



## Management's Discussion and Analysis

### For the Three and Nine Months Ended September 30, 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 and nine months ended September 30, 2011, in comparison to the corresponding prior-year period. This MD&A is prepared as at October 26, 2011, and is intended to supplement and complement the unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the three and nine months ended September 30, 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 not 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 will be fully permitted upon the receipt of an acceptable filed Closure Plan together with the appropriate financial assurance. The 1,500 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 (the "Restructuring").

On June 28, 2011 shareholders of Liberty approved the Restructuring and the transaction closed on June 30, 2011.

To implement the Restructuring, Liberty signed two loan agreements with JJNICL and Jien International Investments Ltd. ("JIIL"), and other documents necessary to grant security in all of the assets of the Corporation. The Corporation has also amended the terms of its preferred shares to remove the conversion feature following the conversion of 38,098,908 preferred shares into common shares on a one for one basis (the "Implementation Documents"). The following is a summary of the elements of the Restructuring:

1. \$28,917,732 in previous operating advances (including accrued and unpaid interest) were converted into a new credit facility (the "JIIL Facility") which bears interest at the rate of 10% per annum calculated monthly and is repayable on December 30, 2012. Additional advances of up to a maximum of \$20,000,000 will also be available to assist with ongoing operations or to pursue mergers & acquisition opportunities. Interest will accrue over the term of the facility and will be payable on the due date. As of September 30, 2011, \$7,400,000 of additional finances has been provided. Subsequent to September 30, 2011, Liberty has drawn down a further \$4,000,000.
2. US\$19,348,828.31 was converted into a new credit facility (the "JJNICL Facility") which bears interest at the rate of 10% per annum calculated monthly and is repayable on June 30, 2014. Interest accruing in the first eighteen months will be added to the principal but interest accruing in the second eighteen months will be payable monthly.
3. JJNICL converted 38,098,908 Preferred Shares into common shares. This has resulted in JJNICL owning 60% of the outstanding Common Shares of the Corporation. The terms of the 148,895,602 Preferred Shares that remained outstanding have been amended so that they will no longer be convertible and no further dilution will result. However, JJNICL will be given the right to require the Company to redeem the remaining Preferred Shares at a price of \$0.11 per share plus accrued and unpaid dividends payable either in cash or by the delivery of nickel concentrate when such redemption is in compliance with applicable law. All other terms of the Preferred Shares will remain unchanged.
4. The JJNICL Facility will include the ability to borrow up to an approximate amount of \$21,756,053.39 in a new term loan (representing the redemption price plus accrued dividends from May of 2009 to June 30, 2013 on the remaining 148,895,602 Preferred Shares to meet the obligations to redeem Preferred Shares if required as set out in paragraph 4 hereof until June 30, 2013).

As a result of the Restructuring Transactions, the Corporation's debt obligations are more closely aligned with the time line for the development of its assets.

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.

Liberty has engaged consultants to assist in resolving the issues with the tailings pond facility which have prevented Liberty from restarting its operations. As announced by Liberty on October 3, 2011, Liberty plans to restart production at its Timmins facility in Q1/2012 upon receiving the necessary regulatory approvals. During this shutdown period, Liberty is carrying out maintenance work on the mill's larger components so all systems will be in top operating condition when production is restarted.

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 May 15, 2011, Liberty was pleased to announce the appointment of Mr. Chris Stewart as President & CEO of Liberty.

On September 20, 2011 Liberty announced the expansion of nickel mineralization on Hart East Project.

On October 3, 2011, Liberty announced it has finalized a plan to restart production at its Timmins facility in Q1/2012. The plan, which will include reparations and upgrades to its existing tailings pond facility (TPF), the milling of stockpiled ore inventory and the restart of underground operations, was developed after completing a thorough review of all aspects of the Company's operations including personnel, equipment, policies and procedures. In addition, environmental work has started for permitting a new TPF that will provide more than 15 years of tailings storage capacity.

Liberty has successfully completed the conversion from Canadian Generally Accepted Accounting Principles to the International Financial Reporting Standards ("IFRS"). The Q3 and YTD 2011 financial statements and their comparatives are under the IFRS requirements. A description of the accounting policies can be found in the notes to the financial statements. In addition, a table in note 21 of the September 30, 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 \$1,194,601 for its operating requirements. With the funding that has been approved by Jilin Jien, 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 1,600 metre level. The Redstone Mine has been dewatered for of an exploration program to identify the mineralization below 1600 metre level.

### **McWatters Mine**

During the first nine months of 2011, McWatters Mine broke 209,388 tonnes and hauled to surface 38,412 tonnes with mine geology grading the ore of 0.45% nickel. The McWatters Mine was placed into care and maintenance at the start of Q2.

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 173,616 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 0 and 17,488 tonnes of ore during the three and nine months ended September 30, 2011. The mill ceased processing on February 22, 2011 to address maintenance requirements and issues with the tailings pond. The payable metal production for the three and nine months ended September 30 was 16,667 and 260,024 pounds of nickel, 773 and 13,071 lbs of copper, 265 and 4,304 lbs of cobalt; adjusted for final agreement of analysis from the smelter that are 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. An inventory of 17,474 tonnes of broken ore is currently underground awaiting the restart of the mill.

Mill production statistics during the three and nine months ending September 30, 2011 were as follows:

**Milled Dry Tonnes of ore**

	<b>Wet Tonnes Milled</b>	<b>Grade Ni %</b>
<b>Three Months Ended September 30, 2011</b>		
Redstone	-	-
McWatters	-	-
<b>Nine Months Ended September 30, 2011</b>		
Redstone	-	-
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 September 30, 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 September 30, 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 September 30, 2011.

**Exploration****Hart East Project**

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. These drill holes and results have subsequently been submitted to SRK for an updated resource estimate on the Hart Deposit. 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 which totaled 832 meters. The first hole, drilled approximately 250 meters east of the Hart deposit encountered sub economic nickel values. The second drill hole intercepted 36 meters grading 0.82% nickel from 335.0 to 371.0 meters including 2.05% Ni over 9.5 meters from 352.0 to 361.5 meters. A deep hole was also drilled on the Hart deposit to test below the gabbroic dyke but did not intersect economic values. Subsequent drilling has focused on drilling up dip, down dip and on strike with 25 meter step outs to expand upon the discovery hole intercept during the second quarter. Eight additional drill holes totaling 4,128 meters have been completed with assay results pending on two additional shallow drill holes.

Drilling has thus far expanded mineralization for a strike length of 75 meters with up dip and down dip continuity of approximately 150 meters. Some of the more significant drill hole intercepts include drill hole H-11-13, drilled approximately 75 meters up dip of drill hole H-11-11 which intersected **0.83% Ni over a drilled width of 6.5 meters** from 279.2 to 285.7 meters. Drill hole H-11-17, collared 25 meters west of drill hole H-11-11 intersected **0.58% Ni over a drilled width of 7.0 meters** from 392.0 to 399.0 meters including **1.0% Ni over a drilled width of 2.5 meters** from 395.0 to 397.5 meters. Drill hole H-11-15,

collared 25 meters east of H-11-11, intersected **1.49% Ni over a drilled width of 1.50 meters** from 353.7 to 355.2 meters. A further step out drill hole, H-11-16, collared 50 meters east of the discovery drill hole intersected **0.33% Ni over a drilled width of 5.0 meters** from 287.0 to 292.0 meters. Currently, drilling is targeting the down plunge extension of the Hart Deposit below the gabbroic dyke. The hole was collared on the conceptual stratagem that a strong airborne anomaly persists to depth and the hole is targeted to intersect this anomaly at depth. Upon completion of the drill hole, the drill will be mobilized to the Hart East to resume definition drilling on the satellite deposit of nickel. This drilling is anticipated to extend into the fourth quarter and should give an appreciation of the size, extent and grades of the Hart East.

### **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. To date, a 10.5 km road has been completed to the drill site and ground geophysics has been completed. A second drill was acquired in early September and a 1,000 meter drill program has been completed consisting of a series of short drill holes to validate the historical drilling and build upon the existing resource as well as follow up on the ground geophysics. Assay results are pending for this program.

**The Croxall (Mustang) Project:** In 2005, Mustang Minerals drilled a number of airborne EM targets approximately 1.5 km northwest of the Redstone Deposit and intersected 0.62% Ni over a drilled width of 3.34 meters. Additional drilling intersected anomalous nickel mineralization approximately 140 meters to the east of this intercept. Further follow up drilling is recommended on strike of the intercept with tighter spaced drilling. A follow up drill hole in 2007, drilled downdip of the nickel intercept retrieved only anomalous nickel mineralization. The nickeliferous intercept is, however, in close proximity to existing airborne EM conductors which warrant drill testing as well. At the time of writing, drilling has been completed on the Groves project and the drill has been mobilized to the Croxall site.

### **Shaw Dome Nickel Belt**

In 2011, a drill program was allocated to drill targets selected by Geotech which would consist of six regional targets on strike and between the Redstone, Hart and McWatters deposits. The six targets would consist of 200 meter drill holes for a total of 1200 meters. A geophysicist, Roger Barlow was commissioned to evaluate the VTEM survey and refine 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. Currently, these regional targets are being evaluated and soil survey test lines are proposed to be conducted over the selected targets to reinforce accurate selection of the airborne conductors. The program is scheduled to commence upon completion of the Croxall drill program.

## **Key Economic Trends**

### **Nickel**

The cash settlement price of nickel on the London Metal Exchange ("LME") averaged US\$10.00 per pound for the three months ended September 30, 2011 an decrease of 8.8% compared to the average of US\$10.96 per pound during the three months ended June 30, 2011. The nickel price has been volatile during the third quarter decreasing from \$10.49 at June 30 to \$8.30 at September 30.

### **Cobalt**

The payable contribution of cobalt as a metal credit of the Redstone mill concentrate shipped to Xstrata during the three months ended September 30, 2011 represented approximately 2.3% of the concentrate value. Cobalt averaged approximately US\$16.14 per pound during the three months ended September 30, 2011, down from \$16.89 from the three months ended June 31, 2011.

### **Copper**

The payable contribution of copper as a metal credit of the Redstone mill concentrate shipped to Xstrata during the three months ended September 30, 2011 represented approximately 1.8% of the concentrate value. The cash settlement price of copper on the LME averaged US\$4.07 per pound for the three months ended September 30, 2011, down 2% compared to US\$4.15 per pound for the three months ended June 30, 2011.

## 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 average conversion of \$1 USD converted to \$0.9803 CDN\$ for the three months ended September 30, 2011 compared to \$1 USD converted to \$0.9769 CDN\$ for the three months ended June 30, 2011.

## Commodity Price Summary

	2008	2009	2010	Q1, 2011	Q2, 2011	Q3, 2011	September 30, 2011
Nickel	\$9.59	\$6.63	\$9.89	\$12.20	\$10.96	\$10.00	\$8.30
Copper	\$3.16	\$2.34	\$3.42	\$4.38	\$4.15	\$4.07	\$3.23
Cobalt	\$36.02	\$18.00	\$17.77	\$17.71	\$16.89	\$16.14	\$14.97
US\$/CDN\$	\$1.0660	\$1.14198	\$1.0299	\$0.9808	\$0.9769	\$0.9803	\$1.0482

## Health and Safety

During the three and nine months ended September 30, 2011, the Company incurred 0 and 0 medical aids, 0 and 2 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 third quarter 2011, the Redstone Mine effluent discharge to East Creek complied with the site Certificate of Approval, Provincial (MISA) and Federal (MMER) effluent parameter limits. Additionally, samples taken from the Redstone effluent discharge which were tested for Acute Lethality Toxicity (rainbow trout and daphnia magna) complied with effluent quality requirements.

The Redstone Mine continues to work on closing all items within the Provincial Officer's Order (POO) that was issued to the site on May 12th, 2011 by the Ministry of the Environment. The POO was issued for the operations of the tailings pond and discharge monitoring.

On August 25th 2011, Liberty Mines – Redstone Mine and Mill was served a Notice of Intention to Issue Environmental Penalty Order (EPO) for five (5) effluent limit violations as a result of 2010 violations. On September 28th 2011, an EPO in the amount of \$62,070 was issued. The Company has until October 31st, 2011 to make payment.

## McWatters

During the third quarter 2011, the discharge effluent to the Forks River complied with Provincial (MISA) and Federal (MMER) effluent parameter limits. Although no daily exceedances were recorded, the discharge effluent did exceed the site-specific threshold for the monthly average nickel concentration during the month of July 2011. It should be noted that the results were in compliance with provincial (MISA) and federal (MMER) monthly effluent limits however the site-specific Certificate of Approval issued by the Ministry of the Environment identifies lower concentration levels.

11 samples taken from the McWatters Mine effluent discharge which were tested for Acute Lethality Toxicity (rainbow trout and daphnia magna) complied with effluent quality requirements during the third quarter.

On August 25th 2011, Liberty Mines – McWatters Mine was served a Notice of Intention to Issue Environmental Penalty Order (EPO) for two (2) effluent limit violations as a result of 2010 violations. On September 28th 2011, an EPO in the amount of \$30,000 was issued. The Company has until October 31st, 2011 to make payment.

## 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 and Nine Months Ended September 30	3 months 2011	3 months 2010	9 months 2011	9 months 2010
Revenue	\$ 159,093	\$ 9,787,982	\$ 2,161,040	\$ 24,341,558
Site operational costs	1,850,092	8,393,159	7,278,847	21,456,784
Operating Margins before Non Cash Costs	(1,690,999)	1,394,823	(5,117,807)	2,884,774
Amortization, depletion, & accretion of operating assets	1,288,107	2,479,962	4,270,005	7,447,579
Operating (loss) gain	(2,979,106)	(1,085,139)	(9,387,812)	(4,562,805)
Corporate administrative expenses	1,976,747	775,566	3,807,808	1,947,405
Stock based compensation	70,254	124,022	243,918	247,757
Interest and bank charges	6,569	99,249	96,341	231,673
Interest on long-term debt	1,332,567	695,269	3,244,332	1,989,842
Dividends on preferred shares	329,646	450,917	303,471	1,314,331
Interest/Other Income	(3,571)	(468)	(10,688)	(1,376)
(Gain) Loss on sale of equipment	-	(98)	(59,458)	(93,121)
Foreign exchange (gain) loss	1,617,333	(556,973)	1,217,179	(132,486)
Loss before income taxes	\$ (8,308,651)	\$ (2,672,624)	\$ (18,230,715)	\$ (10,066,830)
Loss for the period	\$ (8,308,651)	\$ (2,672,624)	\$ (18,230,715)	\$ (10,066,830)
Loss per share – basic and diluted	\$ (0.04)	\$ (0.01)	\$ (0.11)	\$ (0.06)

## Revenue

For the three and nine months ended September 30, 2011 the company shipped 16,668 and 276,692 payable pounds of nickel to the Xstrata smelter in Sudbury. Gross revenue was \$159,093 for the three months and \$2,161,040 for nine months ended September 30, 2011.

## **Operating Costs**

Site operating costs excluding mine depletion, amortization and accretion of operating asset were \$1,850,092 and \$7,278,847 during the three and nine months ended September 30, 2011 compared to \$8,393,159 and \$21,456,784 for the three and nine months ended September 30, 2010. Included in the site operational costs are smelter treatment charges for the three and nine months ending September 30, 2011 of \$37,894 and \$542,030. The decrease in site operational costs of \$6,543,067 and \$14,177,937 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 and nine months ended September 30, 2011 totaled \$1,288,108 and \$4,270,005 compared to \$2,479,962 and \$7,447,579 for the three and nine months ended September 30, 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 \$1,191,854 and \$3,177,574 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 and nine months ended September 30, 2011 total \$1,976,747 and \$3,807,808 compared to \$775,566 and \$1,947,405 for the three and nine months ended September 30, 2010. The increase of \$1,201,181 and \$1,860,403 in expenditures results from the following primarily factors; withholding tax on deemed interest for Jilin Jien loans. During the nine months ended September 30, 2011 management consulting costs of \$383,516 compared to nil for 2010, \$37,322 was paid in royalties related to the McWatters property agreement compared to nil for 2010, withholding tax of 1,284,102 compared to nil for 2010 and higher director fees \$144,806 for the nine months ended September 30, 2011 compared to nil for 2010.

## **Stock Based Compensation Expense**

During the three and nine months ended September 30, 2011, the Company granted 135,000 and 3,955,000 (three and nine months ended September 30, 2010 420,000 and 2,070,000) stock options. During the three and nine months ended September 30, 2011, the company recognized an expense of \$81,984 and \$268,444 compared to \$109,561 and \$261,249 for the three and nine months ended September 30, 2010 related to costs of gradual vesting and was credited to contributed surplus.

## **Interest**

During the three months ended September 30, 2011, the Company incurred interest expense on short term and long term debt of \$843,238 and \$489,329. During the nine months ended September 30, the Company incurred interest expense on short and long term debt of \$1,332,567 and \$3,244,332 (2010 - \$695,269 and \$1,989,842).

## **Dividends on Preferred Shares**

Dividends expense for the three and nine months ended September 30, 2011 is \$329,646 and \$303,471 (and expense of \$450,917 and \$1,314,331 for the three and nine months ended September 30, 2010), a decrease of \$121,271 and \$1,010,860 respectively. Jilin Jien Nickel Industry Company Ltd. elected at the end of June to convert 38,098,908 preferred shares to common shares. The dividends associated with these shares were reversed. The preferred shares pay an 8.8% cumulative annual dividend to Jilin Jien Nickel Industry Company Ltd. 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 and nine months ended September 30, 2011, foreign exchange losses by the Company were \$1,617,333 and \$1,217,179 compared to a foreign exchange gain of \$556,973 and \$132,486 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 \$5,545,031 to \$58,235,347 at September 30, 2011 from \$63,780,378 at December 31, 2010. The decrease is mainly due to the lower receivables at September 30 due to the reduced production levels offset by the increase in cash and cash equivalents.

### **Total Liabilities**

Consolidated total liabilities increased by \$12,412,240 to \$72,839,153 at September 30, 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 \$1,855,880 to \$1,194,601 at September 30, 2011 from \$(661,279) at December 31, 2010.

### **Accounts Receivable**

Accounts receivable decreased by \$6,375,919 to \$213,306 at September 30, 2011 from \$6,589,225 at December 31, 2010. The decrease in accounts receivable is a result of receiving the final settlements of prior shipments while the mine continues to be on care and maintenance since mid Q1, 2011.

### **Inventories**

Inventories on hand increased by \$647,424 to \$1,266,413 at September 30, 2011 from \$618,989 at December 31, 2010. 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 increased by \$5,890 to \$361,184 from \$355,294 at September 30, 2011 due to amortization for steel liners for the ball mill offset by a prepayment for tailings dam. Reclamation deposits and restricted cash increased by \$475,704 to \$2,294,444 at September 30, 2011 from \$1,818,741 at December 31, 2010. In April 2011, a deposit of \$726,000 was refunded and the operating line of credit was cancelled. This was offset by an additional \$1,200,000 increase in the reclamation deposit for the Redstone mine. At September 30, 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 a deposit with the Canadian financial institution supports a \$29,000 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. Miscellaneous deposits increased by \$272,000 to \$272,000 at September 30, 2011 from \$0 at December 31, primarily due to a deposit required for the exploration drill program.

### **Property Plant and Equipment**

Property plant and equipment decreased by \$2,857,777 to \$28,753,397 at September 30, 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 nine months ended September 30, 2011 offset by the current year additions.

### **Mineral Properties**

Mineral properties values decreased by \$269,612 to \$16,877,052 at September 30, 2011 compared with \$17,146,664 at December 31, 2010. The decrease is due to the depletion charges for the McWatters Mine for the production during the first quarter.

### **Exploration and Evaluation**

Exploration and evaluation accumulated expenditures increased by \$1,362,658 to \$7,002,950 at September 30, 2011 compared with \$5,640,292 at December 31, 2010. The increase is due mainly to the exploration activity of the Hart project.

### **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities decreased by \$6,297,823 to \$1,420,536 at September 30, 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 \$18,679,741 to \$70,040,643 at September 30, 2011 from \$51,360,902 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 and bear an annual interest of 10% on the principal balances. A detailed listing of the notes and their associated due dates can be found in note 13 of the September 30, 2011 unaudited financial statements.

<b>Interest Bearing Loans and Borrowings</b>		<b>September 30, 2011</b>		<b>December 31, 2010</b>
<b>Current</b>				
Bank Indebtedness	\$	-	\$	661,279
Equipment Financing		18,445		99,064
Capital Leases		485,921		762,057
<b>Total current</b>	<b>\$</b>	<b>504,366</b>	<b>\$</b>	<b>1,522,400</b>
<b>Non-current</b>				
Obligations under leases	\$	212,742	\$	385,121
Dividends Payable		3,083,647		2,780,177
Equipment Financing		34,839		200,304
Term loan - JJ		20,816,321		18,360,279
Term loan - JIIL		37,160,970		19,884,863
Preferred Shares		8,227,758		8,227,758
<b>Total non-current</b>	<b>\$</b>	<b>69,536,277</b>	<b>\$</b>	<b>49,838,502</b>
<b>Total Bearing Loans and Borrowings</b>	<b>\$</b>	<b>70,040,643</b>	<b>\$</b>	<b>51,360,902</b>

#### **Dividends Payable**

The dividend payable increased by \$303,470 to \$3,083,647 at September 30, 2011 from \$2,780,177 at December 31, 2010. The increase in dividends payable is the result of Jilin Jien Nickel Industry Company Ltd. converting 38,098,908 preferred shares to common shares on June 28, 2011. The dividends accrued with these shares have been reversed. The preferred shares pay an 8% cumulative annual dividend to Jien. The dividends accrue on a quarterly basis. Further detail can be obtained from Note 13 in the financial statements. With the Restructuring, all promissory notes have been consolidated into the Jilin Jien term loan.

#### **Capital Lease Obligations Including Current Portion**

Capital lease obligations (including current portion) decreased by \$448,515 to \$698,663 at September 30, 2011 from \$1,147,178 at December 31, 2010.

#### **Promissory notes**

Promissory notes increased by \$17,276,107 to \$37,160,970 at September 30, 2011 from \$19,884,863 at December 31, 2010. The increase is mainly due to the addition of \$15,400,000 short term financing provided by Jien during the nine months ended September 30, 2011. The balance of the increase is due to interest earned on all promissory notes outstanding. The notes have varying maturity and bear an annual interest of 10% on the principal balances. With the Restructuring, all promissory notes have been consolidated into the JIIL term loan.

#### **Preferred Shares Dividend Liability**

Preferred shares dividend liability had no change at \$8,227,758 both September 30, 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 \$30,322 to \$1,377,974 at September 30, 2011 from \$1,347,652 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 increased \$5,000 to \$86,471,351 at September 30, 2011 and \$86,466,351 at December 31, 2010. The increase is the issuance of 50,000 shares for exploration acquisitions commitments.

## Summary of Consolidated Quarterly Results

*(\$ thousands, except per share data)*

	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 159	\$ (117)	\$ 2,119	\$ 7,763	\$ 8,880	\$ 6,936	\$ 7,617	\$ 4,965
Net loss	\$ 8,309	\$ 4,352	\$ 5,570	\$ 6,668	\$ 2,674	\$ 4,972	\$ 2,422	\$ 2,899
Loss/share	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.02	\$ 0.03	\$ 0.01	\$ 0.01

## Consolidated Third Quarter Financial Results Compared to the Prior Quarter

### Revenue

Revenue realized was \$159,093 for the three months ended September 30, 2011 compared to (\$117,067) for the three months ended June 30, 2011 which represents a \$276,160 increase over the prior quarter. The mill processed 0 dry tonnes of ore and produced 0 tonnes of concentrate for the three months ended September 30, 2011 as the mines and the mill are under care and maintenance. The revenue was the result of a mill general clean up.

### Operating Costs

Mine, mill, and site administration operating expenses excluding depletion, amortization, and accretion of operating asset were \$1,850,092 for the three months ended September 30, 2011 compared to \$1,422,513 for the three months ended June 30, 2011 which represents a \$427,579 increase over the prior quarter. The increase in operating costs was the result of the continuation of repairs to the equipment as the mine and mill is under care and maintenance. Smelter treatment charges for the three months ended September 30, 2011 were \$37,894.

Amortization, depletion, and accretion of operating assets for the three months ended September 30, 2011 were \$1,288,108 compared to \$1,364,787 for the three months ended June 30, 2011.

### Net Loss

Net loss for the quarter ended September 30, 2011 was \$8,308,651 compared to a net loss of \$4,351,663 the previous quarter ended June 30, 2011. The increase in the net loss, third quarter 2011 over the second quarter of 2011 is mainly due to lower dividends in Q2 as a result of the conversion of the preferred shares, an increase in the interest on promissory notes due to additional borrowings and a foreign exchange loss as a result of exchange rate fluctuations applied to debt obligations denominated in US Dollars.

Funds used by operations before changes in non-cash working capital for the quarter ended September 30, 2011 decreased by \$1,230,806 to \$3,640,412 compared to \$2,409,606 for the three months ended June 30, 2011.

## Cash Flow and Liquidity

Funds generated by operations before changes in non-cash working capital for the nine months ended September 30, 2011 decreased by \$9,581,676 to \$(9,140,632) compared to \$441,044 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. The company continues to operate in a care and maintenance mode taking the opportunity to refurbish the plant and equipment in preparation for the anticipated start up in early 2012. Cash generated by the change in working capital for the nine months ended September 30, 2011 increased by \$2,040,870 to \$(575,218) compared to \$(2,616,088) for the corresponding period of the prior year. The increase in cash generated from operations is a result of the Company's decrease in accounts receivable and offset by a decrease in accounts payables.

At September 30, 2011 the Company's net working capital was \$3,677,046 compared to \$141,489 at December 31, 2010. As noted in note 13 of the financial statements, the working capital changed significantly in Q2 due to the reclass of JJ/JIIL term loans and preferred share liabilities to non-current liabilities. This was in accordance with the

debt restructuring agreement set out in the MOU on December 31, 2010 and agreed upon by the shareholders at the AGM on June 28, 2011.

During the nine months ended September 30, 2011, the Company increased its long-term liabilities by \$19,728,097 as the JIIL term loan increased due to additional advance received during Q3 as discussed below.

During the second quarter of 2009, 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 was converted into the JJNICL Facility on June 30, 2011.

During the nine months ended September 30, 2011, Jilin Jien Nickel Industry of China as part of the Restructuring described in the executive section of the MD&A provided Liberty Mining Inc with \$15,400,000 in further advances. The principal will bear interest at 10%. The interest is capitalized monthly on the unpaid balance and will be payable in full with interest in December 2012. These advances, as well as all prior advances from JIIL were converted into the JIIL Facility on June 30, 2011. Subsequent to September 30, 2011, further advances of \$4,000,000 was advanced under the facility.

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 September 30, 2011 the Company had obligations within one year to make \$ - (September 30, 2010 - \$18,571,548) of repayments on long-term debt, \$485,921 (September 30, 2010 - \$1,172,571) of minimum capital lease payments, \$ - (September 30, 2010 \$16,706,370) of promissory notes, fulfill \$ - (September 30, 2010 - \$80,000) of payments under property acquisition agreements and fulfill \$64,188 (September 30, 2010- \$50,622) of payments under operating leases.

### Contractual Obligations

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

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 13.

	Total	Payments Due by Period			
		Less than 1 Year	1 – 3 Years	3 - 5 Years	In excess of 5 Years
Capital lease obligations	\$ 698,663	\$ 485,921	\$ 198,239	\$ 14,503	\$ -
Equipment Financing	53,284	18,445	34,839		
Promissory Note	37,160,970	-	37,160,970	-	-
Concentrate Agreement	20,816,321	-	20,816,321	-	-
Dividends on preferred share	3,083,647	-	3,083,647	-	-
Operating Lease	192,564	64,188	128,376	-	-
<b>Total</b>	<b>\$ 62,005,449</b>	<b>\$ 568,554</b>	<b>\$ 61,422,392</b>	<b>\$ 14,503</b>	<b>\$ -</b>

## **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As of September 30, 2011, 206,477,365 common shares of the Company were outstanding compared to 168,328,457 as of December 31, 2010. As of September 30, 2011, 148,895,602 preferred shares of the Company were outstanding compared to 186,994,510 as of December 31, 2010. As at October 25, 2011 there were 206,477,365 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 September 30, 2011, 4,573,336 (December 31, 2010 – 3,565,002) exercisable options were outstanding.

## **Litigation**

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 two 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 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 September 30, 2011 totaled \$37,160,970 (December 31, 2010 \$19,884,863) were provided to Liberty Mines from JJNICL and JIIL. These notes were converted into the JIIL Facility on June 30, 2011 which bears interest of 10% and are repayable on December 31, 2012.

Dividend payments of \$3,083,647 (December 31, 2010 - \$2,780,176) for the Series "A" preferred shares due at September 30, 2011 to JJNICL.

An off take agreement of \$20,816,321 (December 31, 2010 – \$18,360,280) that was due May 18, 2011 has been converted into the JJNICL Facility and now bears interest of 10% and repayable on June 30, 2014. Interest will continue to accrue and will be capitalized monthly. Monthly Interest starting in January 2013 will be paid monthly, and the principal to December 31, 2013 will be paid on June 30, 2014.

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements in place at September 30, 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 September 30, 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 or 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 first quarter 2011, 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 September 30, 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**

There were no material changes in the Company's 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](http://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](http://www.sedar.com), including a copy of the latest Annual Information Form of the Company.