



**Midnight Sun Mining Corp.**

**Condensed Consolidated Interim Financial Statements**

**For the three and nine months ended September 30, 2021, and 2020**

*(Expressed in Canadian Dollars)  
(Unaudited)*

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**Notice of No Review of Condensed Consolidated Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor

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

As At	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,495,656	\$ 1,061,964
Advances and deposits	23,219	26,017
Receivables	38,264	29,886
Investments	330,000	330,000
Loan receivable (note 9)	1,128,908	830,778
	4,016,047	2,278,645
<b>Right-of-Use Asset</b> (note 4)	48,109	15,600
<b>Exploration and evaluation assets</b> (note 5)	17,841,010	17,747,742
	4,016,047	2,278,645
<b>Total Assets</b>	\$ 21,905,166	\$ 20,041,987
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 71,326	\$ 179,618
Lease liabilities (note 6)	23,800	17,255
Due to related parties (note 9)	2,919	4,200
	98,045	201,073
<b>Loan payable</b> (note 7)	40,000	40,000
<b>Non-current portion of lease liabilities</b> (note 6)	24,526	-
	162,571	241,073
<b>Shareholders' Equity</b>		
Share capital	21,021,097	18,462,522
Reserves – options (note 8)	1,691,135	1,689,019
Reserves – warrants (note 8)	240,561	184,448
Subscriptions' receivable (note 8)	(4,700)	(33,500)
Deficit	(7,105,527)	(7,988,647)
	15,842,566	12,313,842
Non-controlling interest (note 5)	5,900,029	7,487,072
<b>Total Shareholders' Equity</b>	21,742,595	19,800,914
<b>Total Liabilities and Shareholders' Equity</b>	\$ 21,905,166	\$ 20,041,987

Nature of operations (note 1)  
Basis of presentation (note 2)  
Subsequent event (note 13)

Approved and authorized by the Board of Directors on November 26, 2021:

"Robert Sibthorpe"  
Robert Sibthorpe, Director

"Allan Fabbro"  
Allan Fabbro, Director

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
<b>Expenses</b>				
Accounting and audit fees	\$ 36,937	\$ 15,575	\$ 66,937	\$ 35,137
Accretion on lease liabilities (note 6)	437	632	918	2,335
Consulting fees (note 9)	9,000	31,025	13,000	55,597
Depreciation expense (note 4)	5,939	5,850	17,482	17,550
Foreign exchange (recovery) loss	(30,506)	(1,636)	(8,765)	24,414
Investor and shareholder relations	10,279	24,897	61,675	44,453
Legal fees	23,330	56,477	130,523	69,435
Office services and miscellaneous	18,764	12,782	71,573	38,023
Regulatory and transfer agent fees	22,731	7,811	34,929	19,482
Share-based payments (notes 8 and 9)	5,163	8,325	78,858	325,973
Wages and benefits (note 9)	76,334	6,240	236,793	18,720
<b>Loss and comprehensive loss for the period</b>	<b>(178,408)</b>	<b>(167,978)</b>	<b>(703,923)</b>	<b>(651,119)</b>
Loss attributable to:				
Owners of the parent	(178,408)	(167,978)	(703,923)	(651,119)
Non-controlling interest	-	-	-	-
	<b>\$ (178,408)</b>	<b>\$ (167,978)</b>	<b>\$ (703,923)</b>	<b>\$ (651,119)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
Weighted average number of common shares outstanding – basic and diluted	111,436,013	99,625,662	106,618,689	95,305,955

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

**Midnight Sun Mining Corp.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	Attributable to owners of the parent						Total	Non-controlling interest	Total shareholders' equity
	Shares	Amount	Share subscriptions receivable	Reserves – warrants	Reserves – options	Deficit			
<b>Balance, December 31, 2019</b>	<b>91,551,781</b>	<b>\$16,617,704</b>	<b>\$ (54,000)</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>
Share subscriptions received	-	-	20,500	-	-	-	20,500	-	20,500
Shares issued for private placement	7,940,185	1,032,225	-	39,700	-	-	1,071,925	-	1,071,925
Warrants exercised	300,000	60,000	-	-	-	-	60,000	-	60,000
Share issuance costs	-	(62,787)	-	-	-	-	(62,787)	-	(62,787)
Finder's warrants	-	(22,820)	-	22,820	-	-	-	-	-
Share-based payments	-	-	-	-	325,973	-	325,973	-	325,973
Loss for the period	-	-	-	-	-	(651,119)	(651,119)	-	(651,119)
<b>Balance, September 30, 2020</b>	<b>99,791,966</b>	<b>17,624,322</b>	<b>(33,500)</b>	<b>184,448</b>	<b>1,684,579</b>	<b>(7,880,632)</b>	<b>11,579,217</b>	<b>7,487,072</b>	<b>19,066,289</b>
Warrants exercised	4,191,000	838,200	-	-	-	-	838,200	-	838,200
Share-based payments	-	-	-	-	4,440	-	4,440	-	4,440
Loss for the period	-	-	-	-	-	(108,015)	(108,015)	-	(108,015)
<b>Balance, December 31, 2020</b>	<b>103,982,966</b>	<b>18,462,522</b>	<b>(33,500)</b>	<b>184,448</b>	<b>1,689,019</b>	<b>(7,988,647)</b>	<b>12,313,842</b>	<b>7,487,072</b>	<b>19,800,914</b>
Private placement	5,619,714	1,910,703	-	56,197	-	-	1,966,900	-	1,966,900
Stock options exercised	750,000	189,492	-	-	(76,742)	-	112,750	-	112,750
Warrants exercised	2,651,334	557,591	-	(26,424)	-	-	531,167	-	531,167
Share issuance costs	-	(72,871)	-	-	-	-	(72,871)	-	(72,871)
Finder's warrants	-	(26,340)	-	26,340	-	-	-	-	-
Share subscriptions received	-	-	28,800	-	-	-	28,800	-	28,800
Share-based payments	-	-	-	-	78,858	-	78,858	-	78,858
Adjustment to non-controlling interest in Zambian High Light	-	-	-	-	-	1,587,043	1,587,043	(1,587,043)	-
Loss for the period	-	-	-	-	-	(703,923)	(703,923)	-	(703,923)
<b>Balance, September 30, 2021</b>	<b>113,004,014</b>	<b>\$21,021,097</b>	<b>\$ (4,700)</b>	<b>\$ 240,561</b>	<b>\$1,691,135</b>	<b>\$ (7,105,527)</b>	<b>\$15,842,566</b>	<b>\$5,900,029</b>	<b>\$21,742,595</b>

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

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

<b>For the nine-months ended September 30,</b>	<b>2021</b>		<b>2020</b>	
<b>Operating activities</b>				
Loss for the period	\$	(703,923)	\$	(651,119)
Items not affecting cash:				
Depreciation		17,482		17,550
Accretion on lease liabilities		918		2,335
Share-based payments		78,858		325,973
Unrealized foreign exchange		2,628		-
Changes in non-cash working capital items				
Accounts payable and accrued liabilities		(108,292)		(30,854)
Due to related parties		(1,281)		(57,165)
Accounts receivable		(8,378)		(5,093)
Advances and deposits		2,798		(25,301)
		(719,190)		(423,674)
<b>Investing activities</b>				
Exploration and evaluation asset expenditures		(93,268)		(563,610)
Loans advanced		(300,758)		-
		(394,026)		(563,610)
<b>Financing activities</b>				
Proceeds from private placements		1,966,900		1,071,925
Share issuance costs		(72,871)		(62,787)
Proceeds from option exercises		112,750		-
Proceeds from warrant exercises		531,167		60,000
Share subscriptions received		28,800		20,500
Loan received		-		40,000
Payments toward lease liabilities		(19,838)		(19,982)
		2,546,908		1,109,656
<b>Net change in cash</b>		<b>1,433,692</b>		<b>122,372</b>
<b>Cash, beginning of period</b>		<b>1,061,964</b>		<b>6,969</b>
<b>Cash, end of period</b>	<b>\$</b>	<b>2,495,656</b>	<b>\$</b>	<b>129,341</b>
<b>SUPPLEMENTAL NON-CASH DISCLOSURES</b>				
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$	-	\$	15,646
Lease liabilities and right-of-use asset recognized on amendment to lease payment schedule	\$	49,991	\$	-
Adjustment to non-controlling interest to deficit	\$		\$	1,587,043
Fair value of finder's warrants issued	\$	26,340	\$	22,820

The accompanying notes are an integral part of these condensed consolidated interim 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 unaudited condensed consolidated interim 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”). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of November 26, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2020. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2021, could result in restatement of these unaudited condensed consolidated interim financial statements.

### **b) Going concern**

These condensed consolidated interim 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 condensed consolidated interim 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 nine-month period ended September 30, 2021 and the year ended December 31, 2020, 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 September 30, 2021, the Company had an accumulated deficit of \$7,105,527 (December 31, 2020 - \$7,988,647) and had a working capital of \$3,918,002 (December 31, 2020 – \$2,077,572). 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 condensed consolidated interim 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.

#### *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.

#### **c) Consolidation**

These condensed consolidated interim 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 ("ZHLMIL")	Zambia	80.65%

**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 ZHLMIL 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cashflow information.

**f) Estimates and judgments.**

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim 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 condensed consolidated interim financial statements are as follows:

i. Asset carrying values and impairment charges.

At each reporting period, the Company reviews its non-current assets to determine whether there are any indications of impairment. Calculating the estimated recoverable amount of the cash generating unit for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves, estimated future commodity prices, the expected future operating and capital costs and discount rates. Changes in any of these assumptions or estimates used in determining the recoverable amount could impact the impairment analysis.

ii. Recognition of deferred taxes

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

iii. Share-based payments

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

iv. Provision for environmental rehabilitation

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

v. Asset acquisition

During fiscal 2017 the Company fulfilled all requirements to earn a 60% interest in the Solwezi property (note 5). The transfer of the 60% interest to the Company 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.

vii. Valuation of the Non-Controlling Interest

During the year ended December 31, 2020, the Company increased its ownership share in ZHLMIL by 20.65% 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 (note 5). Subsequent to the issuance of the shares, in response to a complaint lodged by the non-controlling interest ("NCI") shareholder, the Zambian Patents and Companies Registration Agency ("PACRA") reversed the Company's additional holding of 20.65%. The Company believes that this reversal was not in compliance with the laws of Zambia or ZHLMIL's articles of association and disputed the action. On June 17, 2021, the shares were reissued to the Company.

viii. Investments

The fair value of financial instruments that are not traded in an active market is estimated on the basis of the price established in recent transactions involving similar instruments or, in the absence thereof, determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### 3. 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, loan receivable, short-term investments, accounts payable and accrued liabilities, loan payable, 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 September 30, 2021 and December 31, 2020, to interest rate risk through its financial instruments.

#### c) Currency risk

Throughout the nine-month period ended September 30, 2021 and the year ended December 31, 2020, 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 in the net loss for the period.

#### 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 \$30,961 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 \$11,344 and \$26,920 from a director and officer. The Company also holds a \$955,575 loan receivable from related part, bearing no interest and payable on demand and \$173,333 from officers and directors bearing interest at 3% per annum and repayable within six months of issuance. Management believes the risks of collection to be low given its relationship with the parties.

**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 September 30, 2021, the Company had \$2,495,656 cash (December 31, 2020 – \$1,061,964) and current liabilities of \$98,045 (December 31, 2020 - \$201,073). Management has assessed that the Company's current working capital is sufficient to support the Company's near term general administrative and corporate operating requirements.

**4. Right-of-Use Asset**

<b>Cost</b>	
Balance, December 31, 2019 and 2020	\$ 62,400
Adjustment to lease liabilities (note 6)	(209)
Extinguishment of lease liabilities (note 6)	(62,191)
Renewal of lease liabilities (note 6)	50,200
Balance, September 30, 2021	\$ 50,200
<b>Accumulated Depreciation</b>	
Balance, December 31, 2019	\$ 23,400
Depreciation	23,400
Balance, December 31, 2020	46,800
Depreciation	17,482
Extinguishment of lease liabilities (note 6)	(62,191)
Balance, September 30, 2021	\$ 2,091
<b>Carrying Values</b>	
December 31, 2020	\$ 15,600
September 30, 2021	\$ 48,109

**5. Exploration and Evaluation Assets**

	<b>Solwezi</b>
<b>Balance, December 31, 2019</b>	<b>\$ 18,790,702</b>
Exploration expenditures	255,540
Option payments	(1,298,500)
<b>Balance, December 31, 2020</b>	<b>17,747,742</b>
Exploration expenditures	93,268
<b>Balance, September 30, 2021</b>	<b>\$ 17,841,010</b>

### ***Solwezi property***

Pursuant to an option agreement, the Company acquired a 60% interest in two Zambian mineral property licences (the “Solwezi Licenses”) during the year ended December 31, 2019. The licenses are held by a Zambian registered company, ZHLMIL, of which Midnight Sun is a 60% shareholder through the Company’s wholly owned subsidiary, Midnight Sun (BVI) Two Corp. The share transfer from Kam Chuen to Midnight Sun (BVI) Two Corp. occurred on October 20, 2019 and was registered in Zambia with the Patents and Companies Registration Agency. The acquisition was accounted for as an asset acquisition.

On March 1, 2017, the Acting Chief Registrar of Mining Rights issued the license 21509-HQ-LEL which 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 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 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 were fully paid up by way of exploration expenditures made on behalf of ZHLMIL by the Company or the Company’s earn-in partner, Rio Tinto Mining and Exploration Limited (“Rio Tinto”) during the year ended December 31, 2020.

Subsequent to the issuance of the shares, in response to a complaint lodged by the NCI shareholder, PACRA reversed the Company’s additional holding of 20.65%. The Company believed this reversal not to be compliance with the laws of Zambia or ZHLMIL’s articles of association and disputed the action made by PACRA. Following a ruling in the Company’s favour, PACRA returned the shares to the Company on June 17, 2021. On the acquisition of the additional 20.65% interest in the ZHLMIL, the Company recognized a decrease to the non-controlling interest of \$1,587,043 with a corresponding reduction in deficit.

As at September 30, 2021, the only asset held by ZHLMIL is the Solwezi exploration and evaluation asset. There were no operations within ZHLMIL for the nine-month period ended September 30, 2021, and accordingly no loss attributed to the NCI.

#### ***Earn-in Agreement***

On April 27, 2020, the Company entered into an earn-in and joint venture agreement (the “Earn-in Agreement”) with 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 payable by Rio Tinto to Midnight Sun upon removal of conditions (received during the year ended December 31, 2020 with a value of \$908,950).

- **Initial Work Program:** Rio Tinto can fund an initial work program on the Solwezi Licences by spending US \$3,000,000, of which US \$2,000,000 is a firm commitment, within the next two field seasons (completed during the year ended December 31, 2020). After completing the firm commitment, a further US \$300,000 will become payable by Rio Tinto to Midnight Sun before Rio Tinto proceeds with the additional expenditures (received during the year ended December 31, 2020 with a value of \$389,550).
- **Stage 1:** After completing the Initial Work Program, Rio Tinto can earn a 51% ownership of the Solwezi Licences 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.

As at September 30, 2021 and December 31, 2020, the Company had funded the following exploration expenditures on the Solwezi Licences:

	September 30, 2021	December 31, 2020
Site and project expenditures:		
Acquisition costs	\$ 4,136,678	\$ 4,136,678
Assays	326,119	326,119
Drilling	3,043,326	3,043,326
Field expenses	1,212,272	1,212,272
General and administrative	841,008	767,726
Geological consulting	1,171,543	1,151,557
License	260,469	260,469
Travel and accommodation	709,705	709,705
<b>Total operations funded</b>	<b>\$ 11,701,120</b>	<b>\$ 11,607,852</b>

## 6. 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 4) of \$62,400. During the period ended September 30, 2021, as a result of an amendment to the lease payment schedule, the Company recognized an adjustment lease liabilities and right-of-use asset (note 4) of \$209.

During the period ended September 30, 2021, the Company renewed its office lease for a term of 24 months from September 1, 2021 with expected total payments of \$55,626. Using an annual discount rate of 10%, the Company recognized a lease liability and corresponding right-of-use asset (note 4) of \$55,200.

The following is a reconciliation of the changes in the lease liabilities for nine-month period ended September 30, 2021 and year ended December 31, 2020.

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Opening Balance	\$ 17,255	\$ 41,083
Adjustment	(209)	-
Renewal of office lease	50,200	
Payments	(19,838)	(26,642)
Lease accretion	918	2,814
	<b>48,326</b>	<b>17,255</b>
Lease liabilities, current portion	(23,800)	(17,255)
Lease liabilities, non-current portion	\$ 24,526	\$ -

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

<b>Fiscal Year</b>	<b>Payment</b>
2021	\$ 6,878
2022	27,713
2023	18,741
Amount representing future lease accretion	(5,006)
Lease liabilities	\$ 48,326

## 7. Loan Payable

As part of the Government of Canada's response to the COVID-19 global pandemic, certain businesses are eligible to apply for the Canada Emergency Business Account (the "CEBA"). The CEBA provides companies with a \$40,000 interest free loan to be used to cover non-deferrable operating expenses during the period where operations had been temporarily reduced due to the economic impacts of the COVID-19 virus. During the year ended December 31, 2020, the Company applied for the CEBA and received the \$40,000 loan. The CEBA remains interest free until December 31, 2022 and has no fixed repayment schedule. If \$30,000 is repaid on or before December 31, 2022, the remaining \$10,000 will be forgiven. If, at December 31, 2022, any amount remains unpaid, the Company will enter into an extension agreement whereby it will accrue interest at a rate of 5% per annum, with a repayment schedule to be determined at that time.

## 8. Share Capital and Reserves

### a) Authorised

Unlimited number of common shares authorised, without par value.

### b) Share issuances

At September 30, 2021, the Company had 113,004,014 common shares (December 31, 2020 – 103,982,966) issued and outstanding.

#### *2021 share issuances*

- a) On July 2, 2021, the Company closed a non-brokered private placement by issuing 5,619,714 units at a price of \$0.35 per unit for gross proceeds of \$1,966,900. Each unit consist of one common share and one common share purchase warrant, with each whole warrant entitling the holder to acquire one additional common share at a price of \$0.50 for a period of two years from closing. Using the residual value method, the Company recognized additions to share capital of \$1,910,703 and to warrants reserves of \$56,197.

The Company paid cash finder's fees of \$61,887 and granted 176,820 finder's warrants with a value of \$26,340, with an exercise price of \$0.50 and life of two years, valued using the Black-Scholes pricing model using a share price \$0.34, expected life of two years, and a volatility of 101.67%. In addition to the finder's fees, the Company incurred an additional \$10,984 in closing costs.

- b) During the period ended September 30, 2021, the Company received gross proceeds of \$112,750 on the exercise of 750,000 stock options and \$531,167 on the exercise of 2,651,334 warrants. In connection with exercises, the Company reclassified \$76,742 and \$26,424 from option and warrant reserves respectively.

#### *2020 share issuances*

- a) 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. Using the residual value method, the Company recognized additions to share capital of \$1,032,225 and to warrants reserves of \$39,700.

The Company paid cash finder's fees of \$56,577 and granted 419,090 finder's warrants with a value of \$22,820, with an exercise price of \$0.25 and life of two years, valued using the Black-Scholes pricing model using a share price \$0.13, expected life of two years, and a volatility of 109.99%. In addition to the finder's fees, the Company incurred an additional \$6,210 in closing costs.

#### **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, 2019</b>	<b>5,925,000</b>	<b>\$ 0.31</b>
Granted	3,000,000	0.135
Expired/Cancelled	(75,000)	0.31
<b>Balance, December 31, 2020</b>	<b>8,850,000</b>	<b>\$ 0.25</b>
Granted	550,000	0.31
Exercised	(750,000)	0.115
Expired/Cancelled	(50,000)	0.135
<b>Balance, September 30, 2021</b>	<b>8,600,000</b>	<b>\$ 0.26</b>
<b>Exercisable, September 30, 2021</b>	<b>8,487,500</b>	<b>\$ 0.26</b>

During the nine-month period ended September 30, 2021, the Company granted 550,000 stock options with a weighted average fair value of \$0.15 per option (year ended December 31, 2020 – 3,000,000 granted). Total share-based payments recognized for the period ended September 30, 2021 was \$78,858 (2020 - \$317,648) for incentive options granted and vested. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	September 30, 2021	December 31, 2020
Weight average share price	\$0.31	\$0.14
Risk-free interest rate	0.35%	0.41%
Expected life of option	2.45 years	4.53 years
Expected annualized volatility	88.57%	122.93%
Expected dividend rate	0%	0%

At September 30, 2021, the Company has the following stock options outstanding:

Expiry date	Exercise price	Number of stock options outstanding	Weighted average years to expiry
November 28, 2021	\$ 0.25	2,500,000	0.16
August 18, 2022	\$ 0.35	1,000,000	0.88
January 31, 2023	\$ 0.36	2,250,000	1.34
May 6, 2025	\$ 0.135	2,300,000	3.60
April 28, 2026	\$ 0.31	200,000	4.58
April 28, 2022	\$ 0.31	350,000	0.58
		<b>8,600,000</b>	<b>1.59</b>

**d) Warrants**

Share purchase warrants outstanding and exercisable are summarized as follows:

	Warrants outstanding	Weight average exercise price
<b>Balance, December 31, 2019</b>	<b>12,834,316</b>	<b>\$ 0.24</b>
Granted	8,359,275	0.25
Exercised	(4,491,000)	0.20
Expired	(5,569,982)	0.29
<b>Balance, December 31, 2020</b>	<b>11,132,609</b>	<b>\$ 0.24</b>
Granted	5,796,534	0.50
Exercised	(2,651,334)	0.20
Expired	(140,000)	0.20
<b>Balance, September 30, 2021</b>	<b>14,137,809</b>	<b>\$ 0.35</b>

As at September 30, 2021, the Company had the following warrants outstanding:

Expiry date	Exercise price	Number of warrants outstanding	Weighted average years to expiry
May 25, 2022	\$ 0.25	8,341,275	0.65
July 2, 2023	\$ 0.50	5,796,534	1.75
		11,014,609	1.10

**9. Related Party Transactions and Key Management Compensation**

The Company's related parties at September 30, 2021 consist of 8 officers and directors (and their related companies), as follows:

Name of Related Party	Position	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	Director
Brett Richards / Richards Enterprises Inc.	Director	Director
Robert A. Sibthorpe / 069426 BC Ltd	VP Exploration & director	Management services
Alastair Brownlow / Red Fern Consulting Ltd.	CFO	Management services

Compensation paid or accrued to key management and/or their related companies during the nine-month period ended September 30, 2021 and 2020 was as follows:

Nature of expenditure	Sept 30, 2021	Sept 30, 2020
Wages and benefits	\$ 213,000	\$ 18,720
Consulting Fees	36,000	-
Management Services	-	44,577
Share-based payments	45,860	205,071
	<b>\$ 294,860</b>	<b>\$ 268,368</b>

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

As at September 30, 2021, \$2,919 (December 31, 2020 - \$4,200) 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 \$4,700 (December 31, 2020 - \$33,500) due from a director and officer of the Company. Included in accounts receivable is \$26,920 (December 31, 2020 - \$25,780) due from a director and officer of the Company.

During the year ended December 31, 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. The Company also issued a promissory note to Red Sea in the amount of USD \$650,000 without interest, payable on demand. In connection with the issuance, Red Sea issued the Company an aggregate of 800,000 common shares as a transaction bonus. The shares were recognized in income with a value of \$0.05 per share for a total of \$40,000. During the period ended September 30, 2021, the Company extended an additional USD \$100,000 to Red Sea, resulting in a total loan of USD 750,000 outstanding (\$955,575).

During the period ended September 30, 2021, the Company issued loans to officers of the Company in the amount of \$173,333. The loans are unsecured, bear interest at 3% per annum, and mature on February 9, 2022. Together with the Red Sea loans, total loans receivable from related parties as at September 30, 2021 was \$1,128,908.

As at September 30, 2021, the fair value of the Company's 3,300,000 shares in Red Sea was \$330,000 (December 31, 2020 - \$330,000).

## 10. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At September 30, 2021 and December 31, 2020, 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 3.

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. Commitments and contingencies**

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.

**13. Subsequent event**

Subsequent to the period ended September 30, 2021, the Company received a cash earn-in payment of USD 250,000 from Rio Tinto for the Solwezi project.