not limited to the Northair Group. Each company within the Northair Group is related to the Company through directors and/or officers in common.

The amounts due from (to) related parties are for expense reimbursements and are receivable from (payable to) various companies with directors in common. The amounts are non-interest bearing and are receivable (payable) within the following year, and therefore, have been classified as current. During the Current Year, the Company had the following transactions with related parties:

Administrative recoveries during the year ended February 29, 2008 of \$158,530 (February 28, 2007 - \$163,751), are primarily recovered from various companies with certain officers and directors in common.

Based on time spent, the Company recovered salaries of \$981,228 (February 28, 2007 - \$1,172,548) 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 29, 2008 salaries of \$276,000 (February 28, 2007 - \$276,000), were paid to two directors of the Company.

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.

**Fourth Quarter**

The Company's net loss for the three months ended February 29, 2008 (the "Current Quarter") of \$240,260 was higher than the loss in the three months ended February 28, 2007 (the "Comparative Quarter") of \$178,196. The increase was due mainly to higher stock-based compensation with the issue of additional employee options and a higher amount for the write off of exploration costs. These higher costs were partially offset by lower office costs and lower professional fees.

**Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash and short term deposits, accounts receivable, amounts due from related parties, investments, accounts payable and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

**Outstanding Share Data**

*Common Shares*
Northair's authorized capital is unlimited common shares without par value. As at June 26, 2008, there are 19,690,272 common shares issued and outstanding.

*Warrants*
As at June 26, 2008, the Company had 3,642,150 warrants outstanding with an exercise price of $0.50 until November 24, 2008.

*Options*
As at June 26, 2008, the Company had 1,575,000 incentive stock options outstanding as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 485,000 | $ 0.690 | 21-Oct-2008 |
| 50,000 | $ 0.230 | 14-Sep-2010 |
| 360,000 | $ 0.300 | 26-Sep-2011 |
| 50,000 | $ 0.320 | 24-Jan-2012 |
| 160,000 | $ 0.300 | 16-April-2012 |
| 10,000 | $ 0.275 | 06-June-2012 |
| 320,000 | $ 0.210 | 04-Jan-2013 |
| 30,000 | $ 0.220 | 28-Feb-2013 |
| 110,000 | $ 0.150 | 13-Jun-2013 |
| 1,575,000 | $ 0.388 | |

**Changes in Accounting Policies**

*Accounting policies implemented effective March 1, 2007*

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 3855, Financial Instruments ("Section 3855"), 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, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. The Company's accounting policies for financial instruments are described in Note 2 of the Company's audited consolidated financial statements for the year ended February 29, 2008.

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 3865, Hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting policy had no effect on the consolidated financial statements for the year ended February 29, 2008 as the Company does not apply hedge accounting.

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 1530, Comprehensive Income. Comprehensive income consists of changes in the equity of the Company from sources other than the Corporation's share owners, and includes earnings of the Company, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available for sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses and gains and losses that are recognized in comprehensive income but are excluded from earnings for the period. Comprehensive income is required to be disclosed in a separate statement in the consolidated financial statements.

Effective March 1, 2007, the Company prospectively adopted the CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein.

*Accounting policies to be implemented effective March 1, 2008*

In March 2007, the CICA issued Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"), which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. The standard deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections are effective March 1, 2008. The Company is currently evaluating the impact on its financial statement disclosure and presentation.

In December 2006, the CICA issued Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This section is effective March 1, 2008, and the Company is currently evaluating the impact on the Company's disclosure and presentation.

In June 2007, the CICA issued Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective March 1, 2008, and the Company is currently evaluating the impact on its accounting and disclosure for inventories.

*Accounting policies to be implemented effective March 1, 2009*

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets ("Section 3064"), which replaces Section 3062, Goodwill and Other Intangible Assets ("Section 3062") and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section will be applicable to the Company's financial statements for its fiscal year beginning March 1, 2009. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

**Forward-Looking Information**

When used in this document, words like "anticipate", "believe", "estimate" and "expect" and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objectives and goals for the Company and therefore involve inherent risks and uncertainties. The reader is cautioned that actual results, performance or achievements may be materially different from those implied or expressed in such 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 Consolidated Statement of Loss and Deficit and the Consolidated Schedule of Resource Property Costs contained in its Consolidated Financial Statements for February 29, 2008 and February 28, 2007 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.

**(A Development Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**February 29, 2008**

**Canadian Funds**

**PricewaterhouseCoopers LLP**
**Chartered Accountants**
PricewaterhouseCoopers Place
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## Auditors' Report

**To the Shareholders of**
**International Northair Mines Ltd.**

We have audited the consolidated balance sheets of **International Northair Mines Ltd.** as at February 29, 2008 and February 28, 2007 and the consolidated statements of income (loss), comprehensive income (loss), cash flows and shareholders' equity for the years 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 audits.

We conducted our audits 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 financial statements present fairly, in all material respects, the financial position of the company as at February 29, 2008 and February 28, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

**Chartered Accountants**

Vancouver, B.C.
June 26, 2008

**International Northair Mines Ltd.**
*(A Development Stage Company)*

# Consolidated Balance Sheets

*Canadian Funds*

| ASSETS | | **February 29, 2008** | | February 28, 2007 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash | **$** | **726,651** | $ | 780,469 |
| Short-term deposits *(Note 5)* | | **67,750** | | 673,167 |
| Receivables | | **89,477** | | 42,632 |
| Due from related parties *(Note12)* | | **489,532** | | 95,992 |
| Short-term investments *(Note 6)* | | **301,350** | | 216,997 |
| Prepaid expenses | | **6,798** | | 880 |
| | | **1,681,558** | | 1,810,137 |
| **Property, plant and equipment** *(Note 7)* | | **111,589** | | 78,668 |
| **Resource property costs** – *Schedule (Note 8)* | | **1,095,127** | | 519,338 |
| | **$** | **2,888,274** | $ | 2,408,143 |

| LIABILITIES | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Accounts payable and accrued liabilities | **$** | **225,746** | $ | 125,119 |
| Capital lease obligation *(Note 9)* | | **-** | | 8,813 |
| | | **225,746** | | 133,932 |
| **Future income tax liability** *(Note 10)* | | **123,994** | | - |
| | | **349,740** | | 133,932 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share capital** *(Note 11)* | | **22,435,777** | | 22,435,777 |
| **Warrants** | | **266,943** | | 266,943 |
| **Contributed surplus** | | **603,651** | | 530,280 |
| **Accumulated other comprehensive income** | | **170,302** | | - |
| **Deficit** | | **(20,938,139)** | | (20,958,789) |
| | | **2,538,534** | | 2,274,211 |
| | **$** | **2,888,274** | $ | 2,408,143 |

**Subsequent Event** *(Note 8)*
**Commitments** *(Note 15)*

ON BEHALF OF THE BOARD:

*"F. G. Hewett"*, Director

*"D. Bruce McLeod"*, Director

- See Accompanying Notes -

**International Northair Mines Ltd.**
*(A Development Stage Company)*

# Consolidated Statements of Income (Loss)

*Canadian Funds*

| | Year ended February 29, 2008 | Year ended February 28, 2007 |
|---|---|---|
| **General and administrative expenses** | | |
| Office, salaries and general *(Note 12)* | **$ 344,541** | $ 293,350 |
| Shareholder information and investor relations | **69,857** | 53,953 |
| Professional fees | **51,346** | 41,356 |
| Regulatory compliance and transfer agent fees | **29,054** | 26,159 |
| Stock-based compensation *(Note 11)* | **73,371** | 76,861 |
| Administrative recoveries *(Note 12)* | **(158,530)** | (163,751) |
| **Loss before the under-noted** | **(409,639)** | (327,928) |
| Write-off of exploration costs | **(382,369)** | (274,495) |
| Gain on sale of short-term investments *(Note 6)* | **724,344** | - |
| Gain on foreign exchange | **5,484** | 6,587 |
| Write down on short term investments | **-** | (5,108) |
| Gain from property option agreement | **37,467** | 33,159 |
| Interest income and other | **45,363** | 26,434 |
| **Net Income (loss)** | **$ 20,650** | $ (541,351) |
| **Income (loss) per share – basic and diluted** | **$ 0.00** | $ (0.04) |
| **Weighted average number of shares outstanding – basic and diluted** | **19,690,272** | 14,848,716 |

# Consolidated Statements of Comprehensive Income (Loss)

*Canadian Funds*

| | Year ended February 29, 2008 | Year ended February 28, 2007 |
|---|---|---|
| Net income (loss) | **$ 20,650** | $ (541,351) |
| Other comprehensive loss | | |
| Unrealized gains on available-for-sale investments *(Note 6)* | **82,206** | - |
| Amounts reclassified upon realization | **(299,310)** | - |
| | **(217,104)** | - |
| Comprehensive loss | **$ (196,454)** | $ (541,351) |

**International Northair Mines Ltd.**
*(A Development Stage Company)*

# Consolidated Statements of Cash Flows

*Canadian Funds*

| Cash provided by (used in): | Year ended February 29, 2008 | Year ended February 28, 2007 |
|---|---|---|
| **Operating activities** | | |
| Net income (loss) | $ 20,650 | $ (541,351) |
| Items not affecting cash: | | |
| Gain on sale of short term investments | (724,344) | - |
| Write down of short term investments | - | 5,108 |
| Gain from property option agreement | (37,467) | (33,159) |
| Stock-based compensation | 73,371 | 76,861 |
| Amortization | 21,995 | 31,075 |
| Write-off of exploration costs | 382,369 | 274,495 |
| | (263,426) | (186,971) |
| Changes in non-cash working capital *(Note 13)* | 181,181 | (621,725) |
| | (82,245) | (808,696) |
| **Investing activities** | | |
| Proceeds from sale of short-term investments | 836,793 | - |
| Property, plant and equipment additions | (8,386) | (22,158) |
| Resource property costs additions | (791,167) | (409,706) |
| | 37,240 | (431,864) |
| **Financing activities** | | |
| Capital lease obligation repayments | (8,813) | (8,278) |
| Issuance of share capital | - | 1,533,241 |
| | (8,813) | 1,524,963 |
| **Net increase (decrease) in cash** | (53,818) | 284,403 |
| Cash – beginning of year | 780,469 | 496,066 |
| **Cash – end of year** | $ 726,651 | $ 780,469 |

| **Schedule of non-cash investing and financing transactions** | | |
|---|---|---|
| Shares received pursuant to a property option agreement | $ 26,500 | $ 26,000 |
| Fair value of warrants issued | $ - | $ 266,943 |
| Fair value of options exercised | $ - | $ 8,478 |
| Future income tax capitalized to mineral property costs | $ 123,994 | $ - |
| Property, plant & equipment included in accounts payable | $ 46,530 | $ - |
| Resource property costs included in accounts payable | $ 32,030 | $ 32,249 |

- See Accompanying Notes -

**International Northair Mines Ltd.**
*(A Development Stage Company)*

# Consolidated Statements of Shareholders' Equity

*Canadian Funds*

| | Share Capital (Number of Shares) | Share Capital (Amount) | Warrants | Contributed Surplus | Accumulated Other Compre-hensive Income | Deficit | **Total** |
|---|---|---|---|---|---|---|---|
| February 28, 2006 | 13,077,172 | $21,161,001 | $ - | $ 461,897 | $ - | $ (20,417,438) | **$ 1,205,460** |
| Private placement units | 6,060,000 | 1,297,028 | 217,972 | - | - | - | **1,515,000** |
| Private placement finders fee units | 408,100 | 87,346 | 14,679 | - | - | - | **102,025** |
| Private placement broker warrants | - | - | 34,292 | - | - | - | **34,292** |
| Share issue costs | - | (145,427) | - | - | - | - | **(145,427)** |
| Exercise of options | 145,000 | 35,829 | - | (8,479) | - | - | **27,350** |
| Stock based compensation | - | - | - | 76,862 | - | - | **76,862** |
| Net loss | - | - | - | - | - | (541,351) | **(541,351)** |
| February 28, 2007 | 19,690,272 | 22,435,777 | 266,943 | 530,280 | - | (20,958,789) | **2,274,211** |
| Change in accounting policies, net of future income taxes *(Note 3)* | - | - | - | - | 387,406 | - | **387,406** |
| March 1, 2007 | 19,690,272 | 22,435,777 | 266,943 | 530,280 | 387,406 | (20,958,789) | **2,661,617** |
| Stock based compensation | - | - | - | 73,371 | - | - | **73,371** |
| Other comprehensive loss | - | - | - | - | (217,104) | - | **(217,104)** |
| Net income | - | - | - | - | - | 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** |

**International Northair Mines Ltd.**
*(A Development Stage Company)*

# Consolidated Schedule of Resource Property Costs

*Canadian Funds*

| | Acquisition Costs | Exploration Costs | **Total February 29, 2008** |
|---|---|---|---|
| ***Mexico*** | | | |
| El Reventon | | | |
| Opening balance – 28 February 2007 | $ 31,384 | $ 128,745 | **$ 160,129** |
| Camp and general | - | 168,674 | **168,674** |
| Field work and travel | - | 106,679 | **106,679** |
| Drilling | - | 221,573 | **221,573** |
| Salaries and consulting | - | 95,773 | **95,773** |
| Claim staking and acquisition | 11,240 | - | **11,240** |
| **Ending balance – El Reventon** | 42,624 | 721,444 | **764,068** |
| El Tesoro | | | |
| Opening balance – 28 February 2007 | 10,637 | 310,638 | **321,275** |
| Concession lease payments received | - | (822) | **(822)** |
| Write-offs | - | (80,113) | **(80,113)** |
| **Ending balance – El Tesoro** | 10,637 | 229,703 | **240,340** |
| La India | | | |
| Opening balance – 28 February 2007 | 4,851 | 33,083 | **37,934** |
| Field work and travel | - | 17,916 | **17,916** |
| General | - | 8,585 | **8,585** |
| Salaries and consulting | - | 8,371 | **8,371** |
| Taxes and option payments | 17,913 | - | **17,913** |
| **Ending balance – La India** | 22,764 | 67,955 | **90,719** |
| Sierra Rosario | | | |
| Opening balance – 28 February 2007 | - | - | **-** |
| Field work, travel and salaries | - | 42,897 | **42,897** |
| Recoveries - option payments (cash) | - | (53,864) | **(53,864)** |
| Recoveries - option payments (shares) | - | (26,500) | **(26,500)** |
| Gain – property option agreement | - | 37,467 | **37,467** |
| **Ending balance – Sierra Rosario** | - | - | **-** |
| General exploration | | | |
| Opening balance – 28 February 2007 | - | - | **-** |
| Field work and travel | - | 128,499 | **128,499** |
| Salaries and consulting | - | 157,117 | **157,117** |
| Write-offs | - | (285,616) | **(285,616)** |
| **Ending balance – general exploration** | - | - | **-** |
| ***Canada*** | | | |
| General exploration | | | |
| Opening balance – 28 February 2007 | - | - | **-** |
| Salaries and consulting | - | 16,640 | **16,640** |
| Write-offs | - | (16,640) | **(16,640)** |
| **Ending balance – general exploration** | - | - | **-** |
| **Balance – resource property costs February 29, 2008** | **$ 76,025** | **$ 1,019,102** | **$ 1,095,127** |

- See Accompanying Notes -

# Notes to the Consolidated Financial Statements



## 1. Nature of operations

International Northair Mines Ltd. ("The Company") is a development stage company which is engaged principally in the acquisition, exploration and development of mineral properties and in providing administration services to other companies.

## 2. Significant accounting policies

*Basis of presentation and 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.,. Inter-company balances are eliminated upon consolidation.

*Use of 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.

*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.

*Short-term deposits*

The Company considers short-term deposits to include amounts held in banks and highly liquid investments with maturities at the point of purchase of more than 90 days but less than one year.

*Property, plant and equipment*

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

| | |
|---|---|
| Office furniture and equipment | - 10% to 30% declining balance |
| Equipment under capital lease | - over the lease term using the straight-line method |

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

**2. Significant accounting policies -** *continued*

*Resource property costs*

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.

*Capital leases 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.

*Income and mining taxes*

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences in the time when income and expenses are recognized in accordance with the Company's accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using enacted or statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided to the extent that it is more likely than not, that future income tax assets will not be realized.

*Asset retirement obligations*

The Company recognizes a legal liability for obligations relating to retirement of property, plant and equipment or the reclamation of mineral exploration or development activities, and arising from the normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the assets, and amortized into income on a systematic basis over the asset's expected life.

**2. Significant accounting policies -** *continued*

*Share capital*

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value on the date of issue.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values as follows: the fair value of the common shares is based on the market close on the date the units are issued and the fair value of the common share purchase warrants is determined using the Black-Scholes option pricing model.

*Stock-based compensation*

The fair value of stock options granted under the Company's stock option plan is estimated at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period.

*Income (loss) per share*

Basic income (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 income (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 income (loss) per share. The dilutive effect of convertible securities is reflected in diluted income (loss) per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted income (loss) per share by application of the treasury stock method. All potentially dilutive instruments were anti-dilutive.

*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.

*Impairment of long-lived assets*

The Company assesses the possibility of impairment in the net carrying value of its long-lived assets when events or circumstances indicate impairment may have occurred. Management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted cash flows.

## 2. Significant accounting policies - *continued*

*Financial instruments*

Financial instruments are measured at fair value on initial recognition of the instrument. 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 financial liabilities” as defined by the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments – Recognition and Measurement.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income (“OCI”) except for other-than-temporary impairment which is recorded as a charge to other expenses. Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost.

Cash and short-term deposits are designated as “held-for-trading” and are measured at fair value. Receivables and due from related parties are designated as “loans and receivables”. Short term investments are designated as “available for sale”. Accounts payable and accrued liabilities and capital lease obligations are designated as “other financial liabilities”.

## 3. Change in accounting policies

*Accounting policies implemented effective March 1, 2007*

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 3855, Financial Instruments (“Section 3855”), 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, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. The Company’s accounting policies for financial instruments are described in Note 2 above.

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 3865, Hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting policy had no effect on the consolidated financial statements for the year ended February 29, 2008 as the Company does not apply hedge accounting.

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 1530, Comprehensive Income. Comprehensive income consists of changes in the equity of the Company from sources other than the Corporation’s share owners, and includes earnings of the Company, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available for sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses and gains and losses that are recognized in comprehensive income but are excluded from earnings for the period. Comprehensive income is required to be disclosed in a separate statement in the consolidated financial statements. See note 6 for transitional adjustment.

**3. Changes in accounting polices -** *continued*

Effective March 1, 2007, the Company prospectively adopted the CICA Handbook Section 3251, Equity, regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein.

Effective March 1, 2007, the Company adopted the revised CICA Handbook Section 1506, Accounting Changes, which requires that: (a) a voluntary change in accounting principals can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

*Accounting policies to be implemented effective March 1, 2008*

In March 2007, the CICA issued Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"), which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. The standard deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections are effective March 1, 2008. The Company is currently evaluating the impact on its financial statement disclosure and presentation.

In December 2006, the CICA issued Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This section is effective March 1, 2008, and the Company is currently evaluating the impact on the Company's disclosure and presentation.

In June 2007, the CICA issued Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective March 1, 2008, and the Company is currently evaluating the impact on its accounting and disclosure for inventories.

*Accounting policies to be implemented effective March 1, 2009*

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets ("Section 3064"), which replaces Section 3062, Goodwill and Other Intangible Assets ("Section 3062") and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section will be applicable to the Company's financial statements for its fiscal year beginning March 1, 2009. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

## 4. Financial instruments

*Financial instruments carrying value and fair value*

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

Cash and short-term deposits are designated as "held-for-trading" and are measured at fair value. Receivables and due from related parties are designated as "loans and receivables". Short term investments are designated as "available for sale". Accounts payable and accrued liabilities and capital lease obligations are designated as "other financial liabilities".

The carrying value of the cash, short term deposits, receivables, and accounts payable and accrued liabilities approximate their fair values due to their immediate or short-term maturity. Short-term investments are recorded at fair value based on quoted market prices at the balance sheet date. Management believes that the fair value of the capital lease obligation is approximated by its carrying value as any change in the interest rate would not have a material impact.

*Foreign exchange 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 currently does not enter into financial instruments to manage foreign exchange risk.

*Interest rate risk*

The Company is not exposed to significant interest rate risk.

*Market risk*

The Company is exposed to market risk arising from its holdings of marketable equity 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.

*Credit risk*

The Company is exposed to credit risk in the amount of its trade receivables.

*Liquidity risk*

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.

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 from the sale of investments. 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 calibre of its management.

## 5. Short-term deposits

Included in short-term deposits of $67,750 (February, 28 2007 - $673,167) is $5,000 held for reclamation costs (February, 28 2007 - $5,000) and $62,750 (February, 28 2007 - $65,893) held as collateral for the corporate credit cards.

## 6. Short-term investments

| | | **February 29, 2008** | | February 28, 2007 |
|---|---|---|---|---|
| Marketable securities: | | | | |
| Holdings in companies related by virtue of common directors/officers | $ | **256,350** | $ | 209,397 |
| *Available-for-sale (quoted market value: March 1, 2007 - $562,490)* | | | | |
| Holdings in unrelated companies | | **45,000** | | 7,600 |
| *Available- for- sale (quoted market value: March 1, 2007 - $41,914)* | | | | |
| | $ | **301,350** | $ | 216,997 |

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 has 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.

## 7. Property, plant and equipment

Details are as follows:

| | **February 29, 2008** | | | February 28, 2007 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | Cost | Accumulated amortization | Net book value |
| Office furniture and equipment | **$ 177,913** | **$ 87,672** | **$ 90,241** | $ 122,994 | $ 72,516 | $ 50,478 |
| Vehicle | **36,760** | **28,325** | **8,435** | 36,760 | 24,711 | 12,049 |
| Equipment under capital lease | **25,221** | **12,308** | **12,913** | 25,221 | 9,080 | 16,141 |
| | **$ 239,894** | **$ 128,305** | **$ 111,589** | $ 184,975 | $ 106,307 | $ 78,668 |

## 8. Resource property costs

The write-off of exploration costs consisted of:

| | | **Year ended February 29, 2008** | | Year ended February 28, 2007 |
|---|---|---|---|---|
| Canada – general exploration | **$** | **16,640** | $ | 16,565 |
| Mexico – general exploration and property examinations | | **365,729** | | 257,930 |
| | **$** | **382,369** | $ | 274,495 |

### *Sierra Rosario, Mexico*

The Company acquired, by staking, a concession in the state of Sinaloa Mexico, known as Sierra Rosario ("Rosario"). The Company granted Sparton Resources Inc. ("Sparton") the option to acquire a 51% interest in the property by completing the following:

| | | Cash | Shares | | Exploration expenditures |
|---|---|---|---|---|---|
| Upon signing the agreement (received) | $ | 20,000 | - | $ | - |
| On or before 11 March 2005 (received) | | 15,000 | 75,000 | | - |
| On or before 31 August 2005 (completed) | | - | - | | 150,000 |
| On or before 11 March 2006 (received/completed) | | 20,000 | 100,000 | | 150,000 |
| On or before 11 March 2007 (received/completed) | | 25,000 | 100,000 | | 200,000 |
| On or before 11 March 2008 (received) | | 50,000 | - | | 300,000 |
| | $ | 130,000 | 275,000 | $ | 800,000 |

### *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 de Mexico, S.A. de C.V. ("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. As of June 2008, the Company has received a total of US$25,350. It is not clear if San Valentin will be able to maintain their lease. During the year, $80,113 of capitalized exploration costs relating to the San Valentin's activities on the El Tesoro property have been written off.

## 8. Resource property costs - *continued*

### *El Reventon, Mexico*

In April 2006 the Company acquired the El Reventon project in Durango, Mexico 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.

### *La India, Mexico*

In August and September 2006 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. The final agreement is subject to board and regulatory approval.

## 9. Capital lease obligation

The Company has equipment originally financed under the terms of a capital lease and the applicable cost is included in property, plant and equipment. The lease term expired in February 2008; leaving no future minimum lease payments at February 29, 2008 (February 28, 2007 - $8,813).

### 10. 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 29, 2008 | | Year ended February 28, 2007 |
|---|---|---|---|---|
| Income (loss) before income taxes | | **20,650** | | 541,351 |
| Canadian federal and provincial income tax rate | | **33.7%** | | 34.1% |
| Income tax expense (recovery) based on the above rates | $ | **6,957** | $ | (184,600) |
| Increase (decrease) due to: | | | | |
| Non-deductible and non-taxable items | | **10,243** | | 23,380 |
| Losses and temporary differences for which no future income tax asset has been recognized | | **110,148** | | 160,270 |
| Use of previously unrecognized temporary differences | | **(122,016)** | | - |
| Difference between foreign and Canadian tax rates | | **(5,332)** | | 950 |
| Income tax recovery | $ | **-** | $ | - |

The components of future income taxes are as follows:

| | | February 29, 2008 | | February 28, 2007 |
|---|---|---|---|---|
| *Future income tax assets* | | | | |
| Non-capital losses | **$** | **456,005** | $ | 278,213 |
| Capital losses | | **99,575** | | 149,195 |
| Property, plant and equipment | | **28,827** | | 9,536 |
| Resource property costs | | **514,224** | | 1,712,969 |
| Capital leases and long term debt | | **-** | | 2,688 |
| Other | | **48,340** | | 148,646 |
| Future income tax assets | | **1,146,971** | | 2,301,247 |
| Valuation allowance | | **(964,330)** | | (2,284,497) |
| Future income tax assets *(net)* | | **182,641** | | 16,750 |
| *Future income tax liabilities* | | | | |
| Resource properties | | **306,635** | | 16,750 |
| Future income tax liabilities | | **306,635** | | 16,750 |
| *Net future income tax liability* | **$** | **123,994** | $ | - |

## 10. Income taxes - *continued*

The Company has non-capital loss carry-forwards of approximately $1,665,929 (February 28, 2007 - $925,510) that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Mexican operations and expire as follows:

| | |
|---|---|
| 2011 | $ 33,960 |
| 2015 | 161,906 |
| 2026 | 306,767 |
| 2027 | 243,682 |
| 2028 | 299,137 |
| No expiry | 620,477 |
| | $ 1,665,929 |

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.

## 11. Shareholders' equity

*Authorized share capital*

Unlimited number of common shares without par value

*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.

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

| | Options outstanding | Weighted average exercise price |
|---|---|---|
| Balance – February 28, 2006 | 1,295,000 | $ 0.48 |
| Granted | 455,000 | $ 0.31 |
| Cancelled | (365,000) | $ 0.45 |
| 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 |

## 11. Shareholders' equity - *continued*

As at February 29, 2008, the following stock options are outstanding:

| Number | Price per share | Expiry date | Options exercisable | |
|---|---|---|---|---|
| 485,000 | $0.69 | October 21, 2008 | 485,000 | $0.69 |
| 15,000 | $0.40 | June 17, 2009 | 15,000 | $0.40 |
| 50,000 | $0.23 | September 14, 2010 | 50,000 | $0.23 |
| 360,000 | $0.30 | September 26, 2011 | 360,000 | $0.30 |
| 50,000 | $0.32 | January 24, 2012 | 50,000 | $0.32 |
| 170,000 | $0.30 | April 16, 2012 | 113,333 | $0.30 |
| 10,000 | $0.28 | June 6, 2012 | 6,667 | $0.28 |
| 320,000 | $0.21 | January 4, 2013 | 310,000 | $0.21 |
| 30,000 | $0.22 | February 28, 2013 | - | $0.22 |
| 1,490,000 | $0.41 | | 1,390,000 | $0.42 |

During the year ended February 29, 2008, options granted had a total fair value of $72,296 (February 28, 2007 - $76,861) and a weighted average grant-date fair value of $0.14 (February 28, 2007 - $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:

| | |
|---|---|
| Expected dividend yield | Nil |
| Expected stock price volatility | 63% |
| Risk free interest rate | 3.83% |
| Expected life of options | 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.

*Stock-based compensation*

For the year ended February 29, 2008 a total value of $73,371 (February 28, 2007 - $76,861) has been recorded to contributed surplus as stock-based compensation expense. The portion of stock-based compensation recorded is based on the vesting schedule of the options.

## 11. Shareholders' equity - *continued*

*Warrants*

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

| | Warrants outstanding | | Weighted average exercise price |
|---|---|---|---|
| Balance – February 28, 2006 | - | $ | - |
| Issued | 3,642,150 | $ | 0.40 |
| Exercised/Cancelled | - | $ | - |
| Balance – February 28, 2007 | 3,642,150 | $ | 0.40 |
| Issued | - | $ | - |
| Exercised/Cancelled | - | $ | - |
| Balance – February 29, 2008 | 3,642,150 | $ | 0.50 |

As at February 29, 2008, the following share purchase warrants are outstanding:

| Number | Price per share | Expiry date |
|---|---|---|
| 3,642,150 | $0.50 | November 24, 2008 |

In November 2006 the Company issued 3,642,150 warrants exercisable at $0.40 per common share until November 24, 2007 and then at $0.50 per common share until November 24, 2008.

The warrants had a total fair value of $266,943 and a weighted average issue-date fair value of $0.07. The fair value of warrants issued was estimated on the date of the issue using the Black-Scholes option pricing model, with the following assumptions:

| | |
|---|---|
| Expected dividend yield | Nil |
| Expected stock price volatility | 63% |
| Risk free interest rate | 3.9% |
| Expected life of options | 2 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.

## 12. Related party transactions

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

Administrative recoveries during the year ended February 29, 2008 of $158,530 (February 28, 2007 - $163,751), are primarily recovered from various companies with certain officers and directors in common.

Based on time spent, the Company recovered salaries of $981,228 (February 28, 2007 - $1,172,548) 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 29, 2008 salaries of $276,000 (February 28, 2007 - $276,000), were paid to two directors of the Company.

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. Changes in non-cash working capital

The change in non-cash working capital is comprised of:

| | **February 29, 2008** | February 28, 2007 |
|---|---|---|
| (Increase) decrease in: | | |
| Short-term deposits | **$ 605,417** | $ (477,274) |
| Receivable | **(46,845)** | (12,461) |
| Due from related parties | **(393,540)** | (14,595) |
| Prepaid expenses | **(5,918)** | 239 |
| (Decrease) increase in: | | |
| Accounts payable and accrued liabilities | **22,067** | (117,634) |
| | **$ 181,181** | $ (621,725) |

## 14. Segmented Information

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

| | Canada | | Mexico | | Total | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Capital assets | **$ 103,154** | $ 66,619 | **$ 1,103,562** | $ 531,387 | **$ 1,206,716** | $ 598,006 |
| Total assets | **$ 1,749,765** | $ 1,883,817 | **$ 1,138,509** | $ 524,326 | **$ 2,888,274** | $ 2,408,143 |
| Net income (loss) | **$ 275,929** | $ (284,968) | **$ (255,279)** | $ (256,383) | **$ 20,650** | $ (541,351) |

## 15. Commitments

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

| | |
|---|---|
| 2009 | $ 142,851 |
| 2010 | 135,044 |
| 2011 | 123,790 |
| Total | $ 401,685 |

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 a sub-lease agreement with Strongbow Exploration Inc. The Company may recover approximately two-thirds of the minimum annual rent commitment pursuant to this sub-lease agreement.

# CORPORATE INFORMATION

**DIRECTORS AND OFFICERS**

**Donald A. McLeod**
Chairman of the Board & Director

**Frederic G. Hewett,** *P.Eng.*
President, Chief Executive Officer & Director

**D. Bruce McLeod,** *P.Eng.*
Vice President & Director

**Reginald J. Stranks**
Director

**Brian C. Irwin**
Director

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

**Brenda Nowak**
Corporate Secretary

**Richard Godfrey**
Chief Financial Officer

**SENIOR STAFF**

**David Visagie,** *P.Geo.*
Group Exploration Manager

**Darren McDonald,** *CMA*
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**STOCK EXCHANGE LISTING**

TSX Venture Exchange
TSXV: INM