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

For the nine months ended September 30 2014

(Expressed in Canadian dollars)

(Unaudited)

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)

Condensed Interim Consolidated Statements of Financial Position

expressed in Canadian dollars

	Notes		September 30, 2014		December 31, 2013
Assets					
Current Assets					
Cash	4	$	**95,967**	$	556,774
Trade and other receivables			**1,277,999**		323,315
Inventories	5		**652,142**		438,407
Other current assets	6		**1,244,848**		1,363,436
Total Current Assets			**3,270,956**		2,681,932
Non-current Assets					
Reclamation deposits and restricted cash	7		**3,239,091**		3,186,915
Exploration and evaluation properties	8		**11,170,086**		11,086,636
Plant and equipment	9		**31,253,210**		33,218,133
Total Non-current Assets			**45,662,387**		47,491,684
Total Assets		$	**48,933,343**	$	50,173,616
Liabilities and Equity					
Current Liabilities					
Accounts payable and accrued liabilities	11	$	**2,937,583**	$	3,860,844
Current portion of equipment financing and leases	13		**55,119**		75,799
Preferred shares and accrued dividends	14		**23,390,624**		22,410,606
Total Current Liabilities			**26,383,326**		26,347,249
Non-current Liabilities					
Equipment financing and leases	13		**72,308**		54,701
Interest bearing notes and borrowings	15		**127,976,360**		118,445,454
Provisions	16		**2,152,711**		2,121,220
Total Non-current Liabilities			**130,201,379**		120,621,375
Total Liabilities			**156,584,705**		146,968,624
Equity					
Share capital	18		**80,684,320**		80,536,663
Contributed surplus	15		**11,607,254**		4,605,411
Share-based payment reserve	19		**501,025**		543,400
Cumulative loss			**(200,443,961)**		(182,480,482)
Total Equity			**(107,651,362)**		(96,795,008)
Total Liabilities and Equity		$	**48,933,343**	$	50,173,616
Going concern	2				
Contingent liabilities	17				
Commitment	26				
Subsequent events	27				

Approved by:

Wu Shu ______________________ Director

James Xiang ______________________ Director

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

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

UNAUDITED

expressed in Canadian dollars

	Notes	Three months ended **September 30, 2014**	Three months ended September 30, 2013	Nine months ended **September 30, 2014**	Nine months ended September 30, 2013
Revenue		**$ 2,202,865**	$ -	**$ 2,202,865**	$ 56,920
Operating costs	22	**3,505,844**	2,166,951	**6,051,775**	7,813,675
Gross loss		**(1,302,979)**	(2,166,951)	**(3,848,910)**	(7,756,755)
Corporate general and administration	23	**461,921**	448,673	**441,499**	1,668,937
Other income and expenses:					
Loss/(gain) on foreign exchange		**1,341,328**	(498,210)	**1,376,569**	766,218
Finance cost	14, 15	**4,407,607**	3,237,861	**12,558,156**	9,065,455
Other income		**(17,392)**	-	**(52,201)**	(89,656)
Loss/(gain) on sale of equipment	9	**64,086**	-	**(30,994)**	(38,849)
(Gain) on debt forgiveness	11	**(19,487)**	(136,842)	**(122,810)**	(136,842)
Mining tax expense		**-**	3,769	**-**	3,769
Loss and comprehensive loss for the period		**$ (7,541,042)**	$ (5,222,202)	**$ (18,019,129)**	$ (18,995,787)
Weighted Average common shares outstanding	1, 18	**7,510,435**	4,129,544	**7,490,563**	4,129,544
Loss per ordinary share basic and diluted	21	**($1.00)**	($1.26)	**($2.41)**	($4.60)

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

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)

Condensed Interim Consolidated Statements of Changes in Equity

UNAUDITED

expressed in Canadian dollars

	Notes	Number of common shares outstanding	Value of common shares outstanding	Contributed Surplus	Share-Based Payment Reserve	Cumulative Loss	Total Equity
Balance at December 31, 2013		7,295,425	$ 80,536,663	$ 4,605,411	$ 543,400	$ (182,480,482)	$ (96,795,008)
Loss for the period		-	-	-	-	(18,019,129)	(18,019,129)
Fair value of shareholders loans	15	-	-	7,001,843	-	-	7,001,843
Shares for debt	11, 15	215,010	147,657	-	-	-	147,657
Issuance of options expense	19	-	-	-	13,275	-	13,275
Cancelled/expired options	19	-	-	-	(55,650)	55,650	-
Balance at September 30, 2014		7,510,435	$ 80,684,320	$ 11,607,254	$ 501,025	$ (200,443,961)	$ (107,651,362)
Balance at December 31, 2012		4,129,544	$ 78,320,593	$ 4,425,686	$ 1,473,895	$ (154,553,851)	$ (70,333,677)
Loss for the period		-	-	-	-	(18,995,787)	(18,995,787)
Issuance of options expense	19	-	-	-	49,463	-	49,463
Cancelled/expired options		-	-	-	(837,230)	837,230	-
Balance at September 30, 2013		4,129,544	$ 78,320,593	$ 4,425,686	$ 686,128	$ (172,712,408)	$ (89,280,001)

Northern Sun Mining Corp.
(formerly Liberty Mines Inc.)

Condensed Interim Consolidated Statements of Cash Flows

UNAUDITED

expressed in Canadian dollars

	Notes	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows used in operating activities			
Net (loss) for the period		**$ (18,019,129)**	$ (18,995,787)
Adjusted for:			
Depreciation of operating assets	9	**2,213,081**	4,293,934
Accretion of site restoration obligation	16	**31,491**	78,255
Unrealized foreign exchange loss		**1,376,302**	767,874
(Gain) on debt forgiveness		**(122,810)**	(836,842)
Gain on disposal of equipment	9	**(30,994)**	(38,849)
Stock based compensation	19	**13,275**	49,463
Finance costs		**12,558,156**	9,095,831
Changes in non-cash working capital:			
Accounts receivable		**(1,004,279)**	664,005
Inventories		**(213,735)**	19,537
Prepaid expenses		**77,495**	194,056
Accounts payable and accrued liabilities		**(697,193)**	52,837
Net cash flows (used in) operating activities		**(3,818,340)**	(4,655,686)
Cash flows from investing activities			
Acquisition of plant and equipment	9	**(570,013)**	(2,232,741)
Investment in exploration and evaluation assets	8	**(83,450)**	(164,059)
Start-up fee	12	**500,000**	-
Expenses incurred against start-up fee	12	**(500,000)**	-
Decrease in construction and equipment deposits		**41,093**	118,907
Proceeds from sale of equipment	9	**418,000**	50,842
Net cash (used in) investing activities		**(194,370)**	(2,227,051)
Cash flows from financing activities			
Proceeds from interest bearing notes	1,15	**3,620,127**	7,304,174
Payment of interest		**-**	(30,376)
Repayment of equipment financing and leases	13	**(68,224)**	(414,221)
Net cash provided by financing activities		**3,551,903**	6,859,577
Net (decrease) in cash during the period		**(460,807)**	(23,160)
Cash, beginning of the period		**556,774**	607,022
Cash, end of the period		**$ 95,967**	$ 583,862
Non-cash investing and financing transactions			
Shares issued for debt settlement	11, 15	147,657	-

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

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 September 30, 2014, 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 the first quarter of 2014. 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. The Company received approval for listing on the TSXV and commenced trading on the TSXV on April 15, 2014.

During the nine months ended September 30, 2014, JJNICL issued loans of $3,620,127 to the Company (December 31, 2013: $12,104,174) through its wholly-owned subsidiary JIIL (Note 15).

The Company had completed the process of remediation of asbestos contamination at the Company’s Redstone and McWatters projects which was identified in early 2013. The Company has re-opened the mill, offering toll milling services and signed its first contract during Q1-2014. The Company worked to ramp up the mill and began custom milling in Q3-2014.

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 condensed interim consolidated financial statements of Northern Sun and all its subsidiaries (the "Company") have been prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted.

The accounting policies set out in the Company's annual consolidated financial statements for the year ended December 31, 2013 were consistently applied to all the periods presented unless otherwise noted.

These condensed interim consolidated financial statements were authorized for issue by Board of Directors on November 28, 2014.

b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis. The condensed interim consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed in Note 3.

c) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. These condensed interim consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company incurred a net loss of $18,019,129 during the nine months ended September 30, 2014 and, as of that date, its current liabilities exceeded its current assets by $23,112,370 and it had a cumulative deficit of $200,443,961. Included in current liabilities is $23,390,624 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.

2. Basis of Preparation and Going Concern (continued)

d) New and future accounting policies

IAS 32, Financial instruments: Presentation is effective for annual periods beginning on or after January 1, 2014. IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments also clarify that the right of offset must be available on the current date and cannot be contingent on a future date. At January 1, 2014, the Company adopted this pronouncement and there was no impact on the Company's financial statements.

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 condensed interim consolidated financial statements for the annual period beginning on January 1, 2014. At January 1. 2014, the Company adopted this pronouncement and there was no impact on the Company's financial statements.

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.

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.

3. Use of Estimates and Judgments

The preparation of the condensed interim 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 operations and 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 condensed interim consolidated financial statements within the next financial year are discussed below:

i. Cash generating units

As the Company is not in nickel mining production, the Company has defined its mill assets as 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.

3. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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.

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.

4. CASH AND RESTRICTED CASH

During the second quarter of 2014, a creditor received a judgment in the Ontario Superior Court of Justice in the amount of $1.2 million and the Company received a notice of garnishment resulting in an order to pay approximately $905,000 to the creditor. The Company negotiated a settlement with the supplier during the third quarter and a Notice of Termination of Garnishment was served on September 30, 2014. The payment to supplier was made subsequent to the end of the quarter in early October 2014.

5. INVENTORIES

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

	September 30, 2014	December 31, 2013
Supplies Inventory	**652,142**	438,407

All inventory is carried at the lower of cost and net realizable value. Supplies inventory is recorded at cost as at September 30, 2014 and December 31, 2013.

6. OTHER CURRENT ASSETS

		September 30, 2014		December 31, 2013
Prepaid acquisition costs	**$**	**1,032,800**	$	1,135,881
Supplier advances and deposits		**202,502**		190,555
Insurance		**9,546**		37,000
Total	**$**	**1,244,848**	$	1,363,436

The Company's other current assets comprise prepaid expenses and deposits, as well as a deposit related to the previously announced 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 was 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 deposit to QMX of US$1,000,000 ($1,032,800). The Company entered into an extension agreement with QMX to extend this option. This option expired on September 30, 2014. There were no further extensions therefore the agreement terminated

7. RECLAMATION DEPOSITS AND RESTRICTED CASH

Reclamation Deposits		September 30, 2014		December 31, 2013
Reclamation deposits – Redstone Mine	**$**	**1,309,399**	$	1,280,825
Reclamation deposits – Redstone Mill	**$**	**1,129,396**	$	1,119,031
Reclamation deposits – McWatters Mine	**$**	**456,871**	$	449,659
Reclamation deposits – Hart Mine	**$**	**343,425**	$	337,400
	$	**3,239,091**	$	3,186,915

8. EXPLORATION AND EVALUATION PROPERTIES

	McAra	Shaw Dome	Groves	Hart	Croxall	Total
Balance as at December 31, 2013	$ 1,159,931	$ 974,656	$ 1,455,508	$ 6,757,581	$ 738,960	$ 11,086,636
Property acquisition and maintenance	1,146	-	-	-	3,006	4,152
Exploration costs	36,197	-	43,101	-	-	79,298
Balance as at September 30, 2014	$ 1,197,274	$ 974,656	$ 1,498,609	$ 6,757,581	$ 741,966	$ 11,170,086

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

8. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

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.

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, 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 Company's 100% interest in the Hart Nickel Property was acquired for total cash consideration of $400,000, the issuance of 131,544 common shares of the Company at a market value of $177,000 and the issuance of warrants 200,000 warrants valued at $121,500 over a period of 3 years from 2006 to 2008. All the warrants expired unexercised.

In 2011, the Company 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.

9. 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, 2013	$ 44,569,171	$ 10,506,446	$ 14,075,832	$ 1,820,539	$ 155,010	$ 447,114	$71,574,112
Additions	477,984	-	87,919	65,151	4,110	-	635,164
Disposals	-	-	(1,294,840)	-	-	-	(1,294,840)
Transfer category	-	-	1,609,144	(1,609,144)	-	-	-
Balance at September 30, 2014	$ 45,047,155	$ 10,506,446	$ 14,478,055	$ 276,546	$ 159,120	$ 447,114	$70,914,436
Depreciation							
Balance at December 31, 2013	$ 20,718,644	$ 5,394,171	$ 10,917,498	$ 845,221	$ 146,853	$ 333,592	$38,355,979
Depreciation for the period	1,406,653	251,393	486,969	4,270	964	62,832	2,213,081
Disposals	-	-	(907,834)	-	-	-	(907,834)
Transfer category	-	-	744,006	(744,006)	-	-	-
Balance at September 30, 2014	$ 22,125,297	$ 5,645,564	$ 11,240,639	$ 105,485	$ 147,817	$ 396,424	$39,661,226
Carrying amounts							
At December 31, 2013	$ 23,850,527	$ 5,112,275	$ 3,158,334	$ 975,318	$ 8,157	$ 113,522	$33,218,133
At September 30, 2014	$ 22,921,858	$ 4,860,882	$ 3,237,416	$ 171,061	$ 11,303	$ 50,690	$31,253,210

Capital additions for the nine months ended September 30, 2014 included mill equipment to improve custom milling operations, work on a fire protection system for the mill, further work on the tailings storage facility expansion as well as equipment required for start up of the mill and in-house laboratory. The Company also acquired two vehicles through financing leases during the nine months ended September 30, 2014.

The Company sold various pieces of equipment with a net book value of $387,006 during the nine months ended September 30, 2014 for gross proceeds of $418,000. The Company recognized a loss on the sale of equipment of $64,086 for the three months ended September 30, 2014 and, for the nine months ended September 30, 2014, recognized a gain on the sale of equipment of $30,994 (for the three and nine months ended September 30, 2013: $nil and a gain of $38,849, respectively).

10. 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 condensed interim consolidated financial statements also represent segment amounts in accordance with the application of this policy.

All items on the condensed interim consolidated statements of operations and comprehensive loss related to the operating segment in the nine months ended September 30, 2014 and 2013.

All assets and liabilities on the condensed interim 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 $11,170,086 as at September 30, 2014 (December 31, 2013: $11,086,636) which relates to the exploration segment.

10. SEGMENTAL REPORTING (CONTINUED)

The Company had one customer during the nine months ended September 30, 2014 (September 30, 2013: one customer) accounting for its total revenue.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company entered into settlement agreements with some of its creditors to settle outstanding debt through the payment of $275,010 in cash and the issuance of 115,010 shares. Approximately $871,000 was paid as settlement to a vendor just subsequent to the end of the quarter, the agreement to settle having been signed during the quarter ended September 30, 2014. As a result, the Company recognized a gain of $19,487 and $122,810 in forgiveness of debt for the three and nine months ended September 30, 2014, respectively (three and nine months ended September 30, 2013: $136,842 and $136,842, respectively).

12. START-UP FEE NET OF EXPENSES

The Company entered into a definitive agreement with Wallbridge Mining Company Limited ("Wallbridge') in March 2014 to provide custom milling of Wallbridge's ore. As part of this agreement, Wallbridge paid a start-up fee of $500,000 to cover specific costs the Company will incur to restart the mill in accordance with the agreement. As a result, the Company recorded the start-up fee as a current liability, and mill restart costs were applied against this amount as they are incurred. As at September 30, 2014, the Company recorded $500,000 against the start-up fee.

13. 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 6.36% to 7.69%. Interest related to lease obligations expensed during the three and nine months ended September 30, 2014 was $1,378 and $5,926, respectively (three and nine months ended September 30, 2013 - $4,017 and $20,816, respectively).

(i) Minimum lease payments

For the period ending:		September 30, 2014	December 31, 2013
No later than 1 year		$62,060	$81,775
Later than 1 year, but no later than 5 years		$78,559	$57,418
		$140,619	$139,193
Less: future finance charges	$	(13,192)	($8,693)
Present value of minimun lease payments		$127,427	$130,500

(ii) Present value of minimum lease payments

For the period ending:	September 30, 2014	December 31, 2013
No later than 1 year	$55,119	$75,799
Later than 1 year, but no later than 5 years	$72,308	$54,701
	$127,427	$130,500

13. Equipment Financing and Leases (continued)

The Company entered into two additional vehicle lease agreements during Q3-2014 for terms of 48 months at interest rates of approximately 6.5%.

14. Preferred Shares and Accrued Dividends

		September 30, 2014		December 31, 2013
Current				
Preferred shares	$	16,378,516	$	16,378,516
Dividends on preferred shares		**7,012,108**		6,032,090
Total	$	23,390,624	$	22,410,606

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 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 $7,012,108 as at September 30, 2014 (December 31, 2013: $6,032,090).

15. Interest Bearing Notes and Borrowings

		September 30, 2014		December 31, 2013
Non-current				
US Dollar Term Loan -- JIIL	$	28,891,352	$	26,432,471
Term Loans - JIIL		99,085,008		92,012,983
Total	$	127,976,360	$	118,445,454

15. INTEREST BEARING NOTES AND BORROWINGS (CONTINUED)

i) US Dollar Term loan - JIIL

The Company carries a loan payable to JIIL of US$25,795,849 ($28,891,352) which accrues interest monthly at a rate of 10% per annum with a maturity date of December 31, 2015. 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, resulting in adjustments such that the loan was recorded at its carrying value on December 31, 2013. The Company revalued this loan, discounting to fair value, resulting in a charge to contributed surplus of $1,525,143.

During the three and nine months ended September 30, 2014, the Company accrued $909,101 and $2,607,721, respectively (three and nine months ended September 30, 2013: $784,331 and $2,236,848, respectively) in interest expense using a market interest rate of 13% (September 30, 2013: $13%) related to this loan. This loan is classified as a long-term liability as at September 30, 2014 as a result of the extension agreement.

ii) Term loans - JIIL

The Company carries Canadian denominated loans payable to JIIL of $99,085,008 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 June 30, 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. As a result of the agreement, the loan was recorded at its carrying value on December 31, 2013. The Company revalued this loan, discounting to fair value, resulting in a charge to contributed surplus of $5,309,111.

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.

During the nine months ended September 30, 2014, JIIL loaned the Company an additional $3,620,127 (nine months ended September 30, 2013: $7,303,174). In addition, the Company issued 100,000 common shares to JIIL at a value of $0.66 to settle $66,000 of this loan. During the three and nine months ended September 30, 2014, the Company accrued $3,168,243 and $8,970,416, respectively in interest expense related to these loans (three and nine months ended September 30, 2013: $2,124,171 and $5,851,266, respectively) using a market interest rate of 13% (September 30, 2013: 10%). These loans are classified as a long-term liability as at September 30, 2014.

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.

16. 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. As at September 30, 2014, the Company has assessed its total provision for site restoration obligation and estimated it to be $2,152,711 (December 31, 2013: $2,121,220) based on a total future liability of approximate $2,475,000 (December 31, 2013: $2,475,000), an inflation rate of 1.1% (December 31, 2013: 1.1%), and a discount rate ranging between 1.1% and 3.24% (December 31, 2013: 1.1% and 3.24%). Reclamation is expected to occur in one to fifteen years.

At December 31, 2013	$	2,121,220
Accretion of discount		31,491
At September 30, 2014	$	2,152,711

17. CONTINGENT LIABILITIES

Two former employees of the Company had 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 settled with one of the employees during the nine months ended September 30, 2014.

18. 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.

18. SHARE CAPITAL (CONTINUED)

b) Movement in share capital

	Number of common shares outstanding	Value of Common shares outstanding
December 31, 2013	7,295,425	$ 80,536,663
Transactions during the period:		
Shares issued for debt settlement (Note 11)	115,010	81,657
Shares issued for debt settlement (Note 15)	100,000	66,000
September 30, 2014	7,510,435	$ 80,684,320

19. 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 September 30, 2014, 629,944 (December 31, 2013: 601,443) 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 period ended September 30, 2014 is as follows:

	Number of Options	Weighted Average Exercise Price	Grant Date Fair Value of Options
December 31, 2013	128,100	$5.32	$ 543,400
Value of vested options	-	-	13,275
Value of expired options	(7,000)	$10.00	(55,650)
September 30, 2014	121,100	$5.05	$ 501,025

19. SHARE-BASED PAYMENT RESERVE (CONTINUED)

The following table summarizes information about the options outstanding and exercisable at September 30, 2014:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date (per share)
3,000	3,000	12-Feb-10	12-Feb-15	$12.50	$10.25
15,600	15,600	15-Jun-10	15-Jun-15	$9.50	$7.71
11,000	11,000	20-May-11	20-May-16	$6.00	$4.87
41,500	41,500	30-Jun-11	30-Jun-16	$5.00	$4.06
1,800	1,800	4-Aug-11	4-Aug-16	$4.50	$3.64
48,200	48,200	28-Aug-12	28-Aug-17	$3.00	$2.52
121,100	121,100			$5.05	$4.14

b) Fair value of options issued during the period

No options were granted for the nine months ended September 30, 2014 and 2013. Stock-based compensation expense for the three and nine months ended September 30, 2014 was $3,221 and $13,275, respectively (three and nine months ended September 30, 2013: $(53) and $49,463, respectively), relating to options granted in prior periods that vested during the period. Of this amount, $1,930 and $4,459 was allocated to site operational expenses for the three and nine months ended September 30, 2014, respectively (three and nine months ended September 30, 2013: $(3,444) and $11,075, respectively) with the balance allocated to corporate general and administrative expense.

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.

20. RELATED PARTY TRANSACTIONS

As at September 30, 2014, JJNICL, through its wholly-owned subsidiary JIIL, is the Company's majority shareholder. Transactions with these entities are detailed in Note 14 and 15.

Through Forbes & Manhattan, Inc. ("Forbes"), the Company receives access to mining and business professionals, including various officers 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 to be paid to various corporate professionals, including various officers of the Company as well as corporate overheads including rent, accounting, legal, communications, IT and administrative support staff. The Company terminated its contract with Forbes subsequent to the end of the quarter.

20. 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):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Short-term benefits	$ 36,250	$ 86,295	$ 115,000	$ 1,280,096
Share Based Payments	$ -	$ -	$ -	$ -

During the comparative periods, the Company paid severances to the former management team resulting in the higher compensation.

Mr. David Rigg, the President and CEO of the Company and Mrs. Deborah Battiston, the CFO of the Company, are both officers of QMX.

21. LOSS PER SHARE

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

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

22. OPERATING COSTS

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Site costs	$ 2,076,466	$ 1,821,091	$ 3,604,150	$ 3,272,514
Insurance	82,328	157,897	198,594	157,897
Depreciation	1,334,623	165,321	2,213,081	4,293,934
Accretion	10,497	26,085	31,491	78,255
Stock-based compensation	1,930	(3,443)	4,459	11,075
Total operating costs	$ 3,505,844	$ 2,166,951	$ 6,051,775	$ 7,813,675

23. CORPORATE GENERAL AND ADMINISTRATION

Corporate general and administration overheads totals are detailed below.

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Salaries and compensation	$ 2,541	$ 106,899	$ 9,481	$ 875,857
Consultants	289,508	350,083	141,995	564,600
Legal fees and settlements	111,983	29,652	347,863	120,158
Audit fees	5,288	-	47,088	-
General office expense	33,793	33,178	106,470	105,031
Board and AGM	5,331	16,651	64,648	72,146
Stock-based compensation	1,292	3,390	8,816	38,388
Travel	3,240	8,103	9,131	29,678
Insurance	8,945	(98,091)	26,835	24,893
Royalties	-	-	-	1,683
Penalties	-	(7,869)	(320,828)	(193,873)
Total	$ 461,921	$ 441,996	$ 441,499	$ 1,638,561

24. 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.

25. 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 condensed interim consolidated financial statements.

All financial instruments presented on the consolidated statements of financial position are carried at amortized cost.

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 periods unless otherwise stated in the note.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar 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 debt 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 $2,581,000 (September 30, 2013: $2,373,000) as detailed below:

US Dollar Balances	September 30, 2014	September 30, 2013
Cash	$0	$0
Trade Payables	(18,676)	(18,924)
Interest bearing note	(25,795,849)	(23,715,430)
Net	($25,814,525)	($23,734,354)
10% Change in Exchange Rate Impact	**($2,581,453)**	**($2,373,435)**

The values in the table represent US dollar balances 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.

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 carried approximately $990,000 in trade receivables as at September 30, 2014 (December 31, 2013: $nil).

The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at September 30, 2014 and December 31, 2013 relating to cash and cash equivalents of $95,967 and $556,774, net of deposits, respectively. Cash and cash equivalents are held at two Canadian chartered banks. 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:

	Total	Less than 1 year	1 and 2 years	3 to 5 years	Over 5 years
As at September 30, 2014	$ 154,431,994	$ 26,383,326	$ 128,024,780	$ 23,888	$ -
As at December 31, 2013	$ 144,847,404	$ 26,347,249	$ 118,483,626	$ 16,529	$ -

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 September 30, 2014.

25. 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 September 30, 2014, no financial assets or liabilities were measured at fair value.

26. COMMITMENT

The Company's operating lease expired in September 2014 and all payments relating to this lease were made. The Company recorded $25,990 and $77,977 as an operating lease expense during the three and nine months ended September 30, 2014, respectively (three and nine months ended September 30, 2013: $25,817 and $78,433, respectively).

27. SUBSEQUENT EVENTS

Subsequent to the end of the quarter and up to the date of this report, the Company received $1,383,422 in funding from JIIL to support operations.

The Company terminated its contract with Forbes and Manhattan subsequent to the end of the quarter (Note 20).