



MIDNIGHT SUN

Midnight Sun Mining Corp.

Condensed Consolidated Interim Financial Statements

For the three and six-month periods ended June 30, 2017 and 2016

(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 consolidated interim financial statements; they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

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

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

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

	June 30, 2017	December 31, 2016
ASSETS		
Current		
Cash	\$ 45,105	\$ 698,149
Advances and deposits	3,657	314
Subscriptions receivable (note 6)	-	84,000
Receivables	889	7,663
	49,651	790,126
Exploration and evaluation assets (note 5)	7,745,005	1,932,909
	\$ 7,794,656	2,723,035
LIABILITIES and SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,529,989	\$ 523,065
Due to related parties (note 7)	146	2,657
	1,530,135	525,722
Shareholders' equity		
Share subscriptions received in advance (note 6)	-	-
Share capital (note 6)	10,404,835	6,117,335
Reserves - options (note 6)	532,694	532,694
Reserves - warrants (note 6)	69,577	69,577
Deficit	(4,742,586)	(4,522,293)
	6,264,520	2,197,313
	\$ 7,794,655	\$ 2,723,035

Nature of operations (note 1)
Basis of presentation (note 2)
Subsequent events (note 10)

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

Approved and authorized by the Board of Directors on August 29, 2017:

"Robert Sibthorpe"

Robert Sibthorpe, Director

"Allan Fabbro"

Allan Fabbro, Director

Midnight Sun Mining Corp.
Condensed Consolidated Interim Statements of Operations
and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Expenses				
Accounting and audit fees	\$ 45,926	\$ 3,267	\$ 53,654	\$ 13,115
Consulting fees	9,000	-	18,000	-
Investor and shareholder relations	12,956	29,500	27,284	62,500
Legal fees	37,724	1,877	37,724	1,877
Office services and miscellaneous	15,133	10,719	32,957	19,022
Regulatory and transfer agent fees	3,472	7,673	11,297	9,577
Travel and accommodation	-	531	7,042	978
Wages and benefits (note 7)	14,744	9,477	32,698	18,955
	(138,955)	(63,044)	(220,656)	(126,024)
Foreign exchange gain	-	-	-	(475)
Interest expense	1,122	-	363	-
Loss and comprehensive loss for the period	\$ (137,833)	\$ (63,044)	\$ (220,293)	\$ (126,499)
Loss per share				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted Average Number of Common Shares				
Outstanding				
Basic	61,109,266	32,862,266	58,413,965	32,217,733
Diluted	81,916,276	32,862,266	79,220,975	32,217,733

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

Midnight Sun Mining Corp.
Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Share capital		Subscription proceeds received in advance	Reserves - Warrants	Reserves - Options	Deficit	Total shareholders' equity
	Shares	Amount					
Balance - December 31, 2015	28,817,266	\$ 4,540,348	\$ 87,000	\$ 7,092	\$ 349,774	\$ (4,115,284)	\$ 868,930
Units issued for cash for private placement	4,045,000	404,500	(87,000)	-	-	-	317,500
Share issuance costs	-	(28,518)	-	11,055	-	-	(17,463)
Loss for the period	-	-	-	-	-	(126,499)	(126,499)
Balance - June 30, 2016	32,862,266	4,916,330	-	18,147	349,774	(4,241,783)	1,042,468
Units issued for cash for private placement	12,682,000	1,309,200	-	-	-	-	1,309,200
Share issuance costs	-	(108,195)	-	51,430	-	-	(56,765)
Share-based payments	-	-	-	-	182,920	-	182,920
Loss for the period	-	-	-	-	-	(280,510)	(280,510)
Balance - December 31, 2016	45,544,266	\$ 6,117,335	\$ -	\$ 69,577	\$ 532,694	\$ (4,522,293)	\$ 2,197,313
Units issued for cash for exercise of warrants	1,400,000	280,000	-	-	-	-	280,000
Units issued for cash for exercise of options	350,000	87,500	-	-	-	-	87,500
Shares issued for exploration and evaluation assets	14,000,000	3,920,000	-	-	-	-	3,920,000
Loss for the period	-	-	-	-	-	(220,293)	(220,293)
Balance - June 30, 2017	61,294,266	\$ 10,404,835	\$ -	\$ 69,577	\$ 532,694	\$ (4,742,586)	\$ 6,264,520

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

Midnight Sun Mining Corp.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Six months ended June 30,	
	2017	2016
Operating activities		
Loss for the period	\$ (220,293)	\$ (126,499)
Items not affecting cash:		
Share-based payments	-	-
Changes in non-cash working capital		
Accounts payable and accrued liabilities	16,131	(49,267)
Due to related parties	(2,511)	(4,664)
Accounts receivable	90,777	5,238
Advances and deposits	(3,344)	31,438
	(119,240)	(143,754)
Investing activities		
Exploration and evaluation assets expenditures	(901,304)	(142,423)
	(901,304)	(142,423)
Financing activities		
Proceeds from issuances of units and shares	367,500	317,500
Share issuance costs	-	(17,463)
	367,500	300,037
Net change in cash	(653,044)	13,860
Cash, beginning of year	698,149	-
Cash, end of period	\$ 45,105	\$ 13,860

SUPPLEMENTAL CASH DISCLOSURES

Cash paid for:

Income taxes	\$ -	\$ -
Interest	\$ (363)	\$ -

SUPPLEMENTAL NON-CASH DISCLOSURES

Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 1,445,391	\$ 24,744
Exploration and evaluation assets included in due to related parties	\$ (90)	\$ -

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

Midnight Sun Mining Corp.
Consolidated Consolidated Interim Schedule of
Exploration and Evaluation Assets

(Expressed in Canadian Dollars)

(Unaudited)

June 30, 2017

		Solwezi
Balance, December 31, 2015	\$	1,121,617
Acquisition costs (note 5)		(8,671)
Exploration expenditures (note 5)		819,963
Balance, December 31, 2016	\$	1,932,909
Acquisition costs (note 5)		3,920,000
Exploration expenditures (note 5)		1,892,096
Balance, June 30, 2017	\$	7,745,005

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

1. Nature of Operations

Midnight Sun Mining Corp. (the "Company") was incorporated on April 11, 2007 pursuant to the Business Corporations Act of British Columbia. The Company's principal business activity is the acquisition and exploration of mineral property interests. The Company is considered to be in the exploration stage and substantially all of 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 1125, 595 Howe 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 consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim financial statements are based on IFRS issued and outstanding as of August 29, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2016, 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, 2017 could result in restatement of these unaudited condensed interim consolidated financial statements.

These unaudited condensed consolidated interim financial statements were authorized by the Board of Directors on August 29, 2017.

b) Going concern

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumption were not appropriate for these unaudited condensed consolidated interim financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classifications used.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

During the six months ended June 30, 2017 and December 31, 2016, 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, 2017, the Company has an accumulated deficit of \$4,742,586 (December 31, 2016 - \$4,522,293) and has a working capital deficiency of \$1,480,484 (December 31, 2016 – working capital deficiency of \$264,404). Management has estimated that the Company will require additional financing in order to complete all planned exploration programs during the year ended December 31, 2017. 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 consolidated interim financial statements do not give effect to adjustments, which could be material, to the carrying values and classification of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

c) Consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned 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 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 unaudited condensed consolidated interim financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting.

f) Estimates and judgments

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

accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the 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

These new standards, and these amendments to standards are not yet effective as of January 1, 2017 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. These new standards and these amendments are not expected to have a material effect on the unaudited condensed consolidated interim financial statements of the Company. The Company intends to adopt the following standard and amendments when they become effective:

i. IFRS 7 - Financial Instruments: Disclosures

The amendment provides for further detail of accounting for transferring a financial asset.

This amendment is effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the effect, if any, the amendment will have on the Company's financial statements.

ii. 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. The Company is evaluating the effect, if any, the standard will have on the Company's financial statements.

This standard is effective for annual periods beginning on or after January 1, 2018.

iii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the effect, if any, the standard will have on the Company's consolidated financial statements.

iv. IFRS 16 Leases

IFRS 16 is a new standard that set out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the effect, if any, the standard will have on its consolidated 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 measured using level 1 inputs of the fair value hierarchy.

b) Interest rate risk

The Company has non-material exposure at June 30, 2017 and December 31, 2016 to interest rate risk through its financial instruments.

c) Currency risk

Throughout the six months ended June 30, 2017 and the year ended December 31, 2016, 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.

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, 2017, the Company had \$45,105 cash (December 31, 2016 – \$698,149) and current liabilities of \$1,530,135 (December 31, 2016 - \$525,722). The Company's current working capital is insufficient to support the Company's near-term general administrative and corporate operating requirements on an on-going basis. The Company intends to raise funds adequate to meet its liquidity needs for the next twelve months via private placement.

5. Exploration and Evaluation Assets

Solwezi property

On July 30, 2013, the Company, entered into an option agreement (the "Option Agreement") with Kam Chuen Resource Holdings Ltd. ("Kam Chuen"), to acquire a 60% interest in two mineral exploration permit licenses located near Solwezi, Zambia, 14039-HQ-LPL and 12124-HQ-LPL (the "Solwezi Licenses").

The Option Agreement was subsequently amended effective April 7, 2015 and July 12, 2016. The following terms reflect the amended Option Agreement:

- a) The Company issue a total of 15,333,333 common shares with 1,333,333 shares issued upon TSX.V acceptance (issued February 14, 2014; valued at \$186,667) and the remaining 14,000,000 shares on July 31, 2016 (issued February 10, 2017; valued at \$3,920,000); and
- b) Incur a total of \$3,666,667 in Expenditures on the mineral exploration permit licenses by December 6, 2018.

After earning a 60% interest, the Company has the exclusive right to purchase an additional 20% interest in the properties.

As at June 30, 2017 and December 31, 2016, the Company had funded the following exploration expenditures on the Solwezi Licenses:

	June 30, 2017	December 31, 2016
Site and project expenditures		
Acquisition costs	\$ 4,136,678	\$ 216,678
Assays	151,862	124,701
Drilling	2,570,121	1,044,780
Field expenses	344,841	166,587
General and administrative	3,923	1,726
Geological consulting	358,821	260,484
Travel and accomodation	178,759	117,953
Total operations funded	\$ 7,745,005	\$ 1,932,909

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.

Mineral exploration licenses 14039-HQ-LPL and 12124-HQ-LPL were issued by the Republic of Zambia, in accordance with the Mines and Minerals Development Act, 2008, and administered by the Zambian Ministry of Mines and Energy and Water Development. The prospecting licenses once granted, were valid for an initial period of two years with the option to be renewed for an additional two-year term, with a total maximum period not exceeding seven years.

On February 19, 2015, the Company received the Zambian Ministry of Mines approval for the renewal of Prospecting License 14039-HQ-LPL for an additional two years until March 24, 2017. This was the second two-year renewal for Prospecting License 14039-HQ-LPL. On September 11, 2016, an application was submitted for the third and final renewal for Prospecting License 14039-HQ-LPL. On March 1, 2017, the Acting Chief Registrar of Mining Rights issued a new license 21509-HQ-LEL to replace 14039-HQ-LPL. This new license covers the same ground as the previous license. License 21509-HQ-LEL will be in effect for a period of 4 years with the option for future renewals providing the license is maintained in accordance with the contained terms and the Mines and Mineral Development Act, 2015.

On February 17, 2016, the Company applied for the second two-year renewal for Prospecting License 12124-HQ-LPL, and on August 17, 2016 the corresponding area charges were paid and a receipt issued by the Republic of Zambia. Subsequently, on October 25, 2016 notice was received by Kam Chuen the renewal had been rejected on the grounds of non-payment of area charges, non-submission of a Pegging Certificate and inadequacies in the renewal submission. The Company and Kam Chuen have contested, with support, the first claim, provided a Pegging Certificate and corrected the minor deficiency in the renewal submission. The Company has retained legal representation in Zambia to assist with obtaining the renewal, and anticipates the renewal to Prospecting License 12124-HQ-LPL will be granted by the Zambian Ministry of Mines and Energy and Water Development in due course.

6. Share Capital and Reserves

a) Authorised

Unlimited number of common shares authorised, without par value.

b) Share issuances

At June 30, 2017, the Company had 61,294,266 common shares (December 31, 2016 – 45,544,266) issued and outstanding.

As part of the Option Agreement with Kam Chuen Resource Holdings Ltd. to acquire a 60% interest in two mineral exploration permit licenses located near Solwezi, Zambia, the Company issued 14,000,000 shares on February 10, 2017 at a price of \$0.28 per share.

On January 29, 2016, the Company completed the third and final tranche of its previously announced non-brokered private placement. In the third tranche, the Company issued 4,045,000 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$404,500. Each Unit consists of one (1) common share ("Common Share") in the capital of the Company and one (1) transferable Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share of the Company for a period of twenty-four months from closing, at an exercise price of \$0.20.

In total, the Company issued 6,901,250 Units for gross proceeds of \$690,125. Finder's fees of \$13,400 were paid in cash and 134,000 Broker's Warrants valued at \$11,055 were issued in connection with the Private Placement. Each Broker's Warrant entitles the holder to purchase one common share at a price of \$0.20 for a period of 24 months, expiring on January 29, 2018.

On December 2, 2016, the Company closed a non-brokered private placement by issuing 10,632,000 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$1,063,200. Each Unit consists of one common share ("Common Share") in the capital of the Company and one transferable Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share of the Company for a period of twenty-four months from closing, at an exercise price of \$0.20.

Finder's fees of \$44,256 were paid in cash and 402,560 Finder's Warrants valued at \$47,096 were issued in connection with the Private Placement. Each Finder's Warrant entitles the holder to purchase one common share at a price of \$0.20 for a period of twenty-four months, expiring on December 2, 2018.

On December 29, 2016, the Company completed a non-brokered private placement by issuing 2,050,000 units (the "Units") at a price of \$0.12 per Unit for gross proceeds of \$246,000. Each Unit consists of one common share ("Common Share") in the capital of the Company and one transferable Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share of the Company for a period of twenty-four months from closing, at an exercise price of \$0.20. Subscription proceeds of \$84,000 were not deposited prior to year-end and have been recorded as subscriptions receivable.

Finder's fees of \$4,464 were paid in cash and 37,200 Finder's Warrants valued at \$4,334 were issued in connection with the private placement. Each Finder's Warrant entitles the holder to purchase one common share at a price of \$0.20 for a period of twenty-four months, expiring on December 29, 2018.

During the six months ended June 30, 2017, 1,400,000 warrants were exercised at a price of \$0.20. As a result, 1,400,000 common shares were issued.

c) Escrow shares

At June 30, 2017 and December 31, 2016, the Company has no outstanding escrow shares.

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.

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	5,596,250	\$ 0.25
Granted	17,300,760	0.20
Expired	(2,740,000)	0.30
Balance, December 31, 2016	20,157,010	\$ 0.20
Exercised	(1,400,000)	0.20
Balance, June 30, 2017	18,757,010	\$ 0.20

Stock options transactions are summarized as follows:

	Number of stock options outstanding	Weighted average exercise price
Balance, December 31, 2015	1,425,000	\$ 0.25
Granted	2,950,000	0.25
Expired/Cancelled	(500,000)	0.25
Balance, December 31, 2016	3,875,000	\$ 0.25
Granted	-	0.25
Exercised	(350,000)	0.25
June 30, 2017	3,525,000	\$ 0.25
Exercisable	2,050,000	\$ 0.25

On November 28, 2016, Midnight Sun granted stock options to purchase an aggregate of 2,600,000 Common Shares of the Company, at an exercise price of \$0.25 per share to Company officers, directors and advisors. The fair value of the options was estimated at \$180,662 using the Black-Scholes valuation model, based on a volatility of 89%, risk-free interest rate of 1.23%, no dividend and an expected life of 5 years. The options vested on grant and expire on November 28, 2021.

On November 28, 2016, the Company granted stock options to purchase an aggregate of 350,000 Common Shares at \$0.25 for a period of one year to the Company's Investor Relations consultant. The stock options shall vest in tranches of 87,500 every 3 months. The options are granted pursuant to the Company's Stock Option Plan and the contract may be cancelled by either party with 30 days' notice. The fair value of the options was estimated at \$0.0363 per option, with \$2,258 recorded as stock-based compensation in the current year. This calculation was done using the Black-Scholes valuation model, based on a volatility of 116%, risk-free interest rate of 1.23%, no dividend and an expected life of 1 year.

On May 31, 2017, 200,000 stock options with an exercise price of \$0.20 due to expire on May 31, 2017 were temporarily extended.

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

	June 30, 2017	December 31, 2016
Dividend rate	-	0%
Annualized volatility	-	89% to 116%
Risk free interest rate	-	1.23%
Expected life of stock options (years)	-	1 to 5
Weighted average fair value of options granted	-	\$ 0.0742

At June 30, 2017, the Company has 2,050,000 outstanding 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 May 31, 2017	\$ 0.25	200,000	0.17
Expiring April 5, 2018	\$ 0.155	100,000	1.01
Expiring January 23, 2019	\$ 0.25	275,000	1.82
Expiring November 28, 2021	\$ 0.25	1,475,000	4.67
		2,050,000	1.99

e) Warrants

Share purchase warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	5,596,250	\$ 0.25
Granted	17,300,760	0.20
Expired	(2,740,000)	0.30
Balance, December 31, 2016	20,157,010	\$ 0.20
Exercised	(1,400,000)	0.20
Balance, June 30, 2017	18,757,010	\$ 0.20

During the six months ended June 30, 2017, 1,400,000 warrants were exercised at a price of \$0.20.

At June 30, 2017, the Company has 18,757,010 outstanding warrants (December 31, 2016 – 20,157,010) enabling holders to acquire common shares as follows:

	Exercise price	Number of warrants outstanding	Weighted average number of years to expiry
Expiring October 26, 2017	\$ 0.20	1,356,250	0.32
Expiring November 4, 2017	\$ 0.20	200,000	0.35
Expiring January 29, 2018	\$ 0.20	4,179,000	0.58
Expiring December 2, 2018	\$ 0.20	10,934,560	1.42
Expiring December 29, 2018	\$ 0.20	2,087,200	1.50
		18,757,010	1.15

f) Share subscriptions received in advance

During the year ended December 31, 2015, the Company opened the third tranche of a non-brokered private placement at a price of \$0.10 per Unit. Each Unit consisting of one common share ("Common Share") in the capital of the Company and one transferable Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share of the Company for a period of twenty-four months from the closing date, at an exercise price of \$0.20. Proceeds of \$87,000 from the third tranche of the non-brokered private placement was received during the year ended December 31, 2015 and was therefore designated as share subscriptions received in advance. The third tranche of the private placement closed during the year ended December 31, 2016.

7. Related Party Transactions and Key Management Compensation

The Company's related parties at June 30, 2017 consist of 7 officers and directors (and their related companies), as follows:

Name of related party	Position at June 30, 2017	Nature of transaction
Allan J. Fabbro	Director	Director
Fengjie Huang	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	Director	Director

Compensation paid or accrued to key management and/or their related companies during the six months ended June 30, 2017 and 2016 was as follows:

Nature of expenditure	Six months ended June 30,	
	2017	2016
Exploration and evaluation assets expenditures		
Field expenses	\$ 60,909	\$ -
Wages and benefits	12,000	12,000
Share-based payments	-	-
	\$ 72,909	\$ 12,000

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 June 30, 2017, \$408 (December 31, 2016 - \$2,657) is due to officers, directors or companies with a director in common for cash advances, unpaid geological consulting fees, unpaid wages and unpaid expenses.

8. Segmented Information

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. At June 30, 2017 and December 31, 2016, the Company's exploration and evaluation assets are located in one geographic location: Zambia, Africa.

9. 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 makes adjustments to 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.

10. Subsequent events

On August 21, 2017, the Company appointed Brett A. Richards as Chief Executive Officer and director. The Company's former CEO, Robert Sibthorpe, B.Sc. (Geology), M.B.A. remains with the Company in the new position of Vice President, Exploration. Mr. Sibthorpe will lead the exploration and drilling programs at the Solwezi Properties through the various stages of resource development.