



**Midnight Sun Mining Corp.**

**Consolidated Financial Statements**

**For the year ended December 31, 2019**

*(Expressed in Canadian Dollars)*

## INDEPENDENT AUDITOR'S 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, 2019 and 2018, 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 the Company as at December 31, 2019 and 2018, 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, 2019 the Company has an accumulated deficit of \$7,229,513 and had a working capital deficit of \$510,649. As stated in Note 2, these events and conditions 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 auditor's 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 IFRS, 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

May 27, 2020

**Midnight Sun Mining Corp.**  
**Consolidated Statements of Financial Position**  
*(Expressed in Canadian Dollars)*

As At	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 6,969	\$ 207,875
Advances and deposits	21,598	76,358
Receivables	76,743	29,920
	105,310	314,153
<b>Right-of-Use Asset</b> (note 5)	39,000	-
<b>Exploration and evaluation assets</b> (note 6)	18,790,702	11,141,449
<b>Total Assets</b>	\$ 18,935,012	\$ 11,455,602
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 467,543	\$ 586,773
Lease liabilities (note 7)	23,827	-
Due to related parties (note 9)	124,589	2,085
	615,959	588,858
<b>Lease liabilities – non-current portion</b> (note 7)	17,256	-
<b>Total Liabilities</b>	633,215	588,858
<b>Shareholders' Equity</b>		
Share capital	16,617,704	16,317,898
Reserves – options (note 8)	1,358,606	1,327,167
Reserves – warrants (note 8)	121,928	94,194
Subscriptions receivable (note 8)	(54,000)	-
Deficit	(7,229,513)	(6,872,515)
	10,814,725	10,866,744
Non-controlling interest (note 6)	7,487,072	-
<b>Total Shareholders' Equity</b>	18,301,797	10,866,744
<b>Total Liabilities and Shareholders' Equity</b>	\$ 18,935,012	\$ 11,455,602

Nature of operations (note 1)  
Basis of presentation (note 2)  
Events after reporting date (note 13)

Approved and authorized by the Board of Directors on May 26, 2020:

“Robert Sibthorpe”  
Robert Sibthorpe, Director

“Allan Fabbro”  
Allan Fabbro, Director

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

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

	For the years ended December 31,	
	2019	2018
<b>Expenses</b>		
Accounting and audit fees	\$ 43,944	\$ 44,611
Accretion on lease liabilities (note 7)	5,061	-
Consulting fees (note 9)	67,870	251,990
Depreciation expense (note 5)	23,400	-
Foreign exchange loss	13,504	1,472
Investor and shareholder relations	43,186	187,863
Legal fees	7,900	64,894
Office services and miscellaneous	52,857	115,932
Regulatory and transfer agent fees	12,370	21,234
Share-based payments (note 8)	31,439	611,671
Travel and accommodation	-	9,695
Wages and benefits (note 9)	55,467	149,555
Loss and comprehensive loss for the year	(356,998)	(1,458,917)
Loss attributable to:		
Owners of the parent	(356,998)	(1,458,917)
Non-controlling interest	-	-
	\$ (356,998)	\$ (1,458,917)
Loss per share – basic and diluted	\$ (0.00)	\$ (0.02)
Weighted average number of common shares outstanding – basic and diluted	89,880,182	79,984,217

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)*

	Attributable to owners of the parent								Non-controlling interest	Total shareholders' equity
	Shares	Amount	Share subscriptions receivable	Share subscriptions received in advance	Reserves – warrants	Reserves – options	Deficit	Total		
<b>Balance, December 31, 2017</b>	<b>72,412,684</b>	<b>\$ 13,393,819</b>	<b>\$ -</b>	<b>\$ 200,000</b>	<b>\$ 92,070</b>	<b>\$ 728,496</b>	<b>\$ (5,413,598)</b>	<b>\$ 9,000,787</b>	<b>\$ -</b>	<b>\$ 9,000,787</b>
Shares issued exercise of warrants	4,477,800	907,645	-	(200,000)	(12,085)	-	-	695,560	-	695,560
Shares issued exercise of options	100,000	28,500	-	-	-	(13,000)	-	15,500	-	15,500
Shares issued for private placement	11,787,963	2,105,348	-	-	-	-	-	2,105,348	-	2,105,348
Share issuance costs	-	(117,414)	-	-	14,209	-	-	(103,205)	-	(103,205)
Share-based payments	-	-	-	-	-	611,671	-	611,671	-	611,671
Loss for the year	-	-	-	-	-	-	(1,458,917)	(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>-</b>	<b>94,194</b>	<b>1,327,167</b>	<b>(6,872,515)</b>	<b>10,866,744</b>	<b>-</b>	<b>10,866,744</b>
Shares issued for private placement	2,773,334	305,066	(54,000)	-	27,734	-	-	278,800	-	278,800
Share issuance costs	-	(5,260)	-	-	-	-	-	(5,260)	-	(5,260)
Share-based payments	-	-	-	-	-	31,439	-	31,439	-	31,439
Non-controlling interest in Zambian High Light Mining Investment Limited	-	-	-	-	-	-	-	-	7,487,072	7,487,072
Loss for the year	-	-	-	-	-	-	(356,998)	(356,998)	-	(356,998)
<b>Balance, December 31, 2019</b>	<b>91,551,781</b>	<b>\$ 16,617,704</b>	<b>\$ (54,000)</b>	<b>\$ -</b>	<b>\$ 121,928</b>	<b>\$ 1,358,606</b>	<b>\$ (7,229,513)</b>	<b>\$ 10,814,725</b>	<b>\$ 7,487,072</b>	<b>\$ 18,301,797</b>

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

**Midnight Sun Mining Corp.**  
**Condensed Consolidated Statements of Cash Flows**

*(Expressed in Canadian Dollars)*

For the years ended December 31,	2019	2018
<b>Operating activities</b>		
Loss for the year	\$ (356,998)	\$ (1,458,917)
Items not affecting cash:		
Depreciation	23,400	-
Accretion on lease liabilities	5,061	-
Share-based payments	31,439	611,671
Changes in non-cash working capital items		
Accounts payable and accrued liabilities	8,581	32,358
Due to related parties	122,504	(259,937)
Accounts receivable	1,859	(17,490)
Advances and deposits	54,760	(18,201)
	(109,394)	(1,110,516)
<b>Investing activities</b>		
Exploration and evaluation assets expenditures	(338,674)	(2,923,622)
	(338,674)	(2,923,622)
<b>Financing activities</b>		
Proceeds from issuances of units and shares	278,800	2,816,408
Payments toward lease liabilities	(26,378)	-
Shares issuance costs	(5,260)	(103,205)
	247,162	2,713,203
<b>Net change in cash</b>	<b>(200,906)</b>	<b>(1,320,935)</b>
<b>Cash, beginning of year</b>	<b>207,875</b>	<b>1,528,810</b>
<b>Cash, end of year</b>	<b>\$ 6,969</b>	<b>\$ 207,875</b>
<b>SUPPLEMENTAL NON-CASH DISCLOSURES</b>		
Valuation of finders' warrants included in share issuance cost	\$ -	\$ 14,209
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 367,601	\$ 495,412
Exploration and evaluation assets recovery included in receivables	\$ 48,682	\$ -
Addition to exploration and evaluation assets on acquisition of Zambian High Light Mining Investment Limited	\$ 7,487,072	\$ -
Lease liabilities and right-of-use asset recognized on commencement of new office lease	\$ 62,400	\$ -

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 May 26, 2020.

### **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, 2019 and 2018, 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, 2019, the Company had an accumulated deficit of \$7,229,513 (December 31, 2018 - \$6,872,515) and had a working capital deficit of \$510,649 (December 31, 2018 – working capital deficit of \$274,705). Management has estimated that the Company will require additional financing to complete all planned exploration programs. 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 controlled subsidiaries. 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. The Company's significant subsidiaries are as follows:

	<b>Country of Incorporation</b>	<b>Effective Interest</b>
Midnight Sun Mining Zambia Limited ("MSM Zambia")	Zambia	100%
Midnight Sun One Co.	BVI	100%
Midnight Sun Two Co.	BVI	100%
Zambian High Light Mining Investment Limited ("ZHLML")	Zambia	60%

**d) Functional and presentation currency**

The Company's reporting and functional currency is the Canadian dollar. The functional currency of MSM Zambia, Midnight Sun One Co., Midnight Sun Two Co., and ZHLML 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 except for cashflow information.

**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 6). The transfer of the 60% interest to the Company occurred during the year ended December 31, 2019. Management determined that the acquisition represented 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 or deficit, 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, 2019 and 2018, the Company had no provisions for environmental rehabilitation.

**g) Leases**

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset.

As a lessee, we recognize a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

## **h) Financial Instruments**

### 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 operations and comprehensive loss 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 of operations and comprehensive loss. 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
Lease liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

#### **i) New accounting standards**

##### *IFRS 16 - Leases*

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets. The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption.

Impact of transition to IFRS 16:

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. As of the initial date of application of IFRS 16, the Company did not have any leases outstanding and concluded that the adoption of IFRS 16 did not have a material impact on its 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.

**b) Interest rate risk**

The Company has non-material exposure at December 31, 2019 and 2018 to interest rate risk through its financial instruments.

**c) Currency risk**

Throughout the year ended December 31, 2019 and 2018, 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 \$3,067 on the net loss for the year.

**d) 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 \$5,534 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 \$28,061, for which the Company considers credit risk to be minimal, and \$32,690 in receivables

from the non-controlling interest holder in ZHLMI for exploration expenditures made subsequent to the Company's acquisition of a 60% interest in the subsidiary.

**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, 2019, the Company had \$6,969 cash (December 31, 2018 – \$207,875) and current liabilities of \$615,959 (December 31, 2018 - \$588,858). 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. Right-of-Use Asset**

<b>Cost</b>		
Balance, December 31, 2017 and 2018	\$	-
Additions (Note 7)		62,400
Balance, December 31, 2019	\$	62,400
<b>Accumulated Depreciation</b>		
Balance, December 31, 2017 and 2018	\$	-
Depreciation		23,400
Balance, December 31, 2019	\$	23,400
<b>Carrying Values</b>		
December 31, 2018	\$	-
December 31, 2019	\$	39,000

**6. Exploration and Evaluation Assets**

		<b>Solwezi</b>
<b>Balance, December 31, 2017</b>	\$	7,801,518
Acquisition costs		-
Exploration expenditures		3,339,931
<b>Balance, December 31, 2018</b>		11,141,449
Acquisition costs		-
Acquisition of Zambian High Light Mining Investment Limited		7,487,072
Recovery of exploration expenditures		(48,682)
Exploration expenditures		210,863
<b>Balance, December 31, 2019</b>	\$	18,790,702

### **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, ZHLMIL.

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, 2019 and December 31, 2018, the Company had funded the following exploration expenditures on the Solwezi Licenses:

	December 31, 2019	December 31, 2018
Site and project expenditures:		
Acquisition costs	\$ 4,136,678	\$ 4,136,678
Assays	326,119	325,356
Drilling	3,043,326	3,043,326
Equipment	2,566	77,599
Field expenses	1,212,272	1,220,643
General and administrative	577,474	384,706
Geological consulting	1,084,677	1,040,328
License	260,469	235,553
Travel and accommodation	708,731	677,260
<b>Total operations funded</b>	<b>\$ 11,352,312</b>	<b>\$ 11,141,449</b>

The Company incurred \$nil in acquisition costs during the years ended December 31, 2019 (2018 - \$nil) and \$170,885 in exploration costs (2018 - \$3,344,006).

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 transferred 60% ownership interest in ZHLMIL to Midnight Sun and Kam Chuen and Midnight Sun will enter into a joint venture agreement governing the further exploration and development of the Solwezi Licenses. 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 October 20, 2019, the Company's earned 60% ownership of the Solwezi Licences has officially been transferred and registered in Zambia with the Patents and Companies Registration Agency. The licenses are held by a Zambian registered company, ZHLMIL, of which Midnight Sun is now a 60% shareholder through the Company's wholly owned subsidiary, Midnight Sun (BVI) Two Corp. The acquisition was accounted for as an asset acquisition.

As at October 20, 2019, cumulative acquisition and exploration expenditures towards the option were \$11,230,607. The Company has recognized the acquisition of the financial and operating control of the ZHLMIL as follows:

<b>Net Assets Acquired</b>	
Total consideration	\$ 11,230,607
Non-controlling interest	7,487,072
<hr/>	
Exploration and evaluation assets	\$ 18,717,679

The acquisition of the 60% interest in ZHLMIL resulted in a gross-up of the Company's exploration and evaluation assets of \$7,487,072.

Prior to the close of the acquisition, but after meeting the required terms of the agreement, the Company overspent on the Option's required exploration expenditures by a total of \$3,790,603, for which it believes Kam Cheun to be responsible for reimbursement of its 40% share. The Company intends on formally requesting payment in the amount of \$1,516,243 subsequent to the year ended December 31, 2019, and in lieu of receipt of payment will pursue dilution of Kam Cheun's ownership interest in ZHLMIL. Successful collection of this amount is considered to be uncertain as the expenditures were made prior to the Company's acquisition of the 60% share in ZHLMIL, and accordingly, no receivable has been recognized for this amount.

Subsequent to the acquisition of ZHLMIL, the Company incurred \$81,726 in exploration expenditures for which it has recognized a receivable from Kam Cheun in the amount of \$32,690.

## **7. Lease liabilities**

During the year ended December 31, 2019, the Company entered into a new office lease with a term of 32 months from January 1, 2019 and expected total payments of \$70,780. Using an annual discount rate of 10%, the Company recognized a lease liability and corresponding right-of-use asset (note 5) of \$62,400. The following is a reconciliation of the changes in the lease liabilities for the year ended December 31, 2019:

	<b>December 31, 2019</b>
Opening Balance	\$ -
Additions	62,400
Payments	(26,378)
Lease accretion	5,061
	41,083
Lease liabilities, current portion	(23,827)
Lease liabilities, non-current portion	\$ 17,256

The following summarizes the undiscounted minimum lease payments under the lease liabilities:

<b>Fiscal Year</b>	<b>Payment</b>
2020	\$ 26,641
2021	17,761
Amount representing future lease accretion	(3,319)
Lease liabilities	\$ 41,083

## 8. Share Capital and Reserves

### a) Authorised

Unlimited number of common shares authorised, without par value.

### b) Share issuances

At December 31, 2019, the Company had 91,551,781 common shares (December 31, 2018 – 88,778,447) issued and outstanding.

#### *2019 share issuance*

On August 8, 2019 the Company completed a non-brokered private placement by issuing 2,773,334 units (the "Units") at a price of \$0.12 per Unit for gross proceeds of \$332,800. Each Unit consists of one common share ("Common Share") in the capital of the Company and one Common Share purchase warrant ("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 \$0.20. The Company recognized \$305,066 related to the Units to share capital with the residual value of \$27,734 to reserves. As at December 31, 2019, \$54,000 remained receivable. Finder's fees of \$2,640 were paid in cash in connection with the Private Placement. In connection with the closing of the placement, the Company incurred an addition \$2,620 in share issuance costs.

#### *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:

	Number of stock options outstanding	Weight average exercise price
<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>
Expired/Cancelled	(875,000)	0.31
<b>Balance, December 31, 2019</b>	<b>5,925,000</b>	<b>\$ 0.31</b>
<b>Exercisable, December 31, 2019</b>	<b>5,925,000</b>	<b>\$ 0.31</b>

The Company did not grant any stock options during the year ended December 31, 2019 (2018 – 2,925,000). Total share-based payments recognized for the year ended December 31, 2019 was \$31,439 (2018 - \$611,671) for incentive options vested.

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

	December 31, 2019	December 31, 2018
Dividend rate	-	0%
Annualized volatility	-	87% to 93%
Risk free interest rate	-	2.08% to 2.26%
Expected life of stock options (years)	-	1 to 5
Weighted average fair value of options granted	-	\$ 0.2316

At December 31, 2019, the Company has 5,925,000 outstanding stock options enabling holders to acquire common shares as follows:

Expiry date	Exercise price	Number of stock options outstanding	Weighted average years to expiry
November 28, 2021	\$ 0.25	2,600,000	1.91
August 18, 2022	\$ 0.35	1,000,000	2.63
January 31, 2023	\$ 0.36	2,325,000	3.09
		5,925,000	2.50

#### d) Warrants

Share purchase warrants outstanding and exercisable are summarized as follows:

	Number of stock options outstanding	Weight average exercise price
<b>Balance, December 31, 2017</b>	<b>25,090,807</b>	<b>\$ 0.20</b>
Granted	10,579,797	0.25
Expired	(893,299)	0.33
Exercised	(3,477,800)	0.20
<b>Balance, December 31, 2018</b>	<b>31,299,505</b>	<b>0.33</b>
Granted	2,773,334	0.20
Expired	(21,238,523)	0.31
<b>Balance, December 31, 2019</b>	<b>12,834,316</b>	<b>\$ 0.24</b>

At December 31, 2019, the Company has 12,834,316 outstanding warrants enabling holders to acquire common shares as follows:

Expiry date		Exercise price	Number of stock options outstanding	Weighted average years to expiry
May 11, 2020	\$	0.48	685,782	0.36
May 30, 2020	\$	0.48	1,041,200	0.41
October 31, 2020	\$	0.20	4,458,000	0.84
November 30, 2020	\$	0.20	2,575,000	0.92
December 18, 2020	\$	0.20	1,301,000	0.97
August 8, 2021	\$	0.20	2,773,334	1.61
			12,834,316	0.97

On October 24, 2019, the Company extended the expiry dates of outstanding common share purchase warrants issued pursuant to private placement offerings of the Company as follows:

Number of Warrants	Exercise price	Previous Expiry	New Expiration Date
4,458,000	\$ 0.20	October 31, 2019	October 31, 2020
2,575,000	\$ 0.20	November 30, 2019	November 30, 2020
1,301,000	\$ 0.20	December 18, 2019	December 18, 2020

## 9. Related Party Transactions and Key Management Compensation

The Company's related parties at December 31, 2019 consist of 8 officers and directors (and their related companies), as follows:

Name of Related Party	Position	Nature of transaction
Allan J. Fabbro	Director & Interim CEO	Director
Fengjie Huang	Director (Zambian subsidiary)	Management services
Mathew Mackenzie	Secretary	Corporate secretary
Richard J. Mazur	Director	Director
Wayne Moorhouse	CFO & COO	Management services
Brett Richards / Richards Enterprises Inc.	Director	Director
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, 2019 and 2018 was as follows:

Nature of expenditure	Years ended December 31,	
	2019	2018
Wages and benefits	\$ 24,960	\$ 24,960
Consulting fees	67,867	112,035
Share-based payments	-	390,411
	\$ 92,827	\$ 527,406

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, 2019, \$124,589 (December 31, 2018 - \$2,085) 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

\$54,000 (December 31, 2018 - \$Nil) due from a director and officer of the Company. Included in accounts receivable is \$26,800 (December 31, 2018 - \$29,800) due from a director and officer of the Company.

## 10. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At December 31, 2019 and 2018, the Company's exploration and evaluation assets are located in one geographic location: Zambia, Africa.

## 11. 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.

## 12. Income taxes

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

	Year ended December 31,	
	2019	2018
Loss for the year	\$ (356,998)	\$ (1,458,917)
Expected income tax (recovery)	\$ (96,000)	\$ (379,000)
Change in statutory, foreign tax, foreign exchange rates and other	(7,000)	1,213,000
Permanent difference	15,000	159,000
Share issue cost	(1,000)	(30,000)
Change in unrecognized deductible temporary differences	89,000	(963,000)
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2019	2018
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ (1,018,000)	\$(1,020,000)
Non-capital	1,018,000	1,020,000
<b>Net deferred tax liability</b>	<b>\$ -</b>	<b>\$ -</b>

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

	Year ended 2019	December 31, 2018	Expiry Range
<b>Temporary Differences</b>			
Share issue costs	\$ 185,000	\$ 261,000	2035-2038
Non-capital losses available for future periods	\$ 486,000	\$ 78,000	2026-2038

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

### 13. Events After Reporting Date

#### *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.

#### *Private Placement*

On May 25, 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 US\$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 US\$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 US\$16,000,000 in work expenditures within four years and making a total of US\$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 US\$14,000,000 in work expenditures or completing a Feasibility Study within three years of starting Stage 2 and making an additional US\$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 US\$15,000,000 in work expenditures within two years.