



**MIDNIGHT SUN MINING CORP.  
MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

**As at April 25, 2019**

**MIDNIGHT SUN MINING CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2018**

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## **1. INTRODUCTION**

The following management’s discussion and analysis (“MD&A”) of Midnight Sun Mining Corp. has been prepared as of April 25, 2019. This MD&A should be read in conjunction with the audited condensed consolidated financial statements (“Financial Statements”) of Midnight Sun Mining Corp. and the notes thereto for the year ended December 31, 2018, 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 the evaluation is complete. At December 31, 2018, the Company was in the exploration stage of activity on its jointly held exploration 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, 2018**

- At December 31, 2018, the Company reported total assets of \$11,455,602 consisting of current assets of \$314,153 and exploration and evaluation assets of \$11,141,499.
- On December 19, 2018, the Company completed a non-brokered private placement for gross proceeds of \$1,000,080. The Company issued 8,334,000 units at a price of \$0.12 with each unit consisting of one common share and one common share purchase warrant. Each warrant allows the holder to purchase one common share in the Company at a price of \$0.20 for a period of twelve months from closing. Finders’ fees of \$45,869 were paid in cash and 382,240 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 \$0.20 prior to November 30, 2019.

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- On October 23, 2018, the Company extended the expiration date of 22,446,690 share purchase warrants priced between \$0.20 and \$0.48 with original expiration dates ranging from October 28, 2018 to May 30, 2019. The new expiration dates for the warrants range from April 29, 2019 to May 30, 2020. There exercise price of the share purchase warrants remains the same.
- On May 30, 2018, the Company completed a non-brokered private placement for gross proceeds of \$1,105,268. The Company issued 3,453,963 units at a price of \$0.32 with each unit consisting of one common share and one-half common share purchase warrant. Each full warrant allows the holder to purchase one common share in the Company at a price of \$0.48 for a period of twelve months from closing. Finders' fees of \$46,200 were paid in cash and 136,575 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 \$0.48 prior to May 30, 2019.
- During the year ended December 31, 2018, 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.
- During the year ended December 31, 2018 the Company received gross proceeds of \$695,560 and issued 3,477,800 common shares upon the exercise of 3,477,800 share purchase warrants priced at \$0.20.
- During the year ended December 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 and stock options to purchase 350,000 common shares of the Company, at an exercise price of \$0.25 per share to an investor relations consultant. The stock options were granted pursuant to the Company's Share Option Plan.

**Corporate Highlights for the Fiscal Year Ended December 31, 2018**

- On January 31, 2018, Midnight Sun announced it had satisfied all obligations under an option agreement with Kam Chuen Resource Holdings Ltd. ("Kam Chuen") and had earned a 60% interest in in two-large scale exploration licenses located near Solwezi, Zambia, 21509-HQ-LEL (formerly 14039-HQ-LPL) and 12124-HQ-LPL (the "Solwezi Licenses").
- During the year ended December 31, 2018 exploration work conducted on the Solwezi Licenses by the Company included 34.0 line-kilometres of ground geophysics, 3,889 line-kilometres of airborne geophysics, 10,424 metres of air core drilling and 1,503 metres of diamond drilling.

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**Events Subsequent to December 31, 2018**

- On March 4, 2019, the Company released the results of the initial interpretation of the 3,889 line-kilometre Versatile Time Domain Electromagnetic airborne geophysics (“VTEM”) survey conducted on the Solwezi exploration licenses. Analysis of information produced by the survey has expanded the potential at previously identified exploration targets and identified new exploration targets.

### **3. EXPLORATION AND EVALUATION ASSETS**

#### **Solwezi Licenses - Zambia**

On July 30, 2013, the Company, entered into an option agreement (the “Option”) with Kam Chuen, to acquire a 60% interest in the Solwezi Licenses, which are held in a Kam Chuen subsidiary, Zambian High Light Mining Investment Limited (“ZHLMIL”). TSXV approval for the Option was received on December 6, 2013.

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

On March 1, 2017, the Acting Chief Registrar of Mining Rights issued a new exploration license, 21509-HQ-LEL, covering the same ground and replacing the existing license 14039-HQ-LPL. 21059-HQ-LEL is in effect for an initial period of 4 years with the option for future renewals provided the license is maintained in accordance with the contained terms and the *Mines and Mineral Development Act, 2015*.

On November 30, 2018, 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, 2021. This renewal was granted in accordance with the *Mines and Mineral Development Act, 2015* and is the final renewal period available to ZHLMIL. If necessary, prior to the expiration of the license the Company and ZHLMIL will apply for a new license covering the same surface area as 12124-HQ-LEL. There is no guarantee a new license will be granted to the Company or an affiliated entity.

#### **60% Option Agreement**

Under the final terms of the Option, to earn a 60% interest in the Solwezi Licences Midnight Sun:

- a) Issued a total of 15,333,333 common shares to Kam Chuen or its assigns with 1,333,333 shares issued following TSXV acceptance (issued February 14, 2014; valued at \$186,667) and 14,000,000 shares issued on February 15, 2017 (valued at \$3,920,000); and
- b) Incurred a total of \$3,666,667 in qualifying expenditures on the Solwezi Licenses prior to December 6, 2018 (\$4,031,324 incurred prior to December 31, 2017).

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Under the terms of the Option, upon the Company fulfilling its share issuance and exploration expenditure requirements, Kam Chuen will transfer 60% ownership interest in ZHLMIL to Midnight Sun and Kam Chuen and Midnight Sun will enter into a joint venture agreement governing the further exploration and development of the Solwezi Licenses. The Company and Kam Chuen are negotiating the final form of the joint venture and have initiated the process to transfer the ZHLMIL shares.

**Exploration Property - Expenditures**

As at December 31, 2018, the Company had funded the following expenditures on the Solwezi Licenses:

<b>Site and project expenditures</b>	<b>31-Dec-18</b>	<b>Additions</b>	<b>31-Dec-17</b>
Acquisition costs	\$ 4,136,678	\$ -	\$ 4,136,678
Assays	325,356	99,789	225,567
Diamond drilling	3,043,326	975,737	2,067,589
Equipment	77,599	77,599	-
Field expenses	1,220,643	855,905	364,738
General & administration	384,706	380,768	3,938
Geological consulting	1,040,019	484,718	555,610
License	235,553	66,600	168,953
Travel and accommodation	677,260	398,815	278,445
<b>Total operations funded</b>	<b>\$ 11,141,449</b>	<b>\$ 3,339,931</b>	<b>7,801,518</b>

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.

	<b>Solwezi</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	<b>\$ 1,932,909</b>	<b>\$ 1,932,909</b>
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
<b>Balance, December 31, 2017</b>	<b>\$ 7,801,518</b>	<b>\$ 7,801,518</b>
Exploration expenditures	3,339,931	3,339,931
Total additions during year	3,339,931	3,339,931
<b>Balance, December 31, 2018</b>	<b>\$ 11,141,449</b>	<b>\$ 11,141,449</b>

**Exploration Property - Activities**

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.

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Based on historical work, the Company identified six significant exploration targets on the Solwezi Licences. Since signing the Option work has focussed on the following four areas:

- *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. Initial drilling in this area encountered significant copper/cobalt mineralization.
- *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.

During 2018, the Company’s primary exploration focus was 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 approximately 1,200 metres.

During 2017, the Company continued 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 were 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, at Mitu, the Company conducted a 34 line-kilometre NSAMT survey, completed 10,424 metres of air core drilling and drilled 1,503 metres of diamond drilling. In addition, a 3,889-line kilometre VTEM survey covering the entirety of the Solwezi Licences was conducted, new core storage and logging facilities were constructed, and all available core was relogged.

In December of 2018 Midnight Sun received the raw data from the VTEM survey and subsequent to December 31, 2018, in February of 2019, received the initial interpretations derived from this raw data. Based on the VTEM data interpretation the Company has identified 4 new target areas on the Solwezi Licences and added to its understanding of the 6 previously identified target areas.

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Midnight Sun is developing priority drill targets at the 22 Zone, Mitu, and the newly identified Western Flank, as well as future drill targets on other areas of the Solwezi Licenses based on the results of the VTEM survey and other data.

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:

<b>Work</b>	<b>31-Dec-18</b>	<b>Additions</b>	<b>30-Sept-17</b>
Geochemical - sampling	5,928	-	5,928
Ground Geophysics – NSAMT	77.7 kms	34.0 kms	43.7 kms
Airborne Geophysics -VTEM	3,889	3,889	-
Air Core drilling - metres	34,639	10,424	24,215
Air Core drilling - holes	835	234	501
RC drilling - metres	1,276	-	1,276
RC drilling - holes	15	-	15
Diamond drilling - metres	8,829	1,503	7,326
Diamond drilling - holes	57	7	50

Richard Mazur, P.Geo., Director of the Company, a Qualified Person under NI 43-101, has reviewed the information contained herein.

#### **4. 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.

	<b>Year ended Dec 31, 2018</b>	<b>Year ended Dec 31, 2017</b>	<b>Year ended Dec 31, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total revenue	Nil	Nil	Nil
Net income (loss)	(1,458,917)	(891,235)	(407,009)
Basic and fully diluted income (loss) per share	(0.02)	(0.01)	(0.01)
Total assets	11,455,602	9,400,915	2,723,035
Total non-current liabilities	Nil	Nil	Nil
Dividends declared	Nil	Nil	Nil

Factors which have caused period to period variations in total asset include the availability of equity funding, which is directly linked to exploration activities and payments under the Option. During the year ended December 31, 2017, the Company fulfilled all obligations under the Option having issued 1,333,333 during the year ended December 31, 2014 (valued at \$186,667) and 14,000,000 shares (valued at \$3,920,000) during the year ended December 31, 2017 as well as meeting required levels of exploration expenditures. The Company incurring over \$3,339,931 in property expenditures during the year ended December 31, 2018; \$1,948,609 during the year ended December 31, 2017 and \$819,963 during the year ended December 31, 2016.

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The net loss for the year ended December 31, 2018 of \$1,458,917 was primarily comprised of a non cash expense of \$611,671 for stock-based payments and general and administrative expenses of \$847,246, which reflect administrative expenses incurred in Canada and Zambia. 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 2017 as the Company incurred significant legal and other costs relating to renewing the Solwezi Licenses and formalizing agreements relating to the Solwezi Licenses, increased staffing costs and increased investor relations activities. 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. Management anticipates general and administrative costs will decrease in fiscal 2019 as a result of streamlining management and cost cutting measures implemented during the second half of 2018.

## 5. 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.

	December 31 2018 \$	September 30 2018 \$	June 30 2018 \$	March 31 2018 \$
<b>Financial results</b>				
Net loss for period	81,715	127,073	580,663	669,466
Basic & diluted loss per share	0.00	0.00	0.01	0.01
Exploration expenditures	(4,075)	\$544,541	\$2,331,198	\$468,267
<b>Statement of Financial Position</b>				
Cash	207,875	19,161	444,608	1,048,533
Exploration & evaluation assets	11,141,449	11,145,524	10,600,983	8,269,785
Total assets	11,455,602	11,362,970	11,045,591	9,641,794
Shareholders' equity	10,866,744	9,996,805	10,117,726	9,234,307

	December 31 2017 \$	September 30 2017 \$	June 30 2017 \$	March 31 2017 \$
<b>Financial results</b>				
Net loss for period	391,778	278,833	137,833	82,460
Basic & diluted loss per share	0.01	0.00	0.00	0.00
Exploration expenditures	\$35,247	21,266	1,794,285	97,811
<b>Statement of Financial Position</b>				
Cash	1,528,810	24,974	45,105	294,611
Exploration & evaluation assets	7,801,518	7,766,271	7,745,005	2,030,720
Total assets	9,400,915	7,801,107	7,794,656	2,409,983
Shareholders' equity	9,000,787	6,243,034	6,264,520	2,334,853

All exploration expenditures relate to work done on the Solwezi Licenses. Net losses for all periods reflect general and administrative costs including legal and accounting. Prior to January 1, 2018, Zambian operations were directed and managed from Canada. In January 2018, the Company added technical and support staff in Zambia and transferred responsibility for most

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operational functions to MSM Zambia as the size and scope of the annual program in Zambia increased. The increased level of activity in MSM Zambia resulted in an initial increase in office, legal, accounting, administrative and staffing costs as reflected in the net losses for the quarters ended March 31 and June 30, 2018. During the quarter ended September 30, 2018 the Company reassessed its administrative processes and significantly reduced administrative costs in both Zambia and Canada. Company management continues to evaluate options to most effectively manage costs in both Canada and Zambia while maintaining enough resources available to manage seasonal exploration programs, other property related work and administrative functions.

## **6. DISCUSSION OF OPERATIONS**

The following discussions address some of the reasons for variations in the quarterly numbers, but as is typical with junior exploration and mining companies there can be significant fluctuation from quarter to quarter. Quarterly results can vary greatly depending on whether the Company is in an active exploration phase or has granted stock options. Activity levels are primarily dependent on the success of the Company's ongoing exploration and evaluation work and the Company's ability to raise funds through equity issuances. The granting of stock options can cause a material variation in net loss on a quarterly basis due to the resulting share-based payment charges which can be significant.

### **Overall Performance & Results of Operations**

#### *Three Month Period Ended December 31, 2018*

The Company's loss for the three months ended December 31, 2018, was \$81,715, or \$0.00 per share, as compared to a loss of \$391,778, or \$0.01 per share for the three months ended December 31, 2017. The decrease was a result of cost cutting measured and lower activity levels in the current 2018 period in relation to the comparative 2017 period.

Major expenses during the three-month period ended December 31, 2018 consisted of accounting and audit fees, \$8,727 (2017: -\$22,897), consulting fees, \$25,849 (2017: \$56,764), investor and shareholder relations, \$16,722 (2017: \$47,212), legal fees, -\$10,556 (2017: \$17,101), office services and miscellaneous expenses, \$22,954 (2017: \$22,144), regulatory and transfer agent fees, \$3,870 (2017: \$7,297), share-based payments, \$4,084 (2017: \$20,020), travel, \$nil (2017: \$21,871) and wages and benefits, \$14,710 (2017: \$213,298).

#### *Twelve Month Period Ended December 31, 2018*

The Company's loss for the twelve months ended December 31, 2018, was \$1,458,917, or \$0.02 per share, as compared to a loss of \$891,305, or \$0.01 per share for the twelve months ended December 31, 2017. The increase was primarily a result of costs incurred by MSM Zambia, share-based payments, increased investor relations activities, the increased use of consultants and legal costs.

Major expenses during the 12-month period ended December 31, 2018 consisted of accounting and audit fees, \$44,611 (2017: \$40,185), consulting fees, \$251,990 (2017: \$104,209), investor and shareholder relations, \$187,863 (2017: \$93,003), legal fees, \$64,894 (2017: \$24,959), office

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services and miscellaneous expenses, \$115,932 (2017: \$68,379), regulatory and transfer agent fees, \$21,234 (2017: \$19,824), share-based payments, \$611,671 (2017: \$240,475), travel, \$9,695 (2017: \$30,275) and wages and benefits, \$149,555 (2017: \$260,926).

During the 12-month period ended 2018, as a result of increased activities in Zambia the Company incurred significantly higher consulting expenses (2018: \$251,990; 2017:104,209). Expenditures relating to consulting fees, wages, share-based payments and travel are expected to fluctuate directly in relation to the level of field activities in any given period or year. Historically, investor relations and regulatory and transfer agent fees have reflected the level of promotional and financing activities undertaken during a fiscal period and this is expected to continue in the future.

During the twelve-month period ended December 31, 2018, \$1,110,549 in cash was used for operating activities and \$2,923,589 in cash was used for exploration and evaluation investments, these outflows were partially funded by financing activities totalling \$2,713,203.

## **7. LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

As at December 31, 2018, the Company had \$207,875 in cash. 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, 2018, the Company had working capital deficit of \$274,705 and an accumulated deficit of \$6,872,515. In the opinion of management this working capital is insufficient to support the Company's near term general administrative and corporate operating requirements on an on-going basis.

### **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 insufficient capital to cover its administrative overhead expenses for the next twelve months. The Company does not currently have capital to fund all budgeted or planned

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exploration activities on the Solwezi Licenses during 2019. 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 to delay some planned exploration expenditures.

## **8. OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **9. TRANSACTIONS WITH RELATED PARTIES**

The Company's related parties at December 31, 2018 consist of 8 officers and directors (and their related companies).

<b>Name of Related Party</b>	<b>Position at Dec 31, 2018</b>	<b>Nature of transaction</b>
Allan J. Fabbro	Director & Interim CEO	Director
Fengjie Huang	Director (Zambian subsidiary)	Geological consulting
Mathew Mackenzie	Secretary	Corporate secretary
Richard J. Mazur	Director	Director
Wayne Moorhouse	CFO & COO	Management services
Brett Richards/Richards Enterprises Inc.	Director	Management services
Robert A. Sibthorpe / 069426 BC Ltd	VP Exploration & director	Management services
Tom Ye	Director	Director

As at December 31, 2018, \$2,085 (December 31, 2017 - \$282,530) is due to officers, directors or companies with a director in common for cash advances, unpaid geological consulting fees, unpaid wages and bonuses and unpaid expenses.

## **10. KEY MANAGEMENT COMPENSATION**

Compensation paid or accrued to key management and/or their related companies during the years ended December 31, 2018 and 2017 is as follows:

<b>Nature of Expenditure</b>	<b>Year ended Dec. 31, 2018</b>	<b>Year ended Dec. 31, 2017</b>
Exploration & evaluation asset expenditures		
Geological consulting	-	\$105,900
Assays	-	\$12,344
Wages and benefits	\$24,960	\$219,960
Consulting fees	\$112,035	\$61,806
Share-based payments	\$390,411	\$220,455
<b>Total</b>	<b>\$527,406</b>	<b>\$620,465</b>

Key management consists of those individuals having authority and responsibility for, directly or indirectly, planning, directing, and controlling the activities of the Company. Wages were paid to the Company's Corporate Secretary, Consulting fees are amounts paid to the Company's former

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CEO and share-based payments reflect the stock option expense for options granted to the Company's directors, CFO, Corporate Secretary and a director of ZHLML.

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.

## **11. PROPOSED TRANSACTIONS**

The Company does not currently have any proposed transactions other than the transactions discussed in this MD&A; however, the Company will continue to review potential property acquisitions in addition to conducting exploration work on its properties.

## **12. CHANGES IN ACCOUNTING POLICY**

Please see note 3 in the Financial Statements.

## **13. FINANCIAL INSTRUMENTS AND 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.

### **Financial Instruments**

#### *Financial assets*

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- *Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.
- *Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.
- *Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the

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positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

- *Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### *Financial liabilities*

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

- *Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.
- *Other financial liabilities*: This category includes amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

#### *Classification*

The Company's cash, deposits, and receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

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.

### **Related Risks**

#### *Interest rate risk*

The Company has non-material exposure at December 31, 2018 and December 31, 2017 to interest rate risk through its financial instruments.

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*Currency Risk*

As at December 31, 2018 and December 31, 2017, 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. A 1% change in the foreign exchange rate between the Canadian and US Dollar would result in a fluctuation of \$395 on the net loss for the period.

*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 \$39,530 held with a major financial institution in Zambia. Management believes the risk of loss to be remote.

*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, 2018, the Company had \$207,875 cash (December 31, 2017 – \$1,528,810) and current liabilities of \$588,858 (December 31, 2017 - \$400,128). 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.

## **14. 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.

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*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.

*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

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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.

*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.

## **15. NATURE OF 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.

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## 16. DISCLOSURE OF OUTSTANDING SHARE DATA

The table below presents the Company's common share data as of April 25, 2019.

	Price	Expiry date	April 25, 2019
Common shares issued and outstanding			<b>88,778,447</b>
Securities convertible into common shares:			
Stock Options	\$0.25	October 24, 2019	350,000
	\$0.25	November 28, 2021	2,600,000
	\$0.35	August 18, 2022	1,000,000
	\$0.36	January 31, 2023	2,575,000
<b>Total Options</b>			<b>6,525,000</b>
Warrants	\$0.20	April 29, 2019	5,982,000
	\$0.20	June 3, 2019	3,800,000
	\$0.20	July 1, 2019	1,935,000
	\$0.20	October 30, 2019	4,458,000
	\$0.45	November 27, 2019	9,002,708
	\$0.20	December 1, 2019	2,575,000
	\$0.20	December 23, 2019	1,301,000
	\$0.48	May 11, 2020	685,782
	\$0.48	May 30, 2020	1,041,200
Broker Warrants	\$0.48	May 30, 2019	136,575
	\$0.20	October 30, 2019	218,640
	\$0.20	December 1, 2019	163,600
<b>Total Warrants</b>			<b>31,299,505</b>
<b>Total options &amp; warrants</b>			<b>37,824,505</b>

## 17. COMMITMENTS

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

## 18. 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, 2018. These Financial Statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 19. 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

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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.

## **20. 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 which are filed and available for review on SEDAR at [www.sedar.com](http://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.

## **21. ADDITIONAL INFORMATION**

Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com).