



**NICOLA MINING INC.**  
**(FORMERLY HULDRA SILVER INC.)**  
**April 29, 2016**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**For The Year Ended December 31, 2015**

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**(Prepared by Management)**

**GENERAL**

The following discussion of financial performance, financial condition, cash flows and future prospects ("MD&A") should be read in conjunction with the audited consolidated financial statements of Nicola Mining Inc. ("Nicola" or the "Company") and notes thereto for the year ended December 31, 2015.

This MD&A for the year ended December 31, 2015 was prepared as of April 29, 2016. Unless otherwise indicated, all dollar amounts set out herein are expressed in Canadian dollars. Additional information and filings are available for review on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this MD&A are forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Company, including (i) that Nicola will be able to satisfy the outstanding payment obligations resulting from the Restructuring Plan approved by the creditors and the Supreme Court of British Columbia (the "Court") in the proceedings under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"), (ii) that Nicola or another party may be able to recommence operations at its Treasure Mountain Project and Merritt Mill, (iii) that Nicola will be able to close future tranches of the financing, (iv) that Nicola will be able to process mill feed in its Merritt Mill for third parties, (v) that Nicola will be able to sell any of its real estate properties or any other non-core assets, and (vi) that Nicola will enter into any merger and acquisition transactions. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this MD&A. These assumptions, which include management's current expectations, estimates and assumptions about the Company raising sufficient capital such that it is able to meet its obligations, the Company's ability to recommence operations, including refurbishing the Merritt Mill to produce other metal concentrates, current mineral property interests, the global economic environment, the market price and demand for silver and other minerals, the Company's ability to manage its property interests and operating costs, and the value of its real property holdings and its non-core assets may prove to be incorrect. A number of risks and uncertainties could cause the Company's actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) that Nicola or another party will be unable to recommence operations at its Treasure Mountain Project and Merritt Mill for any reason whatsoever, (2) a downturn in general economic conditions in North America and internationally, (3) volatility and fluctuation in the prices of silver, lead, zinc and other metals, (4) volatility and fluctuation in the price of the Company's stock and stock of resource issuers generally, and (5) other factors beyond the Company's control. Readers are cautioned that the foregoing list of factors is not exhaustive.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors and shareholders are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information,

future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the section entitled “Risk Factors” below.

## **CREDITOR PROTECTION AND RESTRUCTURING**

On July 26, 2013 (the “Filing Date”), Nicola, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained a stay order (the “Initial Order”) from the British Columbia Supreme Court. The CCAA proceedings covered the Company and its wholly-owned subsidiaries, Huldra Properties Inc., Huldra Holdings Inc., and 0913103 B.C. Ltd. (collectively, the “Applicants”). Previously on June 26, 2013, the Company put its Treasure Mountain mine (the “Treasure Mountain Project”) and its mill (the “Merritt Mill”) on care and maintenance.

The stay of proceedings was lifted on November 21, 2014 upon the Company implementing its Plan of Compromise and Arrangement dated August 8, 2014 (the “Plan” or the “Restructuring Plan”), which Plan was approved by the affected creditors under the CCAA proceedings on September 23, 2014 and by the Court on October 10, 2014. The Monitor filed a Certificate of Plan Implementation with the Court on November 21, 2014. On November 21, 2014, implemented the Plan and the stay of proceedings against the Applicants and their property was lifted.

On December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under the CCAA. Further to the certificate filed in the Supreme Court of British Columbia by then Court appointed Monitor of the Company under CCAA, the Company has fulfilled the Secured Creditor Settlement Amount and distributed required payments pursuant to the Plan.

### **CCAA Debtor-in-Possession Loan**

In order to provide Nicola with access to the funds needed to conduct its business during the period of the CCAA proceedings, Nicola obtained the debtor-in-possession loan (the “DIP Loan”) from Waterton Global Value, L.P. (“Waterton”), the primary creditor of the Company, pursuant to a credit agreement dated August 15, 2013 (the “DIP Credit Agreement”). The DIP Loan was authorized by the Initial Order of the Court pursuant to the proceedings under the CCAA.

On September 23, 2014, the Creditors’ Meeting was held and 100% of the creditors who voted in person or by proxy at the Meeting approved the Plan. On October 10, 2014, pursuant to the Company’s proceedings under the CCAA, the Court granted an order sanctioning the creditor approval of the Plan and granting a further extension of the expiry date of the stay of proceedings and period of creditor protection for the Company and its subsidiaries under the CCAA proceedings from November 7, 2014 to November 24, 2014.

### **Plan of Compromise and Arrangement and Exiting CCAA**

The Company entered into a Letter Agreement dated June 3, 2014 and First Amendment dated June 24, 2014 with Concept Capital Management Ltd. (“Concept”) and Waterton, whereby the parties proposed a restructuring of the affairs of Nicola pursuant to which, among other things: (i) the Company intended to complete a secured convertible debenture financing (the “Financing”) for aggregate gross proceeds of up to \$8 million; (ii) the Company intended to compromise and settle its debt owing to its creditors under the CCAA proceedings; and (iii) the Company intended to satisfy its obligations to certain creditors outside of the CCAA proceedings, including the amounts owed to Waterton pursuant to the DIP Loan (collectively, the “Restructuring”).

Under the Plan, the Company separated its creditors under the CCAA proceeding into two classes, the creditors (the “Secured Creditors”) who had secured claims against the Company and the creditors (the “Unsecured Creditors”) who had unsecured claims against the Company. In total, under the CCAA proceedings, the Company owed \$7,591,158 to the Secured Creditors and \$13,968,645 to the Unsecured Creditors.

The Plan contained the following proposal for the compromise and settlement of the Company's pre-filing debt under the CCAA proceeding:

- Secured Creditors may elect to receive: (i) a combination of a cash payment and common shares of the Company (each, a "Share") in settlement of the balance of the amounts owing to them, or (ii) only Shares of the Company at a deemed price of \$0.05 per Share in settlement of the entire amount owing to them; and
- Unsecured Creditors may elect to receive: (i) a cash payment in the amount that is the lesser of \$1,000 and the amount owed to such Unsecured Creditor, or (ii) only Shares of the Company at a deemed price of \$0.05 per Share in settlement of the entire amount owed to them.

The issue price of \$0.05 per Share was on a post-consolidation basis, and was approved by the TSX Venture Exchange (the "Exchange").

After issuance of the Shares to the Secured Creditors and the Unsecured Creditors under the Plan, approximately 7% of the issued and outstanding shares were held by the shareholders of the Company who held shares prior to implementation of the Plan, approximately 27% were held by the Secured Creditors, and approximately 66% were held by the Unsecured Creditors. In addition, the issuance of Shares pursuant to the Plan resulted in the creation of both Waterton and Concept as control persons of the Company, with Waterton holding approximately 26% of the total issued and outstanding Shares on an undiluted basis and Concept holding approximately 23% of the total issued and outstanding Shares on an undiluted basis.

On November 20, 2014, the Company entered into a settlement agreement with Waterton (the "Settlement Agreement"), whereby the Company and Waterton agreed to settle the aggregate of \$12,367,460 owed to Waterton (the "Waterton Debt") by the issuance of 108,992,918 Shares (the "Waterton Settlement Shares") to Waterton and the payment of \$6,876,328 (the "Waterton Settlement Amount"). The Waterton Debt includes the amount owed to Waterton prior to the Filing Date and the amounts advanced to the Company by Waterton pursuant to the DIP Loan which were outstanding at the time of entry into the Settlement Agreement. The Waterton Settlement Amount included \$1,790,732 to be paid to Waterton pursuant to the Plan with respect its pre-Filing Date debt. The Waterton Settlement Amount will be paid as follows: \$2,876,328 on the Plan Implementation Date (paid November 21, 2014), \$1,500,000 within 6 months of the Plan Implementation Date (paid January 23, 2015) and \$2,500,000 within 12 months of the Plan Implementation Date. The Company agreed to pay interest to Waterton at a rate of 3% per annum on the portion of the Waterton Settlement Amount which remains outstanding after the Plan Implementation Date until such time as the Waterton Settlement Amount and interest thereon has been repaid, with such interest to be paid on each payment of the Waterton Settlement Amount. Upon repayment in full of the Waterton Settlement Amount and interest thereon, the Waterton Royalty will be terminated and all of the security interests in the assets and property of Nicola and its subsidiaries will be discharged. The Waterton Settlement Shares were issued on the Plan Implementation Date in accordance with the Plan.

On November 21, 2014, the Company satisfied all of the conditions to implementation of the Plan, and the Monitor filed a Certificate of Plan Implementation with the Court under the CCAA proceedings. The Company implemented the Plan on this date by settling an aggregate of \$5,718,419 of secured claims (including a portion of Waterton's pre-filing debt) by issuing an aggregate of 114,368,382 Shares to the Secured Creditors and by settling an aggregate of \$14,063,902 unsecured claims by issuing an aggregate of 278,870,210 Shares to the Unsecured Creditors and making payments to the Unsecured Creditors in the aggregate amount of \$25,408. Under the Plan, a total of \$1,883,049 (including a portion of Waterton's pre-filing debt) is still owed to the Secured Creditors and is payable within 12 months of the Plan Implementation Date, together with interest thereon at a rate of 3% per annum. Upon repayment of this amount to the Secured Creditors, the Monitor's final certificate will be filed with the Court confirming that all distributions to the Company's creditors have been made in accordance with the Plan which will be the final step to the Company exiting CCAA creditor protection. The payment of the settlement

amounts constitutes full, final and absolute settlement of all rights of the creditors affected by the Plan. The stay of proceedings granted to the Company pursuant to the CCAA proceedings has been terminated.

On October 23, 2015, the Company, Waterton and Concept Capital Management Ltd. agreed to amend the Letter Agreement dated June 3, 2014 and First Amendment to the Letter Agreement dated June 24, 2014 as follows:

1. The Company, on closing the First Tranche of the Unit Financing announced November 19, 2015 will repay Waterton \$1,250,000 in principal and approximately \$37,500 in accrued interest (representing 50% of the accrued interest on the \$2,500,000 amount outstanding to Waterton);
2. Waterton has agreed to convert the outstanding \$1,250,000 in principal and approximately \$37,500 in accrued interest (representing 50% of the accrued interest on the \$2,500,000 amount outstanding to Waterton) into a new three-year loan (the "Loan"), which will bear interest at a rate of 3% per annum paid annually and will mature three years after the Closing; and
3. Waterton will receive a 2% net smelter returns royalty with respect to the Company's Treasure Mountain mine.

On November 24, 2015 the Company completed the first tranche of its private placement Unit Financing selling in aggregate 19,375,005 units (each, a "Unit") at a price of \$0.08 per Unit, for gross proceeds of \$1,550,000. Proceeds from the first tranche Unit Financing were used to fulfill the remaining payments under the restructuring Plan under CCAA proceeding which included the repayment of \$1,250,000 plus \$37,500 to Waterton and other secured creditors under the Plan.

On December 9, 2015 the Company announced that it had successfully fulfilled its obligations pursuant to the creditor protection proceedings under CCAA. Further to the certificate filed in the Supreme Court of British Columbia by the Court appointed Monitor of the Company under CCAA, the Company has fulfilled the Secured Creditor Settlement Amount and distributed required payments pursuant to the Plan dated August 8, 2014 that was approved by the Supreme Court of British Columbia on October 10, 2014.

This section is qualified in its entirety by the material documents in connection with the CCAA proceeding, including the Court orders, copies of which have been filed and are available under the Company's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Subordinated Secured Convertible Debenture Financing**

As a precondition to implementation of the Plan, the Company completed the first tranche (the "First Tranche") of the Financing by the issuance of subordinated secured convertible debentures (each, a "Debenture") and common share purchase warrants of the Company (each, a "Warrant"). The Company raised gross proceeds of \$7,000,882 pursuant to the First Tranche.

The Debentures issued in the First Tranche bear interest at a rate of 10% per annum, which interest shall be payable annually, 50% in cash and 50% by the issuance of shares of the Company. The Debentures will be repayable on November 21, 2017 (the "Maturity Date"). For each \$1,000 in principal of Debentures, Nicola issued 5,000 Warrants. The Debentures are convertible into Shares at a conversion price of \$0.055 (\$0.275 post share consolidation) per Share prior to the Maturity Date. Each Warrant is exercisable into one additional Share for four years from the date of issuance at an exercise price of \$0.075 (\$0.375 post share consolidation) per Share in the first year after issuance and \$0.10 (\$0.50 post share consolidation) per Share thereafter. The Debentures rank subordinate to the debt owed to Waterton until such time as the debt to Waterton is repaid in full.

On May 19, 2015, the Company completed the second tranche (the "Second Tranche") of the Financing by the issuance of subordinated secured convertible debentures and common share purchase warrants of the Company. The company raised gross proceeds of \$250,000 pursuant to the Second Tranche.

The Debentures issued in the Second Tranche bear interest at a rate of 10% per annum, which interest shall be payable annually, 50% in cash and 50% by the issuance of common shares of the Company. The Debentures will be repayable on May 19, 2018 (the "Maturity Date"). For each \$1,000 in principal of Debentures, Nicola issued 5,000 Warrants. The Debentures are convertible into Shares at a conversion price of \$0.055 (\$0.275 post share consolidation) per Share prior to the Maturity Date. Each Warrant is exercisable into one additional Share for four years from the date of issuance at an exercise price of \$0.075 (\$0.375 post share consolidation) per Share in the first year after issuance and \$0.10 (\$0.50 post share consolidation) per Share thereafter. The Debentures rank subordinate to the debt owed to Waterton until such time as the debt to Waterton is repaid in full.

Upon repayment by the Company of all amounts owed to Waterton, the holders of the Debentures issued to the First Tranche will be granted an aggregate 2% net smelter returns royalty with respect to the Company's Treasure Mountain Mine ("the "First Tranche Royalty"), provided that each holder of such Debentures shall only be entitled to their pro rata share of such royalty based on their individual investment pursuant to the First Tranche. It is expected that certain holders of the Debentures issued pursuant to the First Tranche (the "Sharing Holders") will agree to share an aggregate of approximately 2% of the First Tranche Royalty (the "Shared First Tranche Royalty") with the holders of Debentures issued pursuant to the Second Tranche such that the portion of the First Tranche Royalty that represents the Shared First Tranche Royalty will be allocated on a pro rata basis among the Sharing Holders and the holders of Debentures issued pursuant to the Second Tranche and Third Tranche. The percentage of the Shared First Tranche Royalty may vary depending on who the Sharing Holders will be and their pro rata share of the First Tranche Royalty that they are willing to share.

On November 23, 2015 the Company announced that it has agreed to pay all of the interest owing on the Debentures issued on November 21, 2014 by the issuance of common shares of the Company. The Debentures mature November 21, 2017 and bear interest at a rate of 10% per annum, which is payable annually as to 50% in cash and 50% by the issuance of shares equal to the market price on the anniversary of the date of issuance. The Company agreed to settle the outstanding interest payment by issuance of shares as if the rate of interest was 12% for the first year of the term of the Debentures. The Company issued 12,924,705 shares at a price of \$0.065 per share in settlement of interest owing of \$840,105. The shares are subject to a statutory hold period expiring on the date that is four months and one day after the closing November 24, 2015.

### **Repayment of DIP Loan and Waterton Debt**

As previously disclosed, pursuant to the Settlement Agreement, Waterton agreed to settle all amounts advanced by them to the Company, including the amounts advanced under the DIP Loan, as follows:

- cash payments in the aggregate amount of \$6,876,328, being the Waterton Settlement Amount, to be paid to Waterton as follows:
  - \$2,876,328 on the Plan Implementation Date (paid November 21, 2014),
  - \$1,500,000 on or before May 21, 2015 (paid with interest, January 23, 2015), and
  - \$2,500,000 on or before November 21, 2015; and
- the balance of the amounts owed were settled by the issuance of 108,992,918 Shares at a deemed price of \$0.05 per Share on the Plan Implementation Date (issued).

In addition, under the Settlement Agreement, the Company agreed to pay Waterton interest at a rate of 3% per annum on the portion of the Waterton Settlement Amount which remains outstanding after the Plan Implementation Date until such time as the full Waterton Settlement Amount and interest thereon has been repaid. Upon repayment to Waterton in full of all amounts owed to them by the Company, the Waterton Royalty will be terminated and all security interests Waterton has against the assets and property of the Company will be discharged.

In accordance with the Settlement Agreement dated November 20, 2014, with Waterton, the Company owes Waterton \$2,500,000 in principal and approximately \$75,000 in accrued interest.

On October 23, 2015, the Company, Waterton, and Concept Capital Management Ltd., agreed to amend the Letter Agreement dated June 3, 2014 and the First Amendment to the Letter Agreement, dated June 24, 2014 as follows: the Company, on closing will repay Waterton \$1,250,000 in principal and approximately \$37,500 in accrued interest. Waterton has agreed to convert the outstanding \$1,250,000 in principal and approximately \$37,500 in accrued interest into a new three-year loan (the "Loan"), which Loan will bear interest at a rate of 3% per annum paid annually and will mature three years after the closing. Additionally, Waterton will receive a 2% net smelters returns royalty with respect to the Company's Treasure Mountain mine.

On November 24, 2015 upon closing the first tranche of the Unit Financing the Company paid Waterton \$1,250,000 principal and \$37,500 accrued interest. The Waterton new loan balance is \$1,287,500 principal, which bears interest at a rate of 3% per annum paid annually and will mature November 24, 2018.

### **Impairment of Assets**

As at December 31, 2015, the Company had entered care and maintenance mode (since June 26, 2013) which is a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company carried out a review of the carrying amounts of the non-current non-financial assets. On March 1, 2016 the Company announced plans to recommence milling operations at the Merritt Mill property in April 2016.

The remaining carrying value of property, plant, and equipment represented the Company's best estimate of aggregate recoverable value which has been determined based on fair value less costs to sell. The fair value of each significant asset was determined separately by the Company. The fair value of the Merritt Mill and related lands was determined with references to independent valuations and values of recent sales of similar used equipment. The fair value of the heavy machinery and equipment and remaining land was determined based on values or recent sales of similar assets.

Based on its review, the Company recognized an impairment loss at December 31, 2015 in the amount of \$40,461 (December 31, 2014 - \$3,836,988).

Any significant negative change in the key assumptions made in determining the recoverable amount could result in an additional impairment loss.

### **DESCRIPTION OF BUSINESS**

Nicola is a junior exploration and milling company that is engaged in the business of identification, acquisition, and exploration of mineral property interests together with custom milling operations at its Merritt Mill.

Nicola's Treasure Mountain Project is located northeast of Hope, British Columbia, approximately 3 hours from Vancouver, British Columbia. In November, 2011, the Company completed the development of the required infrastructure at the Treasure Mountain Project to begin underground mining on a 10,000 tonne bulk sample permit. The Company also commenced an exploration program that included geochemical

testing, surface trenching, underground sampling and surface diamond drilling. The program continued in 2012 with additional underground sampling, an airborne survey, and further geochemical sampling.

In May 2012, the Company received a mining lease covering 335 hectares of active workings out of 7,000 acres of mineral tenures at the Treasure Mountain Project and a Mines Act permit for the Treasure Mountain Project for the removal of 60,000 tonnes per year of silver/lead/zinc mill feed from the underground mine and the transfer of the mill feed offsite for processing. The Company also received an amended permit for the Merritt Mill, located in Merritt, British Columbia approximately 70 minutes from the Treasure Mountain Project, allowing for the construction and operation of the Merritt Mill, a 200 tonne per day silver/lead/zinc mineral processing plant situated on 900 acres of freehold land.

During 2012, the Company continued construction and installation of the Merritt Mill. The commissioning of the Merritt Mill began in August, 2012 and was substantially completed in November, 2012. The Merritt mill property consists of \$8.0 MM for cost of land (900 acres of freehold land), \$21.6MM for the cost of the mill and related infrastructure, and \$1.8 MM for the cost of construction of a fully lined tailings facility.

On July 26, 2013, Nicola, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained the Initial Order from the Court. The Company's Treasure Mountain Project and the Merritt Mill remained on care and maintenance, while Nicola restructured its financial affairs. The stay of proceedings against the Company was lifted on November 21, 2014 upon the Company implementing its Restructuring Plan. The Company intends to keep the Treasure Mountain Project on care and maintenance while Nicola continues to review options for the Treasure Mountain Project, which include reviewing merger and acquisition opportunities, future exploration, and recommencing mining activity. On December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under CCAA.

On November 19, 2015 the Company entered into an agreement with former shareholders (collectively, the CMJV Parties") of the Company's wholly-owned subsidiary, Huldra Properties Inc. pursuant to which the CMJV Parties agreed to transfer an aggregate of 499 common shares (the "Thule Shares") of the Company's subsidiary, Thule Copper Corporation ("Thule"), to the Company. The acquisition of the Thule shares resulted in the Company being the sole shareholder of Thule. In consideration of the foregoing, the Company agreed to grant Aberdeen Ventures Inc., one of the CMJV Parties, a 2% net smelter royalty with respect to certain mineral claims and leases held by Thule in southwestern British Columbia. The Thule copper property consists of 20 mineral claims and 10 mineral leases covering approximately 8,272 hectares Carbonate rich Nicola Group volcano-sedimentary units and intrusive rocks found along the southern flanks of the Guichon Batholith compose the majority of the property which is located approximately 30 km south of the Highland Valley Copper operation. The most important discovery to date on the property has been the past producing Craigmont copper-iron mine, located in the central part of the claims. Craigmont operated from 1961 to 1982, as an open pit-mine and as an underground sub-level block cave mine. The Company announced on July 7, 2015 that it had completed a preliminary exploration program analyzing 48 grab samples on the Thule Copper property. The program consisted of examining historical MINFILES, following up on geophysical trends and converting historical hard copy data and maps to electronic format. The Company is continuing the process of converting historical data to a more useable electronic format. The Company is examining and re-logging the Craigmont core shack. On December 22, 2015, the Company issued 3,750,000 flow-through shares for gross proceeds of \$300,000. The proceeds are to be used for further exploration of the Thule Project in 2016. On March 3, 2016, the Company submitted a Notice of Work for the 2016 Thule Property drill program.

On March 1, 2016 the Company announced that it plans to recommence milling operations at the 200 tonne per day Merritt Mill in April 2016. The Company is carrying out repairs and modifications that will allow the mill to gravity separate fine free gold, prior to floating the remaining material in floatation tanks. Initial production is expected to commence with processing of material from Siwash Materials Inc's property located in the Siwash creek area, located approximately 8 km northeast of Yale, B.C. and approximately 90 minutes from Nicola's mill property located near Merritt, B.C. The Company announced the Siwash Mining and Milling Profit Share Agreement in a news release of November 2, 2015. On July 31, 2015, the Company filed a permit amendment application to the existing Mines Act permit for custom

milling at the Merritt Mill. The British Columbia Mines Act custom milling operations permit was received on April 15, 2016 allowing the Company to enter into third party custom milling contracts and enables it to mill up to 200 tonnes per day at its Merritt Mill.

On March 30, 2016 the Company entered into the Lower Nicola Joint Venture Agreement (the "JV Agreement") with 1050214 B.C. Ltd (the "JV Partner") to form a joint venture (the "LNJV") to continue and expand the Company's gravel business, which is located on District Lot 4234. Lot 4234 is part of the initial \$8 MM 900 acres freehold Merritt Mill site. The JV Partner will make an initial contribution of \$175,000 which will be used by the LNJV to conduct a full review of the site and work towards receiving operational permits. The JV Agreement also provides the JV Partner with the option to acquire a 50% interest in Lot 4234 for aggregate consideration of \$1,125,000 payable upon certain milestones being achieved.

## **Risk Factors**

### *The Company may be unable to meet its liquidity requirements for operations*

There can be no assurance that the amounts of cash from operations, if any, together with amounts raised pursuant to the Unit Financing and other financings will be sufficient to fund the Company's operations and care and maintenance program, its plan for its business operations following successfully fulfilling its obligations pursuant to the creditor protection proceedings under CCAA on December 9, 2015. If these amounts are insufficient to meet the Company's liquidity requirements, it may have to seek additional financing. There can be no assurance that such additional financing would be available or, if available, offered on acceptable terms. Failure to secure any necessary additional financing would have a material adverse impact on the Company's continued operations and viability.

The Company's ability to maintain acceptable credit terms with its suppliers may be impaired as a result of the Company previously being subject to creditor protection under the CCAA. The Company may be required to pay cash in advance to certain suppliers and may experience restrictions on the availability of trade credit which could reduce its liquidity. Liquidity problems could materially and adversely affect its ability to source key services. In addition, suppliers may be reluctant to enter into long term agreements with the Company due to its financial condition.

### *Mineral Exploration and Development Activities are Inherently Risky*

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into mineral deposits with significant value. Unusual or unexpected ground conditions, geological formation pressures, fires, power outages, labour disruptions, flooding, earthquakes, explorations, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. There are also physical risks to the exploration personnel working on the site of a mineral project. The Company's exploration properties and any future mining operations will be subject to all the hazards and risks normally incidental to exploration, development and production of silver and other metals, any of which could result in damage to or destruction of exploration facilities or mines, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Company maintains insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

### *Uncertainty of Mineral Resources*

The figures for mineral resources for the Treasure Mountain Project disclosed in the Company's Annual Information Form for the year ended December 31, 2012 and in its technical report filed on SEDAR on June 12, 2012, are only estimates. Mineral reserves at the Treasure Mountain Project have not been defined therefore the mineral resources currently cannot be considered ore. There is no certainty that any expenditures made in the exploration of the Company's mineral properties will result in identification of

commercially recoverable quantities of ore or that ore reserves will be mined or processed profitably. In addition, substantial expenditures will be required to develop the mining and processing facilities and infrastructure at any site chosen for mining.

*Uncertainty of Economic Viability of Production from the Treasure Mountain Project*

The Company has not undertaken any preliminary feasibility study or preliminary economic assessment with respect to the Treasure Mountain Project and does not intend to undertake such a study or assessment. There are significant risks associated with making a production decision without a valid, current, economic analysis and the Company may subsequently determine that recommencing operations at the Treasure Mountain Project is not economically feasible.

*Insurance*

The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company currently maintains insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development, however the insurance the Company has may not be sufficient to cover the full extent of any liabilities that may arise.

*Prices, Markets and Marketing of Silver and Metal Prices*

World prices for commodities fluctuate and are affected by numerous factors including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities, and the resulting impact on the viability of any of the Company's exploration projects, cannot accurately be predicted.

*Liquidity and Capital Requirements*

The Company has a significant working capital deficit, no history of profitable operation and no assurance that additional funding will be available to it for further exploration and development of the Treasure Mountain Project if the Company chooses to recommence operations at the Treasure Mountain Project. The Company may also need further financing if it decides to obtain additional mineral properties. As such, the Company is subject to many risks common to exploration enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources, and lack of revenues. Although the Company has been successful in the past in obtaining financing through credit facilities or the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of the positions of existing shareholders, either directly or indirectly. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of the Treasure Mountain Project, the loss of substantial dilution of any of its property interests or all the liquidation of all of its assets.

*Going Concern Risk*

As at December 31, 2015, the Company had an accumulated deficit of \$74,162,039 (December 31, 2014 - \$71,399,554) and working capital deficiency of \$3,779,578 (December 31, 2014 - \$5,599,890). These factors represent a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. In order to continue operations, the Company will be required to raise funds through the issuance of equity or debt, or be successful recommencing operations at the Treasure Mountain Project

and Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The consolidated financial statements for the year ended December 31, 2015 were prepared using International Financial Reporting Standards ("IFRS"), as applied by the Company prior to the filing for CCAA. These consolidated financial statements have been prepared using the going concern concept, 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. The CCAA proceedings provided the Company with a period of time to stabilize its operations and financial condition and develop a Restructuring Plan, which was implemented on November 21, 2014. The Company exited CCAA on December 9, 2015.

Management believes that these actions continue to make the going concern basis appropriate. However, it is not possible to predict whether the Company will be able to raise the working capital required for maintaining the care and maintenance program at the Treasure Mountain Project, and recommence operations at the Merritt Mill and accordingly, substantial doubt exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in the restructuring and the Financing will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern.

If the "going concern" assumption were not appropriate for such financial statements, then significant adjustments would be necessary in the carrying amounts and/or classification of assets and liabilities.

#### *Dependence on Management*

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

#### *Environmental Risks*

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental regulations. Compliance with such legislation and regulations can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner which may lead to stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of exploration or production, a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Company's financial condition, results of operations or prospects.

#### *Government Regulation*

The natural resource exploration industry is subject to controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other natural resource exploration companies of similar size. The current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

#### *Competition*

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely

affect the Company's ability to acquire suitable properties or prospects in the future. The Company also competes with other mining companies in the recruitment and retention of qualified employees.

#### *Conflicts of Interest*

The Company's directors and officers may serve as directors or officers of, or may be associated with, other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the *Business Corporations Act* (British Columbia) and any other applicable laws and rules dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his interest and refrain from voting on the matter unless otherwise permitted by the *Business Corporations Act* (British Columbia). In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

#### *No Current Plans to Pay Cash Dividends*

The Company has no plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's financial results, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. In addition, the Company's ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness that the Company or its subsidiaries incur. As a result, investors may not receive any return on an investment in the Company's securities unless they sell the securities for a price greater than that which they paid for them.

#### *Economic Conditions*

Unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, decrease estimated income from prospective mining operations, limit access to capital markets and negatively impact the availability of credit facilities or other financing to the Company.

#### *Price Volatility of Public Stock*

The market price of the Company's securities has experienced wide fluctuations which may not necessarily be related to the operating performance, underlying asset values or prospects of the Company. Any market for the Company's securities may be subject to market trends generally and the value of the Company's securities on the Exchange may be affected by such volatility in response to numerous factors, many of which are beyond the Company's control, including:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- the addition or departure of the Company's executive officers or other key personnel;
- release or other transfer restrictions on outstanding Company securities;
- sales or perceived sales of additional Company securities;

- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- news reports relating to trends, concerns, competitive developments or regulatory changes; and
- other related issues in the Company's industry or target markets.

Financial markets continue to experience significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's securities may decline even if the Company's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that fluctuations in price and volume will not occur in the future. If increased levels of volatility and market turmoil occur, the Company's operations may be adversely impacted and the trading price of the Company's securities may be adversely affected.

#### *Regulatory and Permitting*

Regulatory and permitting requirements have a significant impact on the Company's operations and can have a material and adverse effect on future cash flow, results of operations and financial condition. In order to conduct mineral exploration and mining activities the Company must obtain or renew exploration or mining permits and licenses in accordance with the relevant mining laws and regulations required by governmental authorities having jurisdiction over mineral projects. There is no guarantee that the Company will be granted the necessary permits and licenses, that they will be renewed, or that the Company will be in a position to comply with all the conditions that are imposed. Mining is subject to potential risks and liabilities associated with pollution and the disposal of waste from mineral exploration and mine operations. Costs related to discovery, evaluation, planning, designing, developing, constructing, operating, closing and remediating mines and other facilities in compliance with these laws and regulations are significant. In addition to environmental protection, applicable laws and regulations govern employee health and safety. Not complying with these laws and regulations can result in enforcement actions that may include corrective measures requiring capital expenditures, installation of additional equipment, remedial action and changes to operating procedures resulting in additional costs and temporary or permanent shutdown of operations. The Company may also be required to compensate those parties suffering loss or damage and may face civil or criminal fines or penalties for violating certain laws or regulations. Changes to these laws and regulations in the future could have an adverse effect on the Company's cash flow, results of operations and financial condition. Further, the issuance of permits may be subject to review by third parties who may challenge future permitting and the validity of existing permits based on, among other things, the government's obligation to consult and accommodate.

#### *Forward-Looking Statements may Prove Inaccurate*

Investors are cautioned not to place undue reliance on forward-looking statements contained in this MD&A. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements, or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading "Cautionary Note Regarding Forward-Looking Statements".

## RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This review of the Company's results of operations should be read in conjunction with the audited consolidated annual financial statements of the Company for the years ended December 31, 2015 and 2014.

### Three Months Ended December 31, 2015

During the three months ended December 31, 2015, the Company recorded a net loss and comprehensive loss of \$1,159,044, compared to a net loss and comprehensive loss of \$3,467,497 for the comparable period of 2014. The significant fluctuation between the comparative periods resulted largely from the write down of property, plant and equipment in the amount of \$3,836,988 during the three months ended December 31, 2014 and the write down of mineral assets in the amount of \$566,534 for the same period. Finance costs increased to \$557,248 from \$516,297 for the comparable period in 2014. The decrease in exploration costs to \$273,063 from \$400,092 was a result of the Company's further cost cutting initiatives with respect to its Treasure Mountain Project and Merritt Mill

Operating expenses for the three months ended December 31, 2015 decreased to \$597,006 from \$779,165 for the three months ended December 31, 2014. The decrease in expenses was largely related to a decrease in exploration costs for the three months ended December 31, 2015, which is mainly comprised of care and maintenance operational costs. These costs decreased to \$273,063 as compared to \$400,092 for the three months ended December 31, 2014. The decrease in exploration costs was a result of the Company's further cost cutting initiatives with respect to its Treasure Mountain Project and Merritt Mill. A reduced workforce and corresponding reduction in site supplies period over period are the main drivers.

For the three months ended December 31, 2015, general and administrative costs decreased to \$324,442 as compared to \$379,073 for the three months ended December 31, 2014.

The increase in finance costs to \$557,248 for the three months ended December 31, 2015 from \$516,297 for the comparable period in 2014 is due to the secured convertible debentures debt service costs and Settlement Agreement with Waterton.

### Year Ended December 31, 2015

During the year ended December 31, 2015, the Company recorded a net loss and comprehensive loss of \$3,662,486 compared to a net loss and comprehensive loss of \$8,469,035 for the comparable period of 2014. As a result of the Settlement Agreement entered into with Waterton and the settlement of the Unsecured Creditors which both took place in November 2014, finance costs decreased to \$1,713,423 from \$2,992,856 during the year ended December 31, 2014. The decrease in exploration costs to \$1,049,827 from \$1,890,093 was a result of the Company's further cost cutting initiatives with respect to its Treasure Mountain Project and Merritt Mill. A reduced workforce and corresponding reduction in site supplies period over period are the main drivers.

Operating expenses for the year ended December 31, 2015 decreased from \$2,136,614 from \$3,328,456 for the year ended December 31, 2014. The decrease in expenses was related primarily to a decrease in exploration costs for the year ended December 31, 2015, which is mainly comprised of care and maintenance operational costs. These costs decreased to \$1,049,827 as compared to \$1,890,093 for the year ended December 31, 2014. The decrease in exploration costs was a result of the Company's further cost cutting initiatives with respect to its Treasure Mountain Project and Merritt Mill. A reduced workforce and corresponding reduction in site supplies period over period are the main drivers.

For the year ended December 31, 2015, general and administrative costs decreased to \$1,086,787 as compared to \$1,438,363 for the year ended December 31, 2014. Consulting fees decreased to \$329,185 for the year ended December 31, 2015 as opposed to \$493,920 for the comparable period in 2014. The

decrease is mainly attributable to a cost savings of \$15,000 per month in related party compensation due to the January 2015 resignation of the former Chief Financial Officer. Professional fees decreased to \$252,530 for the year ended December 31, 2015 as opposed to \$589,998 for the year ended December 31, 2014. The decrease is related to the reduction in legal and Monitor fees as the Company exited the CCAA process on December 9, 2015.

An offset to the cost savings described above is in relation to share based compensation expense. During the year ended December 31, 2015, the Company expensed \$147,231 related to the granting of an aggregate of 3,290,000 stock options with an exercise price of \$0.06 per share. Of the \$147,231 expensed, \$145,835 has been charged to general and administrative costs and \$1,396 has been charged as an exploration (care and maintenance) cost. All stock options are exercisable for four years from the date of grant. During the year ended December 31, 2014, there were no stock options granted.

The decrease in finance costs to \$1,713,423 for the year ended December 31, 2015 from \$2,992,856 for the year ended December 31, 2014 is due to the reduced debt figures that existed on the Company's balance sheet in 2014 with respect to the unsecured convertible debentures and the DIP Loan prior to the Company's implementation of the Restructuring Plan on November 21, 2014 as described in detail in the section titled "Plan of Compromise and Arrangement". Additionally, interest rates with respect to the debt instruments post November 21, 2014 were negotiated at much more favorable rates to the Company as compared to the existing debt instruments in place during the year ended December 31, 2014.

As a result of the Company entering care and maintenance mode on June 26, 2013, the Company determined the fair value of the mill and related lands was determined with references to related independent valuations and values of recent sales of similar used equipment. The fair value of the heavy machinery and equipment and remaining land was determined based on what similar assets were valued at, or recently sold at. Based on its review, the Company recognized a write down of property, plant and equipment for the year ended December 31, 2015 in the amount of \$40,461 compared to \$3,836,988 for the year ended December 31, 2014. Any significant negative change in the key assumptions made in determining the recoverable amount could result in an additional impairment loss.

## SELECTED ANNUAL INFORMATION

The following table summarizes selected consolidated financial information for the Company's three most recently completed financial years. All amounts shown are stated in Canadian dollars in accordance with IFRS.

	Dec 31, 2015 (\$)	Dec 31, 2014 (\$)	Dec 31, 2013 (\$)
<b>Net Loss</b>	(3,662,486)	(8,469,035)	(33,742,363)
<b>Loss from Continuing Operations (basic and diluted)<sup>(1)</sup></b>	(0.04)	(0.49)	(1.26)
<b>Total assets</b>	8,022,967	10,318,234	13,535,457
<b>Total non-current financial liabilities</b>	8,573,813	6,501,856	1,405,100

<sup>(1)</sup> Loss per share from continuing operations (basic and diluted) has been calculated as if the consolidations of share capital effective July 17, 2014 and June 1, 2015 had been in place for all periods reported.

## SELECTED QUARTERLY RESULTS

The following table provides selected unaudited financial information for the most recent eight quarters. All amounts shown are stated in Canadian dollars in accordance with IFRS.

	Dec 31, 2015 (\$)	Sept 30, 2015 (\$)	June 30, 2015 (\$)	Mar 31, 2015 (\$)	Dec 31, 2014 (\$)	Sept 30, 2014 (\$)	Jun 30, 2014 (\$)	Mar 31, 2014 (\$)
Net loss	(1,159,044)	(808,883)	(880,240)	(814,319)	(3,467,497)	(1,402,160)	(1,732,887)	(1,866,491)
Loss per share from continuing operations (basic and diluted) <sup>(1)</sup>	(0.01)	(0.01)	(0.01)	(0.01)	(0.09)	(0.25)	(0.31)	(0.34)

<sup>(1)</sup> Loss per share from continuing operations (basic and diluted) has been calculated as if the consolidations of share capital effective July 17, 2014 and June 1, 2015 had been in place for all periods reported.

As described above under the heading “Results of Operations and Financial Condition”, significant fluctuations between the comparative periods resulted from the increased activity pertaining to the Company’s exploration and development program at the Treasure Mountain Project and commissioning of the Merritt Mill Project until June 26, 2013 when the Company’s mine and mill were put on care and maintenance. Additional explanations for certain significant changes in the table above are as follows:

- The substantial decrease in the net loss for the quarter ended March 31, 2015 compared to the quarter ended December 31, 2014 was largely due to the fact that the Company took a write down in the amount of \$3,836,988 of property, plant and equipment in the quarter ended December 31, 2014. There was no write down taken in the first quarter of 2015.
- As described above, the Company took a net charge of \$3,836,988 of property, plant, and equipment in the quarter ended December 31, 2014. There was a write down taken in the year ended December 31, 2015 of \$40,461.

## OUTLOOK

The Company continues to consider rationalizing its non-core assets, moving towards leveraging the value of its core assets in an effort to generate operational cash flow.

On November 19, 2015, the Company announced intentions to undertake a private placement (the “Unit Financing”) to raise up to \$2,250,000 by issuance of units at a price of \$0.08 per unit. On November 24, 2015, the Company closed the first tranche for gross proceeds of \$1,550,000. On December 7, 2015, the Company closed the second tranche for gross proceeds of \$354,500. On March 22, 2016, the Company closed the third tranche for gross proceeds of \$180,000. The Unit Financing was on April 21, 2016 extended to close on or before April 29, 2016 and increased to \$2,750,000. On April 29, 2016 the company closed the fourth tranche for gross proceeds of 665,500.

On December 22, 2015, the Company conducted a flow-through financing issuing 3,750,000 flow-through common shares at \$0.08 per Flow-Through Shares for gross proceeds of \$300,000. On March 3, 2016, the Company announced the submission of a Notice of Work for the 2016 Thule Property drill program to commence the summer of 2016.

On January 31, 2016, the Company entered an agreement to sell Lot 1608 for \$75,000 with settlement by three payments of \$25,000 each on March 31, 2016 (received), June 30, 2016 and on or before November 30, 2016 (the “Final Payment”). Title will transfer upon final payment to the purchaser.

On March 1, 2016, the Company announced plans to recommence milling operations at its Merritt Mill property. The mill has been undergoing modifications that will allow it to gravity separate fine free gold, prior to floating the remaining material in floatation tanks. The Company announced on April 18, 2016 that it had received an amendment to its M-68 Mine Permit. The amendment allows the Company to enter into

third party custom milling contracts and enables it to mill up to 200 tonnes per day. The Company expects to start receiving material from Siwash Minerals Inc. in early May and plans to commence milling upon receipt of 1000 tonnes.

On March 30, 2016, the Company entered into JV Agreement with JV Partner to form the LNJV (the "LNJV") to continue and expand the Company's gravel business, which is located on District Lot 4234. Lot 4234 is part of the initial \$8 MM 900 acres freehold Merritt Mill site. The JV Partner will make an initial contribution of \$175,000 which will be used by the LNJV to conduct a full review of the site and work towards receiving operational permits. The JV Agreement also provides the JV Partner with the option to acquire a 50% interest in Lot 4234 for aggregate consideration of \$1,125,000 payable upon certain milestones being achieved.

## **EXPLORATION AND DEVELOPMENT**

### **Treasure Mountain Project**

Since its incorporation in March, 1980, the Company was engaged in the exploration and development of its wholly owned group of mineral tenures and leases located at Treasure Mountain in the Similkameen Mining Division, British Columbia. In 1985, a silver rich vein was discovered on the claims and was subsequently exposed over 250 meters. It was then drill tested by shallow drilling in the summer of 1986.

Between 1987 and 1989, the Company explored the vein zone on four underground levels with 2,740m of crosscuts, drifts and raises, complemented by 1,680m of underground and 3,050m of surface drilling. Preceding the underground work, a bulk sample of 407 tonnes of select high-grade material from the surface vein showing was shipped to the Cominco and Asarco smelters for testing. The smelters found the shipments compatible with their regimes and paid a total of \$344,265 for the shipments.

From 1989 to 2010, work at the Treasure Mountain Project included four small drill programs, several geochemical soil surveys, a legal mineral tenure survey by McElhanney and various technical studies by AMEC Earth & Environmental.

In 2011, exploration at the Treasure Mountain Project included approximately 7000m of diamond drilling spread across 69 diamond drill holes, as well as 671 surface soil geochemistry samples, surface sampling, underground sampling on the upper two levels of the mine workings, a 10,000 tonne bulk sample and a small exploration cut on the East Zone 0.8 kilometres from the mine workings.

On April 26, 2012, the Company received a mining lease covering 335 hectares of the Treasure Mountain Project. The existing camp, roads, underground workings and the East Zone exploration area are all covered under this lease area.

On May 18, 2012, the Company received a British Columbia Mines Act permit approving a mine plan and reclamation program for the Treasure Mountain Project. The mine plan for the Treasure Mountain Project called for the removal of 60,000 tonnes per year of silver/lead/zinc mill feed from the underground mine and the transfer of such material offsite for processing.

As discussed earlier in this MD&A, the holders of the Debentures issued to the First Tranche were granted an aggregate 2% net smelter returns royalty with respect to the Company's Treasure Mountain Mine ("the "First Tranche Royalty"), provided that each holder of such Debentures shall only be entitled to their pro rata share of such royalty based on their individual investment pursuant to the First Tranche. It is expected that certain holders of the Debentures issued pursuant to the First Tranche (the "Sharing Holders") will agree to share an aggregate of 1.92% of the First Tranche Royalty (the "Shared First Tranche Royalty") with the holders of Debentures issued pursuant to the Second Tranche such that the portion of the First Tranche Royalty that represents the Shared First Tranche Royalty will be allocated on a pro rata basis among the Sharing Holders and the holders of Debentures issued pursuant to the

Second Tranche. The percentage of the Shared First Tranche Royalty may vary depending on who the Sharing Holders will be and their pro rata share of the First Tranche Royalty that they are willing to share.

On November 23, 2015 the Company, Waterton and Concept Capital Management Ltd. (“CCM”) entered into a Royalty Agreement whereby the Company granted Waterton a 2% net smelter return royalty with respect to the Treasure Mountain property. CCM has the option for two years to purchase the royalty from Waterton for \$250,000.

#### Merritt Mill Property and Thule Copper

The Company purchased all of the shares of Craigmont Holdings Ltd. (now Huldra Properties Inc.) (“Huldra Properties”) on May 5, 2011. Huldra Properties holds 900 acres of real property, 20 mineral claims and 10 mineral leases, covering approximately 8,400 hectares, located in south central British Columbia, approximately 10 kilometers west of Merritt, British Columbia. The Company constructed a mill facility on the permitted site of the former Craigmont Copper producing mine (1962-1982) to process the material from the Treasure Mountain Project, which is located approximately 100 kilometers away.

The Company underwent the necessary engineering and environmental work to file a permit amendment application to the existing Mines Act permit on October 31, 2011. The British Columbia Mines Act mill construction and operation permit was received on May 18, 2012. The Company began the civil work on the Mill Property in early November 2011 which was completed in November 2012. The first concentrate shipments were made on November 22, 2012 under the previously announced concentrate purchase agreements. From November 12, 2012 to June 26, 2013, the Merritt Mill was fully staffed and was operating 24 hours a day, 7 days a week. On June 26, 2013, the Merritt Mill was put on care and maintenance. On March 1, 2016, the Company announced plans to recommence milling operations with modifications to allow it to gravity separate fine free gold, prior to floating the remaining material in floatation tanks.

On November 19, 2015, the Company entered an agreement with former shareholders of the Company’s wholly-owned subsidiary, Huldra Properties Inc., pursuant to which the former shareholders agreed to transfer an aggregate of 499 common shares of the Company’s subsidiary, Thule to the Company. The acquisition of the Thule shares resulted in the Company being the sole shareholder of Thule. In consideration of the foregoing, the Company has agreed to grant to Aberdeen ventures Inc., one of the former shareholders, a 2.0% net smelter royalty with respect to certain mineral claims and leases held by Thule.

On July 31, 2015, the Company filed a permit amendment application to the existing Mines Act permit for custom milling at the Merritt Mill. The British Columbia Mines Act custom milling operations permit was received on April 15, 2016.

### **CURRENT STATUS OF THE TREASURE MOUNTAIN PROJECT & MERRITT MILL PROPERTY**

#### **Treasure Mountain Project**

On June 26, 2013, the Company was forced to put the Treasure Mountain Project and the Merritt Mill on care and maintenance. On July 26, 2013, Nicola, after careful consideration of all available alternatives, sought creditor protection under the CCAA and obtained the Initial Order from the Court. The stay of proceedings against the Company was lifted on November 21, 2014 upon the Company implementing its Restructuring Plan. On December 9, 2015 the Company had successfully fulfilled its obligations pursuant to the creditor protection proceedings under the CCAA. The Company intends to keep the Treasure Mountain Project on care and maintenance, while Nicola continues to review options for the Treasure Mountain Project, which include reviewing merger and acquisition opportunities, future exploration and recommencing mining activity.

To date, the majority of the Company's mineral resources have been classified as inferred, whereby the economic viability of such resources cannot be determined. The removal of mill feed from the Company's Treasure Mountain Project is considered an exploration and evaluation activity, and as such, all costs associated with the removal of this mill feed are expensed as exploration costs. Currently, no value has been assigned to any stockpiled mill feed as the removal is considered an exploration and evaluation activity.

### **Current Mineral Tenure (Claim) Holdings at the Treasure Mountain Project**

The Company's claim holdings at the Treasure Mountain Project consist of 51 mineral tenures, comprising 21 legacy claims, 100 cell units, one Crown grant and 5 district lots, for a total of approximately 2,850 hectares (7,000 acres), of which 335 hectares are now under a mining lease.

### **Current Thule Copper Mineral Tenure (Claim) Holdings**

The Company's claim holdings at the Merritt Property consist of 20 mineral claims covering approximately 8,457 hectares (20,898 acres), 10 mineral leases covering approximately 347 hectares (858 acres) known as Thule Copper Property, and 7 district wholly-owned freehold lots covering approximately 391 hectares (966 acres).

## **FINANCING, LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2015, the Company had a working capital deficiency of \$3,779,578 that included cash and cash equivalents of \$467,008, as compared to a working capital deficiency of \$5,599,890 and cash and cash equivalents of \$2,471,960 as at December 31, 2014. The increase in the working capital deficiency is attributable to the cash requirements needed to operate the Company during 2015 and the repayment of \$2,799,335 to Waterton for the DIP Loan, debt obligation and accrued interest. The working capital needs of the Company exceeded the financing activities related to the secured convertible debentures raise in May 2015, and the unit financing raise in November and December 2015.

Cash used in operating activities for the year ended December 31, 2015 was \$1,590,550 compared to \$2,682,681 for the year ended December 31, 2014. The decrease in cash used in operating activities was largely due to the continued cost cutting initiatives introduced by the Company at the Treasure Mountain Project and Merritt Mill. A reduced workforce and corresponding reduction in site supplies period over period are the main drivers.

Cash provided by investing activities was \$94,198 for the year ended December 31, 2015 compared to \$32,482 cash used by investing activities for the year ended December 31, 2014. The net cash provided by investing activities in the year resulted from the disposal of certain equipment offset against the purchase of a Company vehicle and trailer. Additionally, the Company purchased a shop for the Mill Property. The \$32,482 spent in the year ended December 31, 2014 was for a pump house related to the Mill Property.

Cash used by financing activities was \$508,600 for the year ended December 31, 2015 compared to cash provided by financing activities in the amount of \$5,170,580 for the year ended December 31, 2014. Cash used in the year was attributable to the repayment of the DIP Loan and Credit Agreement owed to Waterton offset by proceeds received related to the May 2015 secured debenture offering and the Financing. On November 19, 2015, the Company announced intentions to undertake a private placement Unit Financing to raise up to \$2,250,000 by issuance of units at a price of \$0.08 per unit. On November 24, 2015 the Company closed the first tranche for gross proceeds of \$1,550,000. On December 7, 2015 the Company closed the second tranche for gross proceeds of \$354,500. On March 22, 2016 the Company closed the third tranche for gross proceeds of \$180,000. On April 21, 2016 the Unit Financing was extended to close on or before April 29, 2016 and increased to an aggregate of \$2,750,000. On April 29, 2016 the Company closed the fourth tranche for gross proceeds of \$665,500.

During the year ended December 31, 2014, \$6,622,467 was provided by issuance of the Secured Convertible Debentures, net of issuance costs, \$1,570,454 was drawn down under the DIP loan offset by \$3,022,341 for repayments made to Waterton in connection with the settlement of amounts owed under the DIP Loan.

The Company had the following major cash obligations as of December 31, 2015:

- repayment of the amounts owing under the Amended Settlement Agreement with Waterton (as described above) in the amount of \$1,291,521; and
- repayment of amounts owing to Secured convertible debenture holders in the amount of \$5,877,192.

As at December 31, 2015, the Company had an accumulated deficit of \$74,162,039 (December 31, 2014 - \$71,399,554) and a working capital deficiency of \$3,779,578 (December 31, 2014 - \$5,599,890). However, additional funds will be needed for the development of the Treasure Mountain Project, Thule Copper Property and Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements which do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Further, the failure to make the payments outstanding to Waterton could materially change the carrying amounts and classifications reported in the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2015 were prepared using IFRS, as applied by the Company prior to and after exiting CCAA. 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. However, there are substantial payment obligations remaining in connection with Waterton and, as such, there is substantial doubt regarding the realization of assets and discharge of liabilities. The amendment to the Settlement Agreement with Waterton dated October 23, 2015 and the Unit Financing with the closing of tranches: November 24, 2015, December 7, 2015, March 23, 2016, and April 29, 2016 for gross proceeds of \$2,750,000, Management believes that these actions make the going concern basis appropriate. However, there are substantial payments remaining with Waterton and accordingly substantial doubt exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in any restructuring and financing activities will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern. If the transactions contemplated by the Financing, including the repayment of the substantial outstanding debt obligations, the Company could be forced into bankruptcy resulting in the liquidation of its assets. Under a liquidation scenario, adjustments would be necessary to the carrying amounts and/or classification of assets and liabilities, in these consolidated financial statements. If the "going concern" assumption were not appropriate for such financial statements, then significant adjustments would be necessary in the carrying amounts and/or classification of assets and liabilities.

## CONTRACTUAL COMMITMENTS

The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations as of December 31, 2015:

	Total (\$)	Less than 1 year (\$)	1 – 3 years (\$)	4 - 5 years (\$)	After 5 years (\$)
Debt	7,168,713	nil	7,168,713	Nil	Nil
Finance Lease Obligations	Nil	Nil	Nil	Nil	Nil
Operating Leases	Nil	Nil	Nil	Nil	Nil

	Total (\$)	Less than 1 year (\$)	1 – 3 years (\$)	4 - 5 years (\$)	After 5 years (\$)
Accounts payable and liabilities	733,134	733,134	Nil	Nil	Nil
Other Obligations	Nil	Nil	Nil	Nil	Nil
Total Contractual Obligations	7,901,847	733,134	7,168,713	Nil	Nil

Please refer to the discussion in the section titled “Plan of Arrangement and Compromise” in regards to the settlement of certain contractual commitments referenced in the table above.

#### *Waterton Debt – Credit Agreement*

On June 16, 2011, the Company entered into a credit agreement (the “Credit Agreement”) with Waterton pursuant to which Waterton agreed to make a \$10,000,000 credit facility (the “Credit Facility”) available to the Company, which could be drawn down, at the Company’s option, in up to four advances at any time up until May 31, 2012. All amounts were originally to be repaid on a monthly basis during the period May 2012 to April 2013.

In connection with the entry into the Credit Facility, the Company and its wholly owned subsidiary, Huldra Holdings, agreed to grant Waterton security over substantially all of their respective assets to secure the repayment obligations under the Credit Facility. The Credit Facility is secured by guarantees provided by each of the Company and Huldra Holdings and general security agreements with the Company and Huldra Holdings to which Waterton holds a security interest in all present and after-acquired personal property of the Company and Huldra Holdings; and a debenture pursuant to which Waterton holds a charge over real property and mineral claims comprising Treasure Mountain property.

The Credit Agreement was amended, modified, supplemented, extended and restated from time to time up until June 28, 2013 at which time the Company and Waterton entered into a Waiver of default letter. The letter outlined the amount owing to Waterton as at June 28, 2013 as \$7,234,363 and consists of: base payments, finance costs, silver adjustment provision, restructuring and amendment fees, and partial May 2013 outstanding payment. Under CCAA proceedings Waterton submitted a claim as a secured creditor of the Company for \$7,234,363.

#### *Waterton Debtor-in-Possession (“DIP”) Loan*

The Company entered into a DIP Credit Agreement dated August 15, 2013 (the “DIP Credit Agreement”) with Waterton, the primary secured creditor of the Company. The DIP Loan was authorized by an annual order of the Court pursuant to CCAA proceedings.

On November 20, 2014, in connection with the implementation of the Plan, the Company entered into the Settlement Agreement with Waterton, whereby the parties agreed to settle an aggregate of \$12,367,460 owing to Waterton consisting of \$7,234,363 relating to the Credit Agreement and \$5,133,097 to the DIP Loan. Under the settlement, a cash payment of \$2,876,328 was made to Waterton as well as the issuance of 108,992,918 common shares at a value of \$5,449,646. In addition, \$1,500,000 plus interest of \$21,370 was paid January 2015 and a further \$2,500,000 is due within twelve months of the Restructuring Plan implementation date. The Company will pay Waterton interest at 3% per annum. Upon repayment of these amounts, the Royalty Agreement will be terminated and all security interests in the assets and property of Nicola and its subsidiaries will be discharged.

On October 23, 2015, The Company, Waterton, and Concept Capital Management Ltd. agreed to amend the Letter of Agreement dated June 3, 2014 and the First Amendment to Letter Agreement dated June 24, 2014. The Company owed Waterton \$2,500,000 in principal and approximately \$75,000 in accrued interest. The Company, on the closing of the First Tranche of unit financing on November 24, 2015 repaid Waterton \$1,250,000 in principal and \$37,500 in accrued interest (representing 50% of the accrued

interest and on the \$2,500,000 amount outstanding to Waterton). Waterton agreed to convert the outstanding \$1,250,000 in principal and \$37,500 in accrued interest (representing 50% of the accrued interest on the \$2,500,000 amount outstanding to Waterton) into a new loan (the "Loan"), which bears interest at a rate of 3% per annum paid annually and will mature November 24, 2018.

Waterton will receive a 2% net smelter return royalty with respect to the Company's Treasure Mountain mine.

## RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015 and 2014, the Company incurred the following expenditures to related parties:

	Year Ended December 31	
	2015 (\$)	2014 (\$)
Consulting fees paid or accrued to directors (i), (ii)	172,500	410,000
Sale of vehicle by a director	16,800	-
Director and Officer Loans (iii)	12,500	11,500

(i) Effective July 1, 2013, Garth Braun, former Chief Financial Officer and former director of the Company and Peter Espig, Chief Executive Officer and director of the Company are paid a consulting fee of \$15,000 per month. Garth Braun resigned from his position as Chief Financial Officer on January 20, 2015 and resigned as a director on February 2, 2015. There are no formal agreements for either director.

(ii) Included in accounts payables as at December 31, 2015 was \$55,120 (December 31, 2014 -\$42,250) due to Peter Espig.

(iii) Director and officer loan was for a period of 7 days and was repaid on December 7, 2015.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of its directors, the Chief Executive Officer and the Chief Financial Officer. Key management personnel remuneration during the year ended December 31, 2015 included \$48,851 in share-based compensation expense (December 31, 2014 - \$nil).

All related party transactions are in the normal course of business and are measured at the exchange amount.

## OUTSTANDING SHARE DATA

Effective July 17, 2014, the Company completed a consolidation of its outstanding shares on the basis of one (1) post-consolidation share for two (2) pre-consolidation shares. Additionally, effective June 1, 2015, the Company completed a consolidation of its outstanding shares on the basis of one (1) post-consolidation share for five (5) pre-consolidation shares.

- Authorized and issued share capital as at April 29, 2016:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	131,656,340

- As at April 29, 2016, there were 3,680,500 stock options outstanding.
- As at April 29, 2016, there were 42,777,621 warrants outstanding.

## OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements which may affect its current or future operations or conditions.

## CHANGES IN ACCOUNTING POLICIES

The following is an overview of accounting standard changes the Company will be required to adopt in future years. The Company will not adopt any of these standards before their effective dates. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

### IFRS 9 – Financial Instruments Disclosure

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investment are measured at their fair values at the end of subsequent accounting periods.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive earnings (loss).

IFRS 9 amendments are tentatively effective for annual periods beginning on or after January 1, 2018. The Company will continue to evaluate the impact of this standard on its consolidated financial statements.

## FINANCIAL INSTRUMENTS

### Fair Value

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has categorized the Waterton warrant liability as Level 3 on the fair value hierarchy.

The Company estimated the fair value of the warrant liability relating to the warrants issued to Waterton for the first and third advances under the Credit Facility as at December 31, 2015 using the Black-Scholes model with the following assumptions:

Share Price	\$0.05
Exercise Price	\$2.42 or \$2.56 as applicable
Risk Free Rate	0.00%
Discount Rate	1.34%
Expected Life	1.46 years or 2.04 years as applicable

The Company estimated the fair value of the warrant liability relating to the warrants issued to Waterton for the first and third advances under the Credit facility as at December 31, 2015 using the Black-Scholes model with the following assumptions:

Share Price	\$0.07
Exercise Price	\$12.10 or \$12.80 as applicable
Risk Free Rate	0.00%
Discount Rate	0.48%
Expected Life	0.46 years or 1.04 years as applicable

The following tables present the changes in the fair value of the Company's Level 3 financial instruments that are carried at fair value during the periods ended December 31, 2015 and December 31, 2014:

	Liability at December 31, 2014	Profit Participation Amounts	Mark to Market (gain) loss	Liability at December 31, 2015
Warrant liability	\$ 7,995	\$ -	\$ (6,917)	\$1,078
	\$ 7,995	\$ -	\$ (6,917)	\$1,078

	Liability at December 31, 2013	Profit Participation Amounts	Mark to Market (gain) loss	Liability at December 31, 2014
Warrant liability	\$ 5,763	\$ -	\$ 2,232	\$7,995
	\$ 5,763	\$ -	\$ 2,232	\$7,995

## Risk Exposure and Management

### Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, metal price risk, and currency risk.

### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at the balance sheet date under its financial instruments is approximately \$0.5 million.

All of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant. Those financial assets that potentially subject the Company to credit risk are primarily receivables. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the parties from whom the receivables are due, including government organizations.

#### *Liquidity Risk*

Liquidity is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations as well as care and maintenance, and if warranted, the exploration and development of its Treasure Mountain and Thule Copper properties, and recommencing milling operations at its Merritt Mill property.

There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company has a significant working capital deficiency, no history of profitable operations and no assurance that additional funding will be available to it for further exploration and development of the Treasure Mountain and Thule Copper properties and recommencing milling operations at its Merritt Mill property. The Company may also need further financing if it decides to obtain additional mineral properties. As such, the Company is subject to many risks common to exploration enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources and lack of revenues. Although the Company has been successful in the past in obtaining financing through credit facilities or the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of the positions of existing shareholders, either directly or indirectly. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and development of the Treasure Mountain and Thule Copper properties or the loss or substantial dilution of any of its property interests.

#### *Foreign Exchange Rate Risk*

The Company currently is not subject to significant foreign exchange risk.

The following is a summary of the maturities for the Company's non-derivative financial liabilities as at December 31, 2015:

	<b>Less than 30 days (\$)</b>	<b>30 days to 1 year (\$)</b>	<b>1 year to 2 years (\$)</b>	<b>More than 2 years (\$)</b>
Accounts Payable and Accrued Liabilities	344,329	381,306	Nil	Nil
Payments to Secured Creditors under the Plan	Nil	Nil	Nil	Nil
Payments to Waterton under the Settlement Agreement	Nil	Nil	Nil	1,287,500
Secured convertible debentures	Nil	Nil	Nil	7,250,882
<b>TOTAL:</b>	<b>353,852</b>	<b>2,915,835</b>	<b>Nil</b>	<b>8,538,382</b>

#### **OTHER INFORMATION**

This MD&A of the financial position and results of operations of the Company is dated as of April 29, 2016 and should be read in conjunction with the audited consolidated annual financial statements for the year ended December 31, 2015. Additional information relating to the Company can be accessed through the Company's public filings on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's website address is [www.nicolamining.com](http://www.nicolamining.com).

