Northern Sun Mining Corp.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

(Unaudited)

Northern Sun Mining Corp.

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Northern Sun Mining Corp.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Expressed in Canadian dollars

	Notes	March 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash		$ 828,855	$ 566,262
Trade receivables		1,274,549	1,150,674
Supplies Inventories		233,901	252,953
Prepayments and deposits		326,013	267,528
Total Current Assets		2,663,318	2,237,417
Non-current Assets			
Reclamation deposits and restricted cash	4	3,256,482	3,256,482
Exploration and evaluation properties	5	9,597,689	9,597,689
Plant and equipment	6	28,977,235	30,108,188
Total Non-current Assets		41,831,406	42,962,359
Total Assets		44,494,724	$ 45,199,776
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities		$ 2,356,358	$ 2,481,339
Due to related company	7	336,000	-
Current portion of equipment financing and leases	9	56,989	50,408
Preferred shares and accrued dividends	10, 16	24,043,970	23,720,887
Interest bearing notes and borrowings	11, 16	142,023,578	134,680,269
Total Current Liabilities		168,816,895	160,932,903
Non-current Liabilities			
Equipment financing and leases	9	46,019	63,780
Provisions	12	2,528,042	2,528,042
Total Non-current Liabilities		2,574,061	2,591,822
Total Liabilities		171,390,956	163,524,725
Equity			
Share Capital	14	80,684,320	80,684,320
Contributed surplus		11,660,512	11,660,512
Share-based payment reserve	15	470,287	501,025
Cumulative loss		(219,711,351)	(211,170,806)
Total Equity		(126,896,232)	(118,324,949)
Total Liabilities and Equity		44,494,724	$ 45,199,776

Going concern	2
Contingent liabilities	13
Subsequent events	23

Approved by:

Shu Zhang
Director

James Xiang
Director

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

Northern Sun Mining Corp.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

Expressed in Canadian dollars

	Notes	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenue		$ 2,951,539	$ -
Cost of sales	18	3,529,065	-
Gross loss		(577,526)	-
Operating costs	19	-	1,159,370
Corporate general and administration	20	333,374	(381,779)
Other income and expenses:			
Loss on foreign exchange		2,913,351	1,018,822
Finance cost		4,759,423	3,547,279
Other income		-	(17,395)
Gain on sale of plant and equipment		(12,391)	-
Debt forgiveness			(93,987)
Loss and comprehensive loss for the period		**$ (8,571,283)**	**$ (5,232,310)**
Weighted average common shares outstanding	14	**7,510,435**	**7,450,156**
Loss per ordinary share basic and diluted	22	**$ (1.14)**	**$ (0.70)**

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

Northern Sun Mining Corp.
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, 2014		**7,510,435**	**$ 80,684,320**	**$ 11,660,512**	**$ 501,025**	**$ (211,170,806)**	**$ (118,324,949)**
Loss for the period		-	-	-	-	(8,571,283)	(8,571,283)
Options expiry	15	-	-	-	(30,738)	30,738	-
Balance at March 31, 2015		**7,510,435**	**$ 80,684,320**	**$ 11,660,512**	**$ 470,287**	**$ (219,711,351)**	**$ (126,896,232)**
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		-	-	-	-	(5,232,310)	(5,232,310)
Fair value of shareholders loans		-	-	2,353,945	-	-	2,353,945
Shares for debt		215,010	147,657	-	-	-	147,657
Issuance of options expense	15	-	-	-	4,999	-	4,999
Balance at March 31, 2014		**7,510,435**	**$ 80,684,320**	**$ 6,959,356**	**$ 548,399**	**$ (187,712,792)**	**$ (99,520,717)**

Northern Sun Mining Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Expressed in Canadian dollars

	Notes	Three months ended March 31, 2015	Three months ended March 31, 2014
Cash flows used in operating activities:			
(Loss) before income tax		$ (8,571,283)	$ (5,232,310)
Adjusted for:			
Depreciation of operating assets	6	1,278,327	442,708
Accretion of site restoration obligation	12	-	10,497
Unrealized foreign exchange loss		2,906,968	1,018,568
(Gain) on debt forgiveness		-	(93,987)
Stock based compensation	15	-	4,999
Finance costs		4,759,424	3,547,279
Changes in non-cash working capital:			
Accounts receivable		(123,875)	164,665
Inventories		19,052	(40,371)
Prepaid expenses		(58,485)	11,845
Accounts payable and accrued liabilities		(124,981)	(1,381,411)
Net cash flows provided by/(used in) operating activities		85,147	(1,547,518)
Cash flows from investing activities			
Acquisition of plant and equipment	6	(147,374)	(42,668)
Investment in exploration and evaluation assets	5	-	(4,152)
Start-up fee		-	500,000
Expenses incurred against start-up fee		-	(101,426)
Decrease in construction and equipment deposits		-	41,093
Net cash (used in)/provided by investing activities		(147,374)	392,847
Cash flows from financing activities			
Proceeds from related company loans	7	336,000	-
Proceeds from interest bearing notes	11	-	1,052,000
Repayment of equipment financing and leases	9	(11,180)	(32,714)
Net cash provided by financing activities		324,820	1,019,286
Net increase (decrease) in cash during the period		262,593	(135,385)
Cash, beginning of the period		566,262	556,774
Cash, end of the period		$ 828,855	$ 421,389
Non-cash investing and financing transactions			
Shares issued for debt settlement		$ -	$ 147,657

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

1. CORPORATE INFORMATION

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 Company began custom milling in the third quarter of fiscal 2014. The corporate head office is located at 4950 Yonge Street, Suite 2208, Toronto, Ontario, M2N 6K1. As at March 15, 2015, 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") prior to April 15, 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.

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 exploration and evaluation properties and plant and equipment are dependent on the Company's ability to obtain the necessary financing to discover economically recoverable reserves, confirm the Company's interest in the underlying mineral claims, and to bring its properties into profitable production by completing development or disposing of the properties at a profit. 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 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, 2014 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 May 27, 2015.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis. 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 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 $8,571,283 during the three months ended March 31, 2015 and, as of that date, its current liabilities exceeded its current assets by $166,153,577 and it had a cumulative loss of $219,711,351. Included in current liabilities is $24,043,970 in preferred shares and accrued dividends that are due to JIIL as well as $142,023,578 in interest bearing notes due to JIIL with a maturity date of December 31, 2015. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining and milling 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 to meet the Company's liabilities and commitments as they become due and to fund capital projects. 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. These factors cast significant doubt about the Company's ability to continue as a going concern. In the event that the Company is unable to secure additional financing and continue as a going concern, material write-down would be required to the carrying value of assets.

2. BASIS OF PREPARATION AND GOING CONCERN (CONTINUED)

d) New accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning on or after January 1, 2014. Updates that are not applicable or are not consequential to the Company have been excluded.

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. As at January 1 2014, the Company adopted this pronouncement and applied the disclosure impact on the Company's financial statements.

e) 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.

- IFRS 15 – Revenue from Contracts with Customers. IFRS 15 was issued by the IASB in May 2014 and replaces IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. This standard establishes principles to address the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. This standard is mandatorily effective for annual reporting periods beginning on or after January 1, 2017. Management intends to adopt the standard on its effective date and is in the process of assessing the impact on the Company's financial statements of this new standard.

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.

f) Reclassification

Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of these 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 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.

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 of disposal 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. The assessment of the recoverable amount of plant and equipment requires the use of estimates and assumptions related to future operating performance, capacity of the milling facility and discount rates.

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.

Expressed in Canadian dollars

4. Reclamation Deposits and Restricted Cash

Reclamation Deposits		March 31, 2015		December 31, 2014
Reclamation deposits – Redstone Mine	$	1,318,923	$	1,318,923
Reclamation deposits – Redstone Mill		1,132,851		1,132,851
Reclamation deposits – McWatters Mine		459,275		459,275
Reclamation deposits – Hart Mine		345,433		345,433
	$	3,256,482	$	3,256,482

5. 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	1,617	-	-	15,086	3,006	19,709
Exploration costs	51,002	-	87,248	-	-	138,250
Changes in reclamation estimate	-	-	-	69,716	-	69,716
Impairment	-	(974,656)	-	-	(741,966)	(1,716,622)
Balance as at December 31, 2014	$ 1,212,550	$ -	$ 1,542,756	$ 6,842,38	$ -	$ 9,597,689
Balance as at March 31, 2015	$ 1,212,550	$ -	$ 1,542,756	$ 6,842,38	$ -	$ 9,597,689

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. In accordance with the Company’s accounting policy, the Company conducts annual assessments for impairment for events or changes in circumstance that indicate the carrying amount of mineral properties may not be recoverable. During fiscal 2014 the Company recorded an impairment charge of $974,656 against the Shaw Dome property.

5. 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, 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. In accordance with the Company's accounting policy, the Company conducts annual assessments for impairment for events or changes in circumstance that indicate the carrying amount of mineral properties may not be recoverable. During fiscal 2014 the Company recorded an impairment charge of $741,966 against the Croxall property.

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 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.

Expressed in Canadian dollars

6. PLANT AND EQUIPMENT

Plant and Equipment	Mill & Tailings Facility	Buildings & Infrastructure	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	529,311	-	175,444	65,151	4,110	-	774,016
Disposals	-	-	(1,294,840)	-	(59,829)	-	(1,354,669)
Transfer category	-	-	1,609,144	(1,609,144)	-	-	-
Change in reclamation estimate	263,303	-	-	-	-	-	263,303
Balance at December 31, 2014	$ 45,361,785	$ 10,506,446	$14,565,580	$ 276,546	$ 99,291	$ 447,114	$ 71,256,762
Additions	73,790	-	45,815	-	-	33,836	153,441
Disposals	-	-	-	(29,499)	-	-	(29,499)
Transfer category	-	-	-	-	-	-	-
Change in reclamation estimate	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 45,435,575	$ 10,506,446	$14,611,395	$ 247,047	$ 99,291	$ 480,950	$ 71,380,704
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	2,689,049	335,191	627,008	23,865	1,747	82,623	3,759,483
Disposals	-	-	(907,833)	-	(59,055)	-	(966,888)
Transfer category	-	-	753,789	(753,789)	-	-	-
Balance at December 31, 2014	$ 23,407,693	$ 5,729,362	$11,390,462	$ 115,297	$ 89,545	$ 416,215	$ 41,148,574
Depreciation for the period	1,103,947	73,294	90,456	3,660	463	6,507	1,278,327
Disposals	-	-	-	(23,432)	-	-	(23,432)
Transfer category	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 24,511,640	$ 5,802,656	$11,480,918	$ 95,525	$ 90,008	$ 422,722	$ 42,403,469
Carrying amounts							
At December 31, 2014	$ 21,954,092	$ 4,777,084	$ 3,175,118	$ 161,249	$ 9,746	$ 30,899	$ 30,108,188
At March 31, 2015	$ 20,923,935	$ 4,703,790	$ 3,130,477	$ 151,522	$ 9,283	$ 58,228	$ 28,977,235

The Company disposed of a vehicle with a net book value of $6,067 during the three months ended March 31, 2015 for gross proceeds of $18,458. The Company recognized a gain on the sale of equipment of $12,391 for the three months ended March 31, 2015.

7. DUE TO RELATED COMPANY

As of March 31, 2015, the Company had advances from JIIL in the amount of $336,000 (December 31, 2014: $nil). The advances are non-interest bearing and due on demand.

Expressed in Canadian dollars

8. SEGMENTED 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 three months ended March 31, 2015 and 2014.

All assets and liabilities on the consolidated statements of financial position relate to the Operating Segment with the exception of the Exploration and evaluation properties of $9,597,689 as at March 31, 2015 (December 31, 2014: $9,597,689) which relates to the exploration segment.

The Company had one customer during the three months ended March 31, 2015 accounting for its total revenue and trade receivables as at March 31, 2015.

9. 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 months ended March 31, 2015 was $1,846 (March 31, 2014: $1,981).

(i) Minimum lease payments

As at:		March 31, 2015		December 31, 2014
No later than 1 year	$	62,009	$	56,400
Later than 1 year, but no later than 5 years		50,262		68,898
		112,271		125,298
Less: future finance charges		(9,263)		(11,110)
Present value of minimum lease payments	$	103,008	$	114,188

(ii) Present value of minimum lease payments

As at:		March 31, 2015		December 31, 2014
No later than 1 year	$	56,989	$	50,408
Later than 1 year, but no later than 5 years		46,019		63,780
	$	103,008	$	114,188

Expressed in Canadian dollars

10. Preferred Shares and Accrued Dividends

As at:		March 31, 2015		December 31, 2014
Current				
Preferred shares	$	16,378,516	$	16,378,516
Dividends on preferred shares		7,665,454		7,342,371
Total	$	24,043,970	$	23,720,887

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 an 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.

Dividend payable

The Company accrues an 8% cumulative annual dividend to JIIL on the preferred shares. The dividend accrues on a quarterly basis. The Company had dividends payable of $7,665,454 as at March 31, 2015 (December 31, 2014: $7,342,371).

11. Interest Bearing Notes and Borrowings

As at:		March 31, 2015		December 31, 2014
Current				
US Dollar Term loan - JIIL	$	34,895,743	$	30,917,094
Term Loans - JIIL		107,127,835		103,763,175
Total	$	142,023,578	$	134,680,269

11. INTEREST BEARING NOTES AND BORROWINGS (CONTINUED)

i) US Dollar Term loan - JIIL

The Company carries a loan payable to JIIL of US$27,445,180 ($34,895,743) 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.

During the three months ended March 31, 2015, the Company accrued $1,071,680 (March 31, 2014: $739,451) in interest expense using a market interest rate of 13% (March 31, 2014: 11%) related to this loan. As at March 31, 2015, this loan is classified as a current liability.

ii) Term loans - JIIL

The Company carries Canadian denominated loans payable to JIIL of $103,763,175 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 effective January 1, 2014 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.

During the three months ended March 31, 2015, JIIL loaned the Company an additional $nil (March 31, 2014: $1,052,000). During the three months ended March 31, 2015, the Company incurred $3,364,661 in interest expense related to these loans (March 31, 2014: $2,484,745) using a market interest rate of 13% (March 31, 2014: 11%). As at March 31, 2015, these loans are classified as a current liability.

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.

Expressed in Canadian dollars

12. PROVISIONS

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 March 31, 2015, the Company has assessed its total provision for site restoration obligation and estimated it to be $2,528,042 (December 31, 2014: $2,528,042). Reclamation is expected to occur in one to fifteen years. Adjustments arising from remeasurement are applied against the respective asset. As the Redstone mine property was written off in prior years, the Company recognized an impairment charge of $31,815 to the consolidated statements of comprehensive loss for the year ended December 31, 2014.

At December 31, 2013	**$**	**2,121,220**
Adjustments arising from remeasurement		364,834
Accretion of discount		41,988
At December 31, 2014 and March 31, 2015	**$**	**2,528,042**

13. 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. A settlement of $125,000 was finalized during fiscal 2014 with one of the Company's employees.

14. SHARE CAPITAL

a) Common 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.

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 year:			
Shares issued for debt settlement (Note 12)	115,010		81,657
Shares issued for debt settlement (Note 16)	100,000		66,000
December 31, 2014 & March 31, 2015	7,510,435	$	80,684,320

Expressed in Canadian dollars

15. 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 March 31, 2015, 632,943 (December 31, 2014: 629,943) common shares were available 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 March 31, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price	Grant Date Fair Value of Options
December 31, 2014	121,100	$ 5.05	$ 501,025
Options expired	(3,000)	$ 12.50	$ (30,738)
March 31, 2015	118,100	$ 4.86	$ 470,287

The following table summarizes information about the options outstanding and exercisable at March 31, 2015:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Fair value at grant date (per share)
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
118,100	118,100			$4.86	$3.98

Fair value of options issued during the period

No options were granted for the three months ended March 31, 2015. Stock-based compensation expense for the three months ended March 31, 2015 was $nil (March 31, 2014: $4,999), relating to options granted in prior periods that vested during the period.

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.

Expressed in Canadian dollars

16. RELATED PARTY TRANSACTIONS

As at March 31, 2015, JJNICL, through its wholly-owned subsidiary JIIL, is the Company's majority shareholder. Transactions with these entities are detailed in Notes 7, 10 and 11.

The Company had engaged Forbes & Manhattan, Inc. ("Forbes") through the better part of 2014. Through Forbes, the Company received access to mining and business professionals, including various officers of the Company. In addition, the Company received strategic advice from Mr. Stan Bharti, the Executive Chairman of Forbes. Starting from June 2013, an administration fee of $100,000 per month was charged by Forbes which provided 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 during the fourth quarter of 2014.

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):

	For the three months ended	
	March 31, 2015	March 31, 2014
Salaries and benefits	$ 192,282	$ -
Short-term benefits	-	37,500
Total	$ 192,282	$ 37,500

17. LOSS PER SHARE

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

18. COST OF SALES

	For the three months ended	
	March 31, 2015	March 31, 2014
Direct labour	$ 1,182,436	$ -
Direct material	442,993	-
Utilities	651,209	-
Depreciation	1,278,327	-
Other	(25,900)	-
Total cost of sales	$ 3,529,065	$ -

Expressed in Canadian dollars

19. Operating Costs

	For the three months ended	
	March 31, 2015	March 31, 2014
Care and maintenance	$ -	$ 646,926
Insurance	-	57,974
Depreciation	-	442,708
Accretion	-	10,497
Stock-based compensation	-	1,265
Total operating costs	$ -	$ 1,159,370

20. Corporate General and Administration

Corporate general and administration overheads totals are detailed below.

	For the three months ended	
	March 31, 2015	March 31, 2014
Salaries and compensation	$ 103,782	$ 4,582
Consultants	164,046	(276,273)
Legal fees and settlements	12,790	168,482
Audit fees	2,730	-
General office expense	26,946	30,211
Shareholder communications and board fees	8,362	-
Stock-based compensation	-	3,734
Travel	249	160
Insurance	9,857	8,945
Penalties	4,612	(321,620)
Total corporate general and administration	$ 333,374	$ (381,779)

21. Capital Management

The Company considers its common shares, preferred shares, stock options, accumulated deficit 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.

22. 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.

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.

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 $2,747,000 (March 31, 2014: $2,505,000) as detailed below:

Expressed in Canadian dollars

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

US Dollar Balances		March 31, 2015		March 31, 2014
Cash	$	524	$	-
Trade Payables		(26,327)		(19,626)
Interest bearing note		(27,445,180)		(25,030,819)
Net	$	(27,470,983)	$	(25,050,445)
10% Change in Exchange Rate Impact	**$**	**(2,747,098)**	**$**	**(2,505,045)**

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. The Company carried approximately $1,275,000 in trade receivables as at March 31, 2015 (December 31, 2014: $1,151,000).

The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at March 31, 2015 and December 31, 2014 relating to cash and cash equivalents of $828,855 and $566,262, 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. There are no overdue trade receivables from Wallbridge, the Company's only customer, as at March 31, 2015. The Company is exposed to economic dependence risk due to having only one custom milling customer, Wallbridge, as of March 31, 2015.

Expressed in Canadian dollars

22. Financial instruments and risk management (continued)

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 to 2 years	3 to 5 years	Over 5 years
As at March 31, 2015	$ 168,862,914	$ 168,816,895	$ 29,298	$ 16,721	$ -
As at December 31, 2014	$ 160,996,683	$ 160,932,903	$ 43,447	$ 20,333	$ -

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 and term loans approximate fair value due to their short-term nature.

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, 2015, no financial assets or liabilities were measured at fair value.

23. Subsequent Event

a) The Company temporarily suspended custom milling operations at its Redstone Mill on April 2, 2015 due to low ore inventory as a result of cessation of ore deliveries to the site. The Company expects to resume treatment of ore when deliveries resume and inventories return to acceptable levels.

b) Subsequent to the end of the quarter and up to the date of this report, the Company received $12,000 in advances from JIIL to support operations.