



MIDNIGHT SUN

MIDNIGHT SUN MINING CORP.

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

FOR THE YEAR ENDED DECEMBER 31, 2017

As at April 23, 2017

MIDNIGHT SUN MINING CORP.
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For the Year Ended December 31, 2017

1. INTRODUCTION

The following management’s discussion and analysis (“MD&A”) of Midnight Sun Mining Corp. has been prepared as of April 23, 2018. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements (“Financial Statements”) of Midnight Sun Mining Corp. and the notes thereto for the year ended December 31, 2017, which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”). The Financial Statements have been prepared using the accrual basis of accounting except for cash flow information. All figures are expressed in Canadian dollars except where otherwise indicated.

Management is responsible for the preparation and integrity of the Financial Statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

Description of Business

Midnight Sun Mining Corp. (the “Company” or “Midnight Sun”) was incorporated on April 11, 2007 pursuant to the Business Corporations Act of British Columbia and was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSXV”) Policy 2.4. On May 12, 2010, the Company completed a Qualifying Transaction. The Company’s principal business activity is acquiring, exploring and evaluating mineral properties and joint venturing or developing these properties further or disposing of them when their evaluation is completed. At December 31, 2017, the Company was in the exploration stage of activity on its optioned exploration permit licenses in Zambia, and the Financial Statements include the accounts of its subsidiary Midnight Sun Mining Zambia Limited (“MSM Zambia”), a company incorporated on October 29, 2013 under the laws of Zambia.

2. HIGHLIGHTS & SIGNIFICANT EVENTS

Financial Highlights for the Fiscal Year Ended December 31, 2017

- On December 31, 2017, the Company reported total assets of \$9,400,915 consisting of current assets of \$1,599,397 and exploration and evaluation assets of \$7,801,518.
- The Company received \$903,142 and issued 4,515,710 common shares upon the exercise of 4,515,710 warrants priced at \$0.20 and \$87,500 from the exercise of 350,000 stock options priced at \$0.25.
- On November 27, 2017, the Company completed a non-brokered private placement issuing 9,002,708 units at a price of \$0.30 for gross proceeds of \$2,700,812. Finders’ fees of \$141,540 were paid in cash and 471,799 Finders’ Warrants were issued in conjunction with the placement. Each Finders’ Warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 prior to November 27, 2018.

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Corporate Highlights for the Fiscal Year Ended December 31, 2017

- On January 12, 2017, Midnight Sun released the results of a drill program conducted on the Solwezi Licences during the fourth quarter of 2016. A total of 1,917 metres of HQ/NQ core was drilled in 15 holes and 2,581 metres was drilled in 95 shallow Air Core holes. Significant mineralization was encountered in several holes on the Mitu and Dumbwa Central targets.
- On February 10, 2017, the Company announced a geophysical program at the Mitu discovery area. The program was designed to map the strike and depth extents of the host rock of ore shale type mineralization identified by core drilling.
- In early May 2017, the Company commenced diamond drilling on the Mitu copper-cobalt discovery, and on July 4, 2017, Midnight Sun reported initial results. The drill program was designed to expand and better define the previously identified ore-shale type copper-cobalt mineralization at Mitu and to confirm the correlation between a conductive anomaly, identified in the geophysical program, and copper-cobalt mineralization. The Company contracted Blu Rock Mining Services Ltd. to conduct the drill program.
- On August 21, 2017, the Company appointed Mr. Brett Richards as Chief Executive Officer, President and director. Mr. Richards is a seasoned senior executive with significant recent experience with advanced exploration, development and operating stage projects in Africa. Midnight Sun's previous CEO and President assumed the position of Senior Vice President, Exploration.
- On March 20, 2017, the Zambian Ministry of Mines and Mineral Development ("MMMD") issued a new large-scale exploration license, 21509-LEL, with a validity of up to 10 years covering the area formerly held under prospecting license 14039-LPL. On November 1, 2017, the MMMD granted a renewal of exploration license 12124-LEL until December 23, 2018 with an available renewal for a further three-year period ending December 23, 2021.

Events Subsequent to December 31, 2017

- On January 31, 2018, Midnight Sun announced it had satisfied its obligations under an Option Agreement with Kam Chuen Resource Holdings Ltd. ("Kam Chuen") and had earned a 60% interest in the Solwezi Licences.
- The Company received gross proceeds of \$643,800 and issued 3,219,000 common shares upon the exercise of 3,219,000 share purchase warrants priced at \$0.20.
- The Company received \$15,500 and issued 100,000 common shares upon the exercise of stock options priced at \$0.155 with an expiry date of April 9, 2018.

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- On January 31, 2018, the Company granted stock options to purchase an aggregate of 2,575,000 common shares of the Company, at an exercise price of \$0.36 per share, to certain employees, consultants and directors. The stock options were granted pursuant to Midnight Sun's 10% rolling stock option plan, are subject to vesting provisions, and shall expire 5 years from the date of grant.
- On February 20, 2018, the Company announced the signing of a binding letter of intent and term sheet to acquire an additional 40% interest in the Solwezi Licences from Kam Chuen.

3. EXPLORATION AND EVALUATION ASSETS

Solwezi Licenses - Zambia

On July 30, 2013, the Company, entered into an option agreement (the "Option Agreement") with Kam Chuen, to acquire a 60% interest in two mineral exploration permit licenses located near Solwezi, Zambia, 14039-HQ-LPL and 12124-HQ-LPL (the "Solwezi Licenses"), which are held in Kam Chuen's subsidiary Zambian High Light Mining Investment Limited ("ZHLMIL"). The TSXV approved the Option Agreement on December 6, 2013.

The Solwezi Licenses, which cover a total of 506 square kilometres, are located in the Zambian Copperbelt approximately 15 kilometres from the producing Kinsanshi copper/gold mine and roughly 450 kilometres northwest of the Zambian capital of Lusaka.

On September 11, 2016, the Company applied for the third and final renewal for Prospecting License 14039-HQ-LPL. On March 1, 2017, the Acting Chief Registrar of Mining Rights issued a new license 21509-HQ-LEL to replace 14039-HQ-LPL. This new license covers the same ground as the previous license. License 21509-HQ-LEL will be in effect for a period of 4 years with the option for future renewals providing the license is maintained in accordance with the contained terms and the Mines and Mineral Development Act, 2015.

On November 3, 2017, the Zambian Mining Cadastre issued a renewal of Prospecting License 12124-HQ-LPL as Large-Scale Exploration License, 12124-HQ-LEL, having an expiration date of December 23, 2018 with the option for a final 3-year renewal prior to that date in accordance with the Mines and Mineral Development Act, 2015.

Option Agreement

The Option Agreement was subsequently amended effective April 7, 2015 and July 12, 2016. The following terms reflect the amended Option Agreement:

- a) The Company issue a total of 15,333,333 common shares to Kam Chuen or its assigns according with 1,333,333 shares issued upon TSX.V acceptance (issued February 14, 2014; valued at \$186,667) and the remaining 14,000,000 shares on July 31, 2016 (issued February 15, 2017); and

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- b) Incur a total of \$3,666,667 in Expenditures on the mineral exploration permit licenses by December 6, 2018 (incurred during fiscal 2017).

At December 31, 2017 the Company had fulfilled all requirements to earn the 60% interest in the Solwezi Licenses having issued 15,333,333 common shares to Kam Chuen and incurring \$4,031,324 qualifying property related expenditures. Under the terms of the Option Agreement upon earning the 60% interest Kam Chuen and Midnight Sun will enter into a joint venture agreement governing the further exploration and development of the Solwezi Licenses, and Kam Chuen will transfer 60% ownership interest in ZHLMIL to the Company. The Company and Kam Chuen have entered initiated discussions on the final form of the joint venture.

Option to Acquire 100% Ownership of the Solwezi Licenses

On February 18, 2018, Midnight Sun and Kam Chuen signed a binding Letter of Intent and Term Sheet for the Company to acquire the remaining 40% interest in ZHLMIL (the “Purchased Shares”) by paying Kam Chuen \$30,000,000. Midnight Sun has the option to acquire 100% equity ownership of ZHLMIL and the Solwezi Licences subject to a 2% net smelter returns royalty on the Solwezi Licences payable to Kam Chuen by making the following payments:

- a) \$1,000,000 on the latter of (i) June 30, 2018 and (ii) the date that is two business days following the day on which the last of the conditions of closing are met;
- b) \$1,000,000 on or before December 31, 2018;
- c) \$2,000,000 on or before June 30, 2019;
- d) \$3,000,000 on or before December 31, 2019
- e) \$8,000,000 on or before December 31, 2020; and
- f) \$15,000,000 on or before December 31, 2021.

As security for the deferred consideration payments, a portion of the Purchased Shares will be placed in escrow by Midnight Sun and will be held as security in favour of Kam Chuen. A proportionate amount of the Purchased Shares will be released to MMA as the deferred payments are satisfied. In the event of a payment default by MMA, the escrowed Purchased Shares will represent the sole and absolute recourse of Kam Chuen. As part of the definitive documents for the Acquisition, the Company and Kam Chuen will enter into a shareholder and governance agreement for ZHLMIL, which will become the governing agreement in the event of any reacquisition of the Purchased Shares by Kam Chuen following any default by Midnight Sun.

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Exploration Property Expenditures

As at December 31, 2017, the Company had funded the following expenditures on the Solwezi Licenses:

| Site and project expenditures | 31-Dec-17 | Additions | 31-Dec-16 |
|--------------------------------------|---------------------|---------------------|------------------|
| Acquisition costs | \$ 4,136,678 | \$ 3,920,000 | \$ 216,678 |
| Assays | 225,567 | 100,866 | 124,701 |
| Diamond drilling | 2,067,589 | 1,022,809 | 1,044,780 |
| Field expenses | 364,738 | 198,151 | 166,587 |
| General & administration | 3,938 | 2,212 | 1,726 |
| Geological consulting | 555,610 | 295,126 | 260,484 |
| License | 168,953 | 168,953 | - |
| Travel and accommodation | 278,445 | 160,492 | 117,953 |
| Total operations funded | \$ 7,801,518 | \$ 5,868,609 | 1,932,909 |

The following table presents the Company's expenditures relating to mineral properties on a property-by-property basis for the two most recent financial years.

| | Solwezi | Total |
|-----------------------------------|---------------------|---------------------|
| Balance, December 31, 2015 | \$ 1,121,617 | \$ 1,121,617 |
| Acquisition costs | (8,671) | (8,671) |
| Exploration expenditures | 819,963 | 819,963 |
| Total additions during year | 811,292 | 811,292 |
| Balance, December 31, 2016 | \$ 1,932,909 | \$ 1,932,909 |
| Acquisition costs | 3,920,000 | 3,920,000 |
| Exploration expenditures | 1,948,609 | 1,948,609 |
| Total additions during year | 5,868,609 | 5,868,609 |
| Balance, December 31, 2017 | \$ 7,801,518 | \$ 7,801,518 |

4. DISCUSSION OF OPERATIONS

Since optioning the Solwezi Licenses, Midnight Sun has reviewed all available data generated by the optionor and previous operators. The Company has directly carried out the following activities:

- Geochemical surveying 5,928 soil samples
- Geophysical surveying 43.7 line-kilometres NSAMT
- Air Core Drilling 24,215 meters in 501 holes
- Reverse circulation 1,276 meters in 15 holes
- Diamond drilling 6,664 meters in 39 holes
- Mineralogy and Metallurgical Studies in progress

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The two main types of deposits being targeted by exploration on the Solwezi Licenses are; Stratiform-type deposits, a common model for many copper deposits within the Zambian Copperbelt, and Hydrothermal-type copper mineralization as found at the nearby Kinsanshi Mine.

To date, the Company has identified four significant exploration targets on the Solwezi Licences:

- *The 22 Zone* – the initial discovery and drill target on the Solwezi Licences is a near surface oxide deposit with deep sulphide potential. The target has had limited shallow drill testing with a best intercept returning 5.71% copper over 14.2 metres near surface.
- *Mitu* – an ore shale hosted copper-cobalt-nickel-gold target with significant size potential. This area will continue to be the immediate focus of exploration work to follow up on geophysical programs conducted during 2016 and 2017 and limited drilling.
- *Dumbwa* – initial drilling on a 14-kilometre long soil anomaly has produced multiple copper-cobalt intercepts in the near surface oxides.
- *Kifumbwe* – a large nickel soil anomaly covering over 6 kilometres of identified strike.

Company management believe the identified target areas have excellent exploration potential. For the immediate future the Company will focus exploration on the Mitu target, where in October 2016 “ore shale style” base metal mineralization was discovered on the flank of the Solwezi Dome. Ore shale mineralization is the dominant type of copper-cobalt-nickel deposition in the Zambia-Congo Copperbelt, the largest copper producing area in the world. Mineralization associated with the shale units generally forms in physical “traps” between the contact of the Upper and Lower Roan geological units. This contact zone extends over 17 kilometres on the Solwezi Licences.

A 12-hole diamond drill program at Mitu in 2016 covered an area of 300 metres on strike and 400 metres down dip. Shale units containing base metal sulphide mineralization were encountered at vertical depths of up to 170 metres. An additional 43 drill holes using air core drilling covered a strike length of 1,200 metres.

During 2017, the Company followed up the initial work at Mitu with a program consisting initially of 37 line-kilometres of natural source audio magneto telluric (“NSAMT”) designed to establish the extent of the geophysical footprint of the ore shales. The geophysics were followed by 648 soil samples and 4,755 metres of shallow air core drilling in 119 holes to bedrock to establish that a conductive anomaly indicated by the geophysics correlated with the presence of ore-shale. This program tested 10 kilometres of the 17-kilometre contact area with encouraging results. The geophysics, sampling and air core drilling was followed up with a 15-hole, 4,062 metre diamond drill program to test the grade, physical dimensions and consistency of mineralized ore shales.

During 2018, the Company plans additional geophysical work to confirm the full strike of the mineralized zone at Mitu and help develop future drill targets on the 22 Zone, and at Dumbwa and Kifumbwe. Additional air core and diamond drilling is planned at Mitu to confirm the grade and consistency of the copper-cobalt mineralization and to expand the known mineralized zone.

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Richard Mazur, P.Geo., Director of the Company, reviewed and approved the Exploration and Evaluation Assets descriptions in this Management's Discussion and Analysis.

5. SELECTED ANNUAL INFORMATION

The following table summarizes selected financial information for the Company for each of its most recently completed financial years. The information set forth below should be read in conjunction with the Financial Statements. All information was prepared in accordance with IFRS.

| | Year ended Dec 31, 2017 | Year ended Dec 31, 2016 | Year ended Dec 31, 2015 |
|---|----------------------------|----------------------------|----------------------------|
| | \$ | \$ | \$ |
| Total revenue | Nil | Nil | Nil |
| Net income (loss) | (891,235) | (407,009) | (231,019) |
| Basic and fully diluted income (loss) per share | (0.01) | (0.01) | (0.01) |
| Total assets | 9,400,915 | 2,723,035 | 1,181,587 |
| Total long-term liabilities | Nil | Nil | Nil |
| Dividends declared | Nil | Nil | Nil |

Losses during the year ended December 31, 2017 are attributable to share-based payments of \$240,475 and general and administrative expenses of \$650,830. General and administrative costs increased during the year as the Company incurred significant legal and other costs relating to renewing the Solwezi Licenses, formalizing agreements relating to the Solwezi Licenses and increased staffing costs and increased investor relations activities. Management anticipates general and administrative costs will further increase in fiscal 2018. The loss for the year ended December 31, 2016 is comprised of share-based payments of \$182,920 and general and administrative expenses of \$224,089. The loss for the year ended December 31, 2015 is comprised of share-based payments of \$10,500 and general and administrative expenses of \$220,519.

6. SUMMARY OF QUARTERLY RESULTS

The table below present's selected financial data for the Company's eight most recently completed quarters, all information was prepared in accordance with IFRS.

| | Dec 31, 2017 | Sept 30, 2017 | June 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sept 30, 2016 | June 30, 2016 | Mar 31, 2016 |
|--|-----------------|------------------|------------------|-----------------|-----------------|------------------|------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial results | | | | | | | | |
| Net loss for period | 391,778 | 278,833 | 137,833 | 82,460 | 224,096 | 56,469 | 62,989 | 63,455 |
| Basic & diluted loss per share | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 |
| Exploration expenditures | \$35,247 | 21,266 | 1,794,285 | 97,811 | 806,222 | 11,211 | 5,082 | (2,552) |
| Statement of Financial Position | | | | | | | | |
| Cash | 1,528,810 | 24,974 | 45,105 | 294,611 | 698,149 | 8,448 | 13,860 | 65,301 |
| Exploration & evaluation assets | 7,801,518 | 7,766,271 | 7,745,005 | 2,030,720 | 1,932,909 | 1,135,358 | 1,124,147 | 1,119,065 |
| Total assets | 9,400,915 | 7,801,107 | 7,794,656 | 2,409,983 | 2,723,035 | 1,156,168 | 1,161,302 | 1,218,788 |
| Shareholders' equity | 9,000,787 | 6,243,034 | 6,264,520 | 2,334,853 | 2,197,313 | 986,054 | 1,042,468 | 1,105,512 |

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Exploration expenditures during all quarters shown relate to work done on the Solwezi Licenses. Net losses for all periods reflect general and administrative costs including legal and accounting.

Overall Performance & Results of Operations

Three Month Period Ended December 31, 2017

The Company's loss for the three months ended December 31, 2017, was \$391,778, or \$0.01 per share, as compared to a loss of \$224,096, or \$0.01 per share for the three months ended December 31, 2016. Major expenses during the three-month period ended December 31, 2017 consisted of accounting and audit fees, -\$22,897 (2016: \$5,227), consulting fees, \$56,764 (2016: \$3,000), investor and shareholder relations, \$47,212 (2016: \$8,925), legal fees, \$17,101 (2016: \$nil), office services and miscellaneous expenses, \$22,144 (2016: \$13,357), regulatory and transfer agent fees, \$7,297 (2016: \$943), share-based payments, \$20,020 (2016: \$182,920), travel, \$21,871 (2016: \$nil) and wages and benefits, \$213,298 (2016: \$10,050).

Twelve Month Period Ended December 31, 2017

The Company's loss for the twelve months ended December 31, 2017, was \$891,305, or \$0.01 per share, as compared to a loss of \$407,009, or \$0.01 per share for the twelve months ended December 31, 2016. Major expenses during the twelve-month period ended December 31, 2017 consisted of accounting and audit fees, \$40,185 (2016: \$35,620), consulting fees, \$104,209 (2016: \$3,000), investor and shareholder relations, \$93,003 (2016: \$88,123), legal fees, \$24,959 (2016: \$1,877), office services and miscellaneous expenses, \$68,379 (2016: \$42,507), regulatory and transfer agent fees, \$19,824 (2016: \$11,905), share-based payments, \$240,475 (2016: \$182,920), travel, \$30,275 (2016: \$978) and wages and benefits, \$260,926 (2016: \$38,482). Wages and benefits includes employee bonuses granted in December of which \$165,000 remained payable at December 31, 2017.

During the twelve-month period ended December 31, 2017, \$463,448 in cash was used for operating activities and \$2,324,195 in cash was used for exploration and evaluation investments, these outflows were funded by financing activities totalling \$3,618,304.

7. LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at December 31, 2017, the Company had a \$1,528,810 cash position. The Company does not have cash flow from operations due to it being an exploration stage company; therefore, financings have been the sole source of funds. At December 31, 2017, the Company had working capital of \$1,199,269 and an accumulated deficit of \$5,413,598. In the opinion of management this working capital is sufficient to support the Company's near term general administrative and corporate operating requirements on an on-going basis.

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Liquidity Outlook

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company raises money through the sale of equity, from the exercise of convertible securities and from optioning its exploration and evaluation assets. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to several factors, including the progress of exploration activities.

Given volatility in equity markets, global economic uncertainty, cost pressures and results of exploration activities there can be no certainty equity funding will be available to the Company or if available funding will be on acceptable terms. Management believes it will be able to raise equity capital as required but recognizes that there will be risks which may be beyond its control.

Capital Resources

The Company has sufficient capital to cover its administrative overhead expenses for the next twelve months. The Company does not currently have sufficient capital to fund all budgeted or planned exploration activities on the Solwezi Licenses during 2018. To continue exploring the Solwezi Licenses, Midnight Sun will be required to raise additional capital, and if capital is not available the Company will have delay some planned exploration expenditures.

8. TRANSACTIONS WITH RELATED PARTY TRANSACTIONS

The Company's related parties at December 31, 2017 consist of 8 officers and directors (and their related companies).

| Name of Related Party | Position at Dec 31, 2017 | Nature of transaction |
|--|---------------------------------|------------------------------|
| Allan J. Fabbro | Director | Director |
| Fengjie Huang | Director (Zambian subsidiary) | Geological consulting |
| Mathew Mackenzie | Secretary | Corporate secretary |
| Richard J. Mazur | Director | Director |
| Wayne Moorhouse | CFO | Management services |
| Brett Richards/Richards Enterprises Inc. | President, CEO & director | Management services |
| Robert A. Sibthorpe / 069426 BC Ltd | VP Exploration & director | Management services |
| Tom Ye | Director | Director |

As at December 31, 2017, \$282,530 (December 31, 2016 - \$2,657) is due to officers, directors or companies with a director in common for cash advances, unpaid geological consulting fees, unpaid wages and unpaid expenses.

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9. KEY MANAGEMENT COMPENSATION

Compensation paid or accrued to key management and/or their related companies during the years ended December 31, 2017 and 2016 is as follows:

| Nature of Expenditure | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Exploration & evaluation asset expenditures | | |
| Geological consulting | \$105,900 | \$26,179 |
| Assays | \$12,344 | - |
| Wages and benefits | \$219,960 | \$24,000 |
| Consulting fees | \$61,806 | - |
| Share-based payments | \$220,455 | \$165,332 |
| Total | \$620,465 | \$215,511 |

Key management consists of those individuals having authority and responsibility for, directly or indirectly, planning, directing, and controlling the activities of the Company.

All the above payments and accruals were made in the normal course of operations and have been valued here and in the Financial Statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. FINANCIAL INSTRUMENTS AND RELATED RISKS

Financial Instruments

Financial Instruments – Recognition and Measurement

Financial instruments include cash, receivables (including amounts receivable from option partners), accounts payable and accrued liabilities (including amounts payable to joint venture partners) and amounts due to related parties. The Company has designated each of its significant categories of financial instruments as follows:

| | |
|--|-----------------------------------|
| Cash | Fair value through profit or loss |
| Receivables | Loans and receivables |
| Amounts due to related parties | Other financial liabilities |
| Accounts payable and accrued liabilities | Other financial liabilities |

Fair value adjustments, if any, are not reasonably determinable by management as comparable interest rate and risk profiles are not available.

Fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

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Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Fair Value

The carrying value of receivables, accounts payable and accrued liabilities, and amounts due to related parties approximated their fair value because of the short-term nature of these instruments.

For additional information Please refer to Note 3 in the Financial Statements.

Related Risks

The Board, through the Audit Committee, is responsible for identifying the principal risks facing the Company and ensuring that appropriate risk management systems are developed and implemented. The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk and credit risk in accordance with its risk management framework.

Interest rate risk

The Company has non-material exposure at December 31, 2017 and December 31, 2016 to interest rate risk through its financial instruments.

Currency Risk

Throughout the years ended December 31, 2017 and December 31, 2016, the majority of the Company's cash was held in Canadian dollars, the Company's functional and reporting currency. The Company is exposed to currency risk due to accounts payable in US Dollars

Credit risk

The Company has no significant concentrations of credit risk arising from operations. The Company has some cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote. The Company also has \$236,196 held with a major financial institution in Zambia. Management believes the risk of loss to be remote.

Receivables consist mainly of goods and services tax due from the Federal Government of Canada.

Liquidity Risk

The Company attempts to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at December 31, 2017, the Company had \$1,528,810

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cash (December 31, 2016 – \$698,149) and current liabilities of \$400,128 (December 31, 2016 - \$525,722). The Company's current working capital is insufficient to support the Company's near term general administrative and corporate operating requirements on an on-going basis. The Company intends to raise funds adequate to meet its liquidity needs for the next twelve months via private placement.

Finance Risk

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities or joint ventures, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

11. RISKS AND UNCERTAINTIES

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The risks and uncertainties described in this section are not inclusive of all risks and uncertainties to which the Company may be subject.

Early Stage – Need for Additional Funds

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

Political Risk

The Company's operations and investments may be affected by local political and economic developments including: expropriation; nationalization; invalidation of governmental orders; permits or agreements pertaining to property rights; failure to enforce existing laws; failure to uphold property rights; political unrest; labour disputes; limitations on repatriation of earnings; limitations on foreign ownership; inability to obtain or delays in obtaining necessary mining permits; opposition to mining from local, environmental or other non-governmental organizations; government participation; royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations; taxation and changes in laws, regulations or policies; as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

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Location Risk

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on exploration and evaluation assets.

Discovery Risk

Resource property acquisition, exploration, development, and operation is a highly speculative business that involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of precious metals and other minerals may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish economically viable mineral deposits, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the acquisition, exploration or development programs planned by the Company will result in a profitable commercial mining operation. The potential for any project to eventually become an economically viable operation depends on numerous factors including: the quantity and quality of the minerals discovered if any, the proximity to infrastructure, metal and mineral prices (which vary considerably over time) and government regulations. The exact effect these factors can have on any given exploration property cannot accurately be predicted but the effect can be materially adverse.

Environmental Risk

Environmental laws and regulations may affect the operations of Midnight Sun. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. Furthermore, the permission to operate could be withdrawn temporarily where there is evidence of serious breaches of health and safety, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damages caused by previous owners of acquired properties or non-compliance with environmental laws or regulations. The Company intends to minimize these risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to international environmental standards.

Price Risk

The market price of precious metals and other minerals is volatile and cannot be controlled.

Conflicts

The Company's directors and officers serve as directors or officers or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction.

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Dependence on Key Personnel

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Competitive Risk

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained and are subject to change. The Company's accounting policies and estimates used in the preparation of the financial statements are considered appropriate in the circumstances but are subject to judgments and uncertainties inherent in the financial reporting process.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy to capitalize exploration costs is consistent with IFRS and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies that have not established mineral reserves. An alternative policy would be to expense exploration costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. Based on annual impairment reviews made by management, or earlier reviews if circumstances warrant, in the event that the long-term expectation is the net carrying amount of capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

13. DIVIDENDS

Midnight Sun has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and. Any future determination to pay dividends will be at the discretion of the Board of Directors of Midnight Sun and will depend on Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deem relevant.

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14. DISCLOSURE OF OUTSTANDING SHARE DATA

The table below presents the Company's common share data as of April 23, 2018.

| | Price | Expiry date | April 23, 2018 |
|--|--------------|--------------------|-----------------------|
| Common shares, issued and outstanding | | | 76,731,684 |
| Securities convertible into common shares: | | | |
| Stock Options | \$0.315 | October 23, 2018 | 650,000 |
| | \$0.25 | January 23, 2019 | 275,000 |
| | \$0.25 | November 28, 2021 | 2,600,000 |
| | \$0.35 | August 18, 2022 | 1,000,000 |
| | \$0.36 | January 31, 2023 | 2,575,000 |
| Total Options | | | 7,100,000 |
| Warrants | \$0.20 | December 2, 2018 | 10,032,000 |
| | \$0.20 | December 29, 2018 | 1,935,000 |
| | \$0.45 | November 27, 2018 | 9,002,708 |
| Broker Warrants | \$0.20 | December 2, 2018 | 402,560 |
| | \$0.20 | December 29, 2018 | 27,740 |
| | \$0.45 | November 27, 2018 | 471,799 |
| Total Warrants | | | 21,871,807 |
| Total options & warrants | | | 28,971,807 |

15. NATURE OF THE SECURITIES

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

16. CHANGES IN ACCOUNTING POLICY

Please see note 3 in the financial statements.

17. PROPOSED TRANSACTIONS

The Company has no proposed transactions as of the date of this MD&A.

18. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

19. COMMITMENTS

Other than obligations relating to the Agreement disclosed in the Financial Statements and elsewhere this MD&A the Company does not have any commitments.

20. ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS

Additional disclosure concerning Midnight Sun's general and administrative expenses and exploration and evaluation assets expenditures is provided in the Company's Financial Statements as at and for the period ended December 31, 2017. These Financial Statements are available on SEDAR at www.sedar.com.

21. APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of Midnight Sun has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

22. FORWARD LOOKING INFORMATION

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of operations, environmental risks, permitting risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements

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which are filed and available for review on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

23. ADDITIONAL INFORMATION

Additional information is available on SEDAR at www.sedar.com.