Midnight Sun Mining Corp.

Condensed Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

(Unaudited)

Notice of No Review of Condensed Interim Consolidated Financial Statements

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

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

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

Midnight Sun Mining Corp.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

As at

	June 30, 2014	December 31, 2013
ASSETS		
Current		
Cash	$ 69,555	$ 123,840
Advances and deposits	10,561	1,180
Receivables	11,984	21,223
	92,100	146,243
Exploration advances (note 6)	-	36,724
Exploration and evaluation assets (note 6)	819,338	339,378
	$ 911,438	$ 522,345
LIABILITIES and SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 41,087	$ 74,550
Due to related parties (note 8)	41,212	62,439
	82,299	136,989
Shareholders' equity		
Share Capital (note 7)	4,149,401	3,740,453
Reserves - options (note 7)	328,974	275,569
Reserves - warrants (note 7)	113,202	5,520
Deficit	(3,762,438)	(3,636,186)
	829,139	385,356
	$ 911,438	$ 522,345

Nature of operations (note 1)
Basis of presentation (note 2)
Equipment (note 5)

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

Approved and authorized by the Board of Director on August 25, 2014:

"Robert Sibthorpe" — Robert Sibthorpe, Director

"Allan Fabbro" — Allan Fabbro, Director

Midnight Sun Mining Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Operations and Comprehensive

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Expenses				
Accounting and audit fees	$ 12,800	$ 13,404	$ 19,100	$ 26,798
Amortization (note 5)	-	-	-	691
Consulting fees	-	9,133	-	9,133
Investor and shareholder relations	18,087	15,000	33,227	30,000
Legal fees	181	4,897	545	5,658
Office services and miscellaneous	8,724	9,946	21,503	16,734
Regulatory and transfer agent fees	4,772	5,293	8,496	6,913
Share-based payments (note 7)	-	12,871	16,992	13,242
Travel and accommodation	2,776	(11,184)	7,367	6,570
Wages and benefits (note 8)	9,640	6,411	19,216	14,823
	(56,980)	(65,771)	(126,446)	(130,562)
Foreign exchange	(833)	1,029	776	358
Interest expense	(582)	-	(582)	-
Interest income	-	4	-	18
Loss on disposal of equipment (note 5)	-	-	-	(8,415)
Loss and comprehensive loss for the period	$ (58,395)	$ (64,738)	$ (126,252)	$ (138,601)
Loss per share				
Basic and diluted	$ (0.002)	$ (0.004)	$ (0.005)	$ (0.008)
Weighted Average Number of Common Shares				
Basic and diluted	23,723,447	17,598,333	23,391,955	17,598,333

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

Midnight Sun Mining Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Share capital					
	Shares	**Amount**	**Reserves - Warrants**	**Reserves - Options**	**Deficit**	**Total shareholders' equity**
Balance - January 1, 2013	**17,598,333**	**$ 3,054,633**	**$ 25,123**	**$ 242,101**	**$ (1,913,956)**	**$ 1,407,901**
Share-based payments	-	-	-	13,242	-	13,242
Loss for the period	-	-	-	-	(138,601)	(138,601)
Balance - June 30, 2013	**17,598,333**	**3,054,633**	**25,123**	**255,343**	**(2,052,557)**	**1,282,542**
Units issued for cash for private placement	4,329,350	692,696	-	-	-	692,696
Share issuance costs	-	(31,999)	5,520	-	-	(26,479)
Warrants expired	-	25,123	(25,123)	-	-	-
Share-based payments	-	-	-	20,226	-	20,226
Loss for the period	-	-	-	-	(1,583,629)	(1,583,629)
Balance - December 31, 2013	**21,927,683**	**3,740,453**	**5,520**	**275,569**	**(3,636,186)**	**385,356**
Units issued for cash for private placement	2,700,000	231,390	106,110	-	-	337,500
Share issuance costs	-	(9,110)	1,572	-	-	(7,538)
Shares issued for exploration and evaluation assets	1,333,333	186,667	-	-	-	186,667
Share-based payments	-	-	-	53,405	-	53,405
Loss for the period	-	-	-	-	(126,252)	(126,252)
Balance - June 30, 2014	**25,961,016**	**$ 4,149,401**	**$ 113,202**	**$ 328,974**	**$ (3,762,438)**	**$ 829,139**

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

Midnight Sun Mining Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Cash

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Operating activities				
Loss for the period	$ (58,395)	(64,738)	$ (126,253)	$ (138,601)
Items not affecting cash:				
Amortization	-	-	-	691
Loss on disposal of equipment	-	-	-	8,415
Share-based payments	-	12,871	16,992	13,242
Changes in non-cash working capital				
Accounts payable and accrued liabilities	(61,049)	159,179	(2,251)	59,188
Due to related parties	3,796	-	(21,227)	115,966
Accounts receivable	11,511	(25,408)	9,239	(336)
Advances and deposits	6,982	(22,199)	(9,381)	(33,958)
	(97,155)	59,705	(132,881)	24,607
Investing activities				
Exploration and evaluation assets advances	-	-	36,724	-
Exploration and evaluation assets expenditures	(188,524)	(55,540)	(288,092)	(56,591)
	(188,524)	(55,540)	(251,368)	(56,591)
Financing activities				
Proceeds from issuances of units and shares	337,500	-	337,500	-
Share issuance costs	(7,538)	-	(7,538)	-
	329,963	-	329,963	-
Net change in cash	44,285	4,165	(54,286)	(31,984)
Cash, beginning of period	25,270	29,704	123,840	65,853
Cash, end of period	69,555	$ 33,869	$ 69,555	$ 33,869
SUPPLEMENTAL CASH DISCLOSURES				
Cash paid for:				
Income taxes	$ -	$ -	$ -	$ -
Interest	$ 582	$ -	$ 582	$ -
SUPPLEMENTAL NON-CASH DISCLOSURES				
Exploration and evaluation assets included in accounts payable and accrued liabilities	$ 24,767	16,104	$ 24,767	$ 19,691
Exploration advances reclassified to exploration and evaluation assets	$ -	$ -	$ -	$ 14,400

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

Midnight Sun Mining Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Schedule of Exploration and Evaluation Assets

(Expressed in Canadian Dollars)

(Unaudited)

June 30, 2014

	Klein Aub	Solwezi	Total
Balance, January 1, 2013	**$ 1,337,428**	**$ -**	**1,337,428**
Acquisition costs	-	-	-
Exploration expenditures	70,991	-	70,991
Costs written-down	-	-	-
Balance, June 30, 2013	**1,408,419**	**-**	**1,408,419**
Acquisition costs	-	17,483	17,483
Exploration expenditures	26,539	321,895	348,434
Costs written-down	(1,434,958)	-	(1,434,958)
Balance, December 31, 2013	**-**	**339,378**	**339,378**
Acquisition costs (note 7)	-	186,667	186,667
Exploration expenditures (notes 6 and 7)	-	293,293	293,293
Balance, June 30, 2014	**$ -**	**$ 819,338**	**$ 819,338**

The accompanying notes are an integral part of these condensed interim 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 considered to be in the exploration stage and substantially all of the Company's efforts are devoted to financing and developing 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 202, 750 West Pender Street, Vancouver, BC.

2. Basis of Presentation

a) Statement of compliance

These unaudited condensed interim 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").

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim financial statements are based on IFRS issued and outstanding as of August 25, 2014, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2013, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2014 could result in restatement of these unaudited condensed interim consolidated financial statements.

b) Going concern

These unaudited condensed interim 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 unaudited condensed interim 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 three and six month periods ended June 30, 2014 and the year ended December 31, 2013, 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 June 30, 2014, the Company has an accumulated deficit of $3,762,438 (December 31, 2013 - $3,636,186) and has a working capital of $9,801 (December 31, 2013 – $9,254). Management has estimated that the Company will require additional financing in order to complete all planned exploration programs during the year ended December 31, 2014. 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 that 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 unaudited condensed interim consolidated financial statements do not give effect to adjustments, which could be material, to the carrying values and classification of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

c) Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiary Midnight Sun Mining Zambia Limited ("MSM Zambia"), a company incorporated on October 29, 2013 under the laws of Zambia. The Company has consolidated the operations of MSM Zambia since acquiring control of the subsidiary. Control exists when the Company possess power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All significant inter-company transactions have been eliminated upon consolidation.

d) Functional and presentation currency

The Company's reporting and functional currency is the Canadian dollar. The functional currency of MSM Zambia 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, 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 unaudited condensed interim consolidated financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

f) Estimates and judgments

The preparation of these unaudited condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim 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.

3. New accounting standards

a) Issued and in effect

A number of new standards, amendments to standards and interpretations, were not yet effective as of December 31, 2013 and were not applied in preparing the annual audited consolidated financial statements. The following new standards and interpretation have been applied for accounting period beginning on January 1, 2014. The adoption of these standards does not have a material effect on the unaudited condensed interim consolidated financial statements of the Company.

i. Amendments to IAS 32 – Financial instruments, presentation

The amendments clarify certain aspects of the standard because of diversity in application of the requirements on offsetting financial assets and financial liabilities, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

ii. Amendments to IAS 36 – Impairment of assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

iii. Amendments of IAS 39 – Financial instruments

The amendments clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

b) Issued but not yet in effect

This new standard, amendment to standard and interpretations is not yet effective as of January 1, 2014 and has not been applied in preparing these unaudited condensed interim consolidated financial statements. This new standard and interpretation is not expected to have a material effect on the unaudited condensed interim consolidated financial statements of the Company. The Company intends to adopt the following standard when it becomes effective:

i. IFRS 9 - Financial instruments, classification and measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

This standard is indefinitely postponed with an unknown effective date.

ii. IAS 16 – Property, plant and equipment

In May 2014, the IASB amended IAS 16, which is effective for annual periods beginning on or after January 1, 2016. The amendment clarifies that a depreciation method for property, plant and equipment that is based on revenue that is generated by an activity that includes the use of an asset is not allowed. The Company is evaluating the effect, if any, the amendment to IAS 16 will have on the Company's financial statements.

iii. IAS 38 – Intangible assets

In May 2014, the IASB amended IAS 38, which is effective for annual periods beginning on or after January 1, 2016. The amendment clarifies that a depreciation method for intangible assets that is based on revenue that is generated by an activity that includes the use of an intangible asset is not allowed. Exceptions are allowed where the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The Company is evaluating the effect, if any, the amendment to IAS 38 will have on the Company's financial statements.

4. Management of Financial Risk

Fair value measurement disclosure includes classification of financial instrument fair values in a hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

> Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
>
> Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and
>
> Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

a) Fair value

The carrying value of receivables, accounts payable and accrued liabilities, and amounts due to related parties approximated their fair value because of the short-term nature of these instruments. Cash is carried at a level 1 fair value assessment.

b) Interest rate risk

The Company has non-material exposure at June 30, 2014 and December 31, 2013 to interest rate risk through its financial instruments.

c) Currency risk

As at June 30, 2014 and December 31, 2013, the majority of the Company's cash was held in Canadian dollars, the Company's functional and reporting currency.

d) Credit risk

The Company has no significant concentrations of credit risk arising from operations. 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's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. Management believes the risk to be minimal.

Receivables consist mainly of goods and services tax due from the Federal Government of Canada.

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 June 30, 2014, the Company had a cash balance of $69,555 (December 31, 2013 - $123,840) to settle current liabilities of $82,299 (December 31, 2013 - $136,989). 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.

(Unaudited - Expressed in Canadian dollars)

f) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a year:

- Cash includes deposits, which are at variable interest rates. Sensitivity to a plus or minus 1% change in rates would not materially affect the net loss;
- The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

5. Equipment

At June 30, 2014 and December 31, 2013, the Company did not hold balances in PP&E. In January 2013, the Company recorded a loss on disposal of equipment of $8,415 pursuant to the settlement of $38,593 due to a former related party in exchange for equipment with a book value of $47,008 (refer to note 8).

		Exploration equipment
Cost		
At January 1, 2013	**$**	**55,303**
Additions		-
Disposals		(55,303)
At June 30, 2013 and December 31, 2013	**$**	**-**

		Exploration equipment
Amortization		
At January 1, 2013	**$**	**7,604**
Additions		691
Disposals		(8,295)
At June 30, 2013 and December 31, 2013	**$**	**-**
Net book value, June 30, 2013, December 31, 2013 and June 30, 2014	**$**	**-**

6. Exploration and Evaluation Assets

a) Solwezi property

On July 30, 2013, the Company entered into an option agreement with Kam Chuen Resource Holdings Ltd. ("Kam Chuen") to acquire a 60% interest in two mineral exploration permits near Solwezi, Zambia (the "Solwezi Licenses"). The option agreement was approved by the TSX-V on December 6, 2013.

Pursuant to the option agreement, to earn the interest the Company must:

(Unaudited - Expressed in Canadian dollars)

i. Issue to Kam Chuen 1,333,333 common shares of the Company within 5 days of Approval (issued on February 14, 2014, refer to note 7 (b));
ii. Issue to Kam Chuen 4,000,000 common shares of the Company by June 6, 2015;
iii. Issue to Kam Chuen 10,000,000 common shares of the Company by December 6, 2016;
iv. A firm commitment to incur $1,000,000 of work expenditures including a 10% management fee on the Solwezi Licenses by June 6, 2015;
v. Incur an additional $1,333,333 of work expenditures including a 10% management fee on the Solwezi Licenses by December 6, 2016; and
vi. Incur a further $1,333,334 of work expenditures including a 10% management fee on the Solwezi Licenses by December 6, 2017.

As at June 30, 2014 and December 31, 2013, the Company had funded the following exploration expenditures on the Solwezi Licenses:

	June 30, 2014	December 31, 2013
Site and project expenditures		
Acquisition costs	$ 204,150	$ 17,483
Assays	32,038	23,680
Drilling	335,130	166,543
Field expenses	37,773	19,999
General and administrative	802	302
Geological consulting	165,521	83,447
Travel and accomodation	43,924	27,924
	819,338	339,378
Drilling deposit	-	36,724
Total operations funded	**$ 819,338**	**$ 376,102**

Included in the total at December 31, 2013 was $36,724 for drilling deposits, which was refunded during the six month period ended June 30, 2014.

Pursuant to the option agreement with Kam Chuen, the Company is entitled to charge a 10% operator fee, which is to be included in calculating the total work expenditures. This operator fee effectively reduces the required work expenditures to be directly funded by the Company.

b) Klein Aub and Karas exploration properties

On October 19, 2011, and as amended on April 5, 2013, the Company entered into a series of option agreements with Ying Cheung Mining Industry Development Limited, a privately held Hong Kong corporation, whereby the Company acquired the option to earn a 60% interest in Logwood Investments (Pty), a Namibian corporation and owner of the Klein Aub and Karas properties in Namibia.

(Unaudited - Expressed in Canadian dollars)

The Company funded the following cumulative exploration expenditures on the Klein Aub property:

	December 31, 2013
Site and project expenditures	
Acquisition costs	$ 185,000
Diamond drilling	599,622
Field expenses	415,541
Geochemical	35,811
Geological	94,802
Geophysical	16,061
Lease, licenses and taxes	10,437
Travel and accomodation	77,685
Total operations funded	1,434,958
Write-down	**$ (1,434,958)**

On October 19, 2013, the Company opted to not exercise its option. Accordingly, the Company wrote-down $1,434,958 in acquisition and exploration costs at December 31, 2013.

7. Share Capital and Reserves

a) Authorised

Unlimited number of common shares authorised, without par value.

b) Share issuances

At June 30, 2014, the Company had 25,961,016 common shares (December 31, 2013 - 21,927,683) issued and outstanding.

On May 30, 2014, the Company issued 2,700,000 units for gross proceeds of $337,500 pursuant to a private placement. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.30 until May 29, 2016. The fair value of the warrants was determined to be $106,110.

The Company issued 40,000 brokers' warrants in relation to the private placement, entitling the holder to acquire one common share at $0.30 until May 29, 2016. The brokers' warrants were valued at $1,572 using the Black-Scholes valuation model with an expected life of 2 years, volatility of 95.59%, risk-free interest rate of 1.05%, dividend yield of 0% and forfeiture rate of 0%. The Company also paid $5,000 in commissions and $2,538 for listing fees and other share issuance costs.

On February 14, 2014, the Company issued 1,333,333 common shares pursuant to the option agreement for the Solwezi Licenses.

The Company did not issue common shares during the six month period ended June 30, 2013. During the remainder of the year ended December 31, 2013, the Company issued 4,329,350 common shares, as follows:

i. 2,564,350 common shares issued for tranche 1 of a private placement

On November 6, 2013, the Company issued 2,564,350 units for gross proceeds of $410,296 pursuant to tranche 1 of a private placement. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.30 until May 6, 2015.

(Unaudited - Expressed in Canadian dollars)

ii. 1,765,000 common shares issued for tranche 2 of a private placement

On November 26, 2013, the Company issued 1,765,000 units for gross proceeds of $282,400 pursuant to tranche 2 of a private placement. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one common share at a price of $0.30 until May 26, 2015.

The Company issued 110,400 brokers' warrants in relation to the private placement, entitling the holder to acquire one common share at $0.30 until May 26, 2015. The brokers' warrants were valued at $5,520 using the Black-Scholes valuation model with an expected life of 1.5 years, volatility of 95.84%, risk-free interest rate of 1.07%, dividend yield of 0% and forfeiture rate of 0%. The Company also paid $17,664 in commissions and $8,815 for legal fees and other share issuance costs.

c) Escrow shares

At March 31, 2014 and December 31, 2013, the Company has no outstanding escrow shares. The escrow shares were being released at the rate of 10% of the original balance upon the issuance of the final TSX-V bulletin accepting the Company's Qualifying Transaction, and 15% of the original balance every six months thereafter, the last release occurring on May 12, 2013.

d) 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 transactions are summarized as follows:

	Number of stock options outstanding	Weighted average exercise price
Balance, January 1, 2013	**1,540,000**	**$ 0.25**
Granted	100,000	0.155
Cancelled	(25,000)	0.25
Balance, June 30, 2013	**1,615,000**	**0.25**
Relinquished	(200,000)	0.25
Balance, December 31, 2013	**1,415,000**	**0.24**
Granted	550,000	0.25
Balance, June 30, 2014	**1,965,000**	**$ 0.25**

On January 23, 2014, the Company granted 550,000 options exercisable at $0.25 until January 23, 2019. The fair value of the options was estimated at $53,405 using the Black-Scholes valuation model, based on a volatility of 95%, risk-free interest rate of 1.60%, no dividend and an expected life of 5 years. The Company recorded $53,405 in share-based payments, of which $36,413 is included in exploration and evaluation assets on the statement of financial position at June 30, 2014.

(Unaudited - Expressed in Canadian dollars)

On April 5, 2013, the Company granted 100,000 options to the Optionor of its Namibian properties at a price of $0.155, expiring on April 5, 2018. The fair value of the options was estimated at $12,710 using the Black-Scholes valuation model, based on a volatility of 110.5%, risk-free interest rate of 1.45%, no dividend and an expected life of 5 years and a forfeiture estimate of 0%. The share-based payment was fully recognised on April 5, 2013, as all options vested upon grant and was recorded as part of the evaluation and exploration expenditures for the Klein Aub property.

On July 1, 2013, the Company extended the expiry date of 250,000 options exercisable at $0.25, which were granted on July 1, 2012, until July 1, 2014. The fair value of the extended options was estimated at $19,400 using the Black-Scholes valuation model, based on a volatility of 101%, risk-free interest rate of 1.25%, no dividend and an expected life of 1 year. The Company recorded $23,521 in share-based payments, including $2,763 during the year ended December 31, 2012.

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

	Six months endedJune 30, 2014	**Year ended December 31, 2013**
Dividend rate	0%	0%
Annualized volatility	95.09%	101% to 110%
Risk free interest rate	1.60%	1.25% to 1.45%
Expected life of stock options (years)	5	1 to 5
Weighted average fair value of options granted	$ 0.0971	$ 0.0917

At June 30, 2014, the Company has 1,965,000 outstanding and vested stock options enabling holders to acquire common shares as follows:

	Exercise price	**Number of stock options outstanding**	**Weighted average number of years to expiry**
Expiring July 1, 2014	$ 0.25	250,000	0.00
Expiring June 30, 2015	$ 0.25	315,000	1.00
Expiring May 31, 2017	$ 0.25	750,000	2.92
Expiring April 5, 2018	$ 0.155	100,000	3.77
Expiring January 23, 2019	$ 0.25	550,000	4.57
		1,965,000	**2.75**

(Unaudited - Expressed in Canadian dollars)

e) Warrants

Share purchase warrant transactions are summarized as follows:

	Number of warrants		Weighted average exercise price
Balance, January 1, 2013	**4,165,000**		**0.30**
Expired	(850,000)		0.30
Balance, June 30, 2013	**3,315,000**		**0.30**
Issued	4,439,750		0.30
Expired	(3,315,000)		0.30
Balance, December 31, 2013	**4,439,750**	**$**	**0.30**
Issued	2,740,000		0.30
Balance, December 31, 2013	**7,179,750**	**$**	**0.30**

Warrants are included in reserves until exercised, at which time they are transferred into share capital. During the year ended December 31, 2013, the Company reversed $25,123 from reserves to share capital upon the expiry of 4,165,000 warrants.

At June 30, 2014, the Company has 2,740,750 outstanding warrants enabling holders to acquire common shares as follows:

		Exercise price	Number of warrants outstanding	Weighted average number of years to expiry
Expiring May 6, 2015	$	0.30	2,564,350	0.85
Expiring May 26, 2015	$	0.30	1,875,400	0.90
Expiring May 29, 2016	$	0.30	2,740,000	1.92
			7,179,750	**1.27**

(Unaudited - Expressed in Canadian dollars)

8. Related Party Transactions and Key Management Compensation

The Company's related parties at June 30, 2014 consist of 7 officers and directors (and their related companies), as follows:

Name of related party	Position at June 30, 2014	Nature of transaction
Allan J. Fabbro	Director	Director
Adrian Karolko	Director (Zambia subsidiary)	Geological consulting
Matthew MacKenzie	Secretary	Corporate Secretary
Richard J. Mazur / Mirador Management Co.	Director	Director
Wayne Moorhouse	CFO	Management services
Robert A. Sibthorpe / 0694926 BC Ltd.	President, CEO and director	Management services
Tom Ye / Jager Consulting Ltd. / Gold Vistas Properties	Director	Geological consulting

Compensation paid or accrued to key management and/or their related companies during the three and six month periods ended June 30, 2014 and 2013 was as follows:

	Three months ended June 30,		Six months ended June 30,	
Nature of expenditure	**2014**	**2013**	**2014**	**2013**
Consulting fees	-	19,800	-	19,800
Exploration and evaluation assets expenditures				
Field expenses	-	39,000	-	39,000
Geological consulting	12,000	-	20,500	-
Share-based payments	-	-	29,130	-
Office and administrative	-	3,684	-	7,168
Wages and benefits	6,000	6,000	12,000	14,000
Share-based payments	-	-	14,565	-
	$ 18,000	**$ 68,484**	**$ 76,195**	**$ 79,968**

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

The following amounts were incurred or paid to related parties and/or their related companies during the three and six month periods ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
Key management	**2014**	**2013**	**2014**	**2013**
Fees	$ 12,000	$ 46,800	$ 20,500	$ 46,800
Share-based payments	-	-	14,565	-
Total compensation	**$ 12,000**	**$ 46,800**	**$ 35,065**	**$ 46,800**

In January 2013, the Company paid $38,593 due to a former related party via the exchange of exploration equipment with a book value of $47,008 (refer to note 5).

Included on the unaudited condensed interim consolidated statement of financial position at June 30, 2014 is $41,212 (December 31, 2013 - $62,439) due to officers, directors or companies with a director in common for cash advances, unpaid geological consulting fees, unpaid wages and unpaid expenses.

9. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At June 30, 2014 and December 31, 2013, the Company's exploration and evaluation assets are located in one geographic location, Zambia, Africa.