Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

(Expressed in Canadian dollars)

MNP LLP

Independent Auditor's Report

To the Shareholders of Northern Sun Mining Corp.

We have audited the accompanying consolidated financial statements of Northern Sun Mining Corp. (formerly Liberty Mines Inc.), which comprise the consolidated statement of financial position as at December 31, 2013, and the statements of comprehensive loss, changes in capital deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northern Sun Mining Corp. (formerly Liberty Mines Inc.) as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Northern Sun Mining Corp.'s (formerly Liberty Mines Inc.) ability to continue as a going concern.

Other Matters

The consolidated financial statements as at December 31, 2012 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their audit report dated March 26, 2013.

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Canada

March 25, 2014

MNP LLP

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2013 and 2012

	Notes	December 31, 2013	December 31, 2012
Assets			
Current Assets			
Cash	5	$ **556,774**	$ 607,022
Trade and other receivables	6	**323,315**	1,241,486
Inventories	7	**438,407**	477,593
Other current assets	8	**1,363,436**	473,116
Total Current Assets		**2,681,932**	2,799,217
Non-Current Assets			
Reclamation deposits and restricted cash	9	**3,186,915**	3,186,915
Exploration and evaluation properties	10	**11,086,636**	10,978,831
Plant and equipment	11	**33,218,133**	38,881,081
Total Non-Current Assets		**47,491,684**	53,046,827
Total Assets		$ **50,173,616**	$ 55,846,044
Liabilities and Capital Deficit			
Current Liabilities			
Accounts payable and accrued liabilities	14	$ **3,860,844**	$ 6,665,933
Current portion of equipment financing and leases	15	**75,799**	452,675
Preferred shares and accrued dividends	16	**22,410,606**	21,103,904
Total Current Liabilities		**26,347,249**	28,222,512
Non-Current Liabilities			
Equipment financing and leases	15	**54,701**	130,447
Interest bearing notes and borrowings	17	**118,445,454**	94,351,760
Provisions	18	**2,121,220**	3,475,002
Total Non-Current Liabilities		**120,621,375**	97,957,209
Total Liabilities		**146,968,624**	126,179,721
Capital Deficit			
Share capital	20	**80,536,663**	78,320,593
Contributed surplus		**4,605,411**	4,425,686
Share-based payment reserve	21	**543,400**	1,473,895
Cumulative loss		**(182,480,482)**	(154,553,851)
Total Capital Deficit		**(96,795,008)**	(70,333,677)
Total Liabilities and Capital Deficit		$ **50,173,616**	$ 55,846,044

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Approved by:

David Rigg
Director

James Xiang
Director

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

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the years ended December 31, 2013 and 2012

	Notes	**December 31, 2013**	December 31, 2012
Revenue		**$ 56,920**	$ 8,990,248
Operating costs	24	**12,606,173**	27,417,426
Gross loss		**(12,549,253)**	(18,427,178)
Corporate general and administration	25	**2,357,052**	4,896,628
Impairment of inventory	7	**-**	248,965
(Reversal of impairment)/Impairment of mineral properties	12, 18	**(840,330)**	28,909,261
Other income and expenses:			
Loss on disposal of property, plant and equipment	11	**110,770**	402,395
Loss/(gain) on foreign exchange		**1,561,855**	(362,830)
Finance cost	16, 17	**13,201,187**	11,974,149
Other income		**(91,075)**	(112,327)
Debt forgiveness and restructure costs	14	**59,218**	-
Mining tax expense		**3,769**	-
Net loss and comprehensive loss for the year		**$ (28,911,699)**	$ (64,383,419)
Weighted Average common shares outstanding	1, 20	**4,571,900**	4,129,544
Loss per ordinary share basic and diluted	23	**($6.32)**	($15.59)

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

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)
Consolidated Statements of Changes in Capital Deficit
For the years ended December 31, 2013 and 2012

	Notes	Share Capital	Contributed Surplus	Share-based Payment Reserve	Cumulative Loss	Total
Balance at January 1, 2013		$ 78,320,593	$ 4,425,686	$ 1,473,895	$ (154,553,851)	$ (70,333,677)
Loss for the year		-	-	-	(28,911,699)	(28,911,699)
Shares issued for debt	20	2,216,070	-	-	-	2,216,070
Fair value of shareholders loans	17	-	179,725	-	-	179,725
Stock-based compensation	21	-	-	54,573	-	54,573
Cancelled/expired options	21	-	-	(985,068)	985,068	-
Balance at December 31, 2013		$ 80,536,663	$ 4,605,411	$ 543,400	$ (182,480,482)	$ (96,795,008)
Balance at January 1, 2012		$ 78,320,593	$ 3,902,301	$ 2,041,788	$ (91,063,626)	$ (6,798,944)
Loss for the year		-	-	-	(64,383,419)	(64,383,419)
Fair value of shareholders loans	17	-	523,385	-	-	523,385
Stock-based compensation	21	-	-	325,301	-	325,301
Cancelled/expired options	21	-	-	(893,194)	893,194	-
Balance at December 31, 2012		$ 78,320,593	$ 4,425,686	$ 1,473,895	$ (154,553,851)	$ (70,333,677)

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012

	Notes	December 31, 2013	December 31, 2012
Cash flows used in operating activities			
Net (loss)		$ **(28,911,699)**	$ (64,383,419)
Adjusted for:			
Depreciation and depletion of operating assets	11, 12	**5,002,726**	9,901,689
Accretion of site restoration obligation	18	**104,340**	88,322
Unrealized foreign exchange loss/(gain)		**1,563,448**	(429,212)
Loss on sale of plant and equipment	11	**110,770**	402,395
(Gain) on debt forgiveness	14	**(640,782)**	-
Stock-based compensation	21	**54,573**	325,302
Reversal of impairment/impairment of mineral properties	12, 18	**(840,330)**	28,909,261
Impairment of inventory		**-**	248,965
Finance costs	16, 17	**13,201,187**	11,974,149
Changes in non-cash working capital:			
Trade and other receivables		**822,134**	41,521
Inventories		**39,186**	44,308
Prepaid expenses		**43,573**	26,637
Accounts payable and accrued liabilities		**(1,106,201)**	2,574,814
Net cash flows used in operating activities		**(10,557,075)**	(10,275,268)
Cash flows from investing activities			
Acquisition of plant and equipment	11	**(60,143)**	(8,177,879)
Investment in exploration and evaluation assets	10	**(166,843)**	(1,099,942)
Decrease in construction and equipment deposits		**98,907**	22,000
(Increase) in reclamation deposits, restricted cash		**-**	(890,277)
Deposit on acquisition	8	**(1,032,800)**	
Proceeds from sale of plant and equipment	11	**50,842**	-
Net cash used in investing activities		**(1,110,037)**	(10,146,098)
Cash flows from financing activities			
Proceeds from interest bearing notes	1,17	**12,104,174**	20,600,000
Payment of interest		**(34,690)**	(108,552)
Repayment of capital lease obligations	15	**(425,037)**	(742,882)
Repayment of equipment financing	15	**(27,583)**	(24,446)
Net cash provided by financing activities		**11,616,864**	19,724,120
Net decrease in cash during the year		**(50,248)**	(697,246)
Cash, beginning of the year		**607,022**	1,304,268
Cash, end of the year		$ **556,774**	$ 607,022

1. CORPORATE INFORMATION

Liberty Mines Inc. changed its name to Northern Sun Mining Corp. as approved by its shareholders at a special meeting held on October 15, 2013. Northern Sun Mining Corp. (the "Company", the “Corporation” or “Northern Sun”) owns two former producing nickel mines, the Redstone Mill, and a large prospective land package in the Shaw Dome area located near Timmins, Ontario, Canada. The corporate head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, M5H 2M5. As at December 31, 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 Northern Sun.

In August 2013, the Company consolidated its common shares on the basis of one new common share for every 50 common shares outstanding. All common shares, options and per share amounts have been restated to give retroactive effect to the share consolidation.

The Company’s shares were listed on the Toronto Stock Exchange (“TSX”) during 2013. As the Company failed to meet certain listing requirements, the Company submitted a listing application to the TSX Venture Exchange (the "TSXV") to have the Company's common shares listed and publicly traded on the TSXV. Subsequent to the end of the year, the Company received approval for listing on the TSXV and will commence trading on the TSXV on March 27, 2014.

During the year ended December 31, 2013, JJNICL issued loans of $12,104,174 to the Company (December 31, 2012: $20,600,000) through its wholly-owned subsidiary JIIL (Note 17).

The Company commenced production in Timmins from the McWatters Mine in Q1 2012. On August 14, 2012, the Company moved this mine 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 December 31, 2013. The Company has completed the process of remediation of asbestos contamination at the Company’s Redstone and McWatters projects which was identified in early 2013 (Note 24). The Company intends to re-open the mill to offer toll milling services.

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 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 exploration and evaluation properties and plant and equipment.

Although the Company has taken steps to verify title to the properties 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 AND GOING CONCERN

a) Statement of compliance

These annual consolidated financial statements of Northern Sun and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These annual consolidated financial statements were authorized for issue by Board of Directors on March 25, 2014.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The 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.

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 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 $28,911,699 during the year ended December 31, 2013 and, as of that date, its current liabilities exceeded its current assets by $23,665,317 and it had a cumulative deficit of $182,480,482. Included in current liabilities is $22,410,606 in preferred shares and accrued dividends that are due to JIIL. 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

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements. The accounting policies have been applied consistently by all entities.

i) Basis of consolidation

Business combinations

The Company measures goodwill on acquisitions as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects, on a transaction by transaction basis, whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date.

Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Subsidiaries

Subsidiaries are wholly-owned entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company. The consolidated financial statements include the accounts of the Company and its two wholly-owned Canadian subsidiaries, Liberty Cobalt Inc. and 2004428 Ontario Inc.

Transactions eliminated on consolidation

Inter-company balances, transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

ii) Foreign currency transactions

Transactions and account balances originally stated in currencies other than the Canadian dollar have been translated into Canadian dollars as follows: Monetary assets and liabilities held in foreign currencies are initially translated at the exchange rate in effect at the time of the transaction and subsequently translated at the exchange rate in effect at the end of each reporting period or upon realization of the asset or liability. Revenue and expense transactions are translated at the exchange rate in effect at the time of the transaction. Exchange gains or losses from such translation practices are reflected in the consolidated statement of comprehensive loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in the profit and loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Cash

Cash includes cash on hand and deposits held at call with financial institutions.

iv) Financial instruments

a. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments ("HTM"), or available for sale financial assets ("AFS"), as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of financial assets not at FVTPL, directly attributable transaction costs.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of comprehensive loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company classifies its cash, reclamation deposits and restricted cash, and trade receivables as loans and receivables.

b. Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value, net of transaction costs incurred.

Other financial liabilities

The Company's other financial liabilities include accounts payable and accrued liabilities, interest bearing notes and borrowings, preferred shares and accrued dividends, and equipment financing and leases. Subsequent to initial recognition these other financial liabilities are measured at amortized cost using the effective interest method.

c. Derivatives

Commodity-based contracts that meet the definition of a derivative in IAS 39, but are entered into in accordance with the Company's expected sales requirements, are recognized in earnings as described in Note 3 xviii, revenue recognition. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Inventory

Supplies inventory

Materials and supplies expected to be used in production are valued at the lower of average cost and net realizable value. Cost includes the purchase price of materials and supplies, transportation costs and other costs to bring the inventories to their present location.

Stock-piled and work-in-process inventory

Material extracted from the Company's mines is classified as either ore or waste. Ore represents material that, at the time of extraction, the Company expects to process into a nickel concentrate and sell at a profit. Net realizable value tests are performed at least annually and represent the estimated future sale price of the product based on prevailing spot metal prices at the reporting date, less estimated costs to complete production and bring the product to sales.

Stock-piled ore and work-in-process inventory are valued at the lower of average production cost and net realizable value. Finished goods inventory, which consists of nickel concentrate available-for-sale, is valued at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine site overhead expenses, depreciation of operating plant and equipment and depletion of mineral property costs. Stockpiles tonnages are verified by periodic surveys. The nickel contained within the stockpile and work-in-process is based on assays data, and the estimated recovery percentages based on the expected processing methods.

Production costs include the cost of supplies and contract services.

Underground in-process inventory

Advanced drilling and broken ore inventories are valued at the lower of average drilling and blasting cost and net realizable value. Drilling and broken ore inventory is valued at the lower of average production cost and net realizable value.

vi) Exploration and evaluation expenditures

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, exploration and evaluation expenditures are recognized and capitalized. These include such costs as materials and fuel used, surveying costs, drilling costs and payments made to contractors.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess over the carrying value of the property accounted for as a gain on disposal.

Mineral properties acquired are recognized at fair value at the acquisition date. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. They are subsequently stated at cost less accumulated impairment.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is charged to operations in the period the new information becomes available. With respect to borrowing costs, the Company does not consider exploration and evaluation properties to be qualifying assets and therefore capitalizes no borrowing costs into the carrying value of these assets.

The Company reviews its exploration and evaluation assets to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying value of the assets may not be recoverable and exceeds its fair value.

The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the year of abandonment or sale.

The Company has elected to classify significant exploration and evaluation properties as individual Cash Generating Units ("CGUs") in accordance with IFRS 6. Groupings of properties as presented in Note 10 represent these CGUs.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, development costs are capitalized as 'mines under construction'. Exploration and evaluation assets are tested for impairment before the assets are transferred to mines under construction.

vii) Mines under construction

Upon transfer of exploration and evaluation costs into mines under construction, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within mines under construction. Mines under construction are disclosed as a component of mineral properties. As the asset is not available for use, it is not depreciated. Development expenditure is net of proceeds from the incidental sale of ore extracted during the development phase. On completion of development, a mine under construction is classified as producing mines, a component of mineral properties.

viii) Mineral properties

Mineral properties are considered tangible assets and represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Company in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditures are carried forward as part of the cost of that mineral property only when substantial future economic benefits are established, otherwise such expenditures are classified as part of the cost of production and expensed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mineral properties are amortized on a units-of-production basis over estimated recoverable tons. The units-of-production method results in an expense proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus, where appropriate, a portion of measured resources).

ix) Commencement of production

The Company assesses the stage of each mine under construction to determine when a mine moves into the production stage, being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when the production phases are considered to commence and all related amounts are reclassified from mines under construction to producing mines and plant and equipment. Some of the criteria used will include, but are not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in salable form (within specification)
- Ability to sustain ongoing production of metal
- Ability to sustain ongoing profitable production

When a mine development / construction project moves into the production stage, the capitalization of certain mine development / construction costs ceases. Costs are either regarded as forming part of the cost of inventory or expensed. However, any costs relating to mining asset additions or improvements, underground mine development or mineable reserve development are assessed to determine whether capitalization is appropriate. It is also at this point that amortization commences.

x) Plant and equipment

Recognition and measurement

On initial recognition, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Assets in the course of construction are capitalized in the capital construction in progress category. On completion, the cost of construction is transferred to the appropriate category of plant and equipment.

Plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses.

When a part or parts of an item of plant and equipment have different useful lives, and have a value of more than 10% of the purchase price, they are accounted for as separate items (major components) of plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs

The cost of replacing part of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of plant and equipment are charged to the consolidated statements of comprehensive loss. Upon repair, the decommissioned component of the asset is derecognized.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Any repair cost that exceeds 10% of the purchase price and provides a useful life into the future that is different from the asset as a whole will be capitalized and depreciated over its useful life. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in the consolidated statements of comprehensive loss.

Depreciation

Mill building and infrastructure	straight-line over 10 - 24 years
Tailings facility	units-of-production
Buildings and Infrastructure	straight-line over 10 - 24 years
Machinery and equipment and vehicles	straight-line over 4 - 24 years
Office furniture and equipment	straight-line over 5 years
Computer software and equipment	straight-line over 3 years

Machinery and equipment under construction will not be depreciated until construction is completed. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. During the year, the Company reassessed the estimates of useful lives of various assets, and in particular, extended the useful lives of the mill, buildings, infrastructure and some equipment. As well, based on a change of estimate of the use of the tailings facility, the Company changed the method of depreciation of the tailings facility from straight-line to units-of-production (Note 11).

xi) Leased assets

Finance leases, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xii) Impairment

The Company conducts annual internal assessments of the values of capitalized exploration and evaluation expenditure. Values of mineral properties, including mines under construction, and plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. Fair value less costs to sell is the amount the Company could receive from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. For mining assets, management generally applies a value in use model to determine fair value less cost to sell.

The assessment of value in use often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company's assets. If this is the case, the individual assets are grouped together into CGUs for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of comprehensive loss so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use). Impairment losses related to continuing operations are recognized in the statement of comprehensive loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal the depreciation or amortization charge is adjusted in future periods to allocate the assets revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xiii) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

Site restoration costs

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The Company assesses site restoration provisions annually. Significant estimates and assumptions are made in determining the provision for site restoration as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of restoration activities, technological changes, regulatory changes and cost increases as compared to the inflation rates applied. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision as at the reporting date represents management's best estimate of the present value the future restoration cost required. Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the restoration liability and restoration asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Plant and equipment. Any reduction in the restoration liability, and therefore any deduction from the restoration asset, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is charged to operations.

If the change in estimate results in an increase in the restoration liability, and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36, Impairment of assets. If, for mature mines, the revised mine asset, net of restoration provisions, exceed the recoverable value that portion of the increase is charged to operations. For closed sites, changes to estimated costs are charged to operations. Restoration obligations that arose as a result of the production phase of a mine are expensed as incurred.

xiv) Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured using the enacted or substantially enacted tax rates that will be in effect when the differences are expected to be reversed or utilized.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

xv) Share capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares, share warrants, share options and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

xvi) Flow-through shares

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon qualifying expenses being incurred the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has unrecognized deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company may use them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

xvii) Stock-based compensation transactions

The Company measures the cost of equity-settled transactions with directors, officers, employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield. The assumptions and models used for estimating fair value for stock based compensation transactions are disclosed in Note 21.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled share-based payments for directors, officers, employees, and consultants are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period. Any consideration paid by directors, officers, employees and consultants on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of an appropriate valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Charges for options that are forfeited before vesting are reversed from stock-based compensation reserve. For those options that expire or are forfeited after vesting, the recorded value is transferred to cumulative loss.

xviii) Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This occurs when product is physically delivered into the customer's facility. Revenue is measured at the fair value of the consideration received or receivable.

Nickel concentrate

Contract terms for the Company of nickel, copper, cobalt and some precious metals in nickel concentrate (metal in concentrate) allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. Recognition of sales revenue for these commodities is based on the most recently determined estimates of metal in concentrate (based on initial assay results) and the average monthly price for the month of shipment, with a subsequent adjustment made upon final determination.

In addition, the terms of metal in concentrate sales contract with the customer contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on the average prices in the third month following the month the metal in concentrate is treated. Adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlements can be between three and four months.

xix) Finance income and finance costs

Finance income comprises of interest income on funds invested (cash and short-term investments). Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance cost comprises interest payable on interest bearing notes and loans, and equipment financing and leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xx) Loss per Share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

xxi) New Accounting Policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2013. Updates that are not applicable or are not consequential to the Company have been excluded.

IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has re-assessed its control conclusions and determined that there were no changes in the consolidation status of any of its subsidiaries.

IFRS 12, Disclosure of Involvement with Other Entities, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has determined that it is in compliance with IFRS 12 and there was no change to the financial presentation as a result of this change.

IFRS 13, Fair Value Measurement, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 (Share-based Payments); leasing transactions within the scope of IAS 17 (Leases); measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 (Inventories); or value in use in IAS 36 (Impairment of Assets). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has determined that it is in compliance with IFRS 13 and there was no impact of this change on the Company's consolidated financial statements.

IAS 1, *Presentation of Financial Statements* ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has determined that there is no impact of the amendments to IAS 1 on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxii) Standards, Amendments, and Interpretations Not Yet Effective

The following standards and interpretations have been issued but are not yet effective:

- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is yet to assess the full impact of IFRS 9 and intends to adopt the standard no later than the accounting period beginning on January 1, 2018.

- IAS 36 Impairment of Assets (Amended) modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The Company plans to adopt the amendments in its consolidated financial statements for the annual period beginning on January 1, 2014. The Company is yet to assess the full impact of IAS 36.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of the annual consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. In the future, actual results may differ from these estimates.

The effect of a change in accounting estimate is recognized prospectively by including it in the statement of comprehensive loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Information about judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

i. Cash generating units

As the Company is not in production, the Company has reassessed the allocation of its assets to cash generating units. Its mill assets comprise a single cash generating unit for purposes of testing for impairment. This assessment is based on the Company’s plans to offer custom milling services to other mines.

Exploration and evaluation properties are grouped into cash generating units comprised of mineral claims within close geographical proximity and connection to common mineralized areas or otherwise areas of interest to the Company.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

ii. Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

iii. Provisions

The Company's site restoration liabilities primarily consist of estimated costs related to reclaiming surface land and support facilities at its mines in accordance with laws as defined by each mining permit.

The Company estimates the fair value of its site restoration liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for a third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at a risk adjusted rate. The Company records a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units-of-production method over the estimated recoverable, proven and probable reserves at the related mine, and the site restoration liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

iv. Income taxes

The Company is subject to income taxes in Canada. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Company has recognized deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

5. CASH

Cash at the banks and on hand earns no interest. The Company holds its cash balances in one Canadian chartered bank.

6. TRADE AND OTHER RECEIVABLES

Included in other receivables as at December 31, 2013 is approximately $295,000 in HST refund receivable. On December 31, 2012, approximately $900,000 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 in 2013. As of December 31, 2013, the prior year derivative asset had a fair value of $nil (December 31, 2012 - $88,919). The derivative arose 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 of the derivative had been determined using the market price at the end of the reporting period. Gains and losses associated with this derivative were recognized in revenue.

7. INVENTORIES

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

	December 31 2013	December 31, 2012
Supplies Inventory	$ **438,407**	$ 477,593
Total	$ **438,407**	$ 477,593

No inventory write down was recognized during the year ended December 31, 2013 (December 31, 2012: $248,965).

8. OTHER CURRENT ASSETS

	December 31, 2013	December 31, 2012
Prepaid expenses	$ **186,462**	$ 333,116
Construction and equipment deposits	**41,093**	140,000
Deposit and prepaid expenses related to acquisition	**1,135,881**	-
Total	$ **1,363,436**	$ 473,116

The Company's other current assets comprise prepaid expenses and construction deposits, as well as costs incurred and a deposit related to the potential acquisition of the Snow Lake property in Manitoba from QMX Gold Corporation ("QMX"). The Company entered into an agreement with QMX in October 2013 to acquire the Snow Lake property, through the acquisition of a subsidiary of QMX, for total consideration of US$20,000,000. Closing of the acquisition is subject to a number of conditions including without limitation, receipt of all necessary government and regulatory approvals in Canada and China and the Company securing the financing necessary to complete the acquisition. The Company was required to pay a refundable deposit to QMX of US$1,000,000 ($1,032,800) and incurred legal expenses with respect to this transaction.

9. RECLAMATION DEPOSITS AND RESTRICTED CASH

Reclamation Deposits	December 31 2013	December 31, 2012
Reclamation deposits – Redstone Mine	$ 1,280,825	$ 1,864,695
Reclamation deposits – Redstone Mill	1,119,031	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

10. EXPLORATION AND EVALUATION PROPERTIES

	McAra	Shaw Dome	Groves	Hart	Croxall	Total
Balance as at December 31, 2011	$ 1,118,000	$ 972,676	$ 1,340,916	$ 5,725,237	$ 626,536	$ 9,783,365
Exploration costs	-	1,980	-	704,296	99,610	805,886
Acquisition of property	1,152	-	-	-	6,751	7,903
Additions	-	-	-	381,677	-	381,677
Balance as at December 31, 2012	1,119,152	974,656	1,340,916	6,811,210	732,897	10,978,831
Exploration costs	39,633	-	114,592	1,738	3,057	159,020
Property acquisition and maintenance	1,146	-	-	3,671	3,006	7,823
Changes in reclamation estimate	-	-	-	(59,038)	-	(59,038)
Balance as at December 31, 2013	$ 1,159,931	$ 974,656	$ 1,455,508	$ 6,757,581	$ 738,960	$11,086,636

The Company will maintain these properties and keep them in good standing.

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 and Groves nickel property consist of various unpatented mining claims south of Timmins, Ontario and lying to the northeast of the Corporation's Hart, Redstone, and McWatters properties and 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 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. An exploration program consisting of line-cutting, ground magnetometer, and electromagnetic surveying was completed on the Groves property during 2013.

10. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

Croxall (West Redstone)

In 2012, The Company exercised three separate option agreements, which related to the unpatented mining claims that comprise the Croxall property. Thus, as of December 31, 2013 and 2012, the Corporation holds a 100% interest in the 110 unpatented mining claims which 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 Mine and Mill property. Portions of the property are subject to either a 3% NSR, where 50% may be purchased for $1,500,000 or subject to a 2% NSR where 50% may be purchased for $1,000,000.

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 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.

11. PLANT AND EQUIPMENT

Plant and Equipment	Mill & Tailings Facility	Buildings & Infastructure	Machinery & Equipment	Machinery & Equipment Under Finance Lease	Office Furniture & Equipment	Computer Software & Equipment	Total
Cost							
Balance at December 31, 2011	$ 37,466,312	$ 10,922,370	$ 14,115,236	$ 1,169,011	$ 194,877	$ 505,081	$64,372,887
Additions	11,901,541	139,885	621,628	651,528	-	237,736	13,552,318
Disposals	-	(447,239)	-	-	-	-	(447,239)
Construction in progress	(4,289,422)	(108,570)	(137,338)	-	-	(147,116)	(4,682,446)
Balance at December 31, 2012	45,078,431	10,506,446	14,599,526	1,820,539	194,877	595,701	72,795,520
Additions	126,926	-	177,301	-	-	-	304,227
Disposals	-	-	(534,344)	-	(39,867)	(148,587)	(722,798)
Construction in progress	(77,433)	-	(166,651)	-	-	-	(244,084)
Change in reclamation estimate	(558,753)	-	-	-	-	-	(558,753)
Balance at December 31, 2013	$ 44,569,171	$ 10,506,446	$ 14,075,832	$ 1,820,539	$ 155,010	$ 447,114	$71,574,112
Depreciation							
Balance at December 31, 2011	$ 13,520,554	$ 4,001,889	$ 8,599,631	$ 373,483	$ 131,954	$ 289,070	$26,916,581
Depreciation for the period	4,175,519	856,266	1,602,144	292,269	40,249	76,255	7,042,702
Disposals	-	(44,844)	-	-	-	-	(44,844)
Balance at December 31, 2012	17,696,073	4,813,311	10,201,775	665,752	172,203	365,325	33,914,439
Depreciation for the period	3,022,571	580,860	1,121,221	179,469	6,808	91,797	5,002,726
Disposals	-	-	(405,498)	-	(32,158)	(123,530)	(561,186)
Balance at December 31, 2013	$ 20,718,644	$ 5,394,171	$ 10,917,498	$ 845,221	$ 146,853	$ 333,592	$38,355,979
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 December 31, 2013	$ 23,850,527	$ 5,112,275	$ 3,158,334	$ 975,318	$ 8,157	$ 113,522	$33,218,133

During the year ended December 31, 2013, the Company disposed of various assets with a total cost of $722,798 (December 31, 2012: $447,239). A loss of $110,770 was recognized during the year ended December 31, 2013 (December 31, 2012: $402,395). The Company received $50,842 (December 31, 2012: $nil) in proceeds related to the disposal of certain of these assets. The Company had $0 of its plant and equipment under lien as at December 31, 2013 (December 31, 2012: $961,740).

Capital additions for the year ended December 31, 2013 include further work on the tailings storage facility expansion, and a vehicle.

Construction in progress relating to the construction of an access road was $206,005 at December 31, 2013 (December 31, 2013: $450,089).

During the year ended December 31, 2013, the Company revised its estimates on the useful life of various assets as a result of the Company's plans to offer custom milling services. The Company extended the useful life of certain assets (Note 3(x)). During the year ended December 31, 2013, an amount of $5,002,726 was recorded as depreciation expense compared to $7,042,702 during the year ended December 31, 2012. The effect of the changes in estimate resulted in a reduction of depreciation expense of $3,088,132.

12. MINERAL PROPERTIES

	Producing mines		
COST	**Redstone**	**McWatters**	**Total**
Balance as at December 31, 2011	$ 35,705,222	$ 19,175,030	$ 54,880,252
Additions	918,904	-	918,904
Impairment	(17,562,975)	(11,346,286)	(28,909,261)
Balance as at December 31, 2012 and 2013	$ 19,061,151	$ 7,828,744	$ 26,889,895
DEPLETION			
Balance as at December 31, 2011	$ 19,061,151	$ 4,969,756	$ 24,030,907
Charge for the year	-	2,858,988	2,858,988
Balance as at December 31, 2012 and 2013	$ 19,061,151	$ 7,828,744	$ 26,889,895
CARRYING AMOUNTS			
Balance as at December 31, 2011	$ 16,644,071	$ 14,205,274	$ 30,849,345
Balance as at December 31, 2012 and 2013	$ -	$ -	$ -

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. Vale/Inco has been granted the first right of refusal on any concentrates produced from this project from January 1, 2012 to December 31, 2014. In 2005, the Company received permission from the Ministry of Northern Development and Mines to reactivate the mine. On July 1, 2007, commercial production was declared and the Company began depleting costs incurred prior to commercial production. During the fourth quarter of 2008, in the wake of a downturn in commodities prices and a general economic slow-down, a care and maintenance program was implemented at the Company's Redstone mine and mill (note 1). Commercial production recommenced in the fourth quarter of 2009 and ceased again at the end of 2010 at which point the mine was put into and remains in care and maintenance.

The carrying value during 2013 of the Redstone mine is $nil as a result of an asset impairment charge of $17,562,975 recorded during the year ended December 31, 2012.

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 through a $1 million payment by the Company at any time. The Company was in full operation for six months of 2012 ceasing production in August 2012. This mine has been in care and maintenance since then. The Company plans to initiate rehabilitation of the mine site in 2014.

The carrying value during 2013 of the McWatters mine was $nil as a result of an asset impairment charge of $11,346,286 recorded during the year ended December 31, 2012.

13. 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 another individual reporting segment. 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 consolidated statements of comprehensive loss related to the operating segment in the years ended December 31, 2013 and 2012.

All assets and liabilities on the consolidated statements of financial position relate to the operating segment with the exception of the non-current assets value for the 'exploration and evaluation properties' of $11,086,636 for the year ended December 31, 2013 (December 31, 2012: $10,978,831) which relates to the exploration segment.

The Company has only one customer during the year ended December 31, 2013 (December 31, 2012: one customer) accounting for its total revenue.

14. ACCOUNTS PAYABLE

The Company entered into settlement agreements with various creditors of the Company to restructure outstanding accounts payable. During the year ended December 31, 2013, the Company settled $2,653,684 through cash payments of $952,192 and the issuance of 1,265,881 common shares of the Company that are valued at $962,070, and recognized a gain of $640,782. The Company incurred $700,000 in consulting fees with respect to corporate restructuring and settlement arrangement fees. The Company also incurred an expense of approximately $96,000 with respect to HST recapture related to these settlements. The Company recognized a loss of $59,218 in forgiveness of debt and restructure costs related to these payables for the year ended December 31, 2013.

15. EQUIPMENT FINANCING AND LEASES

The schedule below represents the commitments for the Company's 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 2.1% to 8.4%. Interest related to lease obligations expensed during the year ended December 31, 2013 was $23,746 (December 31, 2012 - $64,930).

(i) Minimum lease payments

For the year ended:		**December 31, 2013**		December 31, 2012
No later than 1 year	$	81,775	$	473,401
Later than 1 year, but no later than 5 years		57,418		138,311
	$	139,193	$	611,712
Less: future finance charges		(8,693)		(28,590)
Present value of minimun lease payments	$	130,500	$	583,122

15. EQUIPMENT FINANCING AND LEASES (CONTINUED)

(ii) Present value of minimum lease payments

For the period ending:	December 31, 2013	December 31, 2012
No later than 1 year	$ 75,799	$ 452,675
Later than 1 year, but no later than 5 years	54,701	130,447
	$ 130,500	$ 583,122

16. PREFERRED SHARES AND ACCRUED DIVIDENDS

	December 31, 2013	December 31, 2012
Current		
Preferred Shares	**$ 16,378,516**	$ 16,378,516
Dividends on preferred shares	**6,032,090**	4,725,388
Total	**$ 22,410,606**	$ 21,103,904

Preferred shares

Upon the restructuring effective June 30, 2011, all original preferred shares were cancelled and replaced with 148,895,600 preferred shares with 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) Retractable by JIIL 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; and

c) Subject to a 8.0% cumulative annual dividend, accruing on a quarterly basis.

These shares were transferred to JIIL in 2011. As JIIL can redeem the preferred shares for cash on demand, the fair value of the preferred shares of $16,378,516 is classified as a current liability.

Dividends payable

The Company accrues an 8% cumulative annual dividend to JIIL on the preferred shares. The dividend accrues on a quarterly basis. The Company has recorded dividends payable of $6,032,090 as at December 31, 2013 (December 31, 2012 - $4,725,388).

17. INTEREST BEARING NOTES AND BORROWINGS

	December 31, 2013	December 31, 2012
Non-current		
US Dollar Term Loan - JIIL	**$ 26,432,471**	$ 21,430,602
Term Loans - JIIL	**92,012,983**	72,921,158
Total	**$ 118,445,454**	$ 94,351,760

i) US Dollar Term loan - JIIL

The Company carries a loan payable to JIIL of US$24,851,891 ($26,432,471) which accrues interest monthly at a rate of 10% per annum with a maturity date of June 30, 2014. This loan was originally payable to JJNICL. JJNICL assigned this loan to JIIL as part of a restructuring in 2011. On December 31, 2013, the Company entered into an agreement with JIIL extending the maturity date of the loan payable to December 31, 2015.

During the twelve months ended December 31, 2013, the Company accrued $3,062,418 (December 31, 2012: $2,596,893) in interest expense using a market interest rate of 13% related to this loan. This loan is classified as a long-term liability as at December 31, 2013 as a result of the extension agreement. As well, the loan was adjusted to its carrying value as a result of the extension agreement with an adjustment of $377,720 debited to contributed surplus as at December 31, 2013 with respect to this loan. This difference was applied to contributed surplus as the loan extension was determined to be a transaction with a shareholder in its capacity as a shareholder and was therefore capital in nature.

ii) Term loans - JIIL

The Company carries Canadian denominated loans payable to JIIL of $92,012,983 which accrue interest monthly at a rate of 10% per annum and were set to mature first on December 31, 2012 and then extended to March 31, 2014. On December 31, 2013, the Company entered into an agreement with JIIL extending the maturity date of the loans payable to December 31, 2015.

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.

These loans were also part of the restructuring that occurred in June 2011, resulting in a difference of $1,235,164 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 in 2011. The fair value of the JIIL term loan in June 2011 was determined using an estimated market rate of interest of 13%.

On January 1, 2013, as a result of the extension of the loan to March 31, 2014, the Company recorded $942,090 (December 31, 2012: $523,385) to contributed surplus representing the difference in the carrying value over the fair value of the note payable. The difference was applied to contributed surplus as the loan extension was determined to be a transaction with a shareholder in its capacity as a shareholder and was therefore capital in nature. The fair value at this time was determined using an estimated market rate of interest of 11%.

During the twelve months ended December 31, 2013, JIIL loaned the Company an additional $12,104,174 (2012: $20,600,000). During the year ended December 31, 2013, the Company accrued $8,797,778 (December 31, 2012: $7,957,226) in interest expense related to these loans. In addition, the Company issued 1,900,000 common shares to JIIL at a value of $0.66 to settle $1,254,000 of this loan.

17. INTEREST BEARING NOTES AND BORROWINGS (CONTINUED)

These loans are classified as a long-term liability as at December 31, 2013 as a result of the extension agreement. As well, the loan was adjusted to its carrying value as a result of the extension agreement with an adjustment of $384,646 debited to contributed surplus as at December 31, 2013 with respect to this loan.

The following are security over both these term loans:

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. in favour of JIIL;
d) a demand debenture of $200,000,000 USD or a lesser amount and interest of 25% or a lesser rate on default of the agreement entered between the Company and JIIL dated June 30, 2011; and
e) other security interest entered by the Company in favour of JIIL.

18. 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 Company has revised its estimates related to these obligations during the year ended December 31, 2013. As a result of changes to the Redstone mine and McWatters mine reclamation obligations, as these properties were written off during the previous year, the Company recognized a reversal of impairment of $840,330 during the twelve months ended December 31, 2013. The Company has re-assessed its total provision for site restoration obligation and estimated it to be $2,121,220 at December 31, 2013 (December 31, 2012: $3,475,002) based on a total future liability of approximate $2,475,000 (December 31, 2012: $2,500,000), an inflation rate of 1.1% (December 31, 2012: 3%), and a discount rate ranging between 1.1% and 3.24% (December 31, 2012: 3%). Reclamation is expected to occur in one to fifteen years.

At January 1, 2012	$	2,372,253
Arising during year		1,014,427
Accretion of discount		88,322
At December 31, 2012	$	3,475,002
Arising during year		-
Adjustments arising from re-measurement		(1,458,122)
Accretion of discount		104,340
At December 31, 2013	$	2,121,220

ii) Legal provisions

The Company is currently involved in a number of legal disputes. The nature of the disputes include amounts payable under certain contracts, and penalties related to the construction of the original tailings storage facility. Uncertainties relate to whether claims will be settled out of court or if not, whether the Company is 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.

19. 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. The Company has made no provision with respect to these legal proceedings.

20. SHARE CAPITAL

a) Ordinary shares

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

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

In August 2013, the Company consolidated its common shares on the basis of one new common share for every 50 common shares outstanding. All common shares, options and per share amounts have been restated to give retroactive effect to the share consolidation.

b) Movement in share capital

	Number of common shares outstanding	Value of Common shares outstanding
December 31, 2011 and 2012	4,129,544	$ 78,320,593
Transactions during the year:		
Shares issued for debt settlement (Note 14)	1,265,881	962,070
Shares issued for debt settlement (Note 17(ii))	1,900,000	1,254,000
December 31, 2013	7,295,425	$ 80,536,663

21. 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 December 31, 2013, 601,443 (December 31, 2012: 100,154) 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 ten 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 year ended December 31, 2013 and the year ended December 31, 2012 as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2011	161,400	$ 16.50
Granted	159,500	$ 3.00
Expired	(8,100)	$ 125.00
Outstanding at December 31, 2012	312,800	$ 6.50
Expired	(7,000)	$ 62.86
Cancelled	(177,700)	$ 5.23
Outstanding at December 31, 2013	128,100	$ 5.32
Exercisable at December 31, 2012	192,700	$ 8.50
Exercisable at December 31, 2013	112,033	$ 5.66

The following table summarizes information about the options outstanding and exercisable at December 31, 2013:

Exercise Price	Options Outstanding			Options Exercisable	
Ranges at December 31, 2013	Numbers Outstanding	Remaining Life Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
$3.00 - $4.00	48,200	3.66	$ 3.00	32,133	$ 3.00
$4.50 - $5.50	43,300	2.50	$ 4.98	43,300	$ 4.98
$6.00 - $8.50	11,000	2.38	$ 6.00	11,000	$ 6.00
$9.00 - $9.50	15,600	1.49	$ 9.50	15,600	$ 9.50
$10.00 - $12.00	10,000	0.76	$ 10.75	10,000	$ 10.75
December 31, 2013	128,100	2.67	$ 5.32	112,033	$ 5.66

21. SHARE-BASED PAYMENT RESERVE (CONTINUED)

b) Fair value of options issued during the period

No options were granted for the year ended December 31, 2013 (December 31, 2012: 159,500). The stock-based compensation expense for the year ended December 31, 2013 was $54,573 (December 31, 2012: $325,301), relating to options granted in prior periods that vested during the year. Of this amount, $12,357 was allocated to site operational expenses (December 31, 2012: $78,525) with the balance allocated to corporate general and administrative expense.

The fair value of stock options granted during the year ended December 31, 2012 was estimated using the Black-Scholes option pricing model, with the following assumptions:

	2012
Risk-free interest rate	**1.39%**
Expected life	**5 years**
Expected volatility in the market price	**124%**
Expected dividend yield	**0%**
Weighted average fair value	**$2.50**

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 during the fiscal year ended December 31, 2012 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.

22. RELATED PARTY TRANSACTIONS

As at December 31, 2013, JJNICL, through its wholly-owned subsidiary JIIL, is the Company's majority shareholder. Transactions with these entities are detailed in Note 16 and 17.

The Company acquired a vehicle from the former president of the Company, Mr. Christopher Stewart, at a cost of $12,500 during the year ended December 31, 2013.

Through Forbes & Manhattan, Inc. ("Forbes"), the Company receives access to mining and business professionals, including the Chief Executive Officer, Chief Financial Officer and Corporate Secretary of the Company. In addition, the Company receives strategic advice from Mr. Stan Bharti, the Executive Chairman of Forbes. Starting from June 2013, an administration fee of $100,000 per month is charged by Forbes which provides for amounts paid to various corporate professionals, including the Chief Executive Officer, Chief Financial Officer and Corporate Secretary of the Company as well as corporate overheads including rent, accounting, legal, communications, IT and administrative support staff.

22. RELATED PARTY TRANSACTIONS (CONTINUED)

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 years presented, key management personnel compensation comprised the following (excluding the amounts paid to Forbes mentioned above):

		December 31, 2013		December 31, 2012
Employee Benefits and director fees	**$**	**1,331,161**	$	1,567,507
Share based payments		**-**		265,347
	$	**1,331,161**	$	1,832,854

23. 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.

The basic and diluted losses per share are the same as outstanding options are anti-dilutive in the years presented.

24. OPERATING COSTS

		December 31, 2013		December 31, 2012
Cost of sales	$	-	$	16,500,376
Care and maintenance		2,426,436		848,514
Asbestos remediation		4,872,456		-
Insurance		187,858		-
Depreciation		5,002,726		7,042,702
Depletion		-		2,858,987
Accretion		104,340		88,322
Stock-based compensation		12,357		78,525
Total operating costs	$	12,606,173	$	27,417,426

25. CORPORATE GENERAL AND ADMINISTRATION

Corporate general and administration overheads totals are detailed below.

	December 31, 2013	December 31, 2012
Compensation	$ 742,033	$ 1,876,629
Consultants	1,391,760	1,111,031
Legal fees and settlements	132,452	322,683
General office expense	169,927	279,834
Stock-based compensation	42,215	246,777
Travel	34,708	152,623
Insurance	34,121	245,971
Relocation	2,026	172,322
Royalties	1,683	221,296
(Reversal of penalties)/penalties	(193,873)	267,462
Total	$ 2,357,052	$ 4,896,628

26. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory tax expense to the effective tax expenses is as follows:

For the years ended December 31,	2013	2012
Statutory income tax rate	26.50%	25.00%
Net loss for the year	$ 28,911,699	$ 64,383,419
Expected income tax recovery on loss	$ 7,662,000	$ 16,096,000
Difference due to recognition of items for tax purposes:		
Non-deductible expenses	(568,000)	(430,000)
Effect of change in statutory rates	1,996,000	-
Changes in initial recognition exemption amounts	-	(85,000)
Adjustment due to change in estimates	65,000	11,000
Change in unrecognized deferred tax assets	(9,155,000)	(15,592,000)
	$ -	$ -

The tax rates of 26.50% and 25.00% represent the federal and provincial statutory tax rates applicable for the 2013 and 2012 taxation years respectively applicable to manufacturing and processing taxable income.

26. INCOME TAXES (CONTINUED)

The nature and the amount of the temporary differences giving rise to the deferred tax assets and liabilities at December 31, 2013 and 2012 are summarized as follows:

As at December 31,	2013	2012
Resource properties	$ 32,192,000	$ 34,776,000
Equipment	20,781,000	14,984,000
Non-capital losses and other	105,864,000	83,652,000
Unrealized foreign exchange gain	(2,264,000)	(1,904,000)
Site restoration obligations	2,121,000	1,136,000
Undeducted financing costs	-	152,000
Unrecognized deferred tax assets	(158,694,000)	(132,796,000)
	$ -	$ -

As at December 31, 2013, the Company has non-capital losses totaling $105,777,000 which may be carried forward to off-set future years' taxable income. The Company also has cumulative exploration and development expenses in Canada of $43,264,000 available to be carried forward. However, due to changes in control in 2009, $35,327,000 of the deductions available with respect to these cumulative resource expense pools are only deductible against income derived from resource properties held at the time of the change in control. The potential benefit of the losses, exploration and development expenses and the other deductible temporary differences has not been recognized in these consolidated financial statements except to the extent that is considered probable that the sufficient taxable profit will allow the deferred tax asset to be recovered.

The non-capital losses expire as follows:

2027	$ 11,886,000
2028	10,471,000
2029	6,022,000
2030	10,893,000
2031	19,565,000
2032	24,717,000
2033	22,223,000
	$ 105,777,000

27. CAPITAL MANAGEMENT

The Company considers its common shares, preferred shares, stock options and debt facilities with shareholders as capital. The Company's objectives when maintaining capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future developments and production of the business.

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

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

All financial instruments presented on the consolidated statements of financial position are carried at amortized cost, with the exception of the nickel concentrate derivative.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, polices and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar that will affect the Company's operations and financial results. The Company has significant exposure to foreign exchange rate fluctuation. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company holds balances in US dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the USD dollars against the Canadian dollar would affect the reported loss and comprehensive loss by approximately $2,487,000 (December 31, 2012: $2,072,000) as detailed below:

US Dollar Balances	December 31, 2013	December 31, 2012
Cash	$ 26	$ 507,970
Trade Receivables	-	232,056
Trade Payables	(20,975)	(28,390)
Interest bearing note	(24,851,891)	(21,430,602)
Net	$ (24,872,840)	$ (20,718,966)
10% Change in Exchange Rate Impact	**$ (2,487,284)**	**$ (2,071,897)**

The values in the table represent US dollar balances translated into the Canadian dollar at the end of the period defined above.

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings with interest rates based on market rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions as these deposits do not earn interest.

Commodity Price Risk:

The Company is exposed to commodity price risk as sales of nickel concentrate are based on market commodity prices. The Company ceased production in 2012 as a result of the downturn in nickel prices. The ability of the Company to secure custom milling contracts will be affected by commodity prices. The Company does not currently use commodity hedges to reduce its exposure to commodity price risk.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and trade receivables. Cash and cash equivalents are maintained with financial institutions of reputable credit. The Company did not have trade receivables as at December 31, 2013.

The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at December 31, 2013 and 2012 relating to cash and cash equivalents of $556,774 and $607,022, net of deposits, respectively. All cash and cash equivalents are held at one Canadian chartered bank. The Company has considered changes in the credit risk associated with these banks and considers this risk to be minimal for its cash based on changes that are reasonably possible at the reporting date.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases (Note 2).

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 180 days. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditures.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

The following table sets out the principal contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Less than 1 year	1 and 2 years	3 and 5 years	Over five years	Total
As at December 31, 2013	$ 26,347,249	$ 118,483,626	$ 16,529	$ -	$ 144,847,404
As at December 31, 2012	$ 28,222,512	$ 94,446,513	$ 35,694	$ -	$ 122,704,719

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The consolidated statement of financial position carrying amounts for cash, trade receivables and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The Company's term loans' carrying values approximate their fair values at December 31, 2013 as a result of the extension agreements.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

As at December 31, 2013, no financial assets or liabilities were measured at fair value, while as at December 31, 2012, the only financial asset or liability measured at fair value was the nickel concentrate sales contract (Level 2).

29. COMMITMENT

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

	Less than one year	One to five years	Over five years	Total
December 31, 2013	$ 87,521	$ -	$ -	$ 87,521

The Company recorded $104,251 (2012 - $115,386) as an operating lease expense during 2013.

30. SUBSEQUENT EVENTS

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

On March 20, 2014, the Company entered into a definitive agreement with Wallbridge Mining Company Limited ("Wallbridge") to provide for the custom milling of ore from Wallbridge's Broken Hammer mine. Pursuant to the terms of the term sheet, the Company will be responsible for the handling and milling of ore. The agreement is for approximately a one year term based on a minimum of 800 tonnes per day and milling is expected to begin on or about June 30, 2014.

In January 2014, the Company negotiated a settlement of accounts payable through the payment of $115,010 in cash and issued 115,010 common shares of the Company. As well, 100,000 shares at a value of $0.66 per share were issued to JIIL, the consideration of which will settle a portion of the Company's existing term loans with JIIL. Also in January 2014, the Company announced its intent to settle a further $600,000 in accounts payable through the issuance of common shares. In conjunction with this settlement, the Company plans to settle a portion of its existing debt with JIIL through the issuance of shares in order to maintain JIIL's 60% interest in the Company.

Subsequent to the end of the year and up to the date of this report, the Company received $1,052,000 in funding from JIIL to support operations.