



**Midnight Sun Mining Corp.**

**Consolidated Financial Statements**

**For the year ended December 31, 2022**

*(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, 2022, 2021 and January 1, 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2022 and 2021, 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, 2022, 2021 and January 1, 2021, and its financial performance and its cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit 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 audit 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 during the year ended December 31, 2022, and the year ended December 31, 2021, 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. 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.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our audit report.

### *Assessment of Impairment Indicators of Exploration and Evaluation Assets ("E&E Assets")*

As described in Note 6 to the financial statements, the carrying amount of the Company's E&E Assets was \$9,961,348 as of December 31, 2022. As more fully described in Note 3 to the financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.



The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment by management when assessing whether there were indicators of impairment for the E&E Assets, specifically related to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures include, among others:

- Obtaining an understanding of the key controls associated with evaluating the E&E Assets for impairment;
- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Assessing compliance with agreements and expenditure requirements including reviewing earn-in agreements;
- Assessing the Company's right to explore E&E Assets.
- Obtaining, on a test basis through government websites, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.
- Obtaining confirmation of mineral title from earn-in partner stating title is being held on behalf of the Company.

### ***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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 26, 2023

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

As At	December 31, 2022	December 31, 2021 <i>(restated – Note 3(i))</i>	January 1, 2021 <i>(restated – Note 3(i))</i>
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 40,483	\$ 2,564,905	\$ 1,061,964
Advances and deposits	19,058	65,112	26,017
Loans and debenture receivable (note 10)	119,969	-	-
Receivables	11,817	6,317	29,886
	191,327	2,636,334	1,117,867
<b>Right-of-use asset</b> (note 5)	17,089	41,834	15,600
<b>Investments</b> (note 10)	525,000	350,000	330,000
<b>Loans and debenture receivable</b> (note 10)	-	175,427	830,778
<b>Exploration and evaluation assets</b> (note 6)	9,961,348	9,961,348	10,276,568
	\$ 10,694,764	\$ 13,164,943	\$ 12,570,813
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 343,108	\$ 81,106	\$ 179,618
Lease liabilities (note 7)	18,429	24,551	17,255
Due to related parties (note 10)	117,124	66,298	4,200
	478,661	171,955	201,073
<b>Loan payable</b> (note 8)	40,000	40,000	40,000
<b>Non-current portion of lease liabilities</b> (note 7)	-	18,056	-
	518,661	230,011	241,073
<b>Shareholders' Equity</b>			
Share capital (note 9)	21,015,097	21,015,097	18,462,522
Subscriptions receivable	-	-	(33,500)
Share subscriptions received in advance (note 15)	5,000	-	-
Reserves – options (note 9)	2,109,929	1,693,878	1,689,019
Reserves – warrants (note 9)	240,561	240,561	184,448
Deficit	(18,751,090)	(15,914,633)	(15,459,821)
	4,619,497	7,034,903	4,842,668
Non-controlling interest (note 6)	5,556,606	5,900,029	7,487,072
	10,176,103	12,934,932	12,329,740
<b>Total Liabilities and Shareholders' Equity</b>	\$ 10,694,764	\$ 13,164,943	\$ 12,570,813

Nature of operations (note 1)  
Commitments and contingences (note 13)  
Subsequent events (note 15)

Approved and authorized by the Board of Directors on April 26, 2023:

“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 year ended December 31,	2022	2021 <i>(restated – Note 3(i))</i>
<b>Expenses</b>		
Accounting and audit fees	\$ 103,170	\$ 80,324
Accretion on lease liabilities (note 7)	3,228	2,078
Consulting fees (note 10)	82,779	67,126
Depreciation expense (note 5)	25,632	23,757
Exploration cost (note 6)	1,650,934	139,741
Foreign exchange loss (gain)	11,176	(31,333)
Investor and shareholder relations	258,096	123,323
Legal fees	21,500	142,725
Office services and miscellaneous	76,718	97,810
Regulatory and transfer agent fees	44,777	49,630
Share-based payments (notes 9 and 10)	416,051	81,601
Wages and benefits (note 10)	361,911	324,919
	(3,055,972)	(1,101,701)
Allowance for doubtful accounts (note 10)	(365,016)	(962,248)
Unrealized gain on investments (note 10)	175,000	-
Interest income (note 10)	66,108	2,094
Income recognized on issuance loan receivable (note 10)	-	20,000
<b>Loss and comprehensive loss for the year</b>	<b>(3,179,880)</b>	<b>(2,041,855)</b>
Loss attributable to:		
Owners of the parent	(3,179,880)	(2,041,855)
Non-controlling interest	-	-
	\$ (3,179,880)	\$ (2,041,855)
<b>Loss per share – basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>
Weighted average number of common shares outstanding – basic and diluted	113,004,014	108,228,141

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							Total	Non-controlling interest	Total shareholders' equity
	Shares	Amount	Share subscriptions receivable	Share subscriptions received in advance	Reserves – warrants	Reserves – options	Deficit (restated – Note 3(i))			
<b>Balance, December 31, 2020</b>	<b>103,982,966</b>	<b>\$ 18,462,522</b>	<b>\$ (33,500)</b>	<b>\$ -</b>	<b>\$ 184,448</b>	<b>\$ 1,689,019</b>	<b>\$(15,459,821)</b>	<b>\$ 4,842,668</b>	<b>\$ 7,487,072</b>	<b>\$ 12,329,740</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 cost	-	(78,871)	-	-	-	-	-	(78,871)	-	(78,871)
Finder's warrants	-	(26,340)	-	-	26,340	-	-	-	-	-
Share subscription received	-	-	33,500	-	-	-	-	33,500	-	33,500
Share-based payments	-	-	-	-	-	81,601	-	81,601	-	81,601
Adjustment to non-controlling interest in Zambian High Light	-	-	-	-	-	-	1,587,043	1,587,043	(1,587,043)	-
Loss for the year	-	-	-	-	-	-	(2,041,855)	(2,041,855)	-	(2,041,855)
<b>Balance, December 31, 2021</b>	<b>113,004,014</b>	<b>21,015,097</b>	<b>-</b>	<b>-</b>	<b>240,561</b>	<b>1,693,878</b>	<b>(15,914,633)</b>	<b>7,034,903</b>	<b>5,900,029</b>	<b>12,934,932</b>
Share subscriptions received	-	-	-	5,000	-	-	-	5,000	-	5,000
Share-based payments	-	-	-	-	-	416,051	-	416,051	-	416,051
Adjustment to non-controlling interest in Zambian High Light	-	-	-	-	-	-	343,423	343,423	(343,423)	-
Loss for the year	-	-	-	-	-	-	(3,179,880)	(3,179,880)	-	(3,179,880)
<b>Balance, December 31, 2022</b>	<b>113,004,014</b>	<b>\$ 21,015,097</b>	<b>\$ -</b>	<b>\$ 5,000</b>	<b>\$ 240,561</b>	<b>\$ 2,109,929</b>	<b>\$(18,751,090)</b>	<b>\$ 4,619,497</b>	<b>\$ 5,556,606</b>	<b>\$ 10,176,103</b>

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

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

For the year ended December 31,	2022	2021
		<i>(restated – Note 3(i))</i>
<b>Operating activities</b>		
Loss for the year	\$ (3,179,880)	\$ (2,041,855)
Items not affecting cash:		
Depreciation	25,632	23,757
Accretion on lease liabilities	3,228	2,078
Allowance for doubtful accounts	365,016	962,248
Share-based payments	416,051	81,601
Unrealized foreign exchange	-	3,812
Income recognized on issuance loan receivable	-	(20,000)
Unrealized gain on investments	(175,000)	-
Interest accrued on loans receivable	(66,108)	(2,094)
Changes in non-cash working capital items		
Accounts payable and accrued liabilities	282,437	(65,012)
Due to related parties	50,826	62,098
Accounts receivable	(5,500)	23,569
Advances and deposits	46,054	(39,095)
	(2,237,244)	(1,008,893)
<b>Investing activities</b>		
Option payments received	-	315,220
Loan payments received	40,000	-
Loans advanced	(303,885)	(308,615)
	(263,885)	6,605
<b>Financing activities</b>		
Proceeds from Private Placement	-	1,966,900
Share Issuance cost	-	(78,871)
Proceeds from option exercises	-	112,750
Proceeds from warrant exercises	-	531,167
Share subscriptions received	5,000	-
Payments toward lease liabilities	(28,293)	(26,717)
	(23,293)	2,505,229
<b>Net change in cash</b>	(2,524,422)	1,502,941
<b>Cash, beginning of year</b>	2,564,905	1,061,964
<b>Cash, end of year</b>	\$ 40,483	\$ 2,564,905
<b>SUPPLEMENTAL NON-CASH DISCLOSURES</b>		
Lease liabilities and right-of-use asset recognized	\$ 887	\$ 50,200
Adjustment of non-controlling interest to deficit	\$ 343,423	\$ 1,587,043
Share subscription settled against accounts payable and accrued liabilities	\$ -	\$ 33,500
Valuation of finders' warrants included in share issuance cost	\$ -	\$ 26,340
Loans receivable settled against accounts payable and accrued liabilities	\$ 20,435	\$ -

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

## **1. Nature of Operations**

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

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

## **2. Basis of Presentation**

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on April 26, 2023.

### **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 year ended December 31, 2022, and the year ended December 31, 2021, 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, 2022, the Company had an accumulated deficit of \$18,751,090 (2021 - \$15,914,633) and had a working capital deficiency of \$287,334 (2021 – positive working capital of \$2,464,379). 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.

Recent global issues, including the ongoing COVID-19 pandemic and the 2022 Russian invasion of Ukraine have adversely affected workplaces, economies, supply chains, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of these issues and their effects on the Company’s business or results of operations this time.

**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 (“ZHLMIL”)	Zambia	84.30%
FAMS Mining Zambia Limited (“FAMS”)*	Zambia	100%

\*incorporated during the year ended December 31, 2022

**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., FAMS, 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 consolidated financial statements have been prepared on a historical cost 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. 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.

vi. 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.

vii. Loans receivable

The Company exercises judgment in identifying impaired loans receivable, the collection of which may be uncertain. In determining whether an impairment loss should be recorded in profit or loss, the Company considers whether there is any observable data indicating that an increase in the credit risk or a decrease in the estimated future cash flows from a loan has occurred. This evidence may include observable data indicating that there has been an adverse change in the payment status and days outstanding.

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

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

Exploration and evaluation expenditures are recognized in profit or loss. Costs incurred before the Company has obtained legal rights to explore areas of interest are also recognized in profit or loss. Expenditures incurred by the Company in connection with the development of mineral resources after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable are capitalized. Acquisition costs of mineral properties, such as cash and share consideration and option payments, are capitalized on an individual prospect basis. Amounts received for the sale of mineral properties and for option payments are treated as reductions of the cost of the property, with payments in excess of capitalized costs recognized in income.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the mineral property. If a mineral property does not prove viable, all unrecoverable costs associated with the project net of any impairment provisions are written off.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

**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, 2022 and 2021, 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 operations and comprehensive loss. 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 as the investments 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
Investments	FVTPL
Loan receivable	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 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 loss 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

**i) Change in Accounting Policy**

Effective January 1, 2022, the Company changed its accounting policy for exploration and evaluation expenditures from the policy previously adopted for its financial statements for the year ended December 31, 2021. The Company previously capitalized the acquisition costs of exploration and evaluation assets and deferred exploration expenditures directly related to specific exploration and evaluation assets. Under the new policy, exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to the statement of loss and comprehensive loss as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of production method based upon estimated proven and probable reserves. The Company believes that expensing such costs as incurred provides more reliable financial information, eliminating the use of estimates and judgments regarding the valuation of exploration and evaluation expenditures and aligns the analysis to when the mineral property is considered economically and commercially viable.

Mineral property acquisition costs will continue to be capitalized and include consideration and transaction costs for mineral property interests. These costs are amortized over the estimated life of the property following commencement of commercial production. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The Company has accounted for this change in accounting policy on a retrospective basis.

The change in accounting policy resulted in the following changes to the Company's consolidated financial statements:

**Consolidated Statement of Financial Position as at December 31, 2021:**

	As previously reported	Effect of change in accounting policy <sup>(i)</sup>	As restated under new policy
Exploration and evaluation assets	\$ 17,572,263	\$ (7,610,915)	\$ 9,961,348
Total assets	\$ 20,775,858	\$ (7,610,915)	\$ 13,164,943
Deficit	\$ (8,303,718)	\$ (7,610,915)	\$ (15,914,633)
Total shareholders' equity	\$ 20,545,847	\$ (7,610,915)	\$ 12,934,932
Total liabilities and shareholders' equity	\$ 20,775,858	\$ (7,610,915)	\$ 13,164,943

(i) All exploration and evaluation expenditures have been expensed to deficit rather than capitalized on the statement of financial position. \$9,961,348 relates to the net book value of acquisition costs as at December 31, 2021.

Consolidated Statement of Comprehensive Loss for the year ended December 31, 2021:

	As previously reported	Effect of change in accounting policy <sup>(ii)</sup>	As restated under new policy
Expenses:			
Exploration expenses	\$ -	\$ 139,741	\$ 139,741
Loss and comprehensive loss for the year	\$ (1,902,114)	\$ (139,741)	\$ 2,041,855
Basic and diluted loss per share	\$ (0.02)	\$ (0.00)	\$ (0.02)
Weighted average number of shares outstanding			
- basic and diluted	108,228,141	-	108,228,141

(ii) \$139,741 in exploration costs incurred during the year ended December 31, 2021, which were previously capitalized in exploration and evaluation assets, have been reflected in the loss and comprehensive loss for the year ended December 31, 2021.

Consolidated Statement of Equity for the year ended December 31, 2021:

	As previously reported	Effect of change in accounting policy <sup>(iii)</sup>	As restated under new policy
Deficit as at December 31, 2020	\$ (7,988,647)	\$ (7,471,174)	\$ (15,459,821)
Adjustment to NCI	1,587,043	-	1,587,043
Loss and comprehensive loss for the year	\$ (1,902,114)	\$ (139,741)	\$ (2,041,855)
Deficit as at December 31, 2021	\$ (8,303,718)	\$ (7,610,915)	\$ (15,914,633)
Total shareholders' equity as at			
December 31, 2020	\$ 19,800,914	\$ (7,471,174)	\$ 12,329,740
Loss and comprehensive loss for the year	\$ (1,902,114)	\$ (139,741)	\$ (2,041,855)
Total shareholders' equity as at			
December 31, 2021	\$ 20,545,847	\$ (7,610,915)	\$ 12,934,932

(iii) \$7,471,174 in accumulated exploration costs, which were previously capitalized in exploration and evaluation assets, have been reflected in the opening deficit for the year ended December 31, 2021. In addition, \$139,741 in exploration costs incurred during the year ended December 31, 2021, which were previously capitalized in exploration and evaluation assets, have been reflected in the loss and comprehensive loss for the year ended December 31, 2021.

Consolidated Statement of Cash Flows for the year ended December 31, 2021:

	As previously reported	Effect of change in accounting policy <sup>(iv)</sup>	As restated under new policy
Cash flows from operating activities:			
Loss and comprehensive loss for the year	\$ (1,902,114)	\$ (139,741)	\$ (2,041,855)
Cash used in operating activities	\$ (869,152)	\$ (139,741)	\$ (1,008,893)
Cash flows from investing activities			
Mineral property acquisition costs	\$ 175,479	\$ 139,741	\$ 315,220
Cash used in investing activities	\$ (133,136)	\$ 139,741	\$ 6,605

(iv) \$139,741 in exploration costs for the year ended December 31, 2021 which were previously capitalized in exploration and evaluation assets and recognized as investing activities have been reflected in loss and comprehensive loss for the year and thereby recognized in operating activities.

#### 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 has designated its investments at level 2 (Note 10).

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 December 31, 2022 and December 31, 2021, to interest rate risk through its financial instruments.

c) **Currency risk**

Throughout the year ended December 31, 2022, and the year ended December 31, 2021, 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 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 \$13,823 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 \$11,817. The Company also holds a convertible debenture from a related party with a pre-allowance balance of \$1,327,264 (2021 - \$962,248), bearing interest of 4.75% and payable on January 11, 2023, and \$119,970 (2021 - \$175,427) from officers and directors bearing interest at 3% per annum and repayable on December 31, 2022. The Company assessed expected credit losses based upon current credit information and during the year ended December 31, 2022, the Company took an allowance for doubtful accounts on the remaining loan receivable from a related party of \$365,016 (2021 - \$962,248) (note 10). To assess credit risk on the loans to officers and directors, the Company assesses maturity date and ability to make payments and has not assessed a significant risk of collection. The Company collected the amounts owing from officers and directors of \$119,970 subsequent to December 31, 2022.

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, 2022, the Company had \$40,483 cash (2021 – \$2,564,905) and current liabilities of \$478,661 (2021 - \$171,955).

## 5. Right-of-Use Asset

<b>Cost</b>	
Balance, December 31, 2020	\$ 62,400
Adjustment to lease liabilities (note 7)	(209)
Extinguishment of lease liabilities (note 7)	(62,191)
Renewal of lease liabilities (note 7)	50,200
Balance, December 31, 2021	50,200
Adjustment to lease liabilities (note 7)	887
Balance, December 31, 2022	\$ 51,087
<b>Accumulated Depreciation</b>	
Balance, December 31, 2020	\$ 46,800
Depreciation	23,757
Extinguishment of lease liabilities (note 7)	(62,191)
Balance, December 31, 2021	8,366
Depreciation	25,632
Balance, September 30, 2022	\$ 33,998
<b>Carrying Values</b>	
December 31, 2021	\$ 41,834
December 31, 2022	\$ 17,089

## 6. Exploration and Evaluation Assets

	<b>Solwezi</b>
<b>Balance, December 31, 2020</b>	<b>\$ 10,276,568</b>
Option payments	(315,220)
<b>Balance, December 31, 2021 and 2022</b>	<b>\$ 9,961,348</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 Minerals Development Act, 2015*. On February 28, 2021, license 21509-HQ-LEL was renewed for a further 3 year period. In doing so, the Company was required to relinquish 50% of the license area. The relinquished 50% has been granted to Rio Tinto Exploration Zambia Limited as license 28816-HQ-LEL and is held on behalf of the Company as per the terms of the Earn-In and Joint Venture Agreement between Rio Tinto Mining and Exploration Limited ("Rio Tinto") and Midnight Sun. Following the termination of the Earn-In agreement with Rio Tinto, this 50% will be transferred to the Company.

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. In accordance with the *Mines and Minerals Development Act, 2015*, for a period of 12 months, ZHLMIL is precluded from owning the same license area which expired. In order to preserve the license area, Rio Tinto formed a new corporation, Solwezi Metals Exploration Ltd., to apply for a new License over the same area. The relationship between Solwezi Metals Exploration Ltd. and Midnight Sun is governed by the terms of the Earn-In and Joint Venture Agreement between Rio Tinto and Midnight Sun. Solwezi Metals Exploration Ltd.'s application was accepted by the Zambian Mining Cadastre on November 23, 2021, as licence 30678-HQ-LEL and has since been validated and has received final approval for granting.

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 former earn-in partner, 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 in 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.

On December 7, 2022, the Company increased its ownership share in ZHLMIL to 84.30% by participating in an issuance of 7,187 ZHLMIL ordinary shares at a price of \$618.52 with a total value of \$4,445,303. The remaining ordinary shares in the amount 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. On the acquisition of the additional 3.64% interest in the ZHLMIL, the Company recognized a decrease to the non-controlling interest of \$343,423 with a corresponding reduction in deficit.

As at December 31, 2022, the only asset held by ZHLMIL is the Solwezi exploration and evaluation asset. There were no operations within ZHLMIL for the year ended 31, 2022, 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.

During the year ended December 31, 2022, the Earn-in Agreement was terminated prior to the completion of the initial work program and accordingly, no interest was transferred to Rio Tinto.

As at December 31, 2022 and December 31, 2021, the Company had funded the following cumulative exploration expenditures on the Solwezi Licences:

	December 31, 2022	December 31, 2021
Site and project expenditures:		
Acquisition costs	\$ 9,961,348	\$ 9,961,348
Assays	334,763	326,119
Drilling	3,995,275	3,043,326
Field expenses	1,318,977	1,212,272
General and administrative	907,686	871,418
Geological consulting	1,676,760	1,187,606
License	268,870	260,469
Travel and accommodation	759,518	709,705
<b>Total operations funded</b>	<b>\$ 19,223,197</b>	<b>\$ 17,572,263</b>

The following table presents the Company's exploration expenditures on the Solwezi Licences for each of December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021
Site and project expenditures:		
Assays	\$ 8,644	\$ -
Drilling	951,949	-
Field expenses	106,705	-
General and administrative	36,268	103,692
Geological consulting	489,154	36,049
Licences	8,401	-
Travel & accommodation	49,813	-
<b>Exploration cost</b>	<b>\$ 1,650,934</b>	<b>\$ 139,741</b>

## 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 4) of \$62,400. During the year ended December 31, 2021, as a result of an amendment to the lease payment schedule, the Company recognized an adjustment to lease liabilities and right-of-use asset (note 5) of \$209.

During the year ended December 31, 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 5) of \$50,200 during the year ended December 31, 2021. During the year ended December 31, 2022, as a result of an amendment to the lease payment schedule, the Company recognized an adjustment to lease liabilities and right-of-use asset (note 5) of \$887.

The following is a reconciliation of the changes in the lease liabilities for period ended December 31, 2022 and year ended December 31, 2021.

	December 31, 2022	December 31, 2021
Opening Balance	\$ 42,607	\$ 17,255
Adjustment	887	(209)
Renewal of office lease	-	50,200
Payments	(28,293)	(26,717)
Lease accretion	3,228	2,078
	18,429	42,607
Lease liabilities, current portion	(18,429)	(24,551)
Lease liabilities, non-current portion	\$ -	\$ 18,056

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

Fiscal Year	Payment
2023	\$ 19,126
Amount representing future lease accretion	(697)
Lease liabilities	\$ 18,429

## 8. 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, 2023 and has no fixed repayment schedule. If \$30,000 is repaid on or before December 31, 2023, the remaining \$10,000 will be forgiven. If, at December 31, 2023, 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.

## 9. Share Capital and Reserves

### a) Authorised

Unlimited number of common shares authorised, without par value.

### b) Share issuances

At December 31, 2022, the Company had 113,004,014 common shares (2021 – 113,004,014) issued and outstanding.

#### *2022 share issuances*

There were no share issuances during the period ended December 31, 2022.

#### *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 \$16,984 in closing costs.

- b) During the year ended December 31, 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.

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	Weighted average exercise price
<b>Balance, December 31, 2020</b>	<b>8,850,000</b>	<b>\$ 0.25</b>
Granted	550,000	0.31
Exercised	(750,000)	0.15
Expired/Cancelled	(2,550,000)	0.25
<b>Balance, December 31, 2021</b>	<b>6,100,000</b>	<b>0.27</b>
Granted	3,650,000	0.17
Expired/Cancelled	(1,925,000)	0.31
<b>Balance, December 31, 2022</b>	<b>7,825,000</b>	<b>\$ 0.21</b>
<b>Exercisable, December 31, 2022</b>	<b>7,562,500</b>	<b>\$ 0.21</b>

During the year ended December 31, 2022, the Company granted 3,650,000 stock options (2021 – 550,000) with a weighted average fair value of \$0.12 (2021 - \$0.15) per option. Total share-based payments recognized for the period ended December 31, 2022 was \$416,051 (2021 - \$81,601) 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:

	December 31, 2022	December 31, 2021
Weight average share price	\$0.165	\$0.31
Risk-free interest rate	2.94%	0.35%
Expected life of option	4.62 years	2.45 years
Expected annualized volatility	95.15%	88.57%
Expected dividend rate	0%	0%

At December 31, 2022, the Company has the following stock options outstanding:

Expiry date	Exercise price	Number of stock options outstanding	Weighted average years to expiry
January 31, 2023 <sup>1</sup>	\$ 0.36	1,950,000	0.08
May 6, 2025	\$ 0.135	2,025,000	2.35
April 28, 2026	\$ 0.31	200,000	3.33
August 12, 2027	\$ 0.165	3,300,000	4.62
August 12, 2023	\$ 0.165	350,000	0.61
		<b>7,825,000</b>	<b>2.69</b>

1. Subsequent to December 31, 2022, these options expired unexercised.

d) **Warrants**

Share purchase warrants outstanding and exercisable are summarized as follows:

	<b>Warrants outstanding</b>	<b>Weighted average exercise price</b>
<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, December 31, 2021</b>	<b>14,137,809</b>	<b>0.35</b>
Expired	(419,090)	0.25
<b>Balance, December 31, 2022</b>	<b>13,718,719</b>	<b>\$ 0.36</b>

As at December 31, 2022, the Company had the following warrants outstanding:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Number of warrants outstanding</b>	<b>Weighted average years to expiry</b>
May 25, 2023 <sup>(1)(2)</sup>	\$ 0.25	7,922,185	0.40
July 2, 2023	\$ 0.50	5,796,534	0.50
		13,718,719	0.445

(1) During the year ended December 31, 2022, these warrants had their maturities extended to May 25, 2023.

(2) Subsequent to the year ended December 31, 2022, 242,000 of these warrants were exercised for proceeds of \$60,500.

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

The Company's related parties at December 31, 2022 consist of 8 officers and directors (and their related companies), as follows:

<b>Name of Related Party</b>	<b>Position</b>	<b>Nature of transaction</b>
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 year ended December 31, 2022 and 2021 was as follows:

<b>Nature of expenditure</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Wages and benefits	\$ 349,000	\$ 280,339
Consulting Fees	109,779	93,126
Share-based payments	321,311	45,860
	<b>\$ 780,090</b>	<b>\$ 419,325</b>

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

As at December 31, 2022, \$122,124 (2021 - \$66,298) 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. As at December 31, 2022, \$5,000 (2021 - \$nil) advanced to directors was included within advances and deposits.

#### *Investments*

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 exploration and evaluation properties in Egypt. During the year ended December 31, 2020, the Company was granted an additional 800,000 common shares of Red Sea valued at \$0.05 per share for a total of 40,000 as a financing fee on the issuance of a USD \$650,000 loan. During the year ended December 31, 2021, the Company was granted an additional 200,000 common shares of Red Sea, valued at \$0.10 per common share on the advance of an additional USD \$100,000 loan.

As at December 31, 2022, the investments were valued at \$0.15 (2021 - \$0.10) per common share for a total value of \$525,000 (2021 - \$350,000), based on the valuation of recently closed private placements by Red Sea. For the year ended December 31, 2022, the Company recognized an unrealized gain on investments of \$175,000 (2021 - \$nil).

#### *Loans and Debenture Receivable*

During the year ended December 31, 2020, the Company issued a promissory note to Red Sea in the amount of USD 650,000 without interest, payable on demand. During the year ended December 31, 2021, the Company extended an additional USD 108,990 to Red Sea, resulting in a total loan of USD 750,000 outstanding (\$962,248).

During the year ended December 31, 2022, the Company entered into an agreement whereby it increased the amount advanced to \$1,331,129 and renegotiated the instrument as a convertible debenture denominated in Canadian dollars, maturing on January 11, 2023, and convertible at \$0.15 per common share. The convertible debenture includes interest of \$63,030 owing at the time of repayment. During the year ended December 31, 2022, the Company recognized interest income of \$61,130 (2021 - \$nil).

As at December 31, 2022, the Company has taken an allowance for doubtful accounts of \$1,327,264 (2021 - \$962,248) on the Red Sea loans. As at the date of this report, the convertible debenture remains outstanding.

During the year ended December 31, 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. During the year ended December 31, 2022, the Company entered into an amending agreement to extend the maturity of these loans to December 31, 2022. During the year ended December 31, 2022, the Company recognized interest income of \$4,978 (2021 - \$2,094) on the loans. During the year ended December 31, 2022, repayments of \$60,435 were made on the loans. Subsequent to December 31, 2022, these loans were repaid in full.

A reconciliation of the Company's loans and debentures receivable as at December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Opening balance	\$ 175,427	\$ 830,778
Additions	303,885	308,615
Interest accrued	66,108	2,094
Repayments	(60,435)	-
Allowance for doubtful accounts	(365,016)	(962,248)
Foreign exchange	-	(3,812)
	\$ 119,969	\$ 175,427

## 11. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At December 31, 2022 and 2021, the Company's exploration and evaluation assets are located in one geographic location: Zambia, Africa.

## 12. 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.

## 13. Commitments and contingencies

During the year ended December 31, 2022, the Company's Joint Venture Partners 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.

#### 14. Income taxes

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

	Year ended December 31,	
	2022	2021 <i>(restated – Note 3(i))</i>
Loss for the year	\$ (3,179,880)	\$ (2,041,855)
Expected income tax (recovery)	\$ (859,000)	\$ (551,000)
Change in statutory, foreign tax, foreign exchange rates and other	(45,000)	99,000
Permanent difference	90,000	8,000
Share issue cost	-	(21,000)
Adjustment to prior years' provision versus statutory returns	265,000	(47,000)
Change in unrecognized deductible temporary differences	549,000	512,000
<b>Total income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

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

	December 31, 2022	December 31, 2021 <i>(restated – Note 3(i))</i>	Expiry Range
<b>Temporary Differences</b>			
Share issue costs	\$ 73,000	\$ 137,000	2041-2045
Exploration and evaluation assets	\$ 13,027,000	\$ 11,298,000	N/A
Non-capital losses available for future periods	\$ 7,270,000	\$ 6,977,000	2026-2042

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

#### 15. Subsequent events

Subsequent to the year ended December 31, 2022, the Company:

- a) Completed a non-brokered private placement by issuing 4,685,000 at a price of \$0.20 per unit for gross proceeds of \$937,000, of which \$5,000 had been received as at December 31, 2022. 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 \$0.30. The Company paid \$58,560 in finders fees and issued 292,800 finder's warrants exercisable at \$0.30 per share for a period of 2 years; and
- b) Granted 3,300,000 stock options to certain directors, officers, employees, and consultants of the Company with an exercise price of \$0.21 and life of five years.