



MIDNIGHT SUN MINING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2020

As at April 28, 2021

MIDNIGHT SUN MINING CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020

1. INTRODUCTION

The following management’s discussion and analysis (“MD&A”) of Midnight Sun Mining Corp. has been prepared as of April 28, 2021. This MD&A should be read in conjunction with the audited consolidated financial statements (“Financial Statements”) of Midnight Sun Mining Corp. and the notes thereto for the year ended December 31, 2020, which have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”). The Financial Statements have been prepared using the accrual basis of accounting except for cash flow information. All figures are expressed in Canadian dollars unless otherwise indicated.

Management is responsible for the preparation and integrity of the Financial Statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

Description of Business

Midnight Sun Mining Corp. (the “Company” or “Midnight Sun”) was incorporated on April 11, 2007 pursuant to the Business Corporations Act of British Columbia. The Company’s principal business activity is acquiring, exploring and evaluating mineral properties and joint venturing or developing these properties further or disposing of them when the evaluation is complete. At December 31, 2020, the Company was in the exploration stage of activity on its jointly held exploration licenses in Zambia, and the Financial Statements include the accounts of its subsidiaries Midnight Sun Mining Zambia Limited (“MSM Zambia”), a company incorporated on October 29, 2013 under the laws of Zambia as well as Midnight Sun One Co. and Midnight Sun Two Co., two companies incorporated in 2018 under the laws of the British Virgin Islands. The Company has consolidated the operations of MSM Zambia since its incorporation.

2. HIGHLIGHTS & SIGNIFICANT EVENTS

Corporate and Financial Highlights for the Fiscal Year Ended December 31, 2020

COVID-19

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

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.

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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 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 US\$2,000,000 is a firm commitment, within the next two field season. 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.
- 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.

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

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

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 believes that this reversal was not in compliance with the laws of Zambia or ZHLMIL’s articles of association and is currently disputing the action made by PACRA. It is anticipated that the 20.65% share will be returned to the Company as it has fully met its payments and believes the complaint by the NCI holder to be frivolous. As at December 31, 2020, the Company has not recognized the additional shareholding in ZHMIL.

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Financial Highlights for the Fiscal Year Ended December 31, 2019

Share purchase warrants

The Company extended the expiration on the following share purchase warrants:

Number of Warrants	Price	Original 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

ZHMIL Ownership

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, Zambian High Light Mining Investment Ltd., of which Midnight Sun is now a 60% shareholder through the Company's wholly owned subsidiary, Midnight Sun (BVI) Two Corp. The acquisition will be accounted for as an asset acquisition.

Private Placement

On August 8, 2019, the Company completed a private placement for gross proceeds of \$332,800. The Company sold 2,773,334 units consisting of 2,773,334 shares and 2,773,334 share purchase warrants which enable the holder to purchase one common share in the Company at a price of \$0.20 at any time prior August 8, 2021. Finders' fees of \$2,640 were paid in cash in conjunction with the placement. Each Finders' Warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 prior to August 8, 2021.

3. EXPLORATION AND EVALUATION ASSETS

60% Option Agreement

On July 30, 2013, the Company, entered into an option agreement (the "Option") with Kam Chuen, to acquire a 60% interest in two mineral prospecting licenses 21509-HQ-LEL and 12124-HQ-LPL, the Solwezi Licenses, which are held in a Kam Chuen subsidiary, ZHMIL. The TSXV approved the Option on December 6, 2013.

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

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

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Solwezi Licenses - Zambia

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

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

On November 30, 2018, the Zambian Mining Cadastre issued a renewal of prospecting license 12124-HQ-LPL as large-scale exploration license, 12124-HQ-LEL, having an expiration date of December 23, 2021. This renewal was granted in accordance with the *Mines and Mineral Development Act, 2015* and is the final renewal period available to ZHLMIL. The Company is actively investigating options to retain the same surface area as is currently covered by 12124-HQ-LEL. There is no guarantee that the Company or an affiliated entity will be able to retain this exploration area.

Exploration Property - Expenditures

As at December 31, 2020, the Company had funded the following expenditures on the Solwezi Licenses:

Site and project expenditures	31-Dec-20	Additions	31-Dec-19
Acquisition costs	\$ 4,136,678	\$ -	\$ 4,136,678
Assays	326,119	-	326,119
Diamond drilling	3,043,326	-	3,043,326
Equipment	-	(2,566)	2,566
Field expenses	1,212,272	-	1,212,272
General & administration	767,726	190,252	577,474
Geological consulting	1,151,557	66,880	1,084,677
License	260,469	-	260,469
Travel and accommodation	709,705	974	708,731
Total operations funded	\$ 11,607,852	\$ 255,540	11,352,312

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

	Solwezi	Total
Balance, December 31, 2018	\$ 11,141,449	\$ 11,141,449
Exploration expenditures	210,863	210,863
Total additions during year	210,863	210,863
Balance, December 31, 2019	\$ 11,352,312	11,352,312
Exploration expenditures	255,540	255,540
Total additions during year	255,540	255,540
Balance, December 31, 2020	\$ 11,607,852	\$ 11,607,852

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Exploration Property – Activities

The main deposit types being targeted by exploration on the Solwezi Licences are; Stratiform-type deposits, a common model for many copper deposits within the Zambian Copperbelt, and Hydrothermal-type copper mineralization as found at the nearby Kansanshi Mine.

During the year ended December 31, 2020, the Company's Earn-In partner Rio Tinto commenced its initial work program on the Solwezi Project.

Rio Tinto's 2020 exploration work focused on strengthening their geological understanding of the Solwezi Licences. Emphasis was placed on identifying and modelling the geology of the Kazhiba Dome which underlies the 22 Zone, where an overturned Upper Plate and upright facing Lower Plate are separated by a mafic breccia. This geology appears similar to what is observed at the Kansanshi Mine. The work completed during this program included:

- The reanalysis of previous air core drill samples over the Kazhiba Dome and adjacent areas;
- 129 air core drill holes drilled on a 500 metre x 500 metre grid over the entire Kazhiba Dome;
- Six stratigraphic diamond holes, totalling 2,060 metres, designed to test the Lower Plate of the Kazhiba Dome for mineralisation;
- The air core programme which included 29 air core holes tracking an audio-frequency magnetotelluric geophysical line towards Basement and tested a mineral occurrence at the Gameno (formerly Kifubwe) Prospect;
- The reanalysis of previous soil samples; and
- A 250 metre x 250 metre infill geochemical soil sampling grid.

The initial 2021 work program budget is US\$3,200,000 and is expected to be completed in late June. Results of this exploration work will dictate the additional budgets for 2021.

Rio Tinto's planned initial work includes:

- 4,000 metres of diamond and 1,900 metres of air core drilling on the Mitu trend;
- 1,200 metres of diamond drilling to test high grade copper anomalies, identified in the Q4 2020 air core drill program, on the north side of the Solwezi Dome at the Gameno Prospect; and
- 1,600 metres of reverse circulation and 1,000 metres of air core drilling, and further mapping at Dumbwa to test a 10+ kilometre copper soil anomaly.

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

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4. SELECTED ANNUAL INFORMATION

The following table summarizes selected financial information for the Company for each of its most recently completed financial years. The information set forth below should be read in conjunction with the Financial Statements. All information was prepared in accordance with IFRS.

	Year ended Dec 31, 2020	Year ended Dec 31, 2019	Year ended Dec 31, 2018
	\$	\$	\$
Total revenue	Nil	Nil	Nil
Net loss	(759,134)	(356,998)	(1,458,917)
Basic and fully diluted loss per share	(0.01)	(0.00)	(0.02)
Total assets	20,041,987	18,935,012	11,455,602
Total non-current liabilities	40,000	17,256	Nil
Dividends declared	Nil	Nil	Nil

Factors which have caused period to period variations in total asset include the availability of equity funding, which is directly linked to exploration activities and payments under the Option. The Company incurred \$255,540 in property expenditures during the year ended December 31, 2020 and \$210,863 during the year ended December 31, 2019.

The net loss for the year ended December 31, 2020 of \$759,134 was primarily comprised of accounting and audit fees of \$57,637, consulting fees of \$74,324, investor and shareholder relations of \$78,676, legal fees of \$69,866, share based payments of \$330,413, and wages and benefits of \$321,607 and was offset by \$265,000 in unrealized gain on investments and \$40,000 in income recognized on the issuance of a loan. The net loss for the year ended December 31, 2019 of \$356,998 was primarily comprised of accounting and audit fees of \$43,944, consulting fees of \$67,870, wages and benefits of \$55,467 and office and miscellaneous of \$52,857.

5. SUMMARY OF QUARTERLY RESULTS

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

	Dec 31 2020	Sept 30 2020	June 30 2020	March 31 2020
	\$	\$	\$	\$
Financial results				
Net loss for period	108,015	167,978	402,451	80,690
Basic & diluted loss per share	0.00	0.00	0.00	0.00
Exploration expenditures	20,203	97,621	126,388	11,328
Statement of Financial Position				
Cash	1,061,964	129,341	277,330	23,053
Exploration & evaluation assets	17,747,742	19,026,039	18,873,332	18,797,499
Total assets	19,776,987	19,281,883	19,372,133	18,954,687
Shareholders' equity	19,535,914	19,066,289	19,165,942	18,241,607

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	December 31 2019 \$	Sept 30 2019 \$	June 30 2019 \$	March 31 2019 \$
Financial results				
Net loss for period	160,150	59,497	56,505	80,846
Basic & diluted loss per share	0.00	0.00	0.00	0.00
Exploration expenditures	133,143	60,670	(38,068)	55,118
Statement of Financial Position				
Cash	6,969	125,202	37,174	25,293
Exploration & evaluation assets	18,790,702	11,219,169	11,158,499	11,196,567
Total assets	18,935,012	11,394,008	11,254,299	11,304,930
Shareholders' equity	18,301,797	10,945,861	10,731,433	10,787,122

All exploration expenditures relate to work done on the Solwezi Licenses. Net losses for all periods reflect general and administrative costs including legal and accounting.

6. DISCUSSION OF OPERATIONS

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

Overall Performance & Results of Operations

Three Month Period Ended December 31, 2020

The Company's loss for the three months ended December 31, 2020, was \$108,015, or \$0.00 per share, as compared to a loss of \$160,150, or \$0.00 per share for the three months ended December 31, 2019. The decrease was largely related to board approved one-time payments in the amount of \$270,000 to various directors and employees in recognition of their services during the quarter offset by \$265,000 in unrealized gain on investments and \$40,000 in income recognized on the issuance of a loan.

Major expenses during the three-month period ended December 31, 2019 consisted of accounting and audit fees, \$22,500 (2019: \$8,010), consulting fees, \$18,727 (2019: \$64,866), investor and shareholder relations, \$34,223 (2019: \$10,860), legal fees, \$431 (2019: \$1,786), office services and miscellaneous, \$27,028 (2019: \$4,962), regulatory and transfer agent fees, \$1,185 (2019: \$1,621), share-based payments, \$4,440 (2019: \$29,019), and wages and benefits, \$302,887 (2019: \$11,992).

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Twelve Month Period Ended December 31, 2020

The Company's loss for the twelve months ended December 31, 2020, was \$759,134, or \$0.01 per share, as compared to a loss of \$356,998, or \$0.00 per share for the twelve months ended December 31, 2019. The increase was primarily a result of the one-time payments during the fourth quarter to directors and officers, as discussed above, in addition to share-based compensation for the year of \$330,413 and legal fees related to the defence of legal matters raised by the NCI holder in Zambia.

Major expenses during the 12-month period ended December 31, 2020 consisted of accounting and audit fees, \$57,637 (2019: \$43,944), consulting fees, \$74,324 (2019: \$67,870), investor and shareholder relations, \$78,676 (2019: \$43,186), legal fees, \$69,866 (2018: \$7,900), office services and miscellaneous expenses, \$65,051 (2019: \$52,857), regulatory and transfer agent fees, \$20,667 (2019: \$12,370), share-based payments, \$330,413 (2019: \$31,439), and wages and benefits, \$321,607 (2019: \$55,467).

During the 12-month period ended December 31, 2020, \$753,047 (2019: \$109,394) in cash was used for operating activities. \$133,154 (2019: \$338,674) in cash was used in investing activities, comprised of a net recovery of \$724,041 (2019: \$338,674 expended) in exploration and evaluation activities, less \$25,000 (2019: \$nil) on the purchase of investments and \$832,195 (2019: \$nil) advanced as a loan.

During the 12-month period, the Company generated \$1,109,001 from financing activities, comprised of \$1,009,138 (2019: \$273,540), in net proceeds from private placements \$898,200 (2019: \$nil) from warrants exercised, \$20,500 (2019: \$nil) in share subscriptions receivable, and \$40,000 (2019: \$nil) in loan proceeds received, less payments towards lease liabilities of \$26,642 (2019: \$26,378) and \$832,195 (2019: nil) advanced to a related party as a loan.

7. LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had \$1,061,964 in cash. The Company does not have cash flow from operations due to it being an exploration stage company; therefore, financings have been the sole source of funds. At December 31, 2020, the Company had a working capital of \$2,077,572 and deficit of \$7,988,647. In the opinion of management this working capital is sufficient to support the Company's near term general administrative and corporate operating requirements on an on-going basis.

Liquidity Outlook

In order to finance the Company's exploration programs and to cover administrative and overhead expenses, the Company raises money through the sale of equity, from the exercise of convertible securities and from optioning its exploration and evaluation assets. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for mineral exploration investment, the Company's track record, and the experience and calibre of its management. Actual funding requirements may vary from those planned due to several factors, including the progress of exploration activities.

During the year ended December 31, 2020, the Company closed a non-brokered private placement for gross proceeds of \$1,071,925 and had warrant exercises generating \$898,200. Management is encouraged by improving equity markets for mineral exploration programs and anticipates seeking additional sources of funding prior to the end of the fiscal year. Given volatility in equity markets, global economic uncertainty, cost pressures and results of exploration activities there can be no certainty equity funding will be available to the Company or if available funding will be on acceptable terms. Management believes it will be able to raise equity capital as required but recognizes that there will be risks which may be beyond its control.

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Capital Resources

The Company believes it has sufficient capital to cover its administrative overhead expenses for the next twelve months. During the year ended December 31, 2020, the Company finalized and approved a budget for planned exploration activities on the Solwezi Licences for the remainder of 2020 and into the fiscal year ended December 31, 2021. The budget is expected to be satisfied through exploration activities completed by Rio Tinto, as part of the initial work program and stage 1 activities as defined by the Earn-in Agreement. To continue exploring the Solwezi Licences without the participation of Rio Tinto, Midnight Sun may be required to raise additional capital, and if capital is not available the Company will have to delay some planned exploration expenditures.

8. TRANSACTIONS WITH RELATED PARTIES

The Company's related parties at December 31, 2020 consist of 8 officers and directors (and their related companies).

Name of Related Party	Position at Sept 30, 2020	Nature of transaction
Allan J. Fabbro	Director & CEO	Director
Fengjie Huang	Director (Zambian subsidiary)	Management services
Mathew Mackenzie	Secretary	Corporate secretary
Richard J. Mazur	Director	Director
Wayne Moorhouse	Director	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

As at December 31, 2020, \$4,200 (2019 - \$124,589) is due to officers, directors or companies with a director in common for cash advances, unpaid geological consulting fees, unpaid wages and bonuses and unpaid expenses. Included in share subscriptions receivable is \$33,500 (2019 - \$54,000) due from director and officer of the Company. Included in accounts receivable is \$25,780 (December 31, 2019 - \$26,800) due from a director and officer of the Company.

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 (\$832,195) 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.

As at December 31, 2020, the fair value of the Company's 3,300,000 shares in Red Sea was \$330,000 and the Company recognized an unrealized gain on investments of \$265,000 to profit or loss.

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9. KEY MANAGEMENT COMPENSATION

Compensation paid or accrued to key management and/or their related companies during the years ended December 31, 2020 and 2019 is as follows:

Nature of Expenditure	For the Year Ended	
	2020	December 31, 2019
Wages and benefits	\$308,060	\$24,960
Consulting fees	68,304	67,867
Share-based payments	205,071	-
Total	\$581,435	\$92,827

Key management consists of those individuals having authority and responsibility for, directly or indirectly, planning, directing, and controlling the activities of the Company. Wages are paid to the Company's Corporate Secretary, Consulting fees are amounts paid to the Company's former CEO and share-based payments reflect the stock option expense for options granted to the Company's directors, CFO, Corporate Secretary and a director of ZHLML.

All the above payments and accruals were made in the normal course of operations and have been valued here and in the Financial Statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. During the year ended December 31, 2020, the Company agreed to remunerate various officers and directors in the amount of \$270,000 in recognition of services rendered and this amount is included in Wages and benefits.

10. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

11. PROPOSED TRANSACTIONS

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

12. CHANGES IN ACCOUNTING POLICY

There were no changes to accounting policies for the year ended December 31, 2020.

13. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Board, through the Audit Committee, is responsible for identifying the principal risks facing the Company and ensuring that appropriate risk management systems are developed and implemented. The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk and credit risk in accordance with its risk management framework.

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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.

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 as 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
Short-term investments	FVTPL
Loan receivable	Amortized cost
Receivables	Amortized cost

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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 which are recognized at amortized cost using the effective interest method.

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

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

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

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.

Related Risks

Interest rate risk

The Company has non-material exposure at December 31, 2020 and 2019 to interest rate risk through its financial instruments.

Currency Risk

Throughout the year ended December 31, 2020 and 2019, the majority of the Company's cash was held in Canadian dollars, the Company's functional and reporting currency. The Company is exposed to currency risk due to accounts payable denominated in US Dollars. A 1% change in the foreign exchange rate between the Canadian and US Dollar would result in a fluctuation of \$4,382 on the net loss for the year.

Credit risk

The Company has some cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian financial institutions with which it keeps its bank accounts and management believes the risk of loss to be remote. The Company also has \$12,288 held with a major financial institution in Zambia. Management believes the risk of loss to be remote.

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Receivables consist of goods and services tax due from the Government of Canada in the amount of \$4,086 and \$25,780 from a director and officer. The Company also holds a \$830,778 loan receivable from a related party, bearing no interest and payable on demand. Management believes the risks of collection to be low given its relationship with the party.

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, 2020, the Company had \$1,061,964 cash (2019 – \$6,969) and current liabilities of \$201,073 (2019 - \$615,959). The Company's current working capital is insufficient to support the Company's near term general administrative and corporate operating requirements on an on-going basis. The Company intends to raise funds adequate to meet its liquidity needs for the next twelve months via private placement.

Finance Risk

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been successful in the past in obtaining financing through the sale of equity securities or joint ventures, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

14. RISKS AND UNCERTAINTIES

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The risks and uncertainties described in this section are not inclusive of all risks and uncertainties to which the Company may be subject.

Early Stage – Need for Additional Funds

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

Political Risk

The Company's operations and investments may be affected by local political and economic developments including: expropriation; nationalization; invalidation of governmental orders; permits or agreements pertaining to property rights; failure to enforce existing laws; failure to uphold property rights; political unrest; labour disputes; limitations on repatriation of earnings; limitations on foreign ownership; inability to obtain or delays in obtaining necessary mining permits; opposition to mining from local, environmental or other non-governmental organizations; government participation; royalties, duties, rates of exchange,

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high rates of inflation, price controls, exchange controls, currency fluctuations; taxation and changes in laws, regulations or policies; as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

Location Risk

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on exploration and evaluation assets.

Discovery Risk

Resource property acquisition, exploration, development, and operation is a highly speculative business that involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of precious metals and other minerals may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish economically viable mineral deposits, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the acquisition, exploration or development programs planned by the Company will result in a profitable commercial mining operation. The potential for any project to eventually become an economically viable operation depends on numerous factors including: the quantity and quality of the minerals discovered if any, the proximity to infrastructure, metal and mineral prices (which vary considerably over time) and government regulations. The exact effect these factors can have on any given exploration property cannot accurately be predicted but the effect can be materially adverse.

Environmental Risk

Environmental laws and regulations may affect the operations of Midnight Sun. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. Furthermore, the permission to operate could be withdrawn temporarily where there is evidence of serious breaches of health and safety, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on the Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damages caused by previous owners of acquired properties or non-compliance with environmental laws or regulations. The Company intends to minimize these risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to international environmental standards.

Price Risk

The market price of precious metals and other minerals is volatile and cannot be controlled.

Conflicts

The Company's directors and officers serve as directors or officers or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction.

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Dependence on Key Personnel

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Competitive Risk

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and technical capacity.

15. COMMITMENTS

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

16. NATURE OF SECURITIES

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

17. DISCLOSURE OF OUTSTANDING SHARE DATA

The table below presents the Company's common share data as of April 28, 2021.

	Price	Expiry date	April 28, 2021
Common shares issued and outstanding			104,332,966
Securities convertible into common shares:			
Stock Options	\$0.25	November 28, 2021	2,600,000
	\$0.35	August 18, 2022	1,000,000
	\$0.36	January 31, 2023	2,250,000
	\$0.135	May 6, 2025	2,650,000
Total Options			8,500,000
Warrants	\$0.20	August 8, 2021	2,773,334
	\$0.25	May 25, 2022	7,940,185
	\$0.25	May 25, 2022	419,000
Total Warrants			11,132,609
Total options & warrants			19,632,609

18. ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS

Additional disclosure concerning Midnight Sun's general and administrative expenses and exploration and evaluation assets expenditures is provided in the Company's Financial Statements. These Financial Statements are available on SEDAR at www.sedar.com.

19. APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of Midnight Sun has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

20. FORWARD LOOKING INFORMATION

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of operations, environmental risks, permitting risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements which are filed and available for review on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

21. ADDITIONAL INFORMATION

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