



MIDNIGHT SUN MINING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

As at November 25, 2020

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For the Three & Nine-Month Period Ended September 30, 2020

1. INTRODUCTION

The following management’s discussion and analysis (“MD&A”) of Midnight Sun Mining Corp. has been prepared as of November 25, 2020. This MD&A should be read in conjunction with the condensed consolidated interim financial statements (“Financial Statements”) of Midnight Sun Mining Corp. and the notes thereto for the three and nine-month period ended September 30, 2020 as well as the audited consolidated financial statements for the year ended December 31, 2019, 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 unless 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. 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 September 30, 2020, 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 subsidiaries Midnight Sun Mining Zambia Limited (“MSM Zambia”), a company incorporated on October 29, 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 Islands. The Company has consolidated the operations of MSM Zambia since its incorporation.

2. HIGHLIGHTS & SIGNIFICANT EVENTS

Corporate Highlights for the Nine-Month Period Ended September 30, 2020

COVID-19

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations this time.

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Financial Highlights for the Nine-Month Period Ended September 30, 2020

Private Placement

On May 26, 2020, the Company completed a non-brokered private placement by issuing 7,940,185 units at a price of \$0.135 per unit for gross proceeds of \$1,071,925. Each unit consists of one common share in the capital of the Company and one Common Share purchase warrant. Each Warrant entitles the holder to purchase one Common Share of the Company for a period of twenty-four months from closing, at an exercise price of \$0.25. Finder's fees of \$56,577 were paid in cash and 419,090 Finder's Warrants were issued in connection with the Private Placement.

Incentive Stock Options

On May 6, 2020, the Company granted an aggregate of 3,000,000 incentive stock options at an exercise price of \$0.135 per share to certain directors, officers, employees, and consultants. 350,000 of the options have a term of 1 year, and the remaining 2,650,000 have a term of 5 years.

Earn-in Agreement

On April 27, 2020, the Company entered into an earn-in and joint venture agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto") in which Rio Tinto can earn up to a 75% interest in the Solwezi Licenses. The terms of the agreement are as follows:

- **Initial Cash Payment:** A cash payment in the amount of USD\$700,000 will become payable by Rio Tinto to Midnight Sun upon removal of conditions.
- **Initial Work Program:** Rio Tinto can fund an initial work program on the Solwezi Licenses by spending USD\$3,000,000, of which USD\$2,000,000 is a firm commitment, within the next two field season. After completing the firm commitment, a further USD\$300,000 will become payable by Rio Tinto to Midnight Sun before Rio Tinto proceeds with the additional expenditures.
- **Stage 1:** After completing the Initial Work Program, Rio Tinto can earn 51% ownership of the Solwezi Licenses by incurring a further USD\$16,000,000 in work expenditures within four years and making a total of USD\$1,000,000 in additional scheduled cash payments to Midnight Sun.
- **Stage 2:** Rio Tinto can earn an additional 14% ownership of the Licences by incurring a further USD\$14,000,000 in work expenditures or completing a Feasibility Study within three years of starting Stage 2 and making an additional USD\$1,000,000 cash payment to Midnight Sun.
- **Stage 3:** Rio Tinto can earn an additional 10% ownership of the Licences by incurring a further USD\$15,000,000 in work expenditures within two years.

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Addition to ownership interest in Zambian High Light Mining Investment Limited (“ZHMIL”)

On September 22, 2020, the Company increased its ownership share in ZHLMIL to 80.65% by participating in an issuance of 16,022 ZHLMIL ordinary shares at a price of \$618.52 with a total value of \$9,909,927. Of the total subscription, 5,756 ZHLMIL ordinary shares were fully paid up based on previous expenditures incurred by the Company in the amount of \$3,560,020. The remaining 10,266 ZHLMIL ordinary shares in the amount of \$6,349,726 are to be fully paid up by March 31, 2021 and can be paid for in cash or in exploration expenditures made on behalf of ZHLMIL by the Company or the Company’s earn-in partner, Rio Tinto.

As at September 30, 2020, Rio Tinto had incurred an a total of \$3,952,833 in exploration costs on the property and \$2,396,893 remains to be incurred by March 31, 2021. On the acquisition of the additional 20.65% interest in the ZHMIL, the Company recognized a decrease to the non-controlling interest of \$1,587,043 with a corresponding reduction in deficit.

Events Subsequent to Period Ended September 30, 2020

On November 25, 2020, the Company agreed to remunerate various officers and directors in the amount of \$270,000 in recognition of services rendered.

3. EXPLORATION AND EVALUATION ASSETS

60% Option Agreement

On July 30, 2013, the Company, entered into an option agreement (the “Option”) with Kam Chuen, to acquire a 60% interest in two mineral prospecting licenses 14039-HQ-LPL and 12124-HQ-LPL, the Solwezi Licenses, which are held in a Kam Chuen subsidiary, ZHMIL. The TSXV approved the Option on December 6, 2013.

Under the final terms of the Option, to earn a 60% interest in the Solwezi Licences Midnight Sun was required to issue a total of 15,333,333 common shares (issued - valued at \$4,106,667) to Kam Chuen and incur a total of \$3,666,667 in qualifying expenditures on the Solwezi Licenses prior to December 31, 2017.

Upon the Company fulfilling its share issuance and exploration expenditure requirements, per the Option terms, Kam Chuen transferred 60% ownership interest in ZHLMIL to Midnight Sun and Midnight Sun will continue to manage the exploration and development of the Solwezi Licenses. The Company received the 60% interest in ZHLMIL during the year ended December 31, 2019 and pursuant to an additional share offering, increased its ownership share to 80.65% during the period ended September 30, 2020.

Solwezi Licenses - Zambia

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

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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.

Exploration Property - Expenditures

As at September 30, 2020, the Company had funded the following expenditures on the Solwezi Licenses:

Site and project expenditures	31-Dec-19	Additions	30-Sep-20
Acquisition costs	\$ 4,136,678	\$ -	\$ 4,136,678
Assays	326,119	-	326,119
Diamond drilling	3,043,326	-	3,043,326
Equipment	2,566	-	2,566
Field expenses	1,212,272	-	1,212,272
General & administration	577,474	179,791	757,265
Geological consulting	1,084,677	54,572	1,139,249
License	260,469	-	260,469
Travel and accommodation	708,731	974	709,705
Total operations funded	\$ 11,352,312	\$ 235,337	11,587,649

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

	Solwezi	Total
Balance, December 31, 2018	\$ 11,141,449	\$ 11,141,449
Exploration expenditures	210,863	210,863
Total additions during year	210,863	210,863
Balance, December 31, 2019	\$ 11,352,312	\$ 11,352,312
Exploration expenditures	235,337	235,337
Total additions during period	235,337	235,337
Balance, September 30, 2020	\$ 11,587,649	\$ 11,587,649

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Exploration Property – Activities

The main deposit types 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.

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* – a near surface oxide deposit with deep sulphide potential. Limited shallow drill testing returned a best intercept of 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.

The Company's recent exploration focus has been Mitu, 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

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

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:

Work	30-Sept-20	Additions	31-Dec-19
Geochemical - sampling	5,928	-	5,928
Ground Geophysics – NSAMT	77.7 kms	-	77.7 kms
Airborne Geophysics -VTEM	3,889	-	3,889
Air Core drilling - metres	34,639	-	34,639
Air Core drilling - holes	835	-	835
RC drilling - metres	1,276	-	1,276
RC drilling - holes	15	-	15
Diamond drilling - metres	8,829	-	8,829
Diamond drilling - holes	57	-	57

Since execution of the option agreement announced on April 27, 2020 with Rio Tinto, soil sampling, airborne and ground geophysical surveys and air core drilling have been completed by Rio Tinto. During the period ended September 30, 2020, Rio Tinto incurred \$3,952,833 in exploration expenditures on the property. Midnight Sun is reviewing the data and together with Rio Tinto, the Company is developing plans for the next phase of exploration on the Solwezi Licenses during 2021.

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

4. SUMMARY OF QUARTERLY RESULTS

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

	Sept 30	Jun 30	Mar 31	Dec 31
	2020	2020	2020	2019
	\$	\$	\$	\$
Financial results				
Net loss for period	167,978	402,451	80,690	160,150
Basic & diluted loss per share	0.00	0.00	0.00	0.00
Exploration expenditures	97,621	126,388	11,328	133,143
Statement of Financial Position				
Cash	129,341	277,330	23,053	6,969
Exploration & evaluation assets	19,026,039	18,873,332	18,797,499	18,790,702
Total assets	19,281,883	19,372,133	18,954,687	18,935,012
Shareholders' equity	19,066,289	19,165,942	18,241,607	18,301,797

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	Sept 30 2019 \$	Jun 30 2019 \$	Mar 31 2019 \$	Dec 31 2018 \$
Financial results				
Net loss for period	59,497	56,505	80,846	81,715
Basic & diluted loss per share	0.00	0.00	0.00	0.00
Exploration expenditures	60,670	(38,068)	55,118	(4,075)
Statement of Financial Position				
Cash	125,202	37,174	25,293	207,875
Exploration & evaluation assets	11,219,169	11,158,499	11,196,567	11,141,449
Total assets	11,394,008	11,254,299	11,304,930	11,455,602
Shareholders' equity	10,945,861	10,731,433	10,787,122	10,866,744

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 most operational functions to MSM Zambia as the size and scope of the annual program in Zambia increased. The increased 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 through September 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 effectively manage costs in both Canada and Zambia while maintaining enough resources to oversee seasonal exploration programs, other property related work and administrative functions.

5. 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 September 30, 2020

The Company's loss for the three months ended September 30, 2020, was \$167,978, or \$0.00 per share, as compared to a loss of \$59,497, or \$0.00 per share for the three months ended September 30, 2019. The Company saw an increase in legal fees primarily related to ZHLMIL's annual general meeting, share issuance, and budget and additional consulting and investor relations fees during the current period.

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Major expenses during the three-month period ended September 30, 2020 consisted of accounting and audit fees, \$15,575 (2019: \$14,202), consulting fees, \$31,025 (2019: \$3,004), investor and shareholder relations, \$24,897 (2019: \$7,620), legal fees, \$56,477 (2019: \$183), office services and miscellaneous expense, \$12,782 (2019: \$18,016), regulatory and transfer agent fees, \$7,811 (2019: \$924), share-based payments, \$8,325 (2019: \$385), and wages and benefits, \$6,240 (2019: \$14,883).

Nine Month Period Ended September 30, 2020

The Company's loss for the nine months ended September 30, 2020, was \$651,119, or \$0.01 per share, as compared to a loss of \$196,843, or \$0.00 per share for the nine months ended September 30, 2019. Significant growth in items contributing to the increased loss include share-based payment expense related to an option grant; legal fees relating to ZHLMIL's annual general meeting, share issuance, and budget; and consulting fees.

Major expenses during the nine-month period ended September 30, 2020 consisted of accounting and audit fees, \$35,137 (2019: \$35,934), consulting fees, \$55,597 (2019: \$3,004), investor and shareholder relations, \$44,453 (2019: \$32,326), legal fees, \$69,435 (2019: \$6,114), office services and miscellaneous expenses, \$38,023 (2019: \$57,819), regulatory and transfer agent fees, \$19,482 (2019: \$10,749), share-based payments, \$325,973 (2019: \$2,420), and wages and benefits, \$18,720 (2019: \$43,475).

During the nine-month period ended September 30, 2020, \$423,674 in cash was used for operating activities and \$563,610 in cash was used for exploration and evaluation asset expenditures. During the period, the Company generated \$1,109,656 from financing activities, comprised of \$1,009,138 in net proceeds from private placements, \$60,000 from warrants exercised, \$20,500 in share subscriptions receivable, and \$40,000 in loan proceeds received, less payments towards lease liabilities of \$19,982.

6. LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2020, the Company had \$129,341 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 September 30, 2020, the Company had working capital of \$58,800 and an accumulated deficit of \$6,293,589. 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

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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.

During the period ended September 30, 2020, the Company closed a non-brokered private placement for gross proceeds of \$1,071,925 and had warrant exercises generating \$60,000. Management is encouraged by improving equity markets for mineral exploration programs and anticipates seeking additional sources of funding prior to the end of the fiscal year. 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 believes it has sufficient capital to cover its administrative overhead expenses for the next twelve months. During the period ended September 30, 2020, the Company finalized and approved a budget for planned exploration activities on the Solwezi Licences for the remainder of 2020 and into the fiscal year ended December 31, 2021. The budget is expected to be satisfied through exploration activities completed by Rio Tinto, as part of the initial work program and stage 1 activities as defined by the Earn-in Agreement. To continue exploring the Solwezi Licenses without the participation of Rio Tinto, Midnight Sun may be required to raise additional capital, and if capital is not available the Company will have to delay some planned exploration expenditures.

7. TRANSACTIONS WITH RELATED PARTIES

The Company's related parties at September 30, 2020 consist of 8 officers and directors (and their related companies).

Name of Related Party	Position at Sept 30, 2020	Nature of transaction
Allan J. Fabbro	Director & CEO	Director
Fengjie Huang	Director (Zambian subsidiary)	Management services
Mathew Mackenzie	Secretary	Corporate secretary
Richard J. Mazur	Director	Director
Wayne Moorhouse	Director	Management services
Brett Richards/Richards Enterprises Inc.	Director	Director
Robert A. Sibthorpe / 069426 BC Ltd	VP Exploration & Director	Management services
Alastair Brownlow	CFO	Management services

As at September 30, 2020, \$67,424 (December 31, 2018 - \$124,589) 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. Included in share subscriptions receivable is \$33,500 (December 31, 2019 - \$54,000) due from director and officer of the Company. Included in accounts receivable is \$25,780 (December 31, 2019 - \$26,800) due from a director and officer of the Company.

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During the period ended September 30, 2020, the Company purchased 2,500,000 common shares of Red Sea Resources Ltd. (“Red Sea”) at a price of \$0.01 per common share for a total of \$25,000. Red Sea, a private company, has common officers and directors as the Company and is in the process of identifying and acquiring potential exploration and evaluation properties.

8. KEY MANAGEMENT COMPENSATION

Compensation paid or accrued to key management and/or their related companies during the nine-month period ended September 30, 2020 and 2019 is as follows:

Nature of Expenditure	For the Nine Months Ended	
	2020	September 30, 2019
Wages and benefits	\$ 18,720	\$ 18,720
Management services and accounting fees	44,577	-
Share-based payments	205,071	-
Total	\$ 268,368	\$ 18,720

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

9. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

10. 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.

11. CHANGES IN ACCOUNTING POLICY

The Company did not have any changes in accounting policies.

12. 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 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

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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 September 30, 2020 and December 31, 2019 to interest rate risk through its financial instruments.

Currency Risk

Throughout the period ended September 30, 2020 and the year ended December 31, 2019, 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 not result in a material fluctuation on the net loss for the year.

Credit risk

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 \$20,916 held with a major financial institution in Zambia. Management believes the risk of loss to be remote.

Receivables consist of goods and services tax due from the Government of Canada in the amount of \$7,374 and \$25,780 from a director and officer.

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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 September 30, 2020, the Company had \$129,341 cash (December 31, 2019 – \$6,969) and current liabilities of \$175,594 (December 31, 2019 - \$615,959). 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.

13. 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. For more information of the risks and uncertainties to which the Company may be subject please refer to the Company's MD&A for the financial year ended December 31, 2019.

14. 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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15. DISCLOSURE OF OUTSTANDING SHARE DATA

The table below presents the Company's common share data as of November 25, 2020.

	Price	Expiry date	November 25, 2020
Common shares issued and outstanding			101,641,966
Securities convertible into common shares:			
Stock Options	\$0.25	November 28, 2021	2,600,000
	\$0.35	August 18, 2022	1,000,000
	\$0.36	January 31, 2023	2,325,000
	\$0.135	May 6, 2025	3,000,000
Total Options			8,925,000
Warrants	\$0.20	November 30, 2020	2,575,000
	\$0.20	December 18, 2020	1,301,000
	\$0.20	August 8, 2021	2,773,334
	\$0.135	May 26, 2022	8,359,275
Total Warrants			15,008,609
Total options & warrants			23,933,609

16. COMMITMENTS

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

During the period ended September 30, 2020, The Company's Joint Venture Partners have brought an action in Zambia objecting to the Earn-In Agreement, on the basis that the Company has acted in a manner oppressive to the Joint Venture Partner's interest in ZHLMIL. The Company is of the view that the action is without merit and is vigorously defending the action and accordingly, no provision has been recorded in relation to the legal proceedings.

17. 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. These Financial Statements are available on SEDAR at www.sedar.com.

18. APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and

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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.

19. 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. 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.

20. ADDITIONAL INFORMATION

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