



**Midnight Sun Mining Corp.**

**Consolidated Financial Statements**  
**For the year ended December 31, 2018**  
*(Expressed in Canadian Dollars)*

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Midnight Sun Mining Corp.

### *Opinion*

We have audited the accompanying consolidated financial statements of Midnight Sun Mining Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Midnight Sun Mining Corp. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 of the consolidated financial statements, which indicates that as at December 31, 2018 the Company had an accumulated deficit of \$6,872,515 and the Company's current liabilities exceeded its current assets by \$274,705. These events and conditions, along with other matters as set forth in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

April 25, 2019

# Midnight Sun Mining Corp.

## Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 207,875	\$ 1,528,810
Advances and deposits	76,358	58,157
Receivables	29,920	12,430
	314,153	1,599,397
<b>Exploration and evaluation assets (note 5)</b>	11,141,449	7,801,518
	\$ 11,455,602	\$ 9,400,915
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 586,773	\$ 117,598
Due to related parties (note 7)	2,085	282,530
	588,858	400,128
<b>Shareholders' equity</b>		
Share subscriptions received in advance (note 6)	-	200,000
Share capital (note 6)	16,317,898	13,393,819
Reserves - options (note 6)	1,327,167	728,496
Reserves - warrants (note 6)	94,194	92,070
Deficit	(6,872,515)	(5,413,598)
	10,866,744	9,000,787
	\$ 11,455,602	\$ 9,400,915

Nature of operations (note 1)

Basis of presentation (note 2)

The accompanying notes are an integral part of these consolidated financial statements.

Approved and authorized by the Board of Directors on April 25, 2019:

*"Robert Sibthorpe"*

Robert Sibthorpe, Director

*"Allan Fabbro"*

Allan Fabbro, Director

**Midnight Sun Mining Corp.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
*(Expressed in Canadian Dollars)*

	Years ended December 31,	
	2018	2017
<b>Expenses</b>		
Accounting and audit fees	\$ 44,611	\$ 40,185
Consulting fees (note 7)	251,990	104,209
Investor and shareholder relations	187,863	93,003
Legal fees	64,894	24,959
Office services and miscellaneous	115,932	68,379
Regulatory and transfer agent fees	21,234	19,824
Share-based payments (note 6)	611,671	240,475
Travel and accommodation	9,695	30,275
Wages and benefits (note 7)	149,555	260,926
	(1,457,445)	(882,235)
Foreign exchange loss	(1,472)	(9,471)
Interest income	-	401
<b>Loss and comprehensive loss for the year</b>	<b>\$ (1,458,917)</b>	<b>\$ (891,305)</b>
Loss per share		
Basic and diluted	\$ (0.02)	\$ (0.01)
Weighted Average Number of Common Shares		
Outstanding		
Basic and diluted	79,984,217	60,642,657

The accompanying notes are an integral part of these consolidated financial statements.

**Midnight Sun Mining Corp.**  
**Consolidated Statements of Changes in Shareholders' Equity**

(Expressed in Canadian Dollars)

	Share capital		Share	Reserves -	Reserves -	Deficit	Total shareholders' equity
	Shares	Amount	subscriptions received in advance	Warrants	Options		
<b>Balance - December 31, 2016</b>	<b>45,544,266</b>	<b>\$ 6,117,335</b>	<b>\$ -</b>	<b>\$ 69,577</b>	<b>\$ 532,694</b>	<b>\$(4,522,293)</b>	<b>\$ 2,197,313</b>
Shares issued for cash for exercise of warrants	3,515,710	704,569	200,000	(1,427)	-	-	903,142
Shares issued for cash for exercise of options	350,000	132,173	-	-	(44,673)	-	87,500
Shares issued for cash for private placement	9,002,708	2,700,812	-	-	-	-	2,700,812
Share issuance costs	-	(181,070)	-	23,920	-	-	(157,150)
Share-based payments	-	-	-	-	240,475	-	240,475
Shares issued for exploration and evaluation assets	14,000,000	3,920,000	-	-	-	-	3,920,000
Loss for the year	-	-	-	-	-	(891,305)	(891,305)
<b>Balance - December 31, 2017</b>	<b>72,412,684</b>	<b>13,393,819</b>	<b>200,000</b>	<b>92,070</b>	<b>728,496</b>	<b>(5,413,598)</b>	<b>9,000,787</b>
Shares issued for cash for exercise of warrants	4,477,800	907,645	(200,000)	(12,085)	-	-	695,560
Shares issued for cash for exercise of options	100,000	28,500	-	-	(13,000)	-	15,500
Shares issued for cash for private placement	11,787,963	2,105,348	-	-	-	-	2,105,348
Share issuance costs	-	(117,414)	-	14,209	-	-	(103,205)
Share-based payments	-	-	-	-	611,671	-	611,671
Loss for the year	-	-	-	-	-	(1,458,917)	(1,458,917)
<b>Balance - December 31, 2018</b>	<b>88,778,447</b>	<b>16,317,898</b>	<b>-</b>	<b>94,194</b>	<b>1,327,167</b>	<b>(6,872,515)</b>	<b>10,866,744</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Midnight Sun Mining Corp.**  
**Consolidated Statements of Cash Flows**  
*(Expressed in Canadian Dollars)*

	Years ended December 31,	
	2018	2017
<b>Operating activities</b>		
Loss for the year	\$ (1,458,917)	\$ (891,305)
Items not affecting cash:		
Share-based payments	611,671	240,475
Changes in non-cash working capital		
Accounts payable and accrued liabilities	32,358	(9,283)
Due to related parties	(259,937)	259,275
Accounts receivable	(17,490)	(4,767)
Advances and deposits	(18,201)	(57,843)
	(1,110,516)	(463,448)
<b>Investing activities</b>		
Exploration and evaluation assets expenditures	(2,923,622)	(2,324,195)
	(2,923,622)	(2,324,195)
<b>Financing activities</b>		
Proceeds from issuances of units and shares	2,816,408	3,575,454
Proceeds from share subscriptions received in advance	-	200,000
Share issuance costs	(103,205)	(157,150)
	2,713,203	3,618,304
<b>Net change in cash</b>	(1,320,935)	830,661
<b>Cash, beginning of year</b>	1,528,810	698,149
<b>Cash, end of year</b>	\$ 207,875	\$ 1,528,810

**SUPPLEMENTAL NON-CASH DISCLOSURES**

Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 495,412	\$ 58,595
Valuation of finders' warrants included in share issuance cost	\$ 14,209	\$ 23,920
Shares issued for the acquisition of exploration and evaluation assets	\$ -	\$ 3,920,000
Exploration and evaluation assets included in due to related parties	\$ -	\$ 20,508

The accompanying notes are an integral part of these consolidated financial statements.

**Midnight Sun Mining Corp.**  
**Consolidated Schedule of Exploration and Evaluation Assets**  
*(Expressed in Canadian Dollars)*  
**December 31, 2018**

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		<b>Solwezi</b>
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>1,932,909</b>
Acquisition costs (note 5)		3,920,000
Exploration expenditures (note 5)		1,948,609
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>7,801,518</b>
Acquisition costs (note 5)		-
Exploration expenditures (note 5)		3,339,931
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>11,141,449</b>

The accompanying notes are an integral part of these consolidated financial statements.

## **1. Nature of Operations**

Midnight Sun Mining Corp. (the "Company") was incorporated on April 11, 2007 pursuant to the Business Corporations Act of British Columbia. The Company's principal business activity is the acquisition and exploration of mineral property interests. The Company is in the exploration stage and substantially all the Company's efforts are devoted to financing and exploring these property interests. There has been no determination whether the Company's interests in unproven exploration and evaluation assets contain economically recoverable mineral resources.

The Company is listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "MMA", and its corporate head office is located at Suite 770, 789 West Pender Street, Vancouver, BC.

## **2. Basis of Presentation**

### **a) Statement of compliance**

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these consolidated financial statements.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 25, 2019.

### **b) Going concern**

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classifications used.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

During the years ended December 31, 2018 and 2017, the Company experienced operating losses before income taxes and negative operating cash flows with the operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

As at December 31, 2018, the Company had an accumulated deficit of \$6,872,515 (December 31, 2017 - \$5,413,598) and had a working capital deficit of \$274,705 (December 31, 2017 - working capital of \$1,199,269). Management has estimated that the Company will require additional financing to complete all planned exploration programs during the year ended December 31, 2018. Continued operations are dependent on the Company's ability to complete public equity financing, secure project debt financing or generate profitable operations in the future.

In the event cash flow from operations, if any, together with the proceeds for any future financings are insufficient to meet the Company's operating expenses, the Company will be required to re-evaluate its planned expenditures and allocate its total resources in such a manner as the Board of Directors and management deem to be in the Company's best interest. This may result in a substantial reduction of the scope of existing and planned operations.

These consolidated financial statements do not give effect to adjustments, which could be material, to the carrying values and classification of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

**c) Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Midnight Sun Mining Zambia Limited ("MSM Zambia"), a company incorporated in 2013 under the laws of Zambia, as well as Midnight Sun One Co. and Midnight Sun Two Co., two companies incorporated in 2018 under the laws of the British Virgin Island. The Company has consolidated the operations of MSM Zambia since the incorporation of the subsidiary. Control exists when the Company possess power over an investee, has exposure to variable returns from the investee and the ability to use its power over the investee to affect its returns. All significant inter-company transactions have been eliminated upon consolidation.

**d) Functional and presentation currency**

The Company's reporting and functional currency is the Canadian dollar. The functional currency of MSM Zambia is also the Canadian dollar. Monetary assets and liabilities of the Company are translated into Canadian dollars at the exchange rate in effect on the statement of financial position date while non-monetary assets and liabilities are translated at historical rates, and revenues and expenses are translated at the average rates over the reporting period. Gains and losses from these translations are included in the results from operations.

**e) Basis of measurement**

These consolidated financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

**f) Estimates and judgments**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both current and future periods.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i. Asset carrying values and impairment charges

At each reporting period, the Company reviews its non-current assets to determine whether there are any indications of impairment. Calculating the estimated recoverable amount of the cash generating unit for non-current asset impairment tests requires management to make

estimates and assumptions with respect to estimated recoverable reserves, estimated future commodity prices, the expected future operating and capital costs and discount rates. Changes in any of these assumptions or estimates used in determining the recoverable amount could impact the impairment analysis.

ii. Recognition of deferred taxes

The determination of income tax expense and deferred income tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred income taxes or the timing of tax payments.

iii. Share-based payments

Estimating the fair value of granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected rate of forfeitures and dividend yield and making assumptions about them.

iv. Provision for environmental rehabilitation

The Company assesses its reclamation provisions at each reporting date. Significant estimates and assumptions are made in determining the provision for environmental rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent, cost, and timing of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rate, and changes in discount rates. These uncertainties may result in future expenditures differing from the amounts currently provided.

v. Asset acquisition

During fiscal 2017 the Company fulfilled all requirements to earn a 60% interest in the Solwezi property (note 5). The transfer of the 60% interest to the Company has not occurred to date and requires government approval. Management determined that the acquisition when it occurs will represent an acquisition of assets rather than a business combination because the mineral properties were in the exploration and evaluation stage and had not demonstrated technical feasibility, economic viability or the ability to provide economic benefit. The Solwezi property does not have the workforce, resources and reserves, mine plan, or financial resources to meet the definition of a business for accounting purposes. The Company has made the judgment that government approval is required for the asset acquisition to be completed for accounting purposes as there is uncertainty surrounding timing and completion of this approval.

vi. Functional currency

Management considers the determination of the functional currency of the Company a significant judgment. Management has used its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and considered various factors including the currency of historical and future expenditures and the currency in which funds from financing activities are generated. A Company's functional currency is only changed when there is a material change in the underlying transactions, events and conditions.

### **3. Significant Accounting Policies**

#### **a) Exploration and evaluation assets**

All costs related to the acquisition, exploration and evaluation of mineral resource interests are capitalized by project. Costs incurred before the Company has obtained legal rights to explore an area are recognized in the statement of operations and comprehensive loss. The Company recognizes the payment or receipt of amounts required under option agreements as an addition or reduction, respectively, in the book value of the property under option when paid or received.

Development expenditures incurred subsequent to a determination of the feasibility of mining operations and to increase or to extend the life of existing production, are capitalized and will be amortized using the unit-of-production method based upon estimated proven and probable reserves. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

The amounts shown for exploration and evaluation assets represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects as well as future profitable production or proceeds from the disposition thereof.

At the end of each reporting period, the Company's exploration and evaluation assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Ownership in exploration and evaluation assets involves certain inherent risks due to the difficulties of determining and obtaining clear title to the claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets.

#### **b) Share capital**

Common shares issued are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. Common shares issued for consideration other than cash are valued based on their market value at the date of the share issuance.

As part of its private placements, the Company has issued warrants and finder's warrants. Any warrants that expire or are exercised during the year are transferred back to share capital, if originally determined to have a value. The Company values warrants as part of a private placement offering under the residual value approach. Finder's warrants are valued using the Black-Scholes option pricing model.

**c) Loss per share**

The Company computes the dilutive effect of options, warrants and similar instruments on loss per common share from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive. Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**d) Share-based payments**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. A corresponding increase in reserves is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion of share-based payments previously recorded in reserves. Consideration paid for the shares on the exercise of stock options is credited to share capital.

Where equity instruments are issued to non-employees and some or all the goods and services received by the Company as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise share-based payments are measured at the fair value of the goods and services received. On expiry or cancellation, the value of stock options remains in reserves.

**e) Income taxes**

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when

there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**f) Provision for environmental rehabilitation**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the production assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is amortized on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

As at December 31, 2018 and 2017, the Company had no provisions for environmental rehabilitation.

**g) Financial Instruments**

On January 1, 2018 the Company adopted IFRS 9, Financial Instruments. This new standard replaces International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and, therefore, the accounting policy with respect to financial liabilities is unchanged.

The following is the new accounting policy for financial assets and liabilities under IFRS 9:

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (FVTOCI), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company's accounting policy for each of the categories is as follows:

*Financial assets at FVTPL:* Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statement of (loss) income in the period.

*Financial assets at FVTOCI:* Financial assets carried at FVTOCI are recorded at fair value and transaction costs are expensed in the statement (loss) income. Realized and unrealized gains and losses arising from changes in fair value of the financial assets held at FVTOCI are included in other comprehensive (loss) income in the period.

*Financial assets at FVTOCI:* Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in they arise.

*Financial assets at amortized cost:* A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

*Impairment of financial assets at amortized cost:* The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company's financial assets under IFRS 9:

Financial asset	IFRS 9 Classification
Cash	Amortized cost
Advances and deposits	Amortized cost
Receivables	Amortized cost

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. 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 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 accounts payable and accrued liabilities, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statement of operations and comprehensive losses immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

The following table shows the classification of the Company's financial liabilities under IFRS 9:

Financial liability	IFRS 9 Classification
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

#### h) New accounting standards

These new standards, and these amendments to standards are not yet effective as of January 1, 2018 and have not been applied in preparing these consolidated financial statements. These new standards and these amendments are not expected to have a material effect on the consolidated financial statements of the Company. The Company intends to adopt the following standard and amendments when they become effective:

##### i IFRS 16 Leases

IFRS 16 is a new standard that set out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company does not anticipate a material impact on adoption of IFRS 16.

#### New accounting standards adopted

##### i. IFRS 7 - Financial Instruments: Disclosures

The amendment provides for further detail of accounting for transferring a financial asset. This amendment is effective for annual reporting periods beginning on or after January 1, 2018. The amendment does not have a material impact on the consolidated financial statements.

##### ii. IFRS 9 - Financial instruments, classification and measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. This standard addresses the classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

##### iii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard did not have a material impact on the Company's consolidated financial statements.

#### **4. Management of Financial Risk**

Fair value measurement disclosure includes classification of financial instrument fair values in a 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.

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.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized as follows.

##### **a) 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. Cash is measured using level 1 inputs of the fair value hierarchy.

##### **b) Interest rate risk**

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

##### **c) Currency risk**

Throughout the years ended December 31, 2018 and 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 denominated 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 year.

##### **d) 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.

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

##### **e) 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.

## 5. Exploration and Evaluation Assets

### *Solwezi property*

On July 30, 2013, the Company, entered into an option agreement (the "Option") with Kam Chuen Resource Holdings Ltd. ("Kam Chuen"), to acquire a 60% interest in two mineral exploration licenses, 21509-HQ-LEL (formerly 14039-HQ-LPL) and 12124-HQ-LPL, (the "Solwezi Licenses"), which are held in a Kam Chuen subsidiary, Zambian High Light Mining Investment Limited ("ZHLML").

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).

As at December 31, 2018 and 2017, the Company had funded the following exploration expenditures on the Solwezi Licenses:

	December 31, 2018	December 31, 2017
Site and project expenditures		
Acquisition costs	\$ 4,136,678	\$ 4,136,678
Assays	325,356	225,567
Drilling	3,043,326	2,067,589
Equipment	77,599	-
Field expenses	1,220,643	364,738
General and administrative	384,706	3,938
Geological consulting	1,040,328	555,610
License	235,553	168,953
Travel and accomodation	677,260	278,445
<b>Total operations funded</b>	<b>\$ 11,141,449</b>	<b>\$ 7,801,518</b>

The Company incurred \$nil in acquisition costs during the year ended December 31, 2018 (2017 - \$3,920,000) and \$3,339,931 in exploration costs (2017 - \$1,948,609).

At December 31, 2017 the Company had fulfilled all requirements to earn the 60% interest in the Solwezi Licenses. 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 ZHLML 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 ZHLML shares.

Pursuant to the Option with Kam Chuen, the Company is entitled to charge a 10% operator fee, which was included in calculating the total work expenditures under the Option, but not the exploration expenditures for reporting purposes.

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 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.

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 ZHLMI that it had not earned by fulfilling its obligations under the Option. On October 1, 2018, the Company formally announced the termination of the letter of intent and term sheet with Kam Chuen to acquire the remaining 40% interest in ZHLMI. Midnight Sun and Kam Chuen will continue to operate as partners in ZHLMI with Midnight Sun holding a 60% interest and Kam Chuen holding a 40% interest as contemplated in the original Option.

## **6. Share Capital and Reserves**

### **a) Authorised**

Unlimited number of common shares authorised, without par value.

### **b) Share issuances**

At December 31, 2018, the Company had 88,778,447 common shares (December 31, 2017 – 72,412,684) issued and outstanding.

#### *2017 share issuances*

As part of the Option with Kam Chuen Resource Holdings Ltd., the Company issued 14,000,000 common shares on February 15, 2017 valued at \$0.28 per share (note 5).

On November 27, 2017, the Company closed a non-brokered private placement by issuing 9,002,708 units at a price of \$0.30 per unit for gross proceeds of \$2,700,812. Each unit consists of one common share in the capital of the Company and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for a period of twelve months from closing, at an exercise price of \$0.45.

Finder's fees of \$141,540 were paid in cash and 471,799 Finder's Warrants valued at \$23,920 were issued in connection with the private placement. Additional share issuance costs of \$15,610 were paid in cash. Each Finder's Warrant entitles the holder to purchase one common share at a price of \$0.45 for a period of twelve months, expiring on November 27, 2018. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 1.41%; an expected volatility of 77%; an expected life of 1 year; a forfeiture rate of 0%; and an expected dividend of 0%.

During the year ended December 31, 2017, the Company received \$903,142 for exercise of 4,515,710 warrants. Prior to December 31, 2017, the Company issued 3,515,710 common shares. At December 31, 2017, the Company recognized \$200,000 as subscriptions received in advance. Subsequent to December 31, 2017, the Company issued the remaining 1,000,000 common shares.

### *2018 share issuances*

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, resulting in \$1,331 transferred from reserves to share capital. On April 3, 2018, the Company received \$15,500 and issued 100,000 common shares upon the exercise of stock options priced at \$0.155, resulting in \$13,000 transferred from reserves to share capital.

On May 30, 2018, the Company closed a non-brokered private placement of 3,453,963 units at a price of \$0.32 per unit for gross proceeds of \$1,105,268. Each unit consists of one common share in the capital of the Company and one half of one common share purchase warrant. Each full warrant will entitle the holder to purchase one common share of the Company for a period of twelve months from the closing of the offering at an exercise price of \$0.48. The fair value of the warrants was estimated at \$0.0495 per warrant. This calculation was done using the Black-Scholes pricing model, based on a volatility of 75%, risk-free interest rate of 2.09%, no dividend, and an expected life of 1 year.

Finder's fees of \$46,200 were paid in cash and 136,575 Finder's Warrants were issued in connection with the private placement. Each Finder's Warrant will entitle the holder to purchase one common share at a price of \$0.48 prior to May 30, 2019. The fair value of the warrants was estimated at \$0.0495 per warrant. This calculation was done using the Black-Scholes pricing model, based on a volatility of 75%, risk-free interest rate of 2.09%, no dividend, and an expected life of 1 year.

On December 19, 2018, the Company announced the completion of a non-brokered private placement of 8,334,000 units (the "Units") at a price of \$0.12 per Unit for gross proceeds of \$1,000,080 (the "Offering"). Each Unit consists of one common share in the capital of the Company and one common share purchase warrant ("Warrant"). Each Warrant will entitle the holder to purchase one common share of the Company for a period of twelve months from the closing of the Offering at an exercise price of \$0.20. Finder's fees of \$45,869 in cash and 382,240 Finder's Warrants were issued in connection with the Private Placement. The fair value of the warrants was estimated at \$0.0190 per warrant. This calculation was done using the Black-Scholes pricing model, based on a volatility of 63%, risk-free interest rate of 2.03%, no dividend, and an expected life of 1 year.

### **c) Stock options**

The Company has a stock option plan (the "Plan") whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's Board of Directors. The exercise price of an option may not be less than the closing price on the TSX-V on the last trading day preceding the grant date. Options granted to directors, officers, employees and consultants vest upon grant. Options granted in relation to investor relation services vest in equal quarterly intervals over a term of 12 months.

Stock options outstanding and exercisable are summarized as follows:

	<b>Number of stock options outstanding</b>	<b>Weighted average exercise price</b>
<b>Balance, December 31, 2016</b>	<b>3,875,000</b>	<b>\$ 0.25</b>
Granted	1,650,000	0.34
Exercised	(350,000)	0.25
Expired/Cancelled	(550,000)	0.25
<b>Balance, December 31, 2017</b>	<b>4,625,000</b>	<b>\$ 0.28</b>
Granted	2,925,000	0.35
Expired/Cancelled	(650,000)	0.32
Exercised	(100,000)	0.16
<b>Balance, December 31, 2018</b>	<b>6,800,000</b>	<b>\$ 0.31</b>
<b>Exercisable</b>	<b>5,893,750</b>	<b>0.30</b>

On August 21, 2017, the Company granted stock options to purchase an aggregate of 1,000,000 Common Shares at \$0.35 for a period of five years to an officer of the Company. The stock options vested immediately. The options are granted pursuant to the Company's Stock Option Plan and the contract may be cancelled by either party with 90 days' notice. The fair value of the options was estimated at \$0.2450 per option, with \$nil recorded as stock-based compensation in 2018 (2017 - \$220,455). This calculation was done using the Black-Scholes option pricing model, based on a volatility of 90%, risk-free interest rate of 1.51%, no dividend, forfeiture rate of 10% and an expected life of 5 years.

On October 23, 2017, the Company granted stock options to purchase an aggregate of 650,000 Common Shares at \$0.315 for a period of one year to consultants of the Company. The stock options vest in tranches of 162,500 every 3 months. The options are granted pursuant to the Company's Stock Option Plan and the contract may be cancelled by either party with 90 days' notice. The fair value of the options was estimated at \$0.0943 per option, with \$33,328 recorded as stock-based compensation in 2018 (2017 - \$20,020). This calculation was done using the Black-Scholes option pricing model, based on a volatility of 90%, risk-free interest rate of 1.70%, no dividend, forfeiture rate of 10% and an expected life of 1 year.

During the year ended December 31, 2017, 350,000 options were exercised at a price of \$0.25, and as a result 350,000 common shares were issued. On September 30, 2017, 200,000 stock options with an exercise price of \$0.25 expired unexercised. On November 28, 2017, 350,000 stock options with an exercise price of \$0.25 expired unexercised.

On January 31, 2018, the Company granted stock options to purchase an aggregate of 2,575,000 Common Shares at \$0.36 for a period of five years to employees, consultants and directors of the Company. The stock options vest in tranches of 643,750 every 3 months. The options are granted pursuant to the Company's Stock Option Plan and the contract may be cancelled by either party with 90 days' notice. The fair value of the options was estimated at \$0.2479 per option, with \$562,264 recorded as stock-based compensation in the current year. This calculation was done using the Black-Scholes option pricing model, based on a volatility of 87%, risk-free interest rate of 2.08%, no dividend, forfeiture rate of 10% and an expected life of 5 years.

On October 31, 2018, the Company extended the investor relations agreement with Kaye Wynn Consulting Inc. ("Kaye Wynn") for an additional 12 months at a rate of \$1,500 per month. The Company granted Kaye Wynn stock options to purchase 350,000 common shares at \$0.25 for a period

of one year. The stock options vest in accordance with TSX Venture Exchange policies relating to the granting and vesting of Investor Relations Stock Options. \$16,079 was recorded as stock-based compensation in the current year.

The following table presents the assumptions used in the Black-Scholes option pricing model:

	December 31, 2018	December 31, 2017
Dividend rate	0%	0%
Annualized volatility	87% to 93%	89% to 90%
Risk free interest rate	2.08% to 2.26%	1.51% to 1.70%
Expected life of stock options (years)	1 to 5	1 to 5
Weighted average fair value of options granted	\$ 0.2316	\$ 0.1856

At December 31, 2018, the Company has 6,800,000 outstanding stock options enabling holders to acquire common shares as follows:

	Exercise price	Number of stock options outstanding	Weighted average number of years to expiry
Expiring January 23, 2019*	\$ 0.25	275,000	0.06
Expiring October 24, 2019	\$ 0.25	350,000	0.81
Expiring November 28, 2021	\$ 0.25	2,600,000	2.91
Expiring August 18, 2022	\$ 0.35	1,000,000	3.63
Expiring January 31, 2023	\$ 0.36	2,575,000	4.09
		<b>6,800,000</b>	<b>3.24</b>

\*expired subsequent to December 31, 2018

#### d) Warrants

Share purchase warrants outstanding and exercisable are summarized as follows:

	Number of warrants	Weighted average exercise price
<b>Balance, December 31, 2016</b>	<b>20,157,010</b>	<b>\$ 0.20</b>
Granted	9,474,507	0.45
Exercised	(4,515,710)	0.20
Expired	(25,000)	0.20
<b>Balance, December 31, 2017</b>	<b>25,090,807</b>	<b>\$ 0.29</b>
Granted	10,579,797	0.25
Exercised	(3,477,800)	0.20
Expired	(893,299)	0.33
<b>Balance, December 31, 2018</b>	<b>31,299,505</b>	<b>\$ 0.29</b>

At December 31, 2018, the Company has 31,299,505 outstanding warrants enabling holders to acquire common shares as follows:

	<b>Exercise price</b>	<b>Number of warrants outstanding</b>	<b>Weighted average number of years to expiry</b>
Expiring April 29, 2019	\$ 0.20	5,982,000	0.33
Expiring May 30, 2019	\$ 0.48	136,575	0.41
Expiring June 3, 2019	\$ 0.20	3,800,000	0.42
Expiring July 1, 2019	\$ 0.20	1,935,000	0.50
Expiring October 30, 2019	\$ 0.20	4,676,640	0.83
Expiring November 27, 2019	\$ 0.45	9,002,708	0.91
Expiring December 1, 2019	\$ 0.20	2,738,600	0.92
Expiring December 23, 2019	\$ 0.20	1,301,000	0.98
Expiring May 11, 2020	\$ 0.48	685,782	1.36
Expiring May 30, 2020	\$ 0.48	1,041,200	1.41
		<b>31,299,505</b>	<b>0.73</b>

On October 23, 2018, the Company extended the expiry dates of outstanding common share purchase warrants issued pursuant to private placement offerings of the Company as follows:

<b>Number of Warrants</b>	<b>Price</b>	<b>Original Expiry</b>	<b>New Expiration Date</b>
5,982,000	\$0.20	Oct. 28, 2018	April 29, 2019
3,800,000	\$0.20	Dec. 2, 2018	June 3, 2019
1,935,000	\$0.20	Dec. 29, 2018	July 1, 2019
9,002,708	\$0.45	Nov. 27, 2018	Nov. 27, 2019
685,782	\$0.48	May 11, 2019	May 11, 2020
1,041,200	\$0.48	May 30, 2019	May 30, 2020

#### e) Share subscriptions received in advance

During the year ended December 31, 2017, the Company received \$200,000 for the exercise of 1,000,000 warrants priced at \$0.20. The 1,000,000 common shares were issued subsequent to December 31, 2017.

## 7. Related Party Transactions and Key Management Compensation

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

<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	Geological services

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

Nature of expenditure	Years ended December 31,	
	2018	2017
Exploration and evaluation assets expenditures		
Geological consulting	\$ -	\$ 105,900
Field expenses	-	12,344
Wages and benefits	24,960	219,960
Consulting fees	112,035	61,806
Share-based payments	390,411	220,455
	<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.

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.

## 8. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At December 31, 2018 and 2017, the Company's exploration and evaluation assets are located in one geographic location: Zambia, Africa.

## 9. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and exploration of its exploration and evaluation assets and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. Further information relating to liquidity risk is disclosed in note 4.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The budgets are approved by the Board of Directors.

## 10. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended December 31,	
	2018	2017
Loss for the year	\$ (1,458,920)	\$ (891,305)
Expected income tax (recovery)	\$ (379,000)	\$ (232,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,213,000	(32,000)
Permanent difference	159,000	57,000
Share issue cost	(30,000)	(41,000)
Change in unrecognized deductible temporary differences	(963,000)	248,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	Year ended December 31,		Expiry Date
	2018	2017	Range
<b>Temporary Differences</b>			
Exploration and evaluation assets	\$ 6,768,000	\$ 205,000	No expiry date
Canadian eligible capital (CEC)	\$ -	\$ -	No expiry date
Share issue costs	\$ 115,000	\$ 172,000	2034-2037
Non-capital losses available for future periods	\$ 2,951,000	\$ 2,907,000	2026-2037

Tax attributes are subject to review, and potential adjustment, by tax authorities.