NORTHERN SUN MINING CORP.

(formerly Liberty Mines Inc.)

Management's Discussion and Analysis
For the Twelve Months Ended December 31, 2013

Liberty Mines Inc. changed its name to Northern Sun Mining Corp. in October 2013 as approved by shareholders on October 15, 2013. This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Northern Sun Mining Corp. ("Northern Sun" or the "Company") was prepared to enable the reader to assess material changes in the financial condition and results of operations of the Company for the twelve months ended December 31, 2013, in comparison to the corresponding prior-year period. This MD&A is prepared as at March 25, 2014, and is intended to supplement and complement the audited annual consolidated financial statements of the Company for the twelve months ended December 31, 2013. The annual consolidated financial statements for the period ended December 31, 2013 have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and will be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. This MD&A should also be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2013. This MD&A contains certain forward-looking statements based on management's current expectations (please see "Forward-Looking Information" below). All references to dollars herein are in Canadian dollars unless otherwise specified.

References made to Q1, Q2, Q3 and Q4 2013 or Q1, Q2, Q3 and Q4 2012 refer to the three months ended March 31, June 30, September 30 and December 31, 2013 and 2012, respectively.

Technical programs and information included in this report have been supervised, compiled and reviewed and approved by David Rigg, P.Geo., the Company's President and CEO, and a Qualified Person as defined under NI 43-101.

Overview

Northern Sun (TSX: NSC) owns two former producing nickel mines, a large prospective land package and the only nickel mill and concentrator in the Shaw Dome area located near Timmins, Ontario. Northern Sun has a 100% interest in three major groups of contiguous mining claims and leases in northern Ontario, including over 12,000 ha in the Shaw Dome Nickel Belt, which is 25km southeast of Timmins; 6,400 ha in Groves Township in a Nickel-Copper-Platinum Group metals project area 20km southeast of Gogama; 1,200 ha in the McAra Lake area in a Cobalt-Nickel-Copper project about 120 km southeast of Timmins; and the Hart nickel project located approximately 7km east of the Redstone nickel mine in Eldorado Township.

In early 2013, Northern Sun announced that it had identified the presence of chrysotile in its ore body at the McWatters Mine. As chrysotile, a form of asbestos, is a designated substance under Ontario Health and Safety Regulation, the Company appointed JMX Environmental Inc. to lead the process of remedying the asbestos contamination at the Redstone and McWatters sites. The asbestos remediation program was completed in December 2013 and the order to suspend activities at site was revoked by the Ministry of Labour.

During the twelve months ended December 31, 2013, Northern Sun continued to protect its assets under care and maintenance. The Company saw changes to its board of directors and brought in new management in June 2013.

The new management team had initiated a restructuring plan which included the remediation of asbestos contamination at the Company's Redstone and McWatters projects, the restructuring and settlement of certain debt obligations, a name change, a share consolidation on the basis of 50:1, and initiated a plan to re-open the mill and offer toll milling services.

While these plans were being pursued, Northern Sun recognized that it had an immediate need for additional cash to fund its current payables as well as the costs of the remediation and maintaining its assets while on care and maintenance. Jien International Investment Ltd. ("JIIL"), Northern Sun's largest shareholder, and the holder of in excess of $140 million of indebtedness has provided financing support to allow Northern Sun to continue as a going concern by funding $12.1 million during the twelve months ended December 31, 2013.

2013 Highlights through the date of this report

During 2013, there was no commercial production at the Company and minimal revenue generated at the beginning of the year from residual lots from 2012.

Cash, and trade and other receivables totaled $0.88 million at December 31, 2013 ($0.56 million of cash).

Approximately $22.4 million in preferred shares and accrued dividends are considered a current liability in the financial statements, with $118.4 million in interest bearing notes and borrowings classified as long-term as at December 31, 2013.

The Company focussed its efforts on the remediation of the asbestos contamination at the Company's mill and mine sites during 2013. Remediation was completed in December 2013.

The Company entered into a binding custom milling term sheet with Wallbridge Mining Company Limited ("Wallbridge"). The agreement is for approximately a one year term based on a minimum of 800 tonnes per day. The Company will generate both a gravity concentrate and a floatation concentrate which will then be conveyed to other smelters or refinery for further treatment. Waste from the ore after processing will be disposed of in the current tailings compound. Closing of the transaction remains subject to, among other things, the entering into a definitive agreement and the receipt of all necessary regulatory approvals, as applicable.

The Company entered into a definitive agreement in October 2013 with QMX Gold Corporation ("QMX") to acquire a 100% interest in the Snow Lake Property for cash consideration of US$20,000,000. A deposit of US$1,000,000 was paid to QMX. The original agreement stipulated an extension fee to be paid to QMX should the transaction closing be extended. This fee was waived by QMX. Closing of the transaction remains subject to the Company receiving all regulatory approvals, including shareholder approval, and the Company securing the necessary financing to fund the acquisition. Mr. David Rigg, the CEO and President of Northern Sun, is a director and the former CEO and President of QMX. Mrs. Deborah Battiston, the CFO of Northern Sun, is the current CFO of QMX.

In October 2013, in connection with the acquisition of the Snow Lake property set out above, the Company announced the launch of a private placement financing for gross proceeds of $30,000,000. JIIL will participate in the offering to maintain its prorata 60% interest in the Company on a partially diluted basis upon completion of the offering. The Company intends to use the net proceeds to fund the consideration for the acquisition of the Snow Lake Property. Closing is subject to a number of conditions, including the receipt of all regulatory approvals.

In December 2013, the Company announced its intention to officially close the McWatters nickel mine in Timmins and noted that site rehabilitation measures would begin in 2014. Site rehabilitation will be fully funded by reclamation bonds on deposit with the Ministry of Northern Development and Mines.

Summary of Consolidated Financial Results

	Three months ended		Twelve months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Revenue	$ -	$ (270,267)	$ 56,920	$ 8,990,248
Operating costs				
Cost of sales	-	-	-	16,500,376
Care and maintenance	473,035	848,514	2,426,436	848,514
Insurance	29,961	-	187,858	-
Asbestos remediation	3,553,343	-	4,872,456	-
Operating Margins before Non Cash Costs	(4,056,339)	(1,118,781)	(7,429,830)	(8,358,642)
Stock-based compensation	1,282	17,808	12,357	78,525
Depreciation, depletion, & accretion of operating assets	734,877	2,784,399	5,107,066	9,990,011
Operating loss	$ (4,792,498)	$ (3,920,988)	$ (12,549,253)	$ (18,427,178)
Corporate administrative expenses	718,491	978,309	2,357,052	4,896,628
(Reversal of impairment)/Impairment of mineral properties	(840,330)	28,909,261	(840,330)	28,909,261
Impairment of inventory	-	248,965	-	248,965
Interest and bank charges	4,315	47,444	34,690	108,552
Interest on long-term debt	3,771,681	3,001,313	11,859,796	10,554,119
Dividends on preferred shares	329,360	329,360	1,306,701	1,311,478
Interest and other Income	(1,419)	(110,526)	(91,075)	(112,327)
Loss on sale of equipment	149,619	-	110,770	402,395
Foreign exchange (gain)/loss	795,637	286,757	1,561,855	(362,830)
Debt forgiveness and restructure costs	196,060	-	59,218	-
Mining tax expense	-	-	3,769	-
Loss for the period	$ (9,915,912)	$ (37,611,871)	$ (28,911,699)	$ (64,383,419)

For the quarter ended December 31, 2013

Net loss for the three months ending December 31, 2013 was $9,915,912 (three months ended December 31, 2012: $37,611,871). Operating margin before non-cash costs for the three ended December 31, 2013 was $(4,056,339) compared to $(1,118,781) for the three months ended December 31, 2012. As at December 31, 2013, the Company's nickel production is suspended and all operations and facilities are in care and maintenance mode. The Company was focused on asbestos remediation during the three months ended December 31, 2013.

Revenue

For the three months ended December 31, 2013, the Company was not in production and did not earn any revenues. For the comparative period in 2012, the Company had ceased production, and earned minimal revenues from residual balances previously shipped. This was offset by adjustments to the derivatives recorded during the prior quarter, resulting in a negative amount of revenue.

Operating Costs

The Company was not in production during the three months ended December 31, 2013 and 2012 and did not incur cost of sales during those periods. The Company incurred costs of $473,035 for care and maintenance during the three months ended December 31, 2013 (three months ended December 31, 2012: $848,514). This decreased as a result of a reduced headcount at site and reduced activities. Insurance costs related to the properties in Timmins were reclassified as operating costs from corporate general and administration costs during the three months ended December 31, 2013. The Company incurred $3,553,343 during the three months ended December 31, 2013 for asbestos remediation at the mine sites (three months ended December 31, 2012: $nil). The Company started the asbestos remediation program in 2013 and had capitalized approximately $3.1 million in asbestos remediation costs during the previous quarter and reclassified these costs to the statement of operations during Q4 2013.

Depletion, amortization and accretion of operating assets for the three months ended December 31, 2013 totaled $734,877 compared to $2,784,399 for the three months ended December 31, 2012. The Company recognizes depletion of development expenditures on a unit-of-production basis over the expected life of the operating mines. No depletion expense was incurred during 2013 as the Company had no production during that period. The Company continues to depreciate assets however as a result of the reduced activity and changes in estimate of the lives of various assets, depreciation expense decreased significantly this quarter.

Corporate Administration

Corporate administration expenditures for the three months ended December 31, 2013 totaled $718,491 compared to $978,309 for the three months ended December 31, 2012. The decrease in expenditures is a result of the reduction in management employees, lower office and travel costs due to reduced activity levels, and lower stock-based compensation expense. Royalty costs were reduced as a result of the lack of revenues during the three months ended December 31, 2013 compared to the three months ended December 31, 2012. The Company also reclassified insurance expense related to the properties as site costs during the three months ended December 31, 2013.

Stock-based Compensation Expense

During the three months ended December 31, 2013 and 2012, the Company did not grant stock options, however options did vest during these periods. Stock-based compensation expense is applied on a proportionate basis to site costs and corporate general and administration. During the three months ended December 31, 2013, the Company recognized an expense of $5,109 compared to $63,729 for the three months ended December 31, 2012, related to costs of gradual vesting. For the three months ended December 31, 2013, the Company applied $1,282 to site costs (three months ended December 31, 2012: $17,808) and $3,827 to corporate general and administration costs (three months ended December 31, 2012: $45,921).

Finance Costs

Total finance costs for the three months ended December 31, 2013 were $4,105,356 ($3,378,117 for the three months ended December 31, 2012). Included in total finance costs for the three ended December 31, 2013 was interest expense on the Jilin Jien Nickel Industry Company Ltd. ("JJNICL") and JIIL debt of $3,771,681 (three months ended December 31, 2012 - $3,001,313). Interest costs have increased as a result of continued borrowings during 2013. The Company also accrued dividends of $329,360 for the three months ended December 31, 2013 on preferred shares owned by JJNICL (three months ended December 31, 2012: $329,360). The preferred shares pay an 8% cumulative annual dividend to JJNICL. The dividends accrue on a quarterly basis. As well, the Company paid interest on finance leases.

Foreign Exchange Gains and Losses

The Company recognized a foreign exchange loss of $795,637 during the three months ended December 31, 2013 compared to $286,757 for the three months ended December 31, 2012. These losses were primarily the result of exchange rate fluctuations applied to debt obligations, that are denominated in US Dollars. The US dollar strengthened during the fourth quarter of 2013 resulting in the loss.

Debt forgiveness and restructure costs

The Company recognized a loss of $196,060 for the three months ended December 31, 2013 (three months ended December 31, 2012: $nil) related to debt forgiveness and restructure costs. The Company settled some additional accounts, and made adjustments during Q4-2013. As well, as a result of these settlements, the Company paid approximately $96,000 in HST recapture costs.

<u>For the twelve months ended December 31, 2013</u>

Net loss for the twelve months ending December 31, 2013 was $28,911,699 (twelve months ended December 31, 2012: $64,383,419). Operating margin before non-cash costs for the twelve ended December 31, 2013 was $(7,429,830) compared to $(8,358,642) for the twelve months ended December 31, 2012. As at December 31, 2013, the Company’s nickel production is suspended and all operations and facilities are in care and maintenance mode. The Company was focused on asbestos remediation during the twelve months ended December 31, 2013.

Revenue

For the twelve months ended December 31, 2013, the Company was not in production and did not earn any revenues. For the comparative period in 2012, the Company earned $8,990,248 in gross revenue from the shipment of 1,143,053 pounds of nickel to Xstrata during the 6 months of production in 2012.

Operating Costs

The Company was not in production during the twelve months ended December 31, 2013 and did not incur costs of sales (December 31, 2012: $16,500,376). The Company was in care and maintenance throughout all of 2013, incurring costs of $2,426,436 (twelve months ended December 31, 2012: $848,514). During 2012, the Company was in care and maintenance only during Q4-2012. Insurance costs related to the properties in Timmins were reclassified as operating costs from corporate general and administration costs during the twelve months ended December 31, 2013. The Company incurred $4,872,456 during the twelve months ended December 31, 2013 for asbestos remediation at the mine sites (twelve months ended December 31, 2012: $nil).

Depletion, depreciation and accretion of operating assets for the twelve months ended December 31, 2013 totaled $5,107,066 compared to $9,990,011 for the twelve months ended December 31, 2012. The Company recognizes depletion of development expenditures on a unit-of-production basis over the expected life of the operating mines. No depletion expense was incurred during 2013 as the Company had no production during that period. The Company continues to depreciate assets however as a result of the reduced activity and changes in estimate of the lives of various assets, depreciation expense decreased significantly this quarter. The effect of the changes in estimate resulted in a reduction of depreciation expense of $3,088,132.

Corporate Administration

Corporate administration expenditures for the twelve months ended December 31, 2013 totaled $2,357,052 compared to $4,896,628 for the twelve months ended December 31, 2012. The decrease in expenditures is a result of the reduction in management employees, lower office and travel costs due to reduced activity levels, and lower stock-based compensation expense. Royalty costs were reduced as a result of the lack of revenues during the twelve months ended December 31, 2013 compared to the twelve months ended December 31, 2012. The Company also reclassified insurance expense related to the properties as site costs during the twelve months ended December 31, 2013. As well, the Company reversed an accrual for penalties during 2013 contributing to the reduction in costs.

Stock-based Compensation Expense

During the twelve months ended December 31, 2013 and 2012, the Company did not grant stock options, however options did vest during these periods. Stock-based compensation expense is applied on a proportionate basis to site costs and corporate general and administration. During the twelve months ended December 31, 2013, the Company recognized an expense of $54,573 compared to $325,301 for the twelve months ended December 31, 2012, related to costs of gradual vesting. For the twelve months ended December 31, 2013, the Company applied $12,357 to site costs (twelve months ended December 31, 2012: $78,525) and $42,215 to corporate general and administration costs (twelve months ended December 31, 2012: $246,777).

Finance Costs

Total finance costs for the twelve months ended December 31, 2013 were $13,201,187 ($11,974,149 for the twelve months ended December 31, 2012). Included in total finance costs for the twelve ended December 31, 2013 was interest expense on the JJNICL and JIIL debt of $11,859,796 (twelve months ended December 31, 2012: $10,554,119). Interest costs have increased as a result of continued borrowings during 2013. The Company also accrued dividends of $1,306,701 for the twelve months ended December 31, 2013 on preferred shares owned by JJNICL (twelve months ended December 31, 2012: $1,311,478). The preferred shares pay an 8% cumulative annual dividend to JJNICL. The dividends accrue on a quarterly basis. As well, the Company paid interest on finance leases.

Foreign Exchange Gains and Losses

The Company recognized a foreign exchange loss of $1,561,855 during the twelve months ended December 31, 2013 compared to a gain of $362,830 for the twelve months ended December 31, 2012. The loss recognized during 2013 was primarily the result of exchange rate fluctuations applied to debt obligations, which are denominated in US Dollars. The US dollar strengthened during the 2013 resulting in the loss. The debt also increased as a result of interest accruals, thereby increasing the effect of exchange rate fluctuations.

Debt forgiveness and restructure costs

The Company recognized a loss of $59,218 for the twelve months ended December 31, 2013 (twelve months ended December 31, 2012: $nil) related to debt forgiveness and restructure costs. The Company settled $2,653,684 in payables through cash payments and fees of $1,652,192, and issued 1,265,881 shares during 2013. As a result of these settlements, the Company paid approximately $96,000 in HST recapture costs.

Consolidated Financial Position

Total Assets

Consolidated total assets decreased by $5,672,428 to $50,173,616 at December 31, 2013 from $55,846,044 at December 31, 2012. The decrease primarily related to depreciation charges on Plant & Equipment.

Total Liabilities

Consolidated total liabilities increased by $20,788,903 to $146,968,624 at December 31, 2013 from $126,179,721 at December 31, 2012. The increase in liabilities is due to the increase in the principal of approximately $12,000,000 to fund operations during 2013 as well accrued interest and accrued dividends. This was partially offset by the settlement of loans of $1,254,000.

Trade and other receivables

Receivables decreased by $918,171 to $323,315 at December 31, 2013 from $1,241,486 at December 31, 2012. The Company received approximately $900,000 in federal withholding tax during the year. The balance at December 31, 2013 is primarily HST receivable.

Inventories

Inventories on hand remained decreased marginally with a balance of $438,407 at December 31, 2013 compared to $477,593 as at December 31, 2012. Inventories are comprised of materials and supplies used in the mining and milling processes.

Other current assets

Other current assets increased by $890,320 to $1,363,436 at December 31, 2013 from $473,116 at December 31, 2012. The Company paid a US$1,000,000 ($1,032,800) and incurred legal expenses related to the pending acquisition of the Snow Lake properties. The acquisition is expected to close by March 31, 2014. Other deposits were expensed or refunded during the year.

Reclamation Deposits and Restricted Cash

Reclamation deposits and restricted cash remained consistent at $3,186,915 at December 31, 2013 and December 31, 2012. At December 31, 2013 the reclamation deposits are comprised of deposits with a government agency in the Province of Ontario for the Redstone mine, the Hart mine, the Redstone mill and the McWatters mine. Reclamation deposits are subject to reassessment based upon changes to the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

Exploration and Evaluation

Exploration and evaluation accumulated expenditures increased by $107,805 to $11,086,636 at December 31, 2013 compared with $10,978,831 at December 31, 2012. The increase is a result of line cutting and geophysical surveying exploration activity of the McAra and Groves projects during 2013.

Plant and Equipment

Plant and equipment decreased by $5,662,948 to $33,218,133 at December 31, 2013 from $38,881,081 at December 31, 2012. The Company recorded $5,002,726 in depreciation expense during the year ended December 31, 2013 accounting for the significant portion of this decrease. As well, the Company revised its estimates for reclamation liabilities for the mill resulting in a reduction in mill assets.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased by $2,805,088 to $3,860,845 at December 31, 2013 from $6,665,933 at December 31, 2012. During 2013, the Company entered into settlement agreements with various creditors settling $2,653,684 of payables through cash payments and the issuance of shares. The Company also reversed management bonus and tax accruals that were made in 2012.

Term Loans - JIIL

The term loans itemized in the table below increased $24,093,694 to $118,445,454 at December 31, 2013 from $94,351,760 at December 31, 2012. The increase is driven by the financing provided by JIIL in the format of promissory notes. The notes have an annual interest of 10% on the principal balances. During the twelve months ended December 31, 2013 the Company received $12,104,174 in additional financing, and accrued interest expense of $11,859,796. The Company entered into an agreement with JIIL on December 31, 2013 extending the term of these loans to December 31, 2015. As a result, they are classified as long-term as at December 31, 2013.

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

Capital Lease Obligations and Equipment Financing

Capital lease obligations and equipment financing (current and non-current portions) decreased by $452,622 to $130,500 at December 31, 2013 from $583,121 at December 31, 2012.

Preferred Shares Dividend

The preferred share dividend liability increased by $1,306,702 to $6,032,090 at December 31, 2013 from $4,725,388 at December 31, 2012. The preferred shares pay an 8% cumulative dividend to the holder of the preferred shares. The dividends are accrued on a quarterly basis. No dividends were paid during 2013.

Preferred Shares Liability

Preferred shares liability remained unchanged at $16,378,516 during the period ended December 31, 2013. The preferred shares are subject to redemption on demand by JJNICL and have therefore been classified as a current liability. While the preferred shares are treated for accounting purposes as a current liability, they may not be redeemed and no dividends may be paid until such time as the Company has positive working capital and positive shareholder equity

Provisions

Site restoration obligations decreased by $1,353,782 to $2,121,220 at December 31, 2013 from $3,475,002 at December 31, 2012 as a result of changes in estimate. These estimates are reviewed on an annual basis or more frequently if required by regulatory authorities. An inflation rate of 1.1% and a risk adjusted discount rate ranging from 1.1% to 3.24% was utilized to determine the present value of the mine closure and site restoration obligation recorded on the consolidated statements of financial position.

Share capital

Capital stock increased by $2,216,070 to $80,536,663 at December 31, 2013 from $78,320,593 at December 31, 2012. The Company issued shares as part of debt settlement arrangements with vendors during the year. As well, the Company issued shares to JIIL reducing their debt in order to maintain JIIL's 60% interest in the Company.

Share based payments reserve

Share based payments reserve decreased by $930,495 to $543,400 primarily as a result of expired and cancelled stock options, whose value was transferred to deficit.

Contributed surplus

Contributed surplus increased by $179,725 to $4,605,411 from $4,425,686 as a result of an agreement entered into with JIIL to extend the maturity of the loans payable to December 31, 2015, and the resulting accounting adjustment to reflect the carrying value of the loans. As the transactions are with a shareholder in its capacity as a shareholder, the adjustments are capital in nature and recorded to contributed surplus.

Annual Results

($ thousands, except per share data)

	2013	2012	2011
Revenue	$ 57	$ 8,990	$ 2,164
Net Loss	$ 28,912	$ 64,383	$ 26,763
Loss per Share	$6.32	$15.59	$ 7.00

Summary of Consolidated Quarterly Results

($ thousands, except per share data)

	2013				2012			
Quarter	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$ -	$ -	$ 28	$ 29	$ (270)	$ 3,869	$ 5,372	$ 19
Net Loss	$ 9,916	$ 5,222	$ 7,618	$ 6,156	$ 37,612	$ 8,461	$ 10,320	$ 7,990
Loss per Share	$1.69	$1.26	$ 1.84	$ 1.50	$ 9.00	$ 2.00	$ 2.50	$ 2.00

The Company commenced commercial production in Q2-2012 and ceased production in Q3-2012, consequently revenues increased significantly during Q2-2012 and Q3-3012. Net loss increased significantly in Q4-2012 as a result of write-downs of the Company's mineral properties. During 2013, the Company continued to depreciate its assets contributing to net loss. As well, financing costs on the Company's debt with JIIL averaged over $3 million per quarter. The increase in Q4-2013 results from the reclassification of asbestos remediation costs from capital to expense. The Company has continued to experience variability in its earnings as a result of the fluctuation in nickel prices which affects production decisions, and the discovery of asbestos at the mine site.

Cash Flow and Liquidity

Funds used by operations before changes in non-cash working capital for the twelve months ended December 31, 2013 was $10,355,767 compared to $12,962,548 for the twelve months ended December 31, 2012. Use of cash was reduced at the McWatters and Redstone site driven by care and maintenance activities and offset by the costs incurred for asbestos remediation. Cash used by the change in working capital for the twelve months ended December 31, 2013 was $201,308 compared to a source of $2,687,280 for the twelve months ended December 31, 2012 respectively. Increases in working capital are a result of decreases in receivables and increases in payables and conversely, decreases in working capital are a result of increases in receivables and decreases in payables.

Investing activities used $1,110,037 during the twelve months ended December 31, 2013 (December 31, 2012: $10,146,098. The Company did not invest significantly in capital assets or in their exploration properties during 2013 as a result of decreased cash levels, the lack of production revenue and the Company's corporate reorganization. The Company did make a payment of $1,032,800 as a deposit against the acquisition of the Snow Lake property.

During the twelve months ended December 31, 2013, JIIL, as described in the executive section of the MD&A, provided Northern Sun with $12,104,174 under the existing facility, in further advances. The principal bears interest at 10%. The interest is capitalized monthly on the unpaid balance. Certain interest accruals are subject to shareholder ratification at the next annual meeting.

The Company has continued to rely on advances from JIIL during fiscal 2013 and will continue to do so in 2014 until operations resume and sufficient cash flow from operations can be realized.

Mine Operations

Redstone Mine

Mining operations continued in care and maintenance mode during the 2013.

McWatters Mine

Production was restarted at the McWatters Mine in the second quarter of 2012 and continued until August 14, 2012 when the mine was placed into care and maintenance. The McWatters Mine continues in a care and maintenance status at the end of Q4 2013. In January 2013, Northern Sun announced that it had identified the presence of asbestos, more specifically chrysotile, in its ore body at its McWatters Mine. An asbestos abatement contractor was retained in 2013 to remediate all Northern Sun operations including the Redstone Mill. The abatement project was completed in December 2013. Due to the discovery of chrysotile in the mine, mine dewatering was halted and the entrance to the mine was secured to avoid inadvertent access. In December 2013, the Company announced that the McWatters Mine would be permanently shut down and will begin closure plan activities in 2014.

Mill Operations
The Redstone nickel concentrator went through extensive refurbishment in Q1 2012 prior to being restarted. Refurbishment of the mill included: upgrades and repairs, including adding a new regrind line from #1 and #2 ball mills to #3 ball mill, which increased the throughput of the grinding circuit; upgrading conveyor motors in the crusher house; a full refurbishment of the Larox press; the installation of a new tailings line, safety guards and barriers installed on all conveyors; and the addition of a trial talc circuit to remove talc prior to floating the nickel. Mill operations were halted on August 14, 2012 due to the mine and mill being placed on care and maintenance as a result of low nickel prices.

There has been no mill production during the twelve months ending December 31, 2013.

Exploration
Hart Project
A Preliminary Economic Assessment (scoping study) concerning the Hart Project was filed by the Company entitled "Preliminary Economic Assessment for the Hart Project, Ontario, Canada" on October 2, 2012. This study principally updated the mine plan for the Hart Deposit based on resource estimates completed as at Dec. 31, 2009 and contained in the technical report "Preliminary Economic Assessment for the Hart Project, Ontario, Canada" dated Feb. 26, 2010. Please refer to filed technical reports at www.Sedar.com.

The Company continued drilling at the Hart project during early 2012. As announced in the Company's press release of October 18, 2012, highlights of 2012 Hart Deposit drilling included 3.41% Ni over 1.96m in hole H-12-35 located in the central portion of the Hart Deposit, and the interception of 1.19% Ni over 3.97m including 1.57% Ni over 1.55m and 1.62% Ni over 1.02m in hole H-12-36 which is located at depth within the Hart Deposit. From January 1 to September 30, 2012, a total of 6,047m in fifteen NQ-sized drill holes were completed on the Hart property (including the A6 Area).

The Company announced in August 2012 that diamond drilling would be suspended until further notice due to a downturn in market conditions. Exploration drilling remains in suspension at the end of this reporting period. Since the time that drilling activities were suspended, the Company has updated computer systems and digital databases, reviewed and reassessed geophysical data for the property, generated exploration targets, and prepared exploration plans pending restart of field activities.

Other Properties
In a press release in November, 2012, the Company announced it had exercised its options to acquire a 100% ownership interest in three contiguous properties encompassing 110 unpatented mining claim units located to the northwest of the Company's Redstone Mine, known as the Croxall 1, 2, and 3 options. The Croxall property hosts a previously discovered nickel showing, the "Mustang Showing", where 1.20% Ni over 2.4 metres was intercepted in drill hole CL-11-02. Numerous untested geophysical targets are present on the Croxall property and along with similar work on the Company's other properties exploration plans, have been formulated to assess these targets once financing is available.

During 2013, the Company incurred costs for line-cutting and EM surveys on its Groves and McAra properties. Due to limitations in the Company's resources, exploration activities were reduced in 2013.

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

Revised Corporate Strategy in 2014 - Exploration

Restructuring of Liberty Mines into Northern Sun Mining Corporation in 2013 included a revision to the strategic approach of the Company. During 2014 our principal effort will focus on bringing the Redstone Mill back into operation as a Toll Mill and sourcing mill feed from various advanced exploration or early stage mine programs in the Timmins District. Income from Toll Milling will be used to support our operations in Timmins and to provide long term support to exploration in the region.

Exploration in 2014 will maintain all of our properties in good standing and we will conduct field work to ensure their renewal in 2015. Our efforts will be directed at developing a 3-D structural model of the Shaw Dome to provide added insight towards continued Nickel exploration.

2014 will see the acquisition of the Snow Lake Gold Mine in Manitoba and a major step towards a new long term strategy focused on Gold. We expect additional Gold project acquisitions in the Timmins District as we follow our strategy and as we wait for sustained higher Nickel prices which would make our Nickel Deposits profitable.

Key Economic Trends

Foreign exchange

The Company reports its financial results in Canadian dollars, which is also its functional currency. While most of the Company's operating costs are in Canadian dollars, a portion of its term loan is denominated in US dollars and revenues from sales of nickel concentrate are in US dollars. At December 31, 2013, the conversion rate was $1 USD to $1.0636 CDN.

Health and Safety

During the fourth quarter period, the Company incurred 0 – First Aid, 0 – Medical Aids, 0 – Lost Time incidents. For the year ending December 31st 2013, Northern Sun year end Medical Aid Frequency remains at 0.0 which has been consistent throughout the calendar year. The Company has successfully operated 1,082 Medical Aid Free Days and 1,166 Lost Time Days for the period ending on December 31st, 2013.

All operations at the McWatters and Redstone sites are currently in care and maintenance mode following the Company's decision to suspend operations due to low spot prices for nickel. On January 23rd 2013, Northern Sun announced that it had identified the presence of asbestos, more specifically chrysotile, in its ore body at its McWatters Mine.

Upon confirmation of the asbestos, all site buildings were deemed "restricted access" and an asbestos abatement company was contracted to clean the work areas that required immediate occupancy. During this period, employees remained off-site to limit any potential worker exposure.

On January 30th 2013, the Ministry of Labour issued orders to the Company for the submission of a control plan to clean the Redstone Mill. Northern Sun, with the support of a qualified consulting firm, drafted a control plan for the remediation of the Redstone Mill along with its relevant processing equipment that was approved by the Ministry of Labour during Q2 2013. A tender process was conducted during the second quarter to properly select an asbestos abatement contractor to remediate the site. JMX Environmental Inc. was contracted to lead this during the Q3 2013.

The abatement project was completed in late Q4 2013. With all notifications completed, each Ministry of Labour Order was deemed closed.

Northern Sun believes that "Zero Harm" to our people is achieved by creating a culture wherein the Health and Safety of our workers is a core value that inspires a strong personal commitment from each of our employees.

Environment

Redstone

During Q4 2013, the Redstone effluent discharge to East Creek continued to be shut down. With no effluent discharging to the receiving environment, both water quality and acute lethality samples were not collected during this period.

The Company amendment to the Redstone Mill Closure Plan was filed with the Ministry of Northern Development, Mines (MNDM) in early Q3 2013. Additionally, the Company submitted an amendment to the financial assurance required for the Redstone Mine Closure Plan. The amendment was initiated to address commitments covered in previous submissions that are no longer relevant to the current operations. The Company continues to wait for the Ministry to complete their review and anticipate a favorable outcome.

Hydrological and ecological field work of the Redstone River was completed in Q4 2012 to support an increase in the permitted water taking volume listed in the site Permit to Take Water. The increase is to ensure an adequate water supply is provided for current and future production requirements. The Company continues to delay the completion of the project until future site operations are known.

The Company continues to operate its Redstone tailings storage facility without an approved emergency spillway and manages water levels via a Ministry approved water management strategy. The company remains committed to have the tailings storage facility's emergency spillway design approved under the Lakes and Rivers Improvement Act.

There were no spills or effluent exceedances which required Regulatory notification during the 2013 calendar year.

McWatters

During Q4 2013, the McWatters Mine effluent discharge to the Forks River was shut down due to the care and maintenance status of the site which saw all dewatering activities halted.

The Company had submitted an amendment to the site industrial sewage Certificate of Approval from the Ministry of the Environment in December 2011. The amendment is to increase the permitted effluent discharge volume and to install equipment to improve effluent quality. As the review period was pro-longed into 2013 and into the identification of asbestos in the McWatters Mine during Q1 2013, the Company reviewed the need to complete the amendment or to rescind the application altogether. In late 3Q 2013, the Company informed the Ministry that the application was to be withdrawn.

There were no spills or effluent exceedances that required Regulatory notification during the 2013 calendar year.

First Nations

On April 15, 2008, the Company signed an Impact Benefit Agreement ("IBA") with the Mattagami, Matachewan and Wahgoshig First Nations ("MMW"). The IBA encompasses all of the Company's extensive mining claims and leases in the Shaw Dome Nickel Belt including the Redstone and McWatters Mines and the Hart nickel project. The IBA is in effect for the life of any mining project developed on the properties. It includes provisions for job training, employment, scholarships, business relationships and financial participation in community development projects. It also streamlines the exploration of the properties and the permitting of economic deposits through direct consultation and input from the MMW.

During 2013, applications for exploration activities that were previously submitted to the Ministry of Northern Development and Mines and circulated to relevant First Nations to ensure compliance with the recent amendment to Ontario's Mining Act were completed. Northern Sun and relevant First Nations entered into exploration agreements with regards to specific Company properties. These agreements combined with the noted IBA ensure good communications and strengthens the relationship between Northern Sun and all appropriate First Nations.

Capital Requirements and Capitalization

At December 31, 2013, the Company had obligations within one year to make payments of $6,032,089 (December 31, 2012: $4,725,388) of accrued dividends, $54,425 (December 31, 2012: $424,282) of minimum capital lease payments, $21,374 (December 31, 2012: $28,393) of equipment financing, and fulfill $87,521 (December 31, 2012 - $101,808) of payments under operating leases.

Contractual Obligations

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

	Payments Due				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	In excess of 5 Years
Capital Lease Obligations	$ 93,358	$ 54,425	$ 38,933	$ -	$ -
Equipment Financing	$ 37,142	$ 21,374	$ 15,768	$ -	$ -
Notes Payable & Term Loan	$ 118,445,454	$ -	$ 118,445,454	$ -	$ -
Preferred Share Liability	$ 16,378,516	$ 16,378,516	$ -	$ -	$ -
Dividends - Preferred Shares	$ 6,032,089	$ 6,032,089	$ -	$ -	$ -
Total	$ 140,986,559	$ 22,486,404	$ 118,500,155	$ -	$ -

Operating Leases

	Less than 1 Year	One to Five Years	Over Five years	Total
December 31, 2013	$87,521	$0	$0	$87,521

The Company is committed to minimum lease payments under vehicle, equipment and property leases that expire at various dates through 2014 and 2015. Minimum rental commitments due under these capital leases over the next five years are disclosed in Note 15 of the Annual Consolidated Financial Statements for the twelve months ended December 31, 2013.

Outstanding Share Data

In August 2013, the Company consolidated its common shares on a basis of one new common share for every 50 old common shares. The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As of December 31, 2013, 7,295,425 common shares of the Company were outstanding (December 31, 2012: 4,129,544). Subsequent to the end of the year, the Company issued 115,010 shares as debt settlement and 100,000 shares to JIIL converting a portion of the loan outstanding to them to share capital. As of the date of this report, 7,510,435 common shares are outstanding.

As of December 31, 2013, 148,895,601 preferred shares of the Company were outstanding compared to 148,895,601 as of December 31, 2012. If these preferred shares were exercised, 2,977,912 common shares would be issued.

Certain employees, officers, directors and consultants of the Company have been granted options to purchase common shares under the Company's incentive stock option plan. At December 31, 2013, 128,100 (December 31, 2012 –312,800) exercisable options were outstanding.

Litigation

The Company is currently involved in a number of legal disputes. Uncertainties relate to whether claims will be settled out of court or if not whether Northern Sun is successful in defending any action. Because of the nature of the disputes, management has not disclosed further information on the basis that they believe that this would be prejudicial to the Company's position in defending the cases brought against it.

Legal proceedings have been filed against the Company in relation to the construction of the original tailings storage facility during 2007 and 2008. Given the Company has been proactive and moved ahead with identifying and repairing the existing tailings storage facility, it is management's position that the Company will vigorously defend against these charges.

Lien proceedings have been filed against the Company in relation to the delay of accounts payable and the transition to care & maintenance.

Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at the fair value amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, 2013, JJNICL, through its wholly-owned subsidiary JIIL, is the Company's majority shareholder. Transactions with these entities are detailed in Notes 16 and 17 of the Company's Annual Consolidated Financial Statements for the twelve months ended December 31, 2013.

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

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

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

	2013	2012
Employee benefits and directors fees	$ 1,331,161	$ 1,567,507
Share-based payments	$ -	$ 265,347

Severances were paid or accrued to the former management team during the twelve months ended December 31, 2013 totalling approximately $685,000.

Mr. David Rigg, the CEO and President of Northern Sun, is a director of, and the former CEO and President of, QMX. Mrs. Deborah Battiston, the CFO of Northern Sun, is the current CFO of QMX.

Off-Balance Sheet Arrangements

The Company had the following off-balance sheet arrangements in place at December 31, 2013.

The Company has entered into an office lease agreement and is committed to the minimum operating lease payments detailed in the table below.

	Less than 1 Year	One to Five Years	Over Five years	Total
December 31, 2013	$87,521	$0	$0	$87,521

Critical Accounting Estimates

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. These estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's financial condition and results. The following represents the estimates that management considers most critical to the application of the Company's significant accounting policies. Actual results may differ by material amounts from these estimates.

Mineral Properties

Mineral reserves and resources are estimated to determine future recoverable mine production based on assessment of geological, engineering, and metallurgical analyses; estimates of future production costs; capital costs; mine closure and site restoration costs as well as metal prices and foreign exchange rates. The costs of mineral properties are capitalized and depleted on a unit-of-production basis based on the related proven and probable mineral reserves.

Exploration Evaluations

Exploration and evaluation expenditures associated with non-producing properties reflect actual costs incurred less accumulated write-downs. The realization of the Company's investments in these exploration and evaluation projects is dependent upon various factors, including the discovery of economically recoverable reserves of minerals, the ability to obtain necessary financing to complete development plans and upon future profitable operations, or alternatively upon the disposal of interests on an advantageous basis. The Company's management reviews the carrying values of its exploration and evaluation expenditures on a quarterly basis, which periodically results in an adjustment to reflect the realizable value of the projects.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The recoverable amount is determined based on value in use and/or fair value less cost to sell calculations. The calculation of the fair value less cost to sell requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

Deferred Income Taxes

The Company uses the asset and liability method of tax allocation for accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled.

Site Restoration Obligations

The Company records the fair value of any future site restoration costs as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs. The obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and the discount rate to be used.

Risks and Uncertainties

The 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 following outlines the principal risks facing the Company.

Going concern

The 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. The Company incurred a net loss of $28,911,699 during the twelve months ended December 31, 2013 and, as of that date, had negative working capital of $23,665,317 (December 31, 2012 – $25,423,295, and a cumulative deficit of $182,480,482 (December 31, 2012 - $154,553,851). As such, the Company's ability to continue as a going concern is in significant doubt. The Company's mine was placed on care and maintenance on August 14, 2012.

The Company has no revenues and, at this time, it is substantially reliant on the support of JIIL, as it has been unable to acquire funding in the markets to date although it continues to pursue various alternatives. There is no assurance that JIIL will continue to financially support the Company. JIIL has agreed to provide additional financing support to allow Northern Sun to continue as a going concern.

The procurement of additional financing through debt or equity markets is dependent on a robust commodity market and investor confidence in commodity 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.

Government Regulation

The Company's activities require permits and approvals from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. There can be no guarantee that the Company will be able to maintain or obtain all necessary licenses, permits and approvals that may be required to explore and develop its properties, commence construction or operation of mining facilities.

Risks Inherent to Mining Projects at the Development and Production Stages

Mining projects in the development or early production stages have no significant operating history upon which to base estimates of future cash flows. It is possible that actual costs and economic returns may differ materially from the Company's estimates. Therefore, there can be no assurance that estimates of future production and cash costs will be achieved. Further, it is not unusual in the mining industry for new mining operations to experience unexpected problems during start-up, resulting in delays and requiring more capital than anticipated.

Nature of Exploration, Development and Mining

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few of the properties explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, such as particular attributes of the deposit, including size, grade and proximity to infrastructure. In addition, metal prices are highly cyclical and government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection are subject to change and uncertainty. The combination of these factors may result in the Company not receiving an adequate return on invested capital. Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in the exploration, development and production of ore. These include unusual and unexpected geology formations, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions will be taken to minimize risk, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

The Company's activities are directed toward the search, evaluation and development of mineral deposits. Some of the mineral properties in which the Company has an interest contain no known body of commercial ore and any exploration programs thereon are exploratory searches for ore. Other properties in which the Company has an interest are subject to preliminary stages of exploration and development programs only. There is no certainty that the expenditures to be made by the Company as described herein will result in discoveries of commercial quantities of ore. Within the mining industry there is aggressive competition for the discovery and acquisition of properties considered to have commercial potential. The Company will compete with other interests, many of which have greater financial resources than it will have for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts.

Uncertainty of Reserve and Resource Estimates

The figures for reserves and resources presented herein are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the expected level of recovery will be realized. The ore grade actually recovered may differ from the estimated grades of the reserves and resources. Such figures have been determined based upon assumed metal prices and operating costs. Future production could differ dramatically from reserve estimates for, among other reasons:

- Mineralization or formations could be different from those predicted by drilling, sampling and similar examinations.

- Increases in operating mining costs and processing costs could adversely affect reserves.
- The recoverability of the grade of the reserves may vary significantly from time to time and there is no assurance that any particular level of metals or may be recovered from the ore.
- Declines in the market price of the metals and the Canadian US Dollar exchange rate may render the mining of some or all of the reserve uneconomic.

Any of these factors may require the Company to reduce its reserve estimates or increase its costs. Short-term factors such as the need for the additional development of a deposit or the processing of new different grades may impair the Company's profitability. Should the market price of the metals fall, the Company could be required to materially write down its investment in mining properties or delay or discontinue production or development of new projects.

Government Regulation

The exploration activities of the Company are subject to various federal, provincial and local laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substance and other matters. Exploration activities are also subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws mandate, among other things, the maintenance of air and water quality standards, and land reclamation. These laws also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Although the Company's exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration, mining and milling or more stringent implementation thereof could have a substantial adverse impact on the Company. Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reductions in levels of production at producing properties or could require abandonment or delays in development of new mining properties.

Permits and Licenses

The exploitation and development of mineral properties may require the Company to obtain regulatory or other permits and licenses from various governmental licensing bodies. There can be no assurance that the Company will be able to obtain all necessary permits and licenses that may be required to carry out exploration, development and mining operations on its properties.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Production of mineral properties may involve the use of dangerous and hazardous substances. While all steps will be taken to prevent discharges of pollutants into the ground water or otherwise into the environment, the Company may become subject to liability for hazards that cannot be insured against. The Company is still investigating the implications of the discovery of asbestos in the ore at the McWatters Mine.

Commodity Prices and Foreign Exchange

The profitability of the Company will be significantly affected by changes in market price for metals and by changes in the US Canadian dollar exchange rate. The Company has not entered into any hedge agreements in respect of metal or currency at this time. Such contracts would mitigate gains and losses in situations when the price changed. The level of interest rates, the rate of inflation, world supply and demand of base metals and precious metals and stability of exchange rates can all cause significant fluctuations in base metal and precious metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of base metals and precious metals has fluctuated widely in recent years, and future serious price declines could cause continued commercial production to be impracticable. Depending upon the price of base metals and precious metals, cash flow from mining operations may not be sufficient to cover operating costs. Any figures for reserves presented by the Company will be estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the price of base metals and precious metals may render reserves uneconomical. Moreover, short term operating factors relating to the reserves, such as the need for orderly development of the ore bodies or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

Land Title

Although title to the Company's mineral properties has been reviewed by or on behalf of Northern Sun and title opinions were delivered to the Company, no assurances can be given that there are no title defects affecting the properties. Title insurance generally is not available for mining claims in Canada, and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company has not conducted surveys of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. Accordingly, the properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate the properties as permitted or to enforce its rights with respect to its properties.

Uninsured Risks

There can be no assurance that insurance will be available at economically feasible premiums. The Company's insurance may not provide sufficient coverage for losses related to property, business interruption, or liability. In addition, the Company does not have insurance for certain environmental losses and other risks; as such coverage cannot be purchased at a commercially reasonable cost. The lack of, or insufficiency of insurance coverage could adversely affect the Company's cash flow and overall profitability.

Competition

The Company competes with other mining companies and individuals for mining claims and leases on exploration properties and the acquisition of exploration and mining assets. The Company also competes with other mining companies to attract and retain skilled and experienced executives. The Company cannot ensure that it will be able to continue to compete successfully with its competitors in acquiring such properties and assets or in attracting and retaining skilled and experienced executives.

Reliance on Skilled Employees

The success of the mining and milling operations is dependent upon the efforts of certain skilled employees and management of the Company. The loss of these employees or the inability of the Company to attract and retain additional skilled employees, or an inability of the Company to maintain good relations with its employees may adversely affect the level of nickel production from the operations.

History of Losses

The Company has historically experienced only losses. The Company's ability to generate profits in the future will depend mostly on the success of the Company's mine and mill operations, metal prices, the Canadian and United States dollar exchange rate, and the ability of the Company to control costs. There can be no assurance that the Company will reach profitability or will even generate sufficient cash flow to sustain its operations in the future. The Company may need additional financing from time to time. There is no assurance sources of financing will be available at any such time.

Shortage of Supplies

The Company is dependent on various supplies and equipment to carry out mining operations. The shortage of such supplies, equipment and parts could have a material adverse effect on the Company's ability to carry out its operations.

Controls and Procedures
Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under Canadian securities laws is recorded, processed, summarized and reported as and when required and that it is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

The Company's management, with the participation of its CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal controls over financial reporting is a process designed by, or under the supervision of, the Company's CEO and CFO and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS the Company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
3. provide reasonable assurance regarding prevention or timely detections of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management had assessed the design and operating effectiveness of internal control over financial reporting as at December 31, 2013 and the following material weaknesses were noted:

1. Due to the size of the Company, there are insufficient accounting personnel to enable effective segregation of duties over financial reporting. This includes a lack of segregation of duties related to journal entry processing and financial statement preparation and review.
2. Due to the size and activities of the Company, the Company's finance staff does not have sufficient technical accounting knowledge to address all complex and non-routine accounting transactions.

Changes in Internal Control over Financial Reporting

There were no material changes in the Company's policies and procedures and other processes that comprise its Internal Control over Financial Reporting that may have materially affected, or could be reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.

Limitations on Effectiveness of Disclosure Controls and Internal Control over Financial Reporting

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Subsequent Events after Reporting Date

On March 20, 2014 the Company entered into a definitive agreement with Wallbridge Mining Company Limited ("Wallbridge") to provide for the custom milling of ore from Wallbridge's Broken Hammer mine. Pursuant to the terms of the agreement, the Company will be responsible for the handing and milling of ore.The agreement is for approximately a one year term based on a minimum of 800 tonnes per day and milling is expected to begin on or about June 30, 2014. The Company will generate both a gravity concentrate and a floatation concentrate which will then be conveyed to other smelters or refineries for further treatment. Waste from the ore after processing will be disposed of in the current tailings compound.

In January 2014, the Company negotiated a settlement of accounts payable through the payment of $115,010 in cash and issued 115,010 common shares of the Company. As well, 100,000 shares at a value of $0.66 per share were issued to JIIL and whose consideration will be used to settle a portion of the debt owing to JIIL. Also in

January, the Company announced its intent to settle a further $600,000 in accounts payable through the issuance of common shares. In conjunction with this settlement, the Company plans to settle a portion of its existing debt with JIIL through the issuance of shares in order to maintain JIIL's 60% interest in the Company.

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

Forward-Looking Information

Certain statements within this document constitute "forward-looking statements". Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "intend", "could", "might", "should", "believe" and similar expressions. These statements are based on the opinions and estimates of management at the date of this report, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to, the inherent risks involved in the interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production and milling of ore, metallurgical recovery rates, metal prices, currency exchange rates, cash operating margins, cash operating cost per pound of metal sold, costs per ton of ore produced, expenditures on property, buildings and equipment, increases and decreases in reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions, political and economic conditions, the Company's ability to attract and retain key personnel and other risks and uncertainties described under the heading "Risks and Uncertainties" and elsewhere in this report, in the Company's Annual information Form for the year ended December 31, 2012 and in other documents filed with Canadian provincial securities authorities and available to the public at www.sedar.com. The Company believes that the expectations reflected in these forward looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, except as required under applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this statement.

Additional Information

Additional information related to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com, including a copy of the latest Annual Information Form of the Company.