Liberty Mines Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013

(Expressed in Canadian dollars)

(Unaudited)

These condensed interim consolidated financial statements have been prepared by the management and approved by the Audit Committee and the Board of Directors of the Company. These unaudited financial statements have not been reviewed by the auditors of the Company.

Liberty Mines Inc.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Liberty Mines Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

As at June 30, 2013

	Notes	June 30, 2013	December 31, 2012
Assets			
Current Assets			
Cash and cash equivalents		$ **333,388**	$ 607,022
Trade and other receivables	9	**90,613**	1,241,486
Inventories	4	**458,056**	477,593
Other current assets	10	**254,985**	473,116
Total Current Assets		**1,137,042**	2,799,217
Non-Current Assets			
Exploration and evaluation properties	6	**11,142,003**	10,978,831
Mineral properties	7	**-**	-
Reclamation deposits and restricted cash	11	**3,186,915**	3,186,915
Property, plant, and equipment	5	**34,800,618**	38,881,081
Total Non-Current Assets		**49,129,536**	53,046,827
Total Assets		$ **50,266,578**	$ 55,846,044
Liabilities and Capital Deficit			
Current Liabilities			
Accounts payable and accrued liabilities		$ **5,668,644**	$ 6,665,933
Dividends payable	12	**5,373,369**	4,725,388
Interest bearing notes and borrowings	12	**119,677,781**	16,831,191
Total Current Liabilities		**130,719,794**	28,222,512
Non-Current Liabilities			
Interest bearing notes and borrowings	12	**77,358**	94,482,207
Provisions	13	**3,527,172**	3,475,002
Total Non-Current Liabilities		**3,604,530**	97,957,209
Total Liabilities		**134,324,324**	126,179,721
Capital Deficit			
Share capital	15	**78,320,593**	78,320,593
Contributed Surplus	12	**4,425,686**	4,425,686
Share Based Payment Reserve	16	**1,523,411**	1,473,895
Cumulative loss		**(168,327,436)**	(154,553,851)
Total Capital Deficit		**(84,057,746)**	(70,333,677)
Total Liabilities and Capital Deficit		$ **50,266,578**	$ 55,846,044
Common Shares			
Authorized		**Unlimited**	Unlimited
Issued and outstanding		**206,477,365**	206,477,365

Wu Shu
Chairman of the Board

James Xiang
Chairman of the Audit Committee

The accompanying notes form an integral part of these consolidated financial statements.

Liberty Mines Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the six months ended June 30, 2013

	Notes	Three months ended 30-Jun-13	Three months ended 30-Jun-12	Six months ended 30-Jun-13	Six months ended 30-Jun-12
Revenue		**$ 27,548**	$ 5,372,269	**$ 56,920**	$ 5,391,509
Cost of sales	19	**2,759,462**	10,589,223	**5,646,724**	15,403,945
Gross loss		**(2,731,914)**	(5,216,954)	**(5,589,804)**	(10,012,436)
Corporate general and administration	20	**1,129,430**	1,510,608	**1,196,565**	2,505,066
Other income and expenses:					
(Gain)/loss on sale of property, plant and equipment	5	**(38,849)**	402,395	**(38,849)**	402,395
Loss on foreign exchange		**809,439**	393,575	**1,264,428**	29,085
Finance cost	12	**2,985,884**	2,797,651	**5,851,293**	5,362,782
Other income		**(196)**	(976)	**(89,656)**	(1,650)
Loss before income tax		**(7,617,622)**	(10,320,207)	**(13,773,585)**	(18,310,114)
Income tax benefit/(expense)		**-**	-	**-**	-
Loss and comprehensive loss for the period		**$ (7,617,622)**	$(10,320,207)	**$(13,773,585)**	$(18,310,114)
Weighted Average common shares outstanding	18	**206,477,365**	206,477,365	**206,477,365**	206,477,365
Loss per ordinary share basic and diluted	18	**($0.04)**	($0.05)	**($0.07)**	($0.09)

The accompanying notes form an integral part of these consolidated financial statements.

Liberty Mines Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2013

	Notes	Share Capital	Contributed Surplus	Share Based Payment Reserve	Cumulative Loss	Total
Balance at January 1, 2012		$ 78,320,593	$ 3,902,301	$ 2,041,788	$ (91,063,626)	$ (6,798,944)
Loss for the period		-	-	-	(18,310,114)	(18,310,114)
Fair value of shareholders loans	12	-	369,130	-	-	369,130
Issuance of options expense	16	-	-	88,925	-	88,925
Cancelled/expired options	16	-	-	(893,195)	893,195	-
Balance at June 30, 2012		$78,320,593	$4,271,431	$1,237,518	($108,480,545)	($24,651,003)
Balance at January 1, 2013		$ 78,320,593	$ 4,425,686	$ 1,473,895	$ (154,553,851)	$ (70,333,677)
Loss for the period		-	-	-	(13,773,585)	(13,773,585)
Issuance of options expense	16	-	-	49,516	-	49,516
Cancelled/expired options	16	-	-	-	-	-
Balance at June 30, 2013		$ 78,320,593	$ 4,425,686	$ 1,523,411	$ (168,327,436)	$ (84,057,746)

Liberty Mines Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

	Notes	Six months ended 30-Jun-13	30-Jun-12
Cash flows used in operating activities			
Loss before income tax		**$(13,773,585)**	$(18,310,114)
Adjusted for:			
Amortization and depletion of operating assets	19	**4,128,613**	4,640,308
Accretion of site restoration obligation	19	**52,170**	39,391
Unrealized foreign exchange loss		**1,266,497**	4,784
(Gain)/loss on sale of property, plant and equipment	5	**(38,849)**	402,395
Stock based compensation	16	**49,516**	88,924
Finance costs		**5,851,292**	5,362,782
Changes in non-cash working capital:			
Accounts receivable		**1,150,873**	(2,430,334)
Inventories		**19,537**	(284,696)
Prepaid expenses		**119,224**	(142,093)
Accounts payable and accrued liabilities		**(997,289)**	2,420,965
Net cash flows used in operating activities		**(2,172,001)**	(8,207,688)
Cash flows from investing activities			
Acquisition of property, plant, and equipment	5	**(60,143)**	(7,562,370)
Investment in exploration and evaluation assets	6	**(163,172)**	(712,490)
Decrease/(Increase) in construction and equipment deposits	10	**98,907**	10,854
(Increase)/Decrease in reclamation deposits, restricted cash	11	**-**	(922,166)
Proceeds from sale of property, plant and equipment	5	**50,842**	-
Net cash provided by/(used in) investing activities		**(73,566)**	(9,186,172)
Cash flows from financing activities			
Proceeds from interest bearing notes	1,12	**2,304,174**	19,600,000
Payment of interest	1,12	**(23,699)**	-
Repayment of capital lease obligations	12	**(295,260)**	(311,699)
Repayment of equipment financing	12	**(13,282)**	(9,211)
Net cash provided by financing activities		**1,971,933**	19,279,090
Net (decrease) increase in cash during the period		**(273,634)**	1,885,230
Cash, beginning of the period		**607,022**	1,304,268
Cash, end of the period		**$ 333,388**	$ 3,189,498

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Liberty Mines Inc. (the "Company", the "Corporation" or "Liberty") is focused on the exploration, development and production of nickel, copper, cobalt and platinum group metals from its properties located in Timmins, Ontario, Canada, and is also involved in the exploration for and development of mineral resources. The corporate head office is located at 65 Queen St. W, Suite 815, Toronto, Ontario, M25H 2M5. As at June 30, 2013, Jien International Investments Limited ("JIIL") is the parent of the Company, with an approximate 60% equity holding and JIIL is a wholly-owned subsidiary of Jilin Jien Nickel Industry Co., Ltd. ("JJNICL"), the ultimate controlling party of Liberty Mines Inc.

During the six months ended June 30, 2013, JJNICL issued loans of $2,304,174 to the Company through its wholly-owned subsidiary JIIL.

The Company commenced production in Timmins from the McWatters Mine in Q1 2012. On August 14, 2012, the Company moved to care and maintenance mode due to nickel prices falling to a price that made remaining in operation uneconomical. The Company remains on care and maintenance as of June 30, 2013. The Company is in the process of remediation of asbestos contamination at the Company's Redstone and McWaters projects.

The business of mining and exploring for minerals involves a high degree of risk and uncertainty; there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of amounts shown for mineral properties and property, plant and equipment are dependent on the Company's ability to obtain the necessary financing to bring its post-development properties into profitable production by completing development or disposing of the properties at a profit. In addition, the recoverability of amounts shown for exploration properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying mineral claims. Changes in future conditions could require material write-downs of the carrying values of mineral properties and deferred exploration and development expenditures and property, plant and equipment.

Although the Company has taken steps to verify title to the properties and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, aboriginal claims and non-compliance with regulatory requirements.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed interim consolidated financial statements of Liberty Mines Inc. and all its subsidiaries (the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations.

The preparation of condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These consolidated financial statements were authorized for use by board of directors on August 13, 2013.

b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. These condensed interim consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 of the Company Audited Annual Financial Statements for the year ended December 31, 2012.

c) Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. These condensed interim consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company incurred a net loss of $13,773,585 during the six months ended June 30, 2013 and, as of that date, its current liabilities exceeded its current assets by $129,582,752 and it had a cumulative deficit of $168,327,436. As such, the Company's ability to continue as a going concern is in significant doubt. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained through external financing and/or continued support from JJNICL and JIIL, subject to certain conditions to meet the Company's liabilities and commitments as they become due and to fund capital projects, although there is a risk that such financing will not be available on a timely basis or on terms acceptable to the Company. The procurement of additional financing through debt or equity markets is dependent on robust commodities markets and investor confidence in mining equities in general and in the Company in particular. In the event that the Company is unable to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Liberty for the year ended December 31, 2012. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012.

4. INVENTORIES

The major components of the Company's inventory accounts are as follows:

	June 30, 2013	December 31, 2012
Stockpile and Work-in-Progress	**-**	-
Supplies Inventory	**458,056**	477,593
Total	**$ 458,056**	$ 477,593

5. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment	Mill & Tailings Facility	Buildings & Infastructure	Machinery & Equipment	Machinery & Equipment Under Capital Lease	Office Furniture & Equipment	Computer Software & Equipment	Total
Cost							
Balance at January 1, 2013	$ 45,078,431	$ 10,506,446	$ 14,599,526	$ 1,820,539	$ 194,877	$ 595,701	$72,795,520
Additions	49,493	-	10,650	-	-	-	60,143
Disposals	-	-	(179,942)	-	-	-	(179,942)
Construction in progress	(6,121)	-	-	-	-	-	(6,121)
Balance at June 30, 2013	45,121,803	10,506,446	14,430,234	1,820,539	194,877	595,701	72,669,600
Amortization							
Balance at January 1, 2013	17,696,073	4,813,311	10,201,775	665,752	172,203	365,325	33,914,439
Amortization for the period	2,665,947	407,857	827,839	168,183.44	5,412	47,253	4,122,492
Disposals	-	-	(167,949)	-	-	-	(167,949)
Balance at June 30, 2013	20,362,020	5,221,168	10,861,665	833,935	177,615	412,578	37,868,982
Carrying amounts							
At December 31, 2012	$ 27,382,358	$ 5,693,135	$ 4,397,751	$ 1,154,787	$ 22,674	$ 230,376	$38,881,081
At June 30, 2013	$ 24,759,783	$ 5,285,278	$ 3,568,569	$ 986,604	$ 17,262	$ 183,123	$34,800,618

During the period ended June 30, 2013, the Company continued care & maintenance.

The Company sold equipment, specifically vehicles, during the six months ended June 30, 2013 for gross proceeds of $50,842, resulting in a gain on sale of $38,849 (June 30, 2012: loss of $402,395).

The Company had $1,392,950 of its Property, Plant and Equipment under lien as at June 30, 2013. Subsequent to the end of the period, the equipment was returned to the Company and the liens were removed.

6. EXPLORATION AND EVALUATION PROPERTIES

	McAra	Shaw Dome	Groves	Hart	Croxall	Total
Balance as at December 31, 2012	$ 1,119,152	$ 974,656	$ 1,340,916	$ 6,811,210	$ 732,897	$10,978,831
Exploration costs	40,779	-	114,592	1,738	6,063	163,172
Acquisition of property	-	-	-	-	-	-
Balance as at June 30, 2013	$ 1,159,931	$ 974,656	$ 1,455,508	$ 6,812,948	$ 738,960	$11,142,003

McAra

The McAra Lake Property is located in Dufferin Township, south of Shining Tree, Ontario. The property is subject to a 2% Net Smelter Return royalty ("NSR") with one claim within the property being subject to a 3% NSR.

Shaw Dome and Groves

The Shaw Dome nickel property consists of various unpatented mining claims south of Timmins, Ontario and situated to the northeast of the Corporation's Hart, Redstone, and McWatters properties within the Shaw Dome geological formation. The properties are subject to a 3% NSR of which half (1.5%) can be purchased at any time by the Company with a payment of $1 million. The Corporation is assessing future exploration activities on this property.

Groves

The Groves property is located approximately 110km south of Timmins, and 95km southwest of the Corporation's Redstone Mill, within Groves, Brunswick and Togo Townships. The property is host to a Nickel-copper-platinum-palladium and gold ("PGE") occurrence, as well as a historic gold showing.

Hart

The Hart Nickel Property was acquired during 2006 for an initial payment of $100,000 plus 100,000 shares of the Company valued at $77,000 (based on the quoted market value at the date of issue). The Company earned a 100% interest in the 11-unit group of contiguous mining claims by paying on the first and second anniversaries:

- an additional $100,000;
- shares of the Company valued at $100,000; and
- 100,000 warrants with a 1 year term with an exercise price based upon the 10 day trading price of the Company's shares at the date of grant.

In 2007 the Company paid $100,000, issued 31,544 shares of the Company valued at $100,000 (based on the quoted market value at the date of issue) and issued 100,000 warrants with a one year term and with an exercise price of $3.17 per share.

On April 25, 2008, the Company made a $200,000 cash payment and issued 100,000 warrants with a one year term and an exercise price of $0.85 per share to complete the acquisition of the Hart claims. In lieu of issuing $100,000 in shares, an additional $100,000 cash payment was made. All of the warrants expired unexercised.

In Q4 2011, the Corporation purchased 50% of the total NSR (ie. 1% NSR) for $1,000,000. Thus, potential future production royalty due on the Hart property totals 1% NSR.

In Q3 2012, the Corporation published an updated Prefeasibility Study on the Hart Deposit which can be reviewed on www.Sedar.com.

Croxall

In Q4 2012, The Company exercised three separate option agreements, which related to the unpatented mining claims that comprise the Croxall property (formerly referred to as the "West Redstone" property). Thus, as of Q4 2012, the Corporation holds a 100% interest in the 110 unpatented mining claims that comprise this property, subject to underlying royalties on future mineral production. The property is located contiguous with, and immediately to the northwest of the Corporation's Redstone property. Portions of the property are subject to a either a 3% NSR, where 50% may be purchased for $1,500,000, or a 2% NSR, where 50% may be purchased for $1,000,000.

7. MINERAL PROPERTIES

Redstone:

The Redstone Nickel Project is located in Eldorado Township, Ontario. The property is subject to a 2% NSR to a maximum of $336,000 (charged to cost of sales in prior years). Vale has been granted a first right of refusal on any concentrates produced from this project from January 1, 2012 to December 31, 2014.

During 2012, management conducted a review assessing the recoverability of the carrying value of the Redstone mine. In assessing the recoverability several economic factors were assessed including current and future commodity pricing. As a result of these assessments, the Company recorded an asset impairment charge of $17,562,975 against the Redstone Mine, resulting in the carrying value of the mine being $nil.

McWatters:

The Company holds a 100% interest in certain mining claims in Northern Ontario. This group of properties contains the McWatters project. On January 1, 2010, commercial production was declared on the McWatters project. The properties are subject to a 3% NSR, which can be reduced to a 1.5% NSR by making a $1,000,000 payment at any time. Commercial production ceased in the third quarter of 2012 as a result of declining nickel prices.

During 2012, management conducted a review assessing the recoverability of the carrying value of the McWatters mine. In assessing the recoverability several economic factors were assessed including current and future commodity pricing. As a result of these assessments the Company recorded an asset impairment charge of $11,346,286 against the McWatters mine resulting in a carrying value of $nil.

8. SEGMENTAL REPORTING

For management purposes, the Company is organized into two segments. The segments consist of (1) development and operating mines in the nature of the business activities (the "Operating Segment") and (2) mineral exploration (the "Exploration Segment"). The Company has elected to present its developed mines and related mining and processing infrastructure as one reporting segment with its significant exploration and evaluation assets as individual reporting segments. As such, amounts disclosed in the consolidated financial statements also represent segment amounts in accordance with the application of this policy.

All items on the condensed interim consolidated statement of comprehensive income related to the operating segment during the six months ended June 30, 2013.

All assets and liabilities on the consolidated balance sheet relate to the operating segment with the exception of the non-current assets value for the 'exploration and evaluation properties' of $11,142,003 which relates to the exploration segment.

Liberty has only one customer (December 31, 2012: one customer), accounting for its total revenue.

9. TRADE AND OTHER RECEIVABLES

As of June 30, 2013 the prior period derivative asset has a fair value of $0 (derivative liability December 31, 2012 - $88,919). The derivative arises in relation to the terms of the Company's nickel concentrate sales contract, through which the settlement price of nickel sales is determined using average nickel price in the third month following delivery. The fair value has been determined using the market price at the balance sheet date. Gains and losses associated with this derivative are recognized in revenue.

Included in other receivables as at June 30, 2013 is approximately $40,000 HST refund receivable as well as approximately $51,000 due from the sale of assets. On December 31, 2012, $920,000 was due from JJNICL in relation to a refund of withholding taxes paid to the Canada Revenue Agency in connection with the term loan from JJNICL. All amounts owing from JJNICL were received as of June 30, 2013.

10. OTHER CURRENT ASSETS

		June 30, 2013		December 31, 2012
Prepaid expenses	$	**213,892**	$	333,116
Construction & equipment deposits		**41,093**		140,000
Total	$	**254,985**	$	473,116

The Company's other current assets comprise prepaid expenses, which include Hydro and insurance advances, and construction deposits. These balances fluctuate due to timing and the progression of projects being carried out by the Company.

11. RECLAMATION DEPOSITS AND RESTRICTED CASH

Reclamation Deposits		**June 30, 2013**		December 31, 2012
Reclamation deposits – Redstone Mine	$	**1,864,695**	$	1,864,695
Reclamation deposits – Redstone Mill	$	**535,161**	$	535,161
Reclamation deposits – McWatters Open Pit	$	**115,043**	$	115,043
Reclamation deposits - McWatters Mine	$	**334,616**	$	334,616
Reclamation deposits – Hart Mine	$	**337,400**	$	337,400
	$	**3,186,915**	$	3,186,915

In 2012, Liberty Mines added to the reclamation deposit for the Redstone Mine and made a new reclamation deposit for the Hart Project after the approval of the closure plans which were submitted to the Ministry of Northern Development.

12. INTEREST BEARING NOTES AND BORROWINGS

Finance costs included in the statement of comprehensive loss are attributable to the interest bearing notes, preferred shares, finance leases and borrowings detailed in the table below.

		June 30, 2013	December 31, 2012
Current			
Current portion of obligations under leases		**$ 168,325**	$ 424,282
Current portion of equipment financing		**28,896**	28,393
Preferred Shares	iv	**16,378,516**	16,378,516
Notes Payable and Term Loan - JIIL	ii, iii	**103,102,044**	-
Total		**$ 119,677,781**	$ 16,831,191
Non-current			
Obligations under leases		**$ 54,810**	$ 94,113
Equipment financing		**22,548**	36,333
Term Loan - JIIL	ii, iii	**-**	94,351,761
Total		**$ 77,358**	$ 94,482,207

i) Dividends payable

Liberty accrues an 8% cumulative annual dividend to JIIL with interest of 8% accruing on the dividends once they become due. The dividend accrues on a quarterly basis. Dividends payable are $5,373,369 as at June 30, 2013 (December 31, 2012 - $4,725,388)

ii) USD Term loan - JIIL

As part of the Restructuring effective June 30, 2011, the previous JJNICL term loan was extinguished and replaced with a term loan equal to the outstanding principal and interest of the original JJNICL term loan, with the following terms: interest at 10% accrued monthly; the full amount of principal and interest accrued to December 31, 2012 is due 36 months after issuance of the term loan; interest earned after December 31, 2012 is to be paid monthly; and extends a second loan facility of $21,757,000 USD available until June 30, 2013 under the same terms described in the term loan contract, to be drawn down for the sole purpose of funding the JJ Option (defined below). Security over the replacement term loans includes:

a) a debenture dated May 25, 2009 providing for a fixed and floating charge on all of the Company's existing and after-acquired real and personal property;
b) a supplemental debenture in favour of JJNICL providing for a fixed and floating charge on all of the Company's existing and after-acquired real and personal property;
c) a share-pledge of Company's shares in Liberty Cobalt Inc. and 2004428 Ontario Inc.;
d) a demand debenture of $200,000,000 USD or a lesser amount and interest of 25% or a lesser on default of the payment entered between the Company and JIIL dated June 30, 2011; and
e) other security interest entered by the Company in favour of JJNICL.

Included in the replacement term loan agreement is a clause allowing the holder of the preferred shares to cause the Company to redeem the remaining preferred shares, in whole or in part (the "JJ Option") until June 30, 2013. If the JJ Option is exercised prior to June 30, 2013, the redemption price can be funded by a draw down by the Company under the JJNICL term loan.

The Restructuring resulted in a difference of $1,576,953 in 2011 in relation to the JJNICL term loan, representing the excess of the carrying value of the original JJNICL term loan over the fair value of the replacement JJNICL term loan. This difference was applied to contributed surplus as the Restructuring was determined to be a transaction with a shareholder in its capacity as a shareholder and is therefore capital in nature. The fair value of the JJNICL term loan was determined using an estimated market rate of interest of 13%. On December 31, 2011 the JJNICL Term Loan was re-assigned to JIIL.

Liberty Mines had $24,148,300 CAD in US denominated debt as at June 30, 2013. This debt has a maturity date of June 30, 2014 and was therefore reclassified to current liabilities as part of the 'Term Loan – JIIL' in the table above.

During the three and six months ended June 30, 2013, the Company accrued $749,795 and $1,452,517 in interest expense related to these loans.

iii) CDN Term loans - JIIL

Prior to the Restructuring in June 2011, JIIL had advanced the Company unsecured promissory notes with an annual interest rate of 8% with maturity dates of 90 days. As at June 30, 2011, the amount borrowed in connection with the notes payable, including accrued interest, totalled $28,917,732.

As part of the Restructuring effective June 30, 2011, all previous JIIL Notes payable were extinguished and replaced with a term loan equal to the outstanding principal and interest of the notes payable, with the following terms: interest at 10% accrued monthly; the full amount of principal and interest accrued due 18 months after issuance of the term loan; and a maximum credit facility of $20,000,000 above the principal amount upon issuance. This credit facility was fully drawn upon as at December 31, 2012. Security over the replacement term loans includes:

a) a debenture dated May 25, 2009 providing for a fixed and floating charge on all of the Company's existing and after-acquired real and personal property;
b) a supplemental debenture in favour of JIIL providing for a fixed and floating charge on all of the Company's existing and after-acquired real and personal property;
c) a share-pledge of Company's shares in Liberty Cobalt Inc. and 2004428 Ontario Inc.;
d) a demand debenture of $200,000,000 USD or a lesser amount and interest of 25% or a lesser on default of the payment entered between the Company and JIIL dated June 30, 2011; and
e) other security interest entered by the Company in favour of JIIL.

The Company may, at its option, prepay at any time all or a portion of the principal amount outstanding or any interest owing without notice or penalty.

The Restructuring resulted in a difference of $1,235,164 in 2011 in relation to the JIIL term loan, representing the excess of the carrying value of the JIIL note payable over the fair value of the JIIL term loan. This difference was applied to contributed surplus as the Restructuring was determined to be a transaction with a shareholder in its capacity as a shareholder and is therefore capital in nature. The fair value of the JIIL term loan was determined using an estimated market rate of interest of 13%.

Under a new term loan agreement dated February 29, 2012, JIIL advanced $5,000,000 to the Company under the same terms as the previous JIIL loan agreements.

Under another term loan agreement dated July 2, 2012, JIIL advanced $10,000,000 to the Company due December 31, 2012 under the same terms as the previous JIIL loan agreements. In addition, under this loan agreement, JIIL extended an additional facility for $5,000,000.

On December 31, 2012, JIIL extended the maturity date to March 31, 2014 for the loan agreement dated June 30, 2011 for Canadian denominated debt and all subsequent Canadian dollar denominated borrowings during 2012. The Company is in negotiation with JIIL to extend the maturity date. During the six months ended June 30, 2013, JIIL loaned the Company $2,304,174, with an additional $5,000,000 loaned subsequent to the end of the quarter. These loans are subject to the execution of a definitive loan agreement. The entire JIIL CAD term loan of $78,953,744 was classified as a current liability as at June 30, 2013.

During the three and six months ended June 30, 2013, the Company accrued $1,901,749 and $3,727,095 in interest expense related to these loans.

iv) Preferred shares

Upon the Restructuring effective June 30, 2011, all Original Preferred Shares were cancelled and replaced with preferred shares under the following terms:

a) Redeemable by the Company at any time at a price equal to $0.11 per share plus accrued and unpaid dividends. The amount may be paid in cash or nickel concentrate;
b) Redeemable by JJNICL at any time at a price equal to $0.11 per share plus accrued and unpaid dividends, defined above as the JJ Option. The amount may be paid in cash or nickel concentrate; and
c) An 8.0% cumulative annual dividend to JJNICL, accruing on a quarterly basis.

In connection with the Restructuring, JJNICL has provided the Company with access to a debt facility sufficient to fund the exercise of the JJ Option .

The preferred share dividend created a contractual right to deliver cash and therefore the fair value of this dividend stream was classified as a liability upon recognition. The fair value upon recognition of $10,133,653 was determined using the Dividend Growth Model, using the following assumptions: dividend growth rate of 0% and required rate of return of 13% based on the estimated market rate of comparable risk debt assurances on the date of recognition. The fair value of this portion of the preferred shares represents a difference of $3,582,247 over the fair value of the preferred share dividend of the Original Preferred Shares. As the carrying value of the equity portion of the Original Preferred shares was determined by applying the residual of the carrying value from the fair value of the preferred share dividend, which is consistent with the treatment of the replacement preferred shares, an opposite difference of $3,582,247 arises with respect to this residual amount of the preferred shares. These offsetting differences were applied to contributed surplus as the Restructuring was determined to be a transaction with a shareholder in its capacity as a shareholder and is therefore capital in nature.

As a result of the JJ Option, which allows JJNICL to redeem the preferred shares for cash on demand, the new fair value of the preferred shares is classified as a current liability. These shares have been transferred to JIIL in 2011.

13. PROVISIONS

i) Site restoration obligation

The site restoration obligation relates to reclamation and closure costs for the Redstone mine, the Redstone mill, the McWatters mine and the Hart project. The settlement dates of the obligations for the Redstone mine and mill is estimated to be 2020 (June 30, 2013: 2020) and for the McWatters mine is estimated to be 2015 (June 30, 2013: 2015).

At December 31, 2012	$	3,475,002
Arising during period		-
Accretion of discount	$	52,170
At June 30, 2013	$	3,527,172

ii) Legal provisions

The Company is currently involved in a number of legal disputes. The Company has made no provision within accrued liabilities (December 31, 2011: $325,000) based on management's best estimate of Liberty's liability having taken legal advice. The prior year provision was adjusted for settlements and revisions during the year. Uncertainties relate to whether claims will be settled out of court or if Liberty will be successful in defending any action. Because of the nature of the disputes, management has not disclosed further information on the basis that they believe that this would be prejudicial to the Company's position in defending the cases brought against it.

14. CONTINGENT LIABILITIES

The Company has been informed that two former employees have started legal proceedings against the Company for unfair dismissal. The Company vigorously denies that it was at fault and is intending to defend itself against any such actions.

15. SHARE CAPITAL

a) Ordinary shares

An unlimited number of common and preferred shares are authorized to be issued in series.

The holders of common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. All common shares rank equally with regard to the Company's residual assets.

b) Movement in share capital

	Number of common shares outstanding	Value of Common shares outstanding
December 31, 2012	206,477,365	$ 78,320,593
Transactions during the period:	-	-
June 30, 2013	206,477,365	$ 78,320,593

Nature and purpose of equity

The reserves recorded in equity on the Company's balance sheet include 'Share Based Compensation Reserve' and 'Cumulative Loss'.

'Stock Based Compensation Reserve' is used to record the issuance of options.

'Contributed Surplus' is used to record the capital contributions from shareholders.

'Cumulative Loss' is used to record the Company's change in deficit from year to year.

16. SHARE BASED PAYMENT RESERVE

a) Option plan details

The Company has an incentive option plan for certain employees, officers, directors and consultants. The purpose of the plan is to attract, retain and motivate those employees, officers, directors and other individuals or entities integral to the Company's success. Options issued under the plan vest over periods not exceeding three years and all options must be exercised over specified periods not to exceed five years from the date granted. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed ten per cent of the total number of common shares outstanding immediately prior to such an issuance. At June 30, 2013, 9,967,736 (December 31, 2012: 5,077,738) common shares remained reserved for issuance under the plan. The maximum number of common shares reserved for issuance to any one participant upon the exercise of options is not to exceed five per cent of the total number of common shares outstanding immediately prior to such an issuance. The exercise price of the options is fixed by the Board of Directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

The continuity of the Company's outstanding and exercisable options for the six months ended June 30, 2013 and the year ended December 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price	
Outstanding at December 31, 2012	15,639,999	$	0.13
Expired	(349,999)	$	1.26
Cancelled	(4,609,999)	$	0.14
Outstanding at June 30, 2013	10,680,001	$	0.09
Exercisable at December 31, 2012	9,635,009	$	0.17
Exercisable at June 30, 2013	7,056,674	$	0.11

The following table summarizes information about the options outstanding and exercisable at June 30, 2013:

Exercise Price	Options Outstanding				Options Exercisable		
Ranges at June 30, 2013	Numbers Outstanding	Remaining Life Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercisable Price	
$0.06 - $0.08	5,995,001	4.16	$	0.06	2,431,674	$	0.06
$0.09 - $0.11	2,265,000	3.00	$	0.10	2,235,000	$	0.10
$0.12 - $0.17	1,140,000	2.97	$	0.12	1,110,000	$	0.12
$0.18 - $0.19	780,000	2.00	$	0.19	780,000	$	0.19
$0.20 - $0.90	500,000	1.27	$	0.22	500,000	$	0.22
June 30, 2013	10,680,001	3.49	$	0.09	7,056,674	$	0.11

b) Fair value of options issued during the period

There were $nil options granted in the period ended June 30, 2013 (year-ended December 31, 2012: 7,975,000; period ended June 30, 2012: nil). The stock-based compensation expense for the period ended June 30, 2013 was $49,516 (period ended June 30, 2012: $88,924), relating to amortization of expense related to stock options issued in prior periods. Of this amount, $14,518 was allocated to site operational expenses (period ended June 30, 2013: $15,059) with the balance allocated to general and administrative expense.

The option reserve value of $1,523,411 is included in equity as the Stock Based Compensation reserve. This represents the fair value of share options outstanding as at June 30, 2013.

The fair value of stock options granted during the period ended June 30, 2013 and the year ended December 31, 2012 were estimated using the Black-Scholes option pricing model.

	June 30, 2013	December 31, 2012
Risk-free interest rate	**n/a**	1.39%
Expected life	**n/a**	5 years
Expected volatility in the market price	**n/a**	124%
Expected dividend yield	**n/a**	0%
Weighted average fair value	**n/a**	$0.05

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted included the expected price volatility, which is based on the historic volatility (based on the expected life of the options), adjusted for any expected changes to future volatility due to publicly available information.

17. RELATED PARTY TRANSACTIONS

As at June 30, 2013, JJNICL, through its wholly-owned subsidiary JIIL, is the Company's majority shareholder. Transactions with these entities are detailed in Note 12.

The Company acquired a vehicle from the former president of the Company, Mr. Christopher Stewart, at a cost of $12,500 during the six months ended June 30, 2013.

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. For the periods presented, key management personnel compensation comprised the following:

	June 30, 2013	June 30, 2012
Employee Benefits and Director Fees	$ 1,193,801	$ 780,437
Share Based Payments	$ -	$ -

The increase from the prior period reflects severances paid to the former management team during the six months ended June 30, 2013.

18. Loss Per Share

Basic losses per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

	Three months ended		Six months ended	
Loss per Share	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Loss attributed to ordinary shareholders	$ (7,617,622)	$ (10,320,207)	$ (13,773,585)	$ (18,310,114)
Weighted average number of common shares	206,477,365	206,477,365	206,477,365	206,477,365
Basic Diluted loss per share	$ (0.04)	$ (0.05)	$ (0.07)	$ (0.09)
Number of Commons Shares Outstanding	206,477,365	206,477,365	206,477,365	206,477,365

The basic and diluted losses per share are the same as dilutive instruments are anti-dilutive in the periods presented.

19. Cost of Sales

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Site Operating Costs	$ 668,334	$ 7,368,899	$ 1,451,423	$ 10,709,187
Amortization	2,064,840	1,495,561	4,128,613	2,944,288
Depletion	-	1,696,020	-	1,696,020
Accretion	26,085	21,599	52,170	39,391
Stock Based Compensation	203	7,144	14,518	15,059
Total Cost of Sales	$ 2,759,462	$ 10,589,223	$ 5,646,724	$ 15,403,945

20. CORPORATE GENERAL ADMINISTRATION

Corporate general administration overhead totals are detailed below.

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Compensation	$ 786,270	$ 531,670	$ 768,958	$ 865,319
Consultants	141,191	307,200	214,517	599,274
Insurance	61,492	38,503	122,984	130,110
Legal Fees and Settlements	58,636	190,411	90,506	190,411
General Office Expense	33,209	88,437	69,580	151,618
Board / AGM	27,745	(2,500)	55,495	40,419
Stock Based Compensation	811	73,865	34,998	73,865
Travel	6,474	43,555	21,575	86,578
Relocation	2,273	(32,675)	2,273	44,089
Royalties	827	35,416	1,683	57,171
Penalties	10,502	236,726	(186,004)	266,212
Total	$ 1,129,430	$ 1,510,608	$ 1,196,565	$ 2,505,066

21. CAPITAL MANAGEMENT

The Company monitors its common shares, preferred shares, stock options and debt facilities with shareholders as capital. The Company's objective when maintaining capital is to maintain a sufficient capital base in order to meet its short-term obligations.

The Company is not exposed to any externally imposed capital requirements.

22. COMMITMENT AND CONTINGENCIES

The Company has entered into an office lease agreement and is committed to the following minimum operating lease

	Less than 1 Year	One to Five Years	Over Five years	Total
June 30, 2013	$116,695	$29,174	$0	$145,868

23. CAPITAL LEASE PAYOUT SCHEDULE

The schedule below is the capital lease commitments for its capital equipment under various finance leases. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. The leases have varying completion dates and range in interest rates from 6% to 14%. Interest related to lease obligations expensed during the period ended June 30, 2013 was $9,969 (June 30, 2012 - $7,903).

(i) Minimum lease payments

For the period ending	June 30, 2013	December 31, 2012
No later than 1 year	$207,840	$446,010
Later than 1 year, but no later than 5 years	$83,045	$103,515
	$290,885	$549,525
Less: future finance charges	($16,306)	($31,130)
Present value of minimun lease payments	$274,579	$518,395

(ii) Present value of minimum lease payments

For the period ending:	June 30, 2013	December 31, 2012
No later than 1 year	$197,222	$424,822
Later than 1 year, but no later than 5 years	$77,357	$94,113
	$274,579	$518,935

24. EVENTS AFTER THE REPORTING DATE

Subsequent events not disclosed elsewhere in these consolidated financial statements include:

The Company consolidated its common shares on a basis of one new share for every 50 pre-consolidation common shares of the Company. Shareholder approval was received in July 2013.