

NORTHERN SUN MINING CORP.

(formerly Liberty Mines Inc.)

Management's Discussion and Analysis For the Three months ended March 31, 2014

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 three months ended March 31, 2014, in comparison to the corresponding prior-year period. This MD&A is prepared as at May 13, 2014, and is intended to supplement and complement the condensed interim consolidated financial statements for the three months ended March 31, 2014. The condensed interim consolidated financial statements for the period ended March 31, 2014 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 annual audited consolidated financial statements and MD&A for the twelve months 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 Q1-2014 or Q1-2013 refer to the three months ended March 31, 2014 and 2013, 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 three months ended March 31, 2014, Northern Sun continued to protect its assets under care and maintenance, while initiating efforts to prepare for custom milling.

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 care and maintenance. Jien International Investment Ltd. ("JIIL"), Northern Sun's largest shareholder, and the holder of in excess of \$144 million of indebtedness has provided financing support to allow Northern Sun to continue as a going concern by funding \$1.05 million during the three months ended March 31, 2014.

2014 Highlights through the date of this report

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. Pursuant to the agreement, the Company received \$500,000 from Wallbridge as a start-up fee to cover specific mill restart costs.

During Q1-2014, there was no commercial production at the Company and no revenue generated. As a result of the definitive agreement with Wallbridge, the Company anticipates generating revenues from custom milling starting in Q3-2014.

Cash, and trade and other receivables totaled \$0.57 million at March 31, 2014 (\$0.42 million of cash).

Approximately \$22.7 million in preferred shares and accrued dividends are considered a current liability in the financial statements, with \$121.3 million in interest bearing notes and borrowings classified as long-term as at March 31, 2014.

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, of which a deposit of US\$1,000,000 was paid to 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. The Company plans to raise gross proceeds of \$30,000,000 through a private placement financing to fund the acquisition of the Snow Lake Property. 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. On March 28, 2014, the Company and QMX entered into an extension agreement thereby extending the closing date of the transaction to May 31, 2014.

Summary of Consolidated Financial Results

	Three months ended	
	March 31, 2014	March 31, 2013
Revenue	\$ -	\$ 29,372
Operating costs		
Care and maintenance	646,926	783,089
Insurance	57,974	-
Asbestos remediation	-	-
Operating Margins before Non Cash Costs	(704,900)	(753,717)
Depreciation & accretion	453,205	2,089,858
Stock-based compensation	1,265	14,315
Operating (loss)	\$ (1,159,370)	\$ (2,857,890)
Corporate administrative expenses	(381,779)	82,275
Interest on long-term debt	3,224,196	2,528,069
Dividends on preferred shares	323,083	322,200
Interest and other Income	(17,395)	(89,460)
Foreign exchange loss	1,018,822	454,989
Debt forgiveness	(93,987)	-
Loss for the period	\$ (5,232,310)	\$ (6,155,963)

For the quarter ended March 31, 2014

Net loss for the three months ending March 31, 2014 was \$5,232,310 (three months ended March 31, 2013: \$6,155,963). Operating margin before non-cash costs for the three ended March 31, 2014 was \$(704,900) compared to \$(753,717) for the three months ended March 31, 2013. As at March 31, 2014 and 2013, the Company's nickel production is suspended and all operations and facilities are in care and maintenance mode.

Revenue

For the three months ended March 31, 2014, the Company was not in production and did not earn any revenues. For the comparative period in 2013, the Company had ceased production, and earned \$29,372 in revenues from residual balances previously shipped.

Operating Costs

The Company was in care and maintenance during the three months ended March 31, 2014 and 2013. The Company incurred costs of \$648,191 for care and maintenance during the three months ended March 31, 2014 (three months ended March 31, 2013: \$797,404). This decreased as a result of a reduced headcount at site. Insurance costs related to the properties in Timmins were classified as operating costs during the three months ended March 31, 2014, whereas for the three months ended March 31, 2013, they were classified as corporate general and administration costs. Insurance costs incurred in Q1-2014 were in line with Q1-2013.

Depreciation and accretion of operating assets for the three months ended March 31, 2014 totaled \$453,205 compared to \$2,089,858 for the three months ended March 31, 2013. 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 compared to Q1-2013.

Corporate Administration

The Company recognized a reversal of corporate administration expenditures for the three months ended March 31, 2014 totaling \$381,779 compared to charges of \$82,275 for the three months ended March 31, 2013 as detailed in the following table.

	Three months ended	
	March 31, 2014	March 31, 2013
Salaries and compensation	\$ 4,582	\$ 326,561
Consultants	254,700	73,326
Legal fees and settlements	168,482	31,870
General office expense	30,211	51,511
Board and AGM	-	27,750
Stock-based compensation	3,734	34,187
Travel	160	15,101
Insurance	8,945	61,492
Royalties	-	856
<u>Accrual Reversals:</u>		
Salaries, Consultants and Penalties	(852,593)	(540,379)
Total	\$ (381,779)	\$ 82,275

Approximately \$853,000 incurred in 2013 was reversed in Q1-2014 as a result of reversed consulting accruals and ministry penalties. Accruals for bonuses and penalties accrued in 2012 were reversed in Q1-2013. Pursuant to its restructuring, the Company retained the services of Forbes & Manhattan, Inc. ("Forbes") in mid 2013, whereby an administration fee of \$100,000 per month was charged during Q1-2014 (Q1-2013: \$nil). This fee includes compensation amounts for various officers of the Company in addition to corporate overheads such as rent, accounting, legal, IT and administrative support staff. Consequently, consultants expense increased during Q1-2014 compared to Q1-2013 and salaries and compensation, decreased over the same periods. Legal fees and settlements includes a provision related to litigation against the company.

Stock-based Compensation Expense

During the three months ended March 31, 2014 and 2013, 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 March 31, 2014, the Company recognized an expense of \$4,999 compared to \$48,502 for the three months ended March 31, 2013, related to costs of gradual vesting. For the three months ended March 31, 2014, the Company applied \$1,265 to site costs (three months ended March 31, 2013: \$14,315) and \$3,734 to corporate general and administration costs (three months ended March 31, 2013: \$34,187).

Finance Costs

Total finance costs for the three months ended March 31, 2014 were \$3,547,279 (\$2,850,269 for the three months ended March 31, 2013). Included in total finance costs for the three ended March 31, 2014 was interest expense on the JILL debt of \$3,224,196 (three months ended March 31, 2013: \$2,528,069). Interest costs have increased as a result of continued borrowings and compounding. The Company also accrued dividends of \$323,083 for the three months ended March 31, 2014 on preferred shares owned by JILL (three months ended March 31, 2013: \$322,200). The preferred shares pay an 8% cumulative annual dividend to JILL. The dividends accrue on a quarterly basis.

Foreign Exchange Gains and Losses

The Company recognized a foreign exchange loss of \$1,018,822 during the three months ended March 31, 2014 compared to \$454,989 for the three months ended March 31, 2013. These losses were primarily the result of exchange rate fluctuations applied to debt obligations that are denominated in US dollars. The US dollar strengthened significantly during the first quarter of 2014 resulting in the loss. In Q1-2013, the US dollar strengthened marginally resulting in a reduced impact to foreign exchange loss.

Interest and other Income

In Q1-2014, the Company sold spare tires resulting in income of approximately \$18,000. This was offset by miscellaneous interest charges. In Q1-2013, the Company earned equipment rental income of approximately \$89,000.

Debt forgiveness

The Company recognized a gain of \$93,987 for the three months ended March 31, 2014 (three months ended March 31, 2013: \$nil) related to debt forgiveness. The Company settled outstanding accounts payable through the issuance of a combination of cash and shares.

Consolidated Financial Position

Trade and other receivables

Receivables decreased by \$178,920 to \$144,395 at March 31, 2014 from \$323,315 at December 31, 2013. The balance at March 31, 2014 is primarily HST receivable.

Inventories

Inventories on hand totaled \$478,778 at March 31, 2014 compared to \$438,407 as at December 31, 2013. Inventories are comprised of materials and supplies that are being used in the care and maintenance process.

Other current assets

Other current assets decreased by \$52,938 to \$1,310,498 at March 31, 2014 from \$1,363,436 at December 31, 2013. Prepaid expenses including insurance costs were expensed during Q1-2014 resulting in this decrease.

Reclamation deposits and restricted cash

Reclamation deposits and restricted cash increased to \$3,204,307 at March 31, 2014 from \$3,186,915 at December 31, 2013 as a result of interest accruals recorded for the deposits. At March 31, 2014 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. The Company plans to commence rehabilitation of the McWatters mine site this year.

Exploration and evaluation

Exploration and evaluation accumulated expenditures totaled \$11,090,788 at March 31, 2014 compared with \$11,086,636 at December 31, 2013. The Company is maintaining its exploration properties and all are in good standing.

Plant and equipment

Plant and equipment decreased by \$400,041 to \$32,818,092 at March 31, 2014 from \$33,218,133 at December 31, 2013. The Company recorded \$442,708 in depreciation expense during the three months ended March 31, 2014

accounting for the decrease. As well, the Company incurred \$42,667 in additions to plant and equipment with further work on the tailings storage facility expansion.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities decreased by \$1,553,919 to \$2,306,925 at March 31, 2014 from \$3,860,844 at December 31, 2013. During Q1-2014, the Company settled accounts payable through cash payments of \$115,010 and the issuance of shares. The Company also reversed certain consulting and penalty accruals for approximately \$900,000.

Start-up fee net of expenses

Pursuant to the Wallbridge custom milling agreement, Wallbridge paid a deposit of \$500,000 to the Company to cover certain costs, including mill startup costs. The Company recorded \$101,426 in such costs in Q1-2014 which was applied against this \$500,000 balance. As at March 31, 2014, a balance of \$398,574 of this deposit remains.

Preferred shares and accrued dividends

Preferred shares liability remained unchanged at \$16,378,516 during the period ended March 31, 2014. The preferred shares are subject to redemption on demand by JIIL 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. The preferred share dividend liability increased by \$323,082 to \$6,355,172 at March 31, 2014 from \$6,032,090 at December 31, 2013. 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 Q1-2014.

Term Loans - JIIL

The term loans itemized in the table below increased by \$2,874,820 to \$121,320,274 at March 31, 2014 from \$118,445,454 at December 31, 2013. 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 three months ended March 31, 2014 the Company received \$1,052,000 in additional financing, and accrued interest expense of \$3,224,196. During Q1-2014, the Company issued shares with a value of \$66,000 to reduce the principal on this debt. As well, \$1,335,377 was recorded in Q1-2014 to discount the loan balances to fair value. 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 March 31, 2014.

	March 31, 2014	December 31, 2013
<u>Non-current</u>		
US Dollar Term Loan -- JIIL	\$ 27,671,570	\$ 26,432,471
Term Loans - JIIL	\$ 93,648,704	92,012,983
Total	\$ 121,320,274	\$ 118,445,454

Capital Lease Obligations and Equipment Financing

Capital lease obligations and equipment financing (current and non-current portions) decreased by \$32,714 to \$97,786 at March 31, 2014 from \$130,500 at December 31, 2013. The Company did not enter into any new leases during the Q1-2014.

Provisions

Site restoration obligations totaled \$2,131,717 at March 31, 2014 from \$2,121,220 at December 31, 2013, the increase being a result of accretion. The Company reviews its estimates for site restoration obligations 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

Share capital increased by \$147,657 to \$80,684,320 at March 31, 2014 from \$80,536,663 at December 31, 2013. The Company issued shares as part of debt settlement arrangements with vendors and JIIL during the Q1-2014.

Contributed surplus

Contributed surplus increased by \$2,353,945 to \$6,959,356 from \$4,605,411 as a result of discounting of the JIIL loans to fair value. As the transactions are with a shareholder in its capacity as a shareholder, the adjustments are capital in nature and recorded to contributed surplus.

Share based payments reserve

Share based payments reserve increased to \$548,399 at March 31, 2014 as a result of the vesting of stock options during Q1-2014.

Summary of Consolidated Quarterly Results

(\$ thousands, except per share data)

Quarter	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ -	\$ -	\$ -	\$ 28	\$ 29	\$ (270)	\$ 3,869	\$ 5,372
Net Loss	\$ 5,232	\$ 9,916	\$ 5,222	\$ 7,618	\$ 6,156	\$ 37,612	\$ 8,461	\$ 10,320
Loss per Share	\$ 0.70	\$ 1.69	\$ 1.26	\$ 1.84	\$ 1.50	\$ 9.00	\$ 2.00	\$ 2.50

The Company commenced commercial production in Q2-2012 and ceased production in Q3-2012. Consequently, revenues increased significantly during Q2-2012 and Q3-2012 and decreased thereafter. 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 three months ended March 31, 2014 was \$302,246 compared to \$682,099 for the three months ended March 31, 2013. This reduction of cash use is a result of a combination of lower care and maintenance costs and lower corporate general and administration costs incurred during Q1-2014 compared to Q1-2013. Cash used by the change in working capital for the three months ended March 31, 2014 was \$1,245,272 compared to a source of \$172,118 for the three months ended March 31, 2013 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 provided \$392,847 during the three months ended March 31, 2014 (March 31, 2013: a use of \$119,683). In Q1-2014, the Company received \$500,000 as a start-up fee from Wallbridge to cover costs that the Company will be required to incur to re-start the mill (Q1-2013: \$nil). The Company incurred expenditures of \$101,426 during Q1-2014 (Q1-2013: \$nil) that has been applied against the start-up fee. The Company did not invest significantly in capital assets or in their exploration properties during Q1-2014, incurring approximately \$43,000 in work on the tailings expansion project. During the comparative period, the Company incurred \$119,525 in exploration work including line-cutting and EM surveying.

During the three months ended March 31, 2014, JIL, as described in the executive section of the MD&A, provided Northern Sun with \$1,052,000 (Q1-2013: \$599,674) in further advances under the existing facility. 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 JIL during Q1-2014 and will continue to do so until the custom milling program commences generating revenues and sufficient cash flow from operations can be realized.

Mine Operations

Redstone Mine

Mining operations continued in care and maintenance mode during the Q1-2014.

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. 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. The Company announced that the McWatters Mine would be permanently shut down and closure plan activities are to commence in 2014.

Mill Operations

There has been no mill production during the three months ending March 31, 2014. The Company has initiated mill startup work during Q1-2014 to prepare for its custom milling contract with Wallbridge.

Exploration

Hart Project

The Company announced in August 2012 that diamond drilling at the Hart Project 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

While the Company incurred mineral lease maintenance costs during Q1-2014, during Q1-2013, 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 have been reduced.

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

Revised Corporate Strategy in 2014 - Exploration

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. At March 31, 2014, the conversion rate was \$1 USD to \$1.1055 CDN.

Health and Safety

During the first quarter of 2014, the Company incurred 0 – First Aid, 0 – Medical Aids, 0 – Lost Time incidents. Northern Sun year end Medical Aid Frequency remains at 0.0 and the Company has been successful in achieving 1,172 Medical Aid Free Days and 1,256 Lost Time Days for the period ending on March 31, 2014.

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. The Company commenced its mill restart project in late Q1-2014 immediately following the announcement that a definitive agreement had been reached to provide custom milling services to a local mining company.

There were no Ministry of Labour site visits during the period. All previously reported orders have been 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 Q1-2014, 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 continues to work with the Ministry of Northern Development, Mines to complete the 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 during the second quarter of 2014.

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 having the tailings storage facility's emergency spillway design approved under the Lakes and Rivers Improvement Act. During the first quarter of 2014, the Company received approval from the Ministry of Environment to resume operations at the Redstone mill without the approved emergency spillway. The approval is based on the current available tailings storage capacity, the anticipated production levels and the commitment from the Company to construct the spillway in 2015.

There were no spills or effluent exceedances which required Regulatory notification during the Q1-2014.

McWatters

During Q1-2014, 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 announced the permanent closure of the McWatters Mine in Q4-2013 due to the identification of asbestos, more specifically chrysotile. There has been no work undertaken at the site during the Q1-2014 period with regards to the closure plan.

There were no spills or effluent exceedances which required Regulatory notification during the Q1-2014.

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.

The Company has increased its communication with the First Nations during Q1-2014 in light of the Redstone mill resuming operations.

Capital Requirements and Capitalization

At March 31, 2014, the Company had obligations within one year to make payments of \$6,355,172 (December 31, 2013: \$6,032,090) of accrued dividends, \$50,968 (December 31, 2013: \$75,799) of minimum equipment financing and lease payments, and fulfill \$58,347 (December 31, 2013 - \$87,521) 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
Equipment financing and leases	\$ 97,786	\$ 50,968	\$ 46,818	\$ -	\$ -
Notes Payable & Term Loan	\$ 121,320,274	\$ -	\$ 121,320,274	\$ -	\$ -
Preferred Share Liability	\$ 16,378,516	\$ 16,378,516	\$ -	\$ -	\$ -
Dividends - Preferred Shares	\$ 6,355,172	\$ 6,355,172	\$ -	\$ -	\$ -
Total	\$ 144,151,748	\$ 22,784,656	\$ 121,367,092	\$ -	\$ -

Operating Leases

	Less than 1 Year	One to Five Years	Over Five years	Total
March 31, 2014	\$58,347	\$0	\$0	\$58,347

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 12 of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2014.

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 March 31, 2014, 7,510,435 common shares of the Company were outstanding (December 31, 2013: 7,295,425).

As of March 31, 2014, 148,895,601 preferred shares of the Company were outstanding compared to 148,895,601 as of December 31, 2013. 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 March 31, 2014, 128,100 (December 31, 2013 –128,100) 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.

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 March 31, 2014, JNCL, through its wholly-owned subsidiary JIL, is the Company's majority shareholder. Transactions with these entities are detailed in Notes 13 and 14 of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2014.

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:

	For the three months ended			
	March 31,			
	2014		2013	
Short-term benefits	\$	37,500	\$	319,100
Share Based Payments	\$	-	\$	-

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 March 31, 2014.

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
March 31, 2014	\$58,347	\$0	\$0	\$58,347

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 \$5,232,310 during the three months ended March 31, 2014 and, as of that date, had negative working capital of \$23,135,095 (December 31, 2013 – \$23,665,317, and a cumulative deficit of \$187,712,792 (December 31, 2013 - \$182,480,482). 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 JILL, 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 JILL will continue to financially support the Company. JILL 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.

Liquidity Concerns and Future Financings

The Corporation will require significant capital and operating expenditures in connection with the development of its properties. There can be no assurance that the Corporation will be successful in obtaining required financing as and when needed. Volatile markets may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Corporation to postpone or slow down its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

The Corporation's ability to meet its payment obligations will depend on its future financial performance, which will be affected by financial, business, economic and other factors. The Corporation will not be able to control many of these factors, such as economic conditions in the markets in which it operates. The Corporation cannot be certain that its existing capital resources and future cash flows from operations will be sufficient to allow it to pay principal and interest on the Corporation's debt and meet its other obligations. If these amounts are insufficient or if there is a contravention of its debt covenants, the Corporation may be required to refinance all or part of its existing debt, sell assets, borrow more money or issue additional equity. The ability of the Corporation to access the bank public debt or equity capital markets on an efficient basis may be constrained by the dislocation in the credit markets, capital and/or liquidity constraints in the banking markets and equity conditions at the time of issuance.

Majority Shareholder and Significant Debt Holder

JILL holds approximately 60% of the issued and outstanding share capital of the Corporation and through its debt facilities has secured a first ranking fixed charge over all of the assets of the Corporation. As the largest shareholder, JILL has a majority of the voting rights in the Corporation. The exercise of voting rights associated with the Corporation may have a significant influence on the Corporation's business operations. Although JILL does not have any intention of selling its interest in the Corporation, in the event JILL sold a portion of its position in the market in the future, it may have a significant influence on the share price of the Corporation, depending on market conditions at the time of such sale. As the significant debt holder of the Corporation, JILL may have a significant influence over the operations of the Corporation in the event the Corporation is unable to meet its debt obligations. Currently, all loan obligations with JILL have been extended to December 31, 2015.

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 and Internal Controls over Financial Reporting

Subject to the limitations, if any, described below, the Company's CEO and CFO, have as at the end of the period ended March 31, 2014 designed Disclosure and Control Procedures, ("DC&P") or caused it to be designed under their supervision, to provide reasonable assurance that:

- material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
- information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Canada.

There have been no significant changes to the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures 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. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Company has reviewed this MD&A, and the consolidated financial statements for the three months ended March 31, 2014, and the Company's board of directors approved these documents prior to their release.

Subsequent Events after Reporting Date

Subsequent to the end of the quarter and up to the date of this report, the Company received \$150,000 in funding from JILL to support operations.

The Company sold equipment in April 2014 for net proceeds of \$90,000.

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, 2013 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.