



Management's Discussion and Analysis

For the Three Months Ended March 31, 2011

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Liberty Mines Inc. ("Liberty" or the "Company") was prepared to enable a reader to assess material changes in the financial condition and results of operations of the Company as at and for the three months ended March 31, 2011, in comparison to the corresponding prior-year period. This MD&A is prepared as at May 17, 2011, and is intended to supplement and complement the unaudited consolidated financial statements of the Company for the three months ended March 31, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the three months ended March 31, 2011 and 2010 have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumed the Company will continue in operation for the foreseeable future and will be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010 and accompanying notes and most recent Annual Information Form ("AIF") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward-looking statements based on management's current expectations (please see "Forward-Looking Information" below). All references to dollars herein are in Canadian dollars unless otherwise specified. This represents the first presentation by the company in accordance with IFRS and is based on an opening balance as at January 1, 2010 which has been reviewed by the company auditors, as more fully disclosed below.

Executive Summary

Liberty Mines Inc. is a producer of nickel and is focused on the exploration, development and production of primarily nickel, together with lesser amounts of copper, cobalt and platinum group metals from its properties in Ontario, Canada. It owns and operates the Redstone nickel concentrator near Timmins Ontario.

Liberty has three major assemblies of contiguous mining claims and leases in northern Ontario including:

- A 100% interest in 12,000 ha of the Shaw Dome Nickel Belt located 25 km southeast of Timmins containing three mines: the Redstone nickel mine; the McWatters nickel mine located 9.5 km east of the Redstone Mill; and the Hart nickel project located 6 km east of the Redstone Mill. The Hart project McWatters will be fully permitted upon the receipt of an acceptable filed Closure Plan together with the appropriate financial assurance. The 1500 tonne/day Redstone nickel concentrator ("Mill") is located at the Redstone Mine site;
- A 100% interest in the 6,400 ha Groves nickel copper platinum group metals ("PGM") project 20 km southeast of Gogama; and
- A 100% interest in the 6,300 ha McAra Lake-Ray cobalt nickel copper project about 120 km south east of Timmins.

On January 10, 2011, Liberty announced the entering into of a Memorandum of Understanding (MOU) with Jilin Jien Nickel Industry Company Ltd. and its related parties to provide funding to support the 2011 business plan and a comprehensive financial re-engineering intended to create a better capital structure for the company.

As part of the proposed financial re-engineering, Jilin Jien and Liberty have agreed in principal:

1. To consolidate all of Jilin Jien's outstanding debt instruments, including promissory notes, credit facility, advances and accrued interest, and the \$8.0 million in new advances contemplated in the MOU, totaling approximately \$49.0 million as at December 31, 2010, into two secured term loans

maturing 18 months and 36 months after the closing of the proposed transaction, respectively. The interest rates on the two term loans will be 10% per annum. In the first 18 months, all interest will be capitalized to lessen the cash requirements of the Company.

2. That Jilin Jien will convert 38,098,908 Preferred Shares of Liberty to Common Shares, at the current conversion ratio of 1:1. This conversion will increase Jilin Jien's common share ownership of Liberty from 51% to 60%. Jien agrees not to convert any further Preferred Shares of Liberty.
3. That the terms of the remaining 148,895,602 Preferred Shares not converted pursuant to 2, above, shall be amended such that the right to convert to common shares will be cancelled. In consideration, Jilin Jien will be granted an option to cause Liberty to redeem the remaining Preferred Shares, such redemption, if occurring in the first 24 months following the closing of the proposed transaction, to be funded by increasing the amount of one of the two secured term loans referenced in 1, above, so as to lessen the cash requirements of the Company.
4. That Jilin Jien will be granted anti-dilution protection in that one of the two secured term loans referenced in 1, above, will be convertible to common shares of the Company, at the option of Jien, limited to the maximum number of shares required to maintain its 60% ownership in the event of a dilutive transaction, such conversion to be priced at the same price realized in the dilutive transaction.

On February 22, 2011, Liberty announced the temporary suspension of the milling operations to address maintenance requirements and some issues with its tailings pond. As of the date of this report, the milling operations have not resumed.

On February 24, 2011, Liberty announced an 8,000 meter drill program that commenced in early March. It is designed to augment the current ore resources at the Hart deposit and to target new nickel opportunities. The drill program, designated as Phase 1, will largely target the Hart deposit, as it is believed to host additional tonnages down plunge of the known mineralization as defined in the current resource and scoping study by SRK Consultants. The drill program is further designed to follow up on earlier drill intersections, notably an intercept approximately 300 meters east of the Hart deposit which intersected 1.62% Ni over 1.9 meters drilled width. The drill program will also follow up on a nickel discovery by Mustang Minerals in 2005, approximately 1.5 km northwest of the Redstone Mine on the Croxall claim group where drilling intersected 0.62% Ni over 3.34 meters drilled width.

Liberty has retained additional expertise for interpreting the VTEM survey flown by Geotech Ltd. over Liberty's land position in the Shaw Dome in order to target potential channel flow pathways which host such deposits as the Redstone and Hart as well as ultramafic intrusive sills, host to the McWatters Deposit. This conceptual approach is being utilized in the drill target selection process as a strategy to enhance the likelihood of discoveries of more elusive Kambalda nickel deposits in the Shaw Dome area.

In addition, Liberty will target the Groves project approximately 75 km south of Timmins, Ontario in Groves Township which is recognized as a magmatic Ni-Cu sulphide deposit hosted within a gabbroic intrusive. The Groves project contains an historically reported resource of 500,000 tons (Canadian Mines Handbook, 1957) of 1.5% combined copper ("Cu") plus nickel ("Ni") above the 45.7m level in two separate zones. The company is not treating the resource figure as NI 43-101 defined verified by a Qualified Person at this time and therefore the resource figure should not be relied upon.

The geological team will be reviewing the results of a VTEM survey flown over the Groves property to define additional potential magmatic Ni-Cu targets within proximity of the Groves Deposit. Further drilling is planned to test the down plunge extent of mineralization on the Groves Deposit.

On April 13, 2011, Liberty was pleased to announce Mr. Chris Stewart will be formally appointed President & CEO of Liberty. Chris joined the company on May 16, 2011.

Liberty has successfully completed the conversion from Canadian Generally Accepted Accounting Principles to the International Financial Reporting Standards ("IFRS"). The Q1 financial statements and their comparatives are under the IFRS requirements. A description of the accounting policies can be found on in

the notes to the financial statements. In addition, a table in note 21 of the March 31, 2011 financial statements describes the differences that were recognized in the restatement of the Canadian GAAP to IFRS.

Liberty has cash and cash equivalents on hand of \$2,959,222 for its operating requirements. With the funding that has been approved by JJ, given its holdings of cash and cash equivalents, and the continued support of Jien, its parent, management believes that the Company has sufficient resources to cover its short and medium term cash requirements.

Mine Operations

Redstone Mine

At the start of the first quarter 2011, the Redstone Mine was placed on care and maintenance. A detailed production plan is currently being prepared to analyze the accessibility and viability of the stopes above the 1600 level. The Redstone Mine continues to be dewatered in anticipation of returning to production later this year. An exploration plan is in progress to identify the mineralization below 1600 level.

McWatters Mine

During the first quarter 2011, McWatters Mine broke 123,643 tonnes and hauled to surface 38,412 tonnes with mine geology grading the ore for January and February of 0.45% nickel.

Operations were reduced to limited production in mid February as winter conditions hampered the discharge of process water from the mill to the tailings dam as a result of excessive ice buildup which reduced the live capacity of the tailings dam. The winter conditions further impacted operations as the McWatters Mine water treatment pond froze over which resulted in an increase in the ammonia levels which impeded the ability to discharge mine water. As of the date of this report, production at the McWatters underground mine continue to be on a limited basis. The open pit at McWatters was completed in 2010 and all current mining activities are being carried out underground using a sub-level caving method. There is currently a stockpile of 85,231 tonnes of broken ore underground at the McWatters Mine.

Hart Project

On February 10, 2011, the Hart Project under the approval of the Ministry of Northern Development, Mines and Forestry, brought the Hart claims to lease. Mine planning is underway. A Closure Plan for the Hart mine will be submitted to the Ministry of Northern Development of Mines and Forestry in the near future. Commercial production from Hart is tentatively re-scheduled for 2012 which would provide a continuous supply of ore to the Mill. The estimated start of commercial production at Hart is a forward looking statement and contains a number of risks and uncertainties and other factors that could cause the final date to differ materially from the time period projected in this forward looking statement; which would have material impacts on the timing of future cash flows of the Company. Some specific risks and uncertainties which could affect the estimated start of commercial production are delays and difficulties which may be encountered in starting and pursuing construction of the mine due to the date of filing of the closure plan, labor or equipment shortages unknown at this time or difficulties in ramp construction or mining of the ore.

Mill Operations

The Redstone nickel concentrator processed 17,488 tonnes of ore during the three months ended March 31, 2011. The mill ceased processing on February 22, 2011 to address maintenance requirements and issues with the tailings pond. The payable metal production during Q1 was 233,900 pounds of nickel, 11,995 lbs of copper, and 3,875 lbs of cobalt; subject to final agreement of analyses from the smelter provided in the quotation months, being the third month forward from the processing months. Average metallurgical recovery was 79.6% which was down slightly due to the lower grade. A stockpile of 17,474 of broken ore at established awaiting the restart of the mill.

Mill production statistics during Q1 were as follows:

Milled Dry Tonnes of ore

Mine	Wet Tonnes Milled	Grade Ni %
Redstone	0	0
McWatters Underground	17,488	.450

Resources and Reserves

On January 8, 2010, a pre-feasibility study was released by SRK Consulting ("SRK") for the Redstone Mine. A cut-off grade of 0.51% Ni was based on a nickel price of US\$7.00/lb and a mill metallurgical recovery of 87%. The resources were reported as of October 19, 2009 and the reserves as of December 31, 2009.

A feasibility study was released by SRK for the McWatters Mine on December 18, 2009. The open pit resources were reported as of October 19, 2009 with a cut-off grade of 0.27% Ni; the sublevel caving and longhole stope resources were reported at a cut-off grade of 0.55% Ni; and the cut and fill stope resources were reported at a cut-off grade of 0.65% Ni. All cut-off grades were based on a nickel price of US\$7.00/lb and a mill metallurgical recovery of 87%. The reserves were reported as of December 15, 2009.

A preliminary economic assessment for the Hart nickel project was released by SRK on February 26, 2010. The Potentially Mineable Tonnes in that report were stated as of Jan 1, 2010. A cut-off grade of 0.46% Ni was used in the economic study at a nickel price of US\$7.00/lb.

Liberty Mines Resources* corrected for mined tonnes as of March 31, 2011

Mine	Category	Tonnes	% Ni	% Cu
Redstone	Measured	148,000	2.43	0.03
	Indicated	395,455	1.16	0.02
	Subtotal Measured & Indicated	543,455	1.47	0.02
	Inferred	737,000	1.57	0.03
McWatters	Indicated	496,335	0.81	0.00
Hart	Indicated	1,546,000	1.40	0.10
	Inferred	322,000	1.26	0.08
Total	Measured & Indicated	2,585,790	1.26	0.00
	Inferred	1,059,000	1.48	0.00

* Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the accuracy of the estimate.

Liberty Mines Reserves/Potentially Mineable Tonnes corrected for mined tonnes as of March 31, 2011

Mine	Category	Tonnes	% Ni
Redstone	Proven	10,300	1.14
	Probable	164,400	0.95
McWatters	Probable	575,788	0.70
Hart	Potentially Mineable Tonnes	1,729,000	1.29
Total	Proven	10,300	1.35
	Probable	770,188	0.75
	Potentially Mineable Tonnes	1,729,000	1.29

The independent mineral reserve estimates prepared by SRK were reported in accordance with Canadian Securities Administrator's National Instrument 43-101 and conforms to generally accepted Canadian Institute of Mining ("CIM") "Estimation of Mineral Resources and Mineral Reserves Best Practices" guidelines. A nickel price of US\$7.00/lb and an exchange rate of \$1.00 Cdn = \$0.90 US were used in the economic studies by SRK for the three projects.

The resources and reserves reported above are corrected by category and mine for mined tonnes to March 31, 2011.

Exploration

In the first quarter, a drill program was initiated on the Hart project. A shallow drill program of 767 meters with nine short holes was drilled to upgrade the inferred to the indicated resource category and determine suitability for near surface mining. The drill was then moved 300 meters to the east of the Hart Deposit to follow up on two historical lone drill intercepts. Two holes were drilled totaling 832 meters. Assays are pending and will be reported in the second quarter. The drill has been moved back on the Hart Deposit where the deep drilling program is now commencing. On the Groves project a 9 km access road is being put

in which will allow access to the drill site. Upon completion, a ground geophysics program including IP and mise-a-la-masse will be undertaken to vector in on drill targets.

Shaw Dome Nickel Belt

In 2011, a drill program is allocated to drill targets selected by Geotech which would consist of 6 regional targets on strike and between the Redstone, Hart and McWatters deposits. The 6 targets would consist of 200 meter drill holes for a total of 1200 meters. Currently, a geophysicist, Roger Barlow is in the process of evaluating the VTEM survey and refining the selection of drill targets based on his experiences in the area. Roger previously consulted with Geotech and was instrumental in selecting the B-field VTEM drill targets for Golden Chalice Resources which led to the discovery of the W4 nickel deposit.

Groves Nickel Copper PGM Project

This project is located approximately 75 km due south of Timmins Ontario and is recognized as a magmatic Nickel-copper (Ni-Cu) deposit. A historic resource estimates the tonnage at 500,000 tonnes of 1.4% combined Ni-Cu but this resource is historic, non 43-101 compliant and, hence, should not be relied upon. Drilling would target down dip of known drill hole intercepts as these deposits can pinch and swell and may yet have potential at depth. Further targeting of airborne VTEM geophysical signatures similar to the response on the Groves deposit may also be investigated with drill targeting.

Key Economic Trends

Nickel

The cash settlement price of nickel on the London Metal Exchange (“LME”) averaged US\$12.20 per pound for the three months ended March 31, 2011 an increase of 35% compared to the average of US\$9.05 per pound during the three months ended March 31, 2010. Although the price of nickel has continued to rise over the last several months, the price going forward remains uncertain and the increased US Dollar price has been somewhat mitigated by a rise in the Canadian Dollar against us.

Cobalt

The payable contribution of cobalt as a metal credit of the Redstone mill concentrate shipped to Xstrata during the three months ended March 31, 2011 represented approximately 3% of the concentrate value. Cobalt averaged approximately US\$17.71 per pound during the three months ended March 31, 2011 down from 19.03 from the first three months ended March 31, 2010.

Copper

The payable contribution of copper as a metal credit of the Redstone mill concentrate shipped to Xstrata during the three months ended March 31, 2011 represented approximately 2.5% of the concentrate value. The cash settlement price of copper on the LME averaged US\$4.38 per pound for the three months ended March 31, 2011, up 33% compared to US\$3.28 per pound for the three months ended March 31, 2010.

Foreign exchange

The Company reports its financial results in Canadian dollars. While most of the Company’s operating costs are in Canadian dollars, revenues from sales of nickel concentrate are in US dollars. The Canadian dollar continued to gain strength throughout the three months ended March 31, 2011 relative to the US dollar. The average conversion of \$1 CDN converted to \$1.0196 US\$ for the three months ended March 31, 2011 compared to \$1 CDN converted to \$1.0158 US\$ for the three months ended March 31, 2010.

Commodity Price Summary

	2008	2009	2010	Q1, 2011	March 31, 2011
Nickel	9.59	6.63	9.89	12.20	11.83
Copper	3.16	2.34	3.42	4.38	4.46
Cobalt	36.02	18.00	17.77	17.71	16.67
US\$/CDN\$	1.0660	1.14198	1.0299	0.9808	0.9696

Health and Safety

During the three months ended March 31, 2011, the Company incurred 2 medical aids and 0 lost time incidents. Our employees, supervisors and management perform frequent work place inspections recognizing, identifying, and

correcting work place hazards. The Company will continue to strive to maintain a high safety culture to ensure the safety of all workers.

Environment

Redstone

During the months of January and February 2011, there were no toxicity failures nor were there any exceedances of the CofA effluent limits. In the month of March, the Redstone discharge exceeded its monthly allowable average of nickel. The higher nickel concentrations were mostly obtained early in the month, and have been lowered to below the monthly average toward the end of the month. The nickel concentration peaked at 0.835 mg/L, and began to lower from that date to 0.275 mg/L. The nickel concentrations at Redstone discharge have since remained low. On March 28th, Liberty Mines received notice of a failure from the Redstone Mine site discharge water. The discharge was shutdown upon notice of the exceedance and the water was treated for high nickel. Liberty began discharging on April 4th from the Redstone discharge station. Since then, discharging water from the mine has been suspended and currently waiting results.

McWatters

In January 2011, Liberty Mines failed an acute lethality test at the McWatters Mine Site and following the failure of a second sample, the discharge was shutdown. Liberty Mines sought out the aid of environmental consultants to assist in the reduction of the ammonia concentrations in the ponds. Liberty Mines treated the water with a synthetic zeolite resin, to absorb the ammonia, while continuing to treat the ammonia with the suggestions provided by the consultants. On April 11th and April 13th, samples were taken from the both surface ponds and these tests proved to be non-lethal. Liberty Mines began discharging from McWatters on Monday, May 2nd. A sample was taken for LC50 tests, and Liberty Mines is currently awaiting the results.

Environmental monitoring programs are ongoing at the Redstone and McWatters mine sites. The Environmental department is diligent in reporting data to the Ministry of the Environment and Environment Canada as required by the various permits and Certificates of Approval for the operation of the mill and mine.

First Nations

On April 15, 2008, the Company signed an Impact Benefit Agreement ("IBA") with the Mattagami, Matachewan and Wahgoshig First Nations ("MMW"). The IBA encompasses all of the Company's extensive mining claims and leases in the Shaw Dome Nickel Belt which includes the Redstone and McWatters Mines and the advanced Hart nickel project. The IBA, while in good standing by all parties, is in effect for the life of any mining project developed on the properties. It includes provisions for job training, employment, scholarships, business relationships and financial participation in community development projects. It also streamlines the exploration of the properties and the permitting of economic deposits through direct consultation and input from the MMW.

Summary of Consolidated Financial Results

Three Months Ended March 31	2011	2010
Revenue	\$ 2,119,015	\$ 7,617,248
Site operational costs	4,006,242	6,419,978
Operating Margins before Non Cash Costs	(1,887,227)	1,197,270
Amortization, depletion, & accretion of operating assets	1,617,112	2,438,884
Operating (loss) gain	(3,504,338)	(1,241,614)
Corporate administrative expenses	999,652	621,309
Stock based compensation	33,186	53,875
Interest and bank charges	62,004	67,917
Interest on long-term debt	952,259	614,713
Dividends on preferred shares	405,752	425,680
Interest Income	(603)	(413)
(Gain) Loss on sale of equipment	(61,918)	(93,023)
Foreign exchange (gain) loss	(324,271)	(509,310)
Loss before income taxes	\$ (5,570,399)	\$ (2,422,362)
Loss for the period	\$ (5,570,399)	\$ (2,422,362)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.01)

Revenue

For the three months ended March 31, 2011 the company shipped 233,900 payable pounds of nickel to the Xstrata smelter in Sudbury. Gross revenue was \$2,119,015 for the three months ended March 31, 2011.

Operating Costs

Site operating costs excluding mine depletion, amortization and accretion of operating asset were \$4,006,242 during the three months ended March 31, 2011 compared to \$6,419,978 for the three months ended March 31, 2010. Included in the site operational costs are smelter treatment charges for the period ending March 31, 2011 of \$454,441. The decrease in site operational costs of \$2,413,736 compared to the same period of 2010 is a result of the McWatters mine being on limited production, the Redstone Mine on care and maintenance, and the mill operations being suspended resulting in the decrease in employment and consumable costs.

Depletion, amortization and accretion of operating assets for the three months ended March 31, 2011 totaled 1,617,112 compared to \$2,438,884 for the three months ended March 31, 2010. The Company recognizes depletion of development expenditures on a unit-of-production basis over the expected life of the operating mines. The decrease of \$821,772 compared to the same period of 2010 is a result of the McWatters mine being on limited production and the Redstone Mine on care and maintenance, resulting in lower tonnes mined.

Corporate Administration

Corporate administration expenditures for the three months ended March 31, 2011 total \$999,652 compared to \$621,309 for the three months ended March 31, 2010. The increase of \$378,343 in expenditures results from primarily two factors; management consulting fees in absence of permanent CEO and the payment of McWatters royalties. During the three months ended March 31, 2011, \$66,562 was paid in royalties related to the McWatters property agreement compared to nil for 2010. Management consulting costs of \$300,035 were incurred during the three months ended March 31, 2011.

Stock Based Compensation Expense

During the three months ended March 31, 2011, the Company granted nil (three months ended March 31, 2010 nil) stock options. During the first quarter ended March 31, 2011, the company recognized an expense of \$36,365

compared to \$53,875 for the first quarter ended March 31, 2010 related to costs of gradual vesting and was credited to contributed surplus.

Interest

During the three months ended March 31, 2011, the Company incurred interest expense on short term and long term debt of \$466,500 and \$433,645 (2010 - \$261,426 and \$421,220).

Dividends on Preferred Shares

Dividends expense including interest on unpaid amounts thereon for the three months ended March 31, 2011 increased by \$32,186 to \$457,866 (2010 \$425,680). The preferred shares pay an 8% cumulative annual dividend to Jien with interest of 8% accruing on the dividends once they become due. The dividends accrue on a quarterly basis. Further detail can be obtained from Note 14 in the financial statements.

Foreign Exchange Gains

During the three months ended March 31, 2011, foreign exchange gains by the Company were \$324,271 compared to \$509,310 in the same period of 2010. These gains were primarily the result of exchange rate fluctuations applied to debt obligations denominated in US Dollars.

Consolidated Financial Position

Total Assets

Consolidated total assets decreased by \$2,459,407 to \$61,320,971 at March 31, 2011 from \$63,780,378 at December 31, 2010. The decrease is mainly due to the lower receivables at March 31 due to the reduced production levels offset by the increase in cash and cash equivalents.

Total Liabilities

Consolidated total liabilities increased by \$3,073,854 to \$63,500,767 at March 31, 2011 from \$60,426,913 at December 31, 2010. The increase in liabilities is primarily due to the increase in the interest bearing loans offset by lower payables as a portion of the loans was used as working capital to reduce supplier liabilities.

Cash and Cash Equivalents

Cash and cash equivalents increased by \$3,620,501 to \$2,959,222 at March 31, 2011 from \$(661,279) at December 31, 2010.

Accounts Receivable

Accounts receivable decreased by \$5,011,828 to \$1,577,397 at March 31, 2011 from \$6,589,225 at December 31, 2010. The decrease in accounts receivable is a result of the mine being in limited production for much of the three months ended March 31.

Inventories

Inventories on hand increased by \$500,851 to \$1,119,740 from \$618,989 at March 31, 2011. Inventories are comprised of pre-drilled and broken ore, ore on the surface, nickel in concentrate ready for shipment and materials and supplies used in the mining and milling processes. The increase in inventories is due primarily to the pre-drilled and broken mineralized material stockpiled at the quarter's end.

Other Financial Assets

Other financial assets consist of prepaid expenses and miscellaneous deposits. Prepaid expenses decreased by \$17,925 to \$337,369 from \$355,294 at March 31, 2011 due to amortization for steel liners for the ball mill. Reclamation deposits and restricted cash increased by \$552 to \$1,819,293 at March 31, 2011 from \$1,818,741 at December 31, 2010. At March 31, 2011 the reclamation deposits and restricted cash are comprised of a deposit with a government agency in the Province of Ontario for the Redstone mine and a deposit with a major Canadian financial institution to support various letters of credit held by government agencies in the Province of Ontario for the Redstone mill and the McWatters mine. In addition to the letters of credit, the deposit with the Canadian financial institution supports an overdraft facility on the Company's main operating account in the amount of \$726,000 at March 31, 2011 which bears interest at prime and a \$27,000 credit card facility. Reclamation deposits are subject to reassessment based upon changes to the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations. As at April 30, 2011, the deposit with the major Canadian financial institution was reduced by \$726,000 and the overdraft facility was cancelled.

Miscellaneous deposits increased by \$265,000 to \$265,000 at March 31, 2011 from \$0 at December 31, 2010 for the construction of the emergency spillway and the exploration drill program.

Property Plant and Equipment

Property plant and equipment decreased by \$953,514 to \$30,657,660 at March 31, 2011 from \$31,611,174 at December 31, 2010. The decrease in property plant and equipment is mainly due to the reduction in value of mine and mill assets recognized by regular amortization and depreciation expense recognized for the three months ended March 31, 2011.

Mineral Properties

Mineral properties values decreased by \$269,612 to \$16,877,052 at March 31, 2011 compared with \$17,146,664 at December 31, 2010. The decrease is due to the depletion charges for the McWatters Mine.

Exploration and Evaluation

Exploration and evaluation accumulated expenditures increased by \$67,174 to \$5,707,466 at March 31, 2011 compared with \$5,640,292 at December 31, 2010. The decrease is due mainly to the exploration activity of the Hart project.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased by \$4,235,026 to \$3,484,333 at March 31, 2011 from \$7,718,359 at December 31, 2010. The decrease is due to the cash injections from Jilin Jien and cash received from lowering receivables used to pay suppliers.

Interest Bearing Loans and Borrowings

Interest bearing loans and borrowings as itemized in the table below increased by \$7,440,820 to \$58,216,297 at March 31, 2011 from \$50,775,477 at December 31, 2010. The increase is mainly due to the short term financing provided by Jien from promissory notes. The notes have varying maturity dates through 2011 and bear an annual interest of 8% on the principal balances. A detailed listing of the notes and their associated due dates can be found in note 9 of the March 31, 2011 unaudited financial statements.

Interest Bearing Loans and Borrowings		March 31, 2011		December 31, 2010
Bank Indebtedness	\$	344,937	\$	661,279
Equipment Financing		100,783		99,064
Capital Leases		626,091		762,057
Dividends Payable		3,238,043		2,780,177
Current portion of Long Term Debt		18,327,321		18,360,280
Promissory Notes		27,351,364		19,884,863
Preferred Shares		8,227,758		8,227,758
		58,216,297		50,775,477

Dividends Payable

The dividend payable increased by \$457,866 to \$3,238,043 at March 31, 2011 from \$2,780,177 at December 31, 2010. The preferred shares pay an 8% cumulative annual dividend to Jien with interest of 8% accruing on the dividends once they become due. The dividends accrue on a quarterly basis. Further detail can be obtained from Note 14 in the financial statements.

Capital Lease Obligations Including Current Portion

Capital lease obligations (including current portion) decreased by \$250,283 to \$896,895 at March 31, 2011 from \$1,147,178 at December 31, 2010.

Promissory notes

Promissory notes increased by \$7,466,501 to \$27,351,364 at March 31, 2011 from \$19,884,863 at December 31, 2010. The increase is mainly due to the addition of \$7,000,000 short term financing provided by Jien during the three months ended March 31, 2011. The balance of the increase is due to interest earned on all promissory notes outstanding. The notes have varying maturity dates through 2011 and bear an annual interest of 8% on the principal

balances. A detailed listing of the notes and their associated due dates can be found in note 9 of the March 31, 2011 unaudited financial statements.

Preferred Shares Dividend Liability

Preferred shares dividend liability had no change at \$8,227,758 both March 31, 2011 from December 31, 2010. The preferred share dividend accrues on a quarterly basis and therefore the present value of this dividend stream has been classified as a liability. The value has been determined using the Dividend Growth Model, using the following assumptions: dividend growth rate of 0% and required rate of return of 20.0% based on the estimated market rate of comparable risk debt instruments.

Site Restoration Obligations

Site restoration obligations increased \$7,227 to \$1,354,878 at March 31, 2011 from \$1,347,651 at December 31, 2010. The increase is due to the accretion of the existing site restoration obligations for the Redstone mine and Redstone mill and McWatters mine and the reduction of asset lives. These estimates are reviewed on an annual basis or more frequently if required by regulatory authorities. A credit adjusted risk free rate of 3.0% was utilized to determine the mine closure and site restoration obligation recorded in the consolidated balance sheets.

Capital Stock

Capital stock had no change at \$86,466,351 at March 31, 2011 and \$86,466,351 at December 31, 2010.

Summary of Consolidated Quarterly Results

(\$ thousands, except per share data)

	2011	2010				2009
	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 2,119	\$ 7,763	\$ 8,880	\$ 7,352	\$ 7,756	\$ 4,965
Net loss	\$ 5,570	\$ 6,668	\$ 2,674	\$ 4,973	\$ 2,424	\$ 2,899
Loss/share	\$ 0.03	\$ 0.04	\$ 0.02	\$ 0.03	\$ 0.01	\$ 0.01

Consolidated First Quarter Financial Results Compared to the Prior Quarter

Revenue

Revenue realized was \$2,119,015 for the three months ended March 31, 2011 compared to \$8,545,517 for the three months ended December 31, 2010 which represents a \$6,426,502 decrease over the prior quarter. The mill processed 17,488 dry tonnes of ore and produced 633 tonnes of concentrate for the three months ended March 31, 2011.

Operating Costs

Mine, mill, and site administration operating expenses excluding depletion, amortization, and accretion of operating asset were \$4,006,242 for the three months ended March 31, 2011 compared to \$8,904,663 for the three months ended December 31, 2010 which represents a \$4,898,421 decrease over the prior quarter. The decrease in operating costs was mainly the result of the limited mine production from the McWatters Mine and the suspension of the mill production for repair and related tailings dam issues resulting in lower labour and consumable costs. Smelter treatment charges for the three months ended March 31, 2011 were \$454,441.

Amortization, depletion, and accretion of operating assets for the three months ended March 31, 2011 were \$1,617,112 compared to \$4,046,767 for the three months ended December 31, 2010. The decrease is due to the limited production from the McWatters Mine during the first quarter.

Net Loss

Net loss for the quarter ended March 31, 2011 was \$5,570,399 compared to a net loss of \$7,118,282 the previous quarter ended December 31, 2010. The decrease in the net loss, first quarter 2011 over the fourth quarter of 2010 is mainly due to the limited production for the three months ended March 31, 2011 compared to year-end adjustments as a result of the annual audit for the three months ended December 31, 2010.

Funds used by operations before changes in non-cash working capital for the quarter ended March 31, 2011 decreased by \$38,257 to \$3,090,614 compared to \$3,128,871 for the three months ended December 31, 2010.

Cash Flow and Liquidity

Funds generated by operations before changes in non-cash working capital for the three months ended March 31, 2011 decreased by \$3,500,310 to \$(3,090,614) compared to funds used from operations before changes in non-cash working capital of \$409,696 for the corresponding period of 2010. The decrease in funds generated by operations was a result of the limited production from the McWatters Mine resulting in lower revenues, offset by lower employment and consumable costs. Cash generated by the change in operating activities for the three months ended March 31, 2010 increased by \$1,777,947 to \$294,979 compared to \$(1,482,968) for the corresponding period of the prior year. The increase in cash generated from operations is a result of the Company is the decrease in accounts receivables and decrease in accounts payables.

At March 31, 2011 the Company's net working capital deficiency was \$53,622,610 compared to \$49,111,588 at December 31, 2010. The primary reason for the increase in the net working capital deficiency was the increased borrowing form JJNICL, offset by the reduction of payables.

The Company decreased its long-term liabilities by \$140,166 as its capital lease and finance obligations are paid down.

During the second quarter of 2010, the Company completed a \$30,000,000 equity financing with JJNICL. As part of the transaction, JJNICL paid a negotiated amount to purchase the notes and warrants from the lenders of a loan made to Liberty on April 29, 2008. The warrants were cancelled as one of the conditions of the transaction. JJNICL has a first charge on the Redstone and McWatters mining leases as security for the funds advanced to the Corporation from May 2008 to August 2008 for prepayments of nickel in concentrate. The Prepayment is to be repaid to JJNICL by May 25, 2011 and bears interest at 9.71% annually on the unpaid balance. Any balance due on the Prepayment after that date can be converted, at the sole discretion of JJNICL, to common shares of the Corporation at 11 cents per share. The outstanding balance of this financing is due May 25, 2011, and is addressed in the MOU described in the executive section of this MD&A.

Subsequent to quarter end, the Company received \$1,000,000 from Jilin Jien Nickel Industry of China as part of the MOU described in the executive section of the MD&A. The principal will bear interest at 8% on the unpaid balance and will be payable in full with interest in 2011.

The Company may need to continue to rely on various forms of funding in fiscal 2011 until sufficient cash flow from operations can be achieved.

Capital Requirements and Capitalization

At March 31, 2011 the Company had obligations within one year to make \$18,327,321 (March 31, 2010 - \$17,497,777) of repayments on long-term debt, \$626,091 (March 31, 2010 - \$1,577,045) of minimum capital lease payments, \$27,351,364 (March 31, 2010 \$11,599,524) of promissory notes, fulfill \$80,000 (March 31, 2010 - \$70,000) of payments under property acquisition agreements and fulfill \$16,874 (March 31, 2010- \$50,622) of payments under operating leases.

Contractual Obligations

The following table presents the Company's future payment obligations:

	Total	Payments Due by Period			In excess of 5 Years
		Less than 1 Year	2 – 3 Years	4 - 5 Years	
Capital lease obligations	\$ 896,895	\$ 626,091	\$ 260,202	\$ 10,602	\$ -
Equipment financing	275,238	100,783	174,455	-	-
Promissory Note	27,351,364	27,351,364	-	-	-
Long term debt repayment	18,327,321	18,327,321	-	-	-
Dividends on preferred shares	3,238,043	3,238,043	-	-	-
Property acquisition Obligations	80,000	80,000	-	-	-
Operating Lease	16,874	16,874	-	-	-
Total	\$ 50,185,735	\$ 49,740,476	\$ 434,657	\$ 10,602	\$ -

In addition to the above future payment obligations, the Company has contractual obligations from property acquisition agreements to issue 50,000 common shares.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As of March 31, 2011, 168,328,457 common shares of the Company were outstanding compared to 168,328,457 as of December 31, 2010. As of March 31, 2011, 186,994,510 preferred shares of the Company were outstanding compared to 186,994,510 as of December 31, 2010. As at May 15, 2011 there were 168,328,457 common shares outstanding. Certain employees, officers, directors and consultants of the Company have been granted options to purchase common shares under the Company's incentive stock option plan. At March 31, 2011, 2,615,002 (December 31, 2010 – 3,565,002) exercisable options were outstanding.

Litigation

The Company is committed to minimum operating lease payments under vehicle, equipment and property leases which expire at various dates through 2014. Minimum rental commitments due under these capital leases over the next five years are disclosed in Note 19.

The Company has been named as a defendant in a legal action for approximately \$150,000 allegedly owing in respect of work carried out by a company contracted by the Company. An additional sum of \$100,000 is being claimed for damages. The Company has countersued for an amount of approximately \$791,000 for breach of contract relating to delays, cost overruns and faulty equipment. Management believes that the action brought against the Company is without merit and plans to vigorously defend this claim. At the present time, it is not possible to determine the final amount, if any, that the Company may pay or receive related to these actions. Accordingly, no amounts relating to these lawsuits have been recorded in these consolidated financial statements.

The Company has been named as a defendant in three separate legal actions with former employees for alleged severance in relation to their terms of employment. Management believes the actions are without merit and has vigorously defended its positions. At the present time, it is not possible to determine the final amount, if any, that the Company may pay or receive related to these actions. Accordingly, no amounts relating to these lawsuits have been recorded in these consolidated financial statements.

The Company has been named as a defendant in a legal action for approximately \$10 million in connection with an alleged oral agreement regarding haulage of underground ore. Management believes that the action brought against the Company is without merit and plans to vigorously defend this claim. At the present time, it is not possible to determine the final amount, if any, that the Company may pay or receive related to these actions. Accordingly, no amounts relating to these lawsuits have been recorded in these consolidated financial statements.

The Company has been named as a defendant in a legal action for \$115,000 in connection with an alleged service contract. Management has accrued what it believes to be a fair value for the services received and will vigorously defend its position.

Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Promissory notes as at March 31, 2011 totaled \$27,351,364 (December 31, 2010 \$19,884,863) were provided to Liberty Mines from JJNICL. These notes bears interest of 8% and are repayable on various dates throughout 2011.

Dividend payments of \$3,238,043 (December 31, 2010 - \$2,780,176) for the Series "A" preferred shares due at March 31, 2011 to JJNICL.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements in place at March 31, 2011.

Non-GAAP Performance Measures

The cost per tonne and funds generated from (used in) operations before changes in non-cash working capital are included in this MD&A because these statistics are key performance measures that management uses to monitor performance of the Company. Management uses these statistics to assess how well the Company is performing compared to plan and to assess the overall effectiveness and efficiency of mining operations. Management believes that the inclusion of these statistics in the MD&A helps an investor to assess the Company's performance. These performance measures do not have a meaning within IFRS and therefore amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Future Accounting Changes

The Company applies numerous accounting policies in preparing the Consolidated Financial Statements. From time to time, the Company may either revise its existing accounting policies or adopt new policies as a result of changes to how the Company conducts its business or due to either new or amended accounting standards as required by the Canadian Institute of Chartered Accountants ("CICA").

International Financial Reporting Standards

In March 2006, the CICA released its plan to adopt International Financial Reporting Standards. At the end of 2011, Canadian GAAP will cease to exist as a separate basis of financial reporting for public companies.

The Company will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") for the year ended December 31, 2011, with comparative information.

Potential accounting changes as a result of transition to IFRS

The Company has implemented a detailed review of the potential impact of IFRS on our accounting policies. Outlined below is a very brief summary of select IFRS that may impact the Company, their differences from Canadian GAAP and their potential impact. Based on the impact analysis performed with the assistance of the external consultants, the Company is currently considering what IFRS 1 exemptions to elect. The list below is not comprehensive and does not include all of the differences from GAAP for the standards noted. Also, the list does

not include all the standards that may require changes for the transition to IFRS. Some of the standards not presented below could have a significant impact on the Company's consolidated financial statements.

The areas of IFRS that may have the most potential impact to the Company are those that deal with stock-based compensation, foreign exchange translation, property, plant and equipment and asset retirement obligations. The International Accounting Standards Board continues to make revisions to or replace existing IFRS standards that address certain of these areas. Some of the anticipated changes may have come into effect prior to the Company's transition date, such that IFRS may differ at the transition date from its current form. However, it is likely that the majority of the changes may occur subsequent to the Company's date of transition.

Stock-based Compensation – The Company has used the IFRS 1 exemption to prevent full retrospective application of stock option accounting under IFRS. However, retrospective application is still required for any outstanding equity instruments that are unvested and liabilities that have not been settled prior to the date of transition to IFRS. No difference was recognized on transition.

Foreign Exchange Translation – IFRS requires the assessment of functional currency by entity. The indicators of functional currency are similar to Canadian GAAP. However, IFRS provides a hierarchy within those indicators, meaning certain factors that are considered under the Canadian GAAP assessment may not be as relevant under IFRS. This could result in a change to the functional currency which, under certain circumstances, can lead to translation differences. The Company has assessed the application of IAS 21 and the functional currency, concluding that the functional currency remains the Canadian dollar on transition to IFRS.

Property, Plant & Equipment – Analysis of all material PP&E accounts is required to ensure that any components with different useful lives are identified and amortized appropriately. Net book values as at the date of transition will be reviewed to ensure that any material components are identified. The Company may require increased tracking of balances in order to comply with IFRS requirements. An IFRS 1 election is available to use fair value as deemed cost for PP&E on the date of transition. The PP&E potential differences including the IFRS 1 election is being analyzed by the Company.

Site Restoration Obligations – Under IFRS, these costs should be capitalized (generally as part of the asset's carrying value) when the entity becomes obligated to incur such costs. Changes in a decommissioning, restoration or similar liability that have been previously recognized as part of the cost of an item of property, plant and equipment and as a liability are generally added to or deducted from the asset cost. IFRS 1 provides an exemption for alternative treatment for changes in such liabilities that occurred before the date of transition to IFRS, which allows the provision to be estimated as of the transition date with relevant changes calculated for the prior periods.

Impact on Information Systems and Technology – It is anticipated that the adoption of IFRS will have some impact on information systems requirements. The main drivers for system changes include:

- Additional information required as a result of enhanced note disclosures;
- Tracking of IFRS to GAAP differences during the transition; and
- Tracking sufficient level of details within the accounting records to allow management to maintain adherence with IFRS going forward.

The impact and changes to systems are on-going and will be prioritized going forward.

Impact on Reporting and Internal Controls – In accordance with the Company's approach to certification of internal controls required under Canadian Securities Administrators' National Instrument 52-109, all entity-level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material control deficiencies exist as a result of the Corporation's conversion to IFRS.

Impact on Business – The Company has finalizing the detailed analysis of the accounting implications of transition to IFRS. The impact of the changes can be found in Note 21 of the March 31, 2011 financial statements.

Business Combinations

The CICA issued a new accounting standard, CICA Handbook Section 1582, *Business Combinations*, which improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements regarding a business combination and its effects; CICA Handbook Section 1601, *Consolidated Financial Statements*, which establishes standards for the preparation of consolidated financial statements; and CICA Handbook Section 1602, *Non-Controlling Interest*, which establishes accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These new standards are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently assessing the impact of these standards on its consolidated financial statements.

Critical Accounting Estimates

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. These estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's financial condition and results. The following represents the estimates that management considers most critical to the application of the Company's significant accounting policies. Actual results may differ by material amounts from these estimates.

Declaration of Commercial Production

Determining the timing of the commencement of commercial production at the Company's mines involves judgment by management after consideration of a number of factors including: the status of physical project completion; the level of sustained mining and nickel processing activity; the achievement of a commercial level of production and sales; and the length of the testing and commissioning period. Determination of the timing of the commencement of commercial production has a significant impact on the Company's consolidated financial statements, since it determines when the Company begins to recognize revenues and nickel inventory, and ceases to capitalize pre-production operating costs and commences amortization of mine-related assets.

Mineral Properties

Mineral reserves and resources are estimated to determine future recoverable mine production based on assessment of geological, engineering, and metallurgical analyses; estimates of future production costs; capital costs; mine closure and site restoration costs as well as metal prices and foreign exchange rates. The costs of mineral properties are capitalized and depleted on a unit-of-production basis based on the related proven and probable mineral reserves.

Exploration Evaluations

Exploration and evaluation expenditures associated with non-producing properties reflect actual costs incurred less accumulated write-downs. The realization of the Company's investments in these exploration and evaluation projects is dependent upon various factors, including the discovery of economically recoverable reserves of minerals, the ability to obtain necessary financing to complete development plans and upon future profitable operations, or alternatively upon the disposal of interests on an advantageous basis. The Company's management reviews the carrying values of its exploration and evaluation expenditures on a quarterly basis, which periodically results in an adjustment to reflect the realizable value of the projects.

Long-lived assets

Other long-lived assets, including the capitalized cost of the Company's mines, Mill and other core properties, are reviewed and evaluated for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In order to determine if any impairment exists, management must estimate the future cash flows expected to result from the asset's use and eventual disposition.

Future Income Taxes

The Company uses the asset and liability method of tax allocation for accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled.

Site Restoration Obligations

The Company records the fair value of any future site restoration costs as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated

future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and the discount rate to be used.

Risks and Uncertainties

The operations of the Company are speculative due to the high-risk nature of its business. The risks described below may not be the only risks facing the Company. Additional risks not currently known may impair the Company's operations.

Risks Inherent to Mining Projects at the Development and Production Stages

Mining projects in the development or early production stages have no significant operating history upon which to base estimates of future cash flows. It is possible that actual costs and economic returns may differ materially from the Company's estimates. Therefore, there can be no assurance that estimates of future production and cash costs will be achieved. Further, it is not unusual in the mining industry for new mining operations to experience unexpected problems during start-up, resulting in delays and requiring more capital than anticipated.

Nature of Exploration, Development and Mining

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few of the properties explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, such as particular attributes of the deposit, including size, grade and proximity to infrastructure. In addition, metal prices are highly cyclical and government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection are subject to change and uncertainty. The combination of these factors may result in the Company not receiving an adequate return on invested capital. Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in the exploration, development and production of ore. These include unusual and unexpected geology formations, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions will be taken to minimize risk, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

The Company's activities are directed toward the search, evaluation and development of mineral deposits. Some of the mineral properties in which the Company has an interest contain no known body of commercial ore and any exploration programs thereon are exploratory searches for ore. Other properties in which the Company has an interest are subject to preliminary stages of exploration and development programs only. There is no certainty that the expenditures to be made by the Company as described herein will result in discoveries of commercial quantities of ore. Within the mining industry there is aggressive competition for the discovery and acquisition of properties considered to have commercial potential. The Company will compete with other interests, many of which have greater financial resources than it will have for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts.

Uncertainty of Reserve and Resource Estimates

The figures for reserves and resources presented herein are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the expected level of recovery will be realized. The ore grade actually recovered may differ from the estimated grades of the reserves and resources. Such figures have been determined based upon assumed metal prices and operating costs. Future production could differ dramatically from reserve estimates for, among other reasons:

- Mineralization or formations could be different from those predicted by drilling, sampling and similar examinations.
- Increases in operating mining costs and processing costs could adversely affect reserves.
- The recoverability of the grade of the reserves may vary significantly from time to time and there is no assurance that any particular level of metals may be recovered from the ore.

- Declines in the market price of the metals the Canadian US Dollar exchange rate may render the mining of some or all of the reserve uneconomic.

Any of these factors may require the Company to reduce its reserve estimates or increase its costs. Short-term factors such as the need for the additional development of a deposit or the processing of new different grades may impair the Company's profitability. Should the market price of the metals fall, the Company could be required to materially write down its investment in mining properties or delay or discontinue production or development of new projects.

Government Regulation

The exploration activities of the Company are subject to various federal, provincial and local laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substance and other matters. Exploration activities are also subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws mandate, among other things, the maintenance of air and water quality standards, and land reclamation. These laws also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Although the Company's exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration, mining and milling or more stringent implementation thereof could have a substantial adverse impact on the Company. Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reductions in levels of production at producing properties or could require abandonment or delays in development of new mining properties.

Permits and Licenses

The exploitation and development of mineral properties may require the Company to obtain regulatory or other permits and licenses from various governmental licensing bodies. There can be no assurance that the Company will be able to obtain all necessary permits and licenses that may be required to carry out exploration, development and mining operations on its properties.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Production of mineral properties may involve the use of dangerous and hazardous substances. While all steps will be taken to prevent discharges of pollutants into the ground water or otherwise into the environment, the Company may become subject to liability for hazards that cannot be insured against.

Commodity Prices and Foreign Exchange

The profitability of the Company will be significantly affected by changes in market price for nickel, copper, cobalt and by changes in the US Canadian dollar exchange rate. The Company has not entered into any hedge agreements in respect of metal or currency at this time. Such contracts would mitigate gains and losses in situations when the price changed. The level of interest rates, the rate of inflation, world supply and demand of base metals and precious metals and stability of exchange rates can all cause significant fluctuations in base metal and precious metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary

systems and political developments. The price of base metals and precious metals has fluctuated widely in recent years, and future serious price declines could cause continued commercial production to be impracticable. Depending upon the price of base metals and precious metals, cash flow from mining operations may not be sufficient to cover operating costs. Any figures for reserves presented by the Company will be estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the price of base metals and precious metals may render reserves uneconomical. Moreover, short term operating factors relating to the reserves, such as the need for orderly development of the ore bodies or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

Land Title

Although title to the Company's mineral properties has been reviewed by or on behalf of Liberty Mines and title opinions were delivered to the Company, no assurances can be given that there are no title defects affecting the properties. Title insurance generally is not available for mining claims in Canada, and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company has not conducted surveys of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. Accordingly, the properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate the properties as permitted or to enforce its rights with respect to its properties.

Uninsured Risks

There can be no assurance that insurance will be available at economically feasible premiums. The Company's insurance may not provide sufficient coverage for losses related to property, business interruption, or liability. In addition, the Company does not have insurance for certain environmental losses and other risks; as such coverage cannot be purchased at a commercially reasonable cost. The lack of, or insufficiency of insurance coverage could adversely affect the Company's cash flow and overall profitability.

Competition

The Company competes with other mining companies and individuals for mining claims and leases on exploration properties and the acquisition of exploration and mining assets. The Company also competes with other mining companies to attract and retain skilled and experienced executives. The Company cannot ensure that it will be able to continue to compete successfully with its competitors in acquiring such properties and assets or in attracting and retaining skilled and experienced executives.

Reliance on Skilled Employees

The success of the mining and milling operations is dependent upon the efforts of certain skilled employees and management of the Company. The loss of these employees or the inability of the Company to attract and retain additional skilled employees, or an inability of the Company to maintain good relations with its employees may adversely affect the level of nickel production from the operations.

History of Losses

The Company has historically experienced only losses. The Company's ability to generate profits in the future will depend mostly on the success of the Company's mine and mill operations, the price of nickel, the Canadian and United States dollar exchange rate, and the ability of the Company to control costs. There can be no assurance that the Company will reach profitability or will even generate sufficient cash flow to sustain its operations in the future. The Company may need additional financing from time to time. There is no assurance sources of financing will be available at any such time.

Shortage of Supplies

The Company is dependent on various supplies and equipment to carry out mining operations. The shortage of such supplies, equipment and parts could have a material adverse effect on the Company's ability to carry out its operations.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), on a timely basis so that appropriate decisions can be made regarding public

disclosure. The CEO and CFO together are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee which is composed of certain senior management of the Company and the Chair of the Board of Directors.

During the quarter, an independent evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was carried out. Based on his evaluation, the consultant has concluded that the Company's disclosure controls and procedures as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings* are designed effectively as at March 31, 2011.

Internal Controls over Financial Reporting

Internal Controls over Financial Reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business to provide reasonable assurance regarding the reliability of financial reporting for the Company.

Management is continually monitoring and revising its control procedures and processes over the different areas of its business, including production facilities and transactions. Management has identified certain areas where it can enhance process controls. These enhancements will be implemented during the course of the next several months. The Company employs additional entity level controls to compensate, where possible, for any deficiencies which may exist.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2011, there were no material changes in the Company's staffing, policies and procedures and other processes that comprise its Internal Control over Financial Reporting that may have materially affected, or could be reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.

Limitations on Effectiveness of Disclosure Controls and Internal Control over Financial Reporting

The Company's management, including the CEO and CFO, do not expect that the Company's disclosure controls and procedures and Internal Control over Financial Reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Forward-Looking Information

Certain statements within this document constitute “forward-looking statements”. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements are based on the opinions and estimates of management at the date of this report, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to, the inherent risks involved in the interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production and milling of ore, metallurgical recovery rates, metal prices, currency exchange rates, cash operating margins, cash operating cost per pound of metal sold, costs per ton of ore produced, expenditures on property, buildings and equipment, increases and decreases in reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions, political and economic conditions, the Company’s ability to attract and retain key personnel and other risks and uncertainties described under the heading “Risks and Uncertainties” and elsewhere in this report, in the Company’s Annual information Form for the year ended December 31, 2010 and in other documents filed with Canadian provincial securities authorities and available to the public at www.sedar.com. The Company believes that the expectations reflected in these forward looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company’s behalf, except as required under applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this statement.

Additional Information

Additional information related to the Company is available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com, including a copy of the latest Annual Information Form of the Company.