NICOLA MINING INC.

Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2016 and 2015

Notice of disclosure of non-auditor review of interim financial statements pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying condensed interim financial statements of the Company for the period ended June 30, 2016 have been prepared in accordance with the International Financial Reporting Standards and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or review of these condensed interim financial statements.

NICOLA MINING INC.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Note	June 30, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 366,863	$ 467,008
Amounts receivable	4	155,695	25,697
Prepaid expenses and other assets		223,534	161,790
		746,092	**654,495**
Non-current assets			
Property, plant and equipment	5, 7	6,147,457	6,163,369
Mineral interests	6	3	3
Restricted cash	9	1,208,600	1,205,100
Total assets		**$ 8,102,152**	**$ 8,022,967**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 800,090	$ 733,134
Warrant liability	10,16	26	1,078
Flow-through obligation	17	3,662,361	3,662,361
Flow-through share premium	13	30,834	37,500
		4,493,311	**4,434,073**
Non-current liabilities			
Asset retirement obligation	8	1,405,100	1,405,100
Waterton debt loan	10	1,310,887	1,291,521
Secured convertible debenture	11	6,537,907	5,877,192
Total liabilities		**13,747,205**	**13,007,886**
Equity			
Shareholders' deficiency			
Share capital	13	62,477,351	61,439,308
Warrants	13	1,272,360	1,272,360
Equity component of convertible debentures	11,13	325,038	325,038
Contributed surplus		6,336,889	6,140,414
Accumulated deficit		(76,056,691)	(74,162,039)
Total deficiency		**(5,645,053)**	**(4,984,919)**
Total liabilities and shareholders' deficiency		**$ 8,102,152**	**$ 8,022,967**

Peter Espig (signed) Director ***Frank Hogel (signed)*** Director

Nature of operations, creditor protection and going concern (Note 1)
Subsequent events (Note 19)

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

NICOLA MINING INC.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Note	Three Months Ended June 30		Six Months Ended June 30,	
		2016	2015	**2016**	**2015**
Operating Expenses					
Exploration costs	6	$ 456,725	$ 272,682	$ 657,907	$ 544,505
Salaries and benefits	15	18,575	52,325	67,813	110,268
Professional fees		14,608	61,968	33,896	127,993
Consulting fees	15	158,600	45,000	233,960	135,685
Office and general		9,264	6,156	14,324	25,757
Travel		2,257	4,300	3,079	10,109
Rent		(1,234)	10,452	9,218	20,903
Regulatory and transfer agent fees		14,701	10,210	28,408	33,204
Vehicle expenses		2,770	2,128	2,915	2,128
Depreciation		201	247	3,254	247
Share-based compensation expense		154,757	48,851	155,531	48,851
Operating Loss		**(831,224)**	(514,319)	(1,210,305)	(1,059,650)
Gain (loss) on property, plant and equipment		-	1,901	7,225	(7,934)
Gravel and other sales		3,182	15,755	6,785	31,690
Finance Costs	12	(361,379)	(383,284)	(706,074)	(735,799)
CMJV claim	18	-		-	70,000
Flow-through share premium	13	4,611		6,666	-
Unrealized gain (loss) on warrant liability	16	-	(293)	1,052	7,134
Net Loss and Comprehensive Loss for the period		$ **(1,184,810)**	$ (880,240)	$ (1,894,651)	$ (1,694,559)
Net Loss Per Share – Basic and Diluted		$ **(0.01)**	$ (0.01)	$ (0.01)	$ (0.02)
Weighted Average Number of Common Shares Outstanding		**125,690,648**	80,606,630	125,690,648	80,606,630

Loss per common share has been calculated as if the consolidations of share capital of July 17, 2014 and June 1, 2015 (Note 13) had been in place for all years reported.

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

NICOLA MINING INC.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Six Months Ended June 30	
	2016	**2015**
Operating Activities		
Net loss for the period	$ (1,894,651)	$ (1,694,559)
Adjustments for:		
Loss on disposal of property, plant and equipment	(7,225)	7,934
Depreciation	38,816	109,197
Non-cash interest expense	705,081	738,182
Unrealized (gain) loss on warrant liability	(1,052)	(7,134)
Share-based compensation	183,983	50,247
CMJV claim	-	(70,000)
Changes in non-cash working capital items		
Amounts receivable	(129,998)	19,431
Prepaid expenses and other assets	(61,744)	29,036
Accounts payable and accrued liabilities	18,335	(180,536)
Flow-through share premium	(6,666)	-
Cash and Cash Equivalents Used in Operating Activities	(1,155,121)	(998,202)
Investing Activities		
Disposal of property, plant and equipment	10,103	49,750
Restricted cash-reclamation deposit	(3,500)	
Deposit on sale of land	25,000	
Purchase of property, plant and equipment	(27,162)	(22,150)
Cash and Cash Equivalents Provided by (used in) Investing Activities	4,441	27,600
Financing Activities		
Issuance of common shares, net of cash paid share issuance costs	1,050,535	-
Convertible debentures, net of cash paid issuance costs	-	238,916
Repayment of debtor-in-possession loan	-	(1,521,370)
Cash and Cash Equivalents Provided by (used in) Financing Activities	1,050,535	(1,282,454)
Net change in cash and cash equivalents for the period	(100,145)	(2,253,056)
Cash and cash equivalents, beginning of period	467,008	2,471,960
Cash and cash equivalents, end of period	$ 366,863	$ 218,904

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

NICOLA MINING INC.
Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency
(Unaudited)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (Deficiency)
Balance, January 1, 2015	**421,033,186**	**$ 59,403,161**	**$ 1,1213,184**	**$ 325,038**	**$ 5,977,053**	**$ (71,399,554)**	**$ (4,481,118)**
Shares cancelled	(18,000,000)	(900,000)				900,000	-
Reduction on share consolidation	(322,426,556)						
Issuance of warrants			59,176				59,176
Share-based compensation					50,247		50,247
Net loss for the period	-	-	-	-	-	(1,694,559)	(1,694,559)
Balance, June 30, 2015	**80,606,630**	**$ 58,503,161**	**$ 1,272,360**	**$ 325,038**	**$ 6,027,300**	**$ (72,194,113)**	**$ (6,066,254)**
Balance, January 1, 2016	**121,087,590**	**$ 61,439,308**	**$ 1,272,360**	**$ 325,038**	**$ 6,140,414**	**$ (74,162,040)**	**$ (4,984,920)**
Share issuances, financings	12,743,750	1,022,000	-	-	-	-	1,022,000
Stock options exercised	1,250,000	75,000					75,000
Share issue costs	-	(58,957)	-	-	-	-	(58,957)
Share-based compensation	-	-	-	-	183,983	-	183,983
Fair value of broker warrants					12,492		12,492
Net loss for the period	-	-	-	-	-	(1,894,651)	(1,894,651)
Balance, June 30, 2016	**135,081,340**	**$ 62,477,351**	**$ 1,272,360**	**$ 325,038**	**$ 6,336,889**	**$ (76,056,691)**	**$ (5,645,053)**

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

1. NATURE OF OPERATIONS, CREDITOR PROTECTION AND GOING CONCERN

Nicola Mining Inc. (the "Company" or "Nicola"), formerly known as Huldra Silver Inc., is a junior exploration company that is engaged in the business of identification, acquisition and exploration of mineral property interests together with custom milling operations at its mill located in Merritt, British Columbia (the "Merritt Mill"). The Company's head office is located at 3329 Aberdeen Road, Lower Nicola, British Columbia. Nicola is a publicly listed company incorporated under the Business Corporations Act of British Columbia. The Company's common shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol NIM.V.

On July 26, 2013, Nicola sought creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") and obtained a stay order (the "Initial Order") from the British Columbia Supreme Court (the "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"). Grant Thornton LLP (the "Monitor") was appointed by the Court as monitor in the proceedings and was responsible for reviewing Nicola's ongoing operations, liaising with creditors and other stakeholders and reporting to the Court. The Initial Order provided for a stay of proceedings against the Applicants and their property for an initial period ending August 26, 2013 which the Court extended to November 24, 2014. The Company developed a Plan of Compromise and Restructuring dated August 8, 2014 (the "Plan" or the "Restructuring Plan") which set out the terms and conditions for the settlement of the proven claims of affected creditors under the CCAA proceedings. The Plan was approved by the affected creditors of the Applicants on September 23, 2014 and by the Court on October 10, 2014. On November 21, 2014, the Company 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 (see Note 18) and distributed the required payments pursuant to the Plan.

As at June 30, 2016, the Company had an accumulated deficit of $76,056,691 (December 31, 2015 - $74,162,039) and a working capital deficiency of $3,747,219 (December 31, 2015 - $3,779,578). These factors represent a material uncertainty that may cast significant 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/or continuing custom milling operations at 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 unaudited condensed consolidated interim financial statements for the six months ended June 30, 2016 were prepared using International Financial Reporting Standards ("IFRS"). 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.

1. NATURE OF OPERATIONS, CREDITOR PROTECTION AND GOING CONCERN (cont'd)

It is not possible to predict whether the Company will be able to raise the working capital required to recommence operations at the Treasure Mountain Project and/or continue custom milling operations at the Merritt Mill that commenced June 16, 2016. If the Company is unable to obtain the necessary financing to recommence and continue such operations, the Company could be forced into bankruptcy and result in the liquidation of all of the Company's assets.

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.

2. BASIS OF PRESENTATION

a) Statement of compliance with International Reporting Standards

These unaudited condensed consolidated interim financial statements of Nicola have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting on a basis consistent with the accounting policies as disclosed in Note 3.

These unaudited condensed consolidated interim financial statements have been authorized for release by the Company's Board of Directors on August 26, 2016.

b) Basis of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, Huldra Properties Inc. (formerly Craigmont Holdings). All inter-company balances and transactions are eliminated on consolidation. On January 1, 2016, Huldra Holdings Inc. and Thule Copper Corporation were amalgamated with Nicola. In addition, 0913103 B.C. Ltd. was amalgamated into Huldra Properties Inc.

c) Basis of Measurement

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary, and have been prepared on a historical cost basis, except for the warrant liability, which is carried at fair value.

d) Use of Estimates and Judgments

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and estimates which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. The judgments that have the most significant effect on the amounts recognized in the Company's unaudited condensed consolidated interim financial statements are as follows:

2. BASIS OF PRESENTATION (cont'd)

i) Impairment

As of June 26, 2013, the Company put its Treasure Mountain Mine and the Merritt Mill on care and maintenance. The Merritt Mill recommenced custom milling operations on June 16, 2016. In the preparation of these unaudited condensed consolidated interim financial statements, certain indicators of potential impairment were identified, and a review of the carrying amounts of non-current non-financial assets has been carried out as a result. See Note 7 for details on the significant judgments, estimates and assumptions applied in carrying out this review.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short term interest bearing investments which are subject to an insignificant risk of change in value. Cash and cash equivalents consists of cash of $366,863 at June 30, 2016 (December 31, 2015 - $467,008).

b) Restricted Cash

Cash is considered to be restricted as it is subject to rights of a government agency.

c) Property, Plant and Equipment

On initial recognition, property, plant and equipment ("PPE") are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

PPE is subsequently stated at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations and comprehensive loss during the financial period in which they are incurred.

The Company allocates the amount initially recognized in respect of an item of PPE to its significant parts and depreciates separately each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within operating expenses in the statement of operations and comprehensive income (loss). During the period, no depreciation was recognized on the mill or related assets.

PPE are depreciated using the following methods:

Automotive equipment	30% declining balance
Camp and other site infrastructure	5 years straight line
Furniture and office equipment	20% declining balance
Computers	20% declining balance
Heavy machinery and equipment	5 years straight-line

d) Impairment of Non-financial Assets

At the date of each statement of financial position, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations and comprehensive income (loss) for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont`d)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations and comprehensive income (loss).

e) Mineral Interests

The Company follows the method of accounting for its mineral interests whereby all costs related to acquisition and site restoration are capitalized by project, net of recoveries received. The amounts shown as mineral interests represent costs incurred to date less amounts written off, and do not necessarily represent present or future values. These costs will be amortized against revenue from future production or written off if the interest is abandoned or sold. The ultimate recoverability of amounts capitalized for mineral interests is dependent upon the delineation of economically recoverable ore reserves, the Company’s ability to obtain the necessary financing to complete development and realize profitable production or proceeds from the disposition thereof.

f) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures (“E&E”) excluding mineral interest acquisition and site restoration costs are charged to the statement of operations and comprehensive loss as incurred. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs subsequently incurred to develop the mine on the property prior to the start of the mining operations are capitalized. Any recoveries received that relate to exploration costs are recorded as a recovery of such costs.

g) Financial Instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets

Financial assets are classified into one of the following categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. The Company classifies cash and cash equivalents and restricted cash as fair value though profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. They are carried at amortized cost using the effective interest rate method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company’s amounts receivable are included in this category of financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss. At June 30, 2016, the Company has not classified any financial assets as held-to-maturity investments.

Available-for-sale investments - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss. When financial assets classified as available-for-sale are sold, the accumulated fair-value adjustments recognized in other comprehensive income are included in the statement of operations and comprehensive loss. At June 30, 2016, the Company has not classified any financial assets as available-for-sale.

All financial assets except for those classified as fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. At June 30, 2016, the Company has classified the warrant liability associated with the Waterton debt in this category.

Other financial liabilities - This category includes accounts payable and accrued liabilities, secured creditors payable, Debtor-in-Possession (DIP) Loan obligation, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

h) Share Capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds.

i) Share-based Payments

The Company has a stock option plan (the "Stock Option Plan") that is described in Note 14a). The Stock Option Plan allows directors, officers, employees and consultants of the Company to acquire shares of the Company. The fair value of stock options granted is recognized as an employee or consultant expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Options issued to Employees and others providing similar services

The fair value of employee stock options are measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the stock options vest. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the stock option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the stock option.

Options issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services cannot be estimated reliably, the stock options are measured by determining the fair value of the stock options granted, using a Black-Scholes option pricing model.

j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also directly recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided for using temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset, and they relate to the income taxes levied by the same tax authority and the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and tax liabilities will be realized simultaneously.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

k) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as finance costs in the statement of operations and comprehensive loss.

l) Asset Retirement Obligation

The Company records the present value of estimated costs of legal and constructive obligations required to restore the site in the period in which the obligation is incurred. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and the tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The obligation for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Since the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The present value of decommissioning and site restoration costs are recorded as a non-current liability. The provision is discounted using a real, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations and comprehensive loss to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, or provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date the cost is charged to the statement of operations and comprehensive loss.

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against the statement of operations and comprehensive loss as extraction progresses.

m) Flow-Through Shares

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. The issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the statement of financial position to recognize the obligation to incur and renounce eligible resource exploration and evaluation expenditures. The tax deduction is measured as the difference between the current market price of the Company's common shares and the issue price of the flow-through shares. Upon incurring and renouncing eligible resource exploration and evaluation expenditures, the Company recognizes the sale of tax deductions as a flow-through share premium on the statement of operations and comprehensive loss and reduces the liability.

n) Flow-Through Obligation

Flow-through obligations are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through obligations have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability.

o) Loss per Share

Basic and diluted loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share does not adjust the loss attributable to common shareholders when the effect is anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

As the Company incurred net losses for all periods presented, the stock options and share purchase warrants, as disclosed in Notes 14 and 13b) respectively, were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive

p) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations.

q) Operating Segments

The Company operates in one segment being the exploration and development of its mineral exploration properties. All of the Company's assets are located in Canada.

r) New Standards, Amendments and Interpretation not yet effective

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 unaudited condensed consolidated interim 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 of 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 (income) 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.

4. AMOUNTS RECEIVABLE

	June 30, 2016	December 31, 2015
Other receivables	$ 120,656	$ 17,152
GST receivable (net)	35,039	8,545
	$ 155,695	**$ 25,697**

5. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits $	Mill $	Heavy Machinery and Equipment $	Computers $	Furniture and Office Equipment $	TOTAL $
Cost						
Balance at January 1, 2015	5,310,000	740,975	1,123,710	13,438	4,731	7,192,854
Additions	—	—	28,564	—	—	28,564
Disposals	—	—	(729,194)	—	—	(729,194)
Write downs			(109,176)	—	—	(109,176)
Balance at December 31, 2015	5,310,000	740,975	313,904	13,438	4,731	6,383,048
Additions	—	27,601		—	—	27,601
Disposals	—	—	(15,998)	—	—	(15,998)
Write downs	—	—	—	—	—	—
Balance at June 30, 2016	5,310,000	768,576	297,906	13,438	4,731	6,394,651
Accumulated Depreciation						
Balance at January 1, 2015	—	—	698,510	6,138	2,681	707,329
Depreciation for the year	—	—	170,967	1,434	408	172,809
Disposals			(591,744)	—	—	(591,744)
Write-downs	—	—	(68,715)	—	—	(68,715)
Balance at December 31, 2015	—	—	209,018	7,572	3,089	219,679
Depreciation for the period	—	—	35,536	1,640	1,640	38,816
Disposals	—	—	(10,103)	—	—	(10,103)
Write downs	—	—	—	—	—	—
Balance at June 30, 2016	—	—	234,451	9,212	4,729	248,392
Carrying Amounts						
At January 1, 2015	5,310,000	740,975	425,200	7,300	2,050	6,485,525
At December 31, 2015	5,310,000	740,975	104,886	5,866	1,642	6,163,369
At June 30, 2016	5,310,000	768,576	63,455	4,226	2	6,147,457

The Company entered into an agreement to sell a certain lot held by the Company for $75,000 payable in three $25,000 instalments: March 31, 2016 (received, April 4, 2016), July 31, 2016 (received, August 3, 2016) and on or before November 30, 2016. Title will transfer upon final payment to the Company.

6. MINERAL INTERESTS

The Company holds a 100% interest in 38 mineral claims at the Treasure Mountain property, located near Hope, British Columbia.

In May 2011, the Company acquired a 100% interest in 20 mineral claims and 10 mineral leases through its 100% share acquisition of Craigmont Holdings Ltd. (“Craigmont”). On November 19, 2015, the Company granted to Aberdeen Ventures Inc. a 2% net smelter royalty with respect to the 20 mineral claims and 10 mineral leases.

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.

The Company took an impairment write-down of $566,534 in relation to its Treasure Mountain property in 2014. The property remains in good standing, and further carrying charges and evaluation costs are being charged to the consolidated statement of operations and comprehensive loss as an operating expense.

The Company’s group of claims consists of the following:

	June 30, 2016 $	December 31, 2015 $
a) The Treasure Mountain group of claims located in the Similkameen Mining Division of British Columbia	1	1
b) A Crown Grant mineral claim (Lot 1210) in the Yale Mining Division contiguous to the Treasure Mountain Claims known as the "Eureka"	1	1
c) The surface rights to Lot 1209 located in the Yale Mining Division of British Columbia known as the “Whynot Fraction”	1	1
	3	3

6. MINERAL INTERESTS (cont'd)

Cumulative exploration costs (including care and maintenance costs) incurred is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 $	**2015** $	**2016** $	**2015** $
EXPLORATION COSTS, beginning of period	25,950,474	24,971,288	25,749,292	24,699,465
Costs incurred during the period				
Insurance	25,249	22,433	50,499	45,427
Meals and travel living allowance	534	829	534	1,437
Property tax	33,935	13,418	47,310	26,473
Exploration supplies and camp expenses	17,509	15,787	16,890	30,218
Water sampling	7,104	12,406	7,104	12,406
Fuel, Power and propane	24,349	11,606	32,014	31,103
Salaries and benefits	122,843	103,464	213,325	219,180
Share-based compensation	28,452	1,396	28,452	1,396
Vehicle & equipment expense	4,780	1,895	6,477	2,375
Depreciation	17,140	50,275	35,562	108,950
Permitting	5,282	2,838	15,383	2,938
Repairs and maintenance - mill	54,820	9,085	58,690	27,935
Tenure lease	6,947	7,485	16,594	8,935
Freight	-	-	-	1,186
Equipment rentals	8,705		9,658	1,085
Exploration on Thule Property	36,892		53,338	-
Geological	-	17,665	-	17,931
Surveying	1,480	2,100	1,773	2,100
Assessment work	9,790	-	13,390	-
Custom milling expense	19,990	-	19,990	-
Engineering	30,924	-	30,924	-
Tailings maintenance	-	-	-	3,430
Total costs incurred during the period	456,725	272,682	657,907	544,505
CUMULATIVE EXPLORATION COSTS, end of period	26,407,199	25,243,970	26,407,199	25,243,970

7. IMPAIRMENT

The Company's mill and mine have been under care and maintenance since June 26, 2013, which was 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. The Company had taken the view that mine and mill are determined to be a single cash generating unit ("CGU") for this purpose. On June 16, 2016, the Company commenced custom milling operations.

7. IMPAIRMENT (cont'd)

The remaining carrying value of PPE (see Note 5) 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 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 based on both independent valuations and values of recent sales of similar assets.

Based on its review, the Company recognized an impairment loss at June 30, 2016 of $nil (December 31, 2015 - $40,461).

8. ASSET RETIREMENT OBLIGATION

As part of the acquisition of Craigmont, the Company assumed the asset retirement obligation relating to the Craigmont property. Management estimates the cost to remediate the Craigmont property at $900,000. As the Company intends to settle the obligation at the end of the estimated useful life of the Merritt Mill of 30 years, the Company has discounted the estimated costs using a real discount rate of 0% since the inflation rate and risk free rate are very similar.

As at June 30, 2016, there has been no change in either the estimated costs to settle the obligation or the real discount rate. In order to obtain its milling permits, the Company posted collateral of $230,000 with the government in May 2012 and posted further collateral of $400,000 in March 2013. On February 25, 2015, as part of the Craigmont claim, a $70,000 reclamation deposit was assigned to the Company (Note 18).

The Company's asset retirement obligation associated with the Treasure Mountain property is calculated as the net present value of estimated future net cash outflows of the reclamation costs, which at June 30, 2016 totaled $505,100 (December 31, 2014 - $505,100) and are required to satisfy the obligations, discounted using a real discount rate of 0% per annum (December 31, 2014 – 0% per annum). The settlement of the obligation is currently expected to occur in 2017.

In order to obtain its final permits, the Company posted collateral of $505,100 with the government of British Columbia.

9. RESTRICTED CASH

The Company has in place deposits amounting to $1,208,600 as at June 30, 2016 (December 31, 2015 - $1,205,100) registered in the name of the British Columbia Ministry of Finance as security for its mining permit and for reclamation clean up at both the Treasure Mountain property and the Merritt Mill property.

10. WATERTON DEBT

Credit Agreement

On June 16, 2011, the Company entered into a credit agreement (the "Credit Agreement") with Waterton Global Value, L.P. ("Waterton") pursuant to which Waterton agreed to make a $10,000,000 credit facility (the "Credit Facility") available to the Company.

The Credit Facility was drawn down by the Company in four instalments - June 17, 2011 - $3,000,000, July 28, 2011 - $2,000,000, January 17, 2012 - $2,500,000, and May 23, 2012 - $2,500,000.

Each drawdown had transaction costs associated with it which have been deducted from the proceeds received to determine an initial face value of the debt. The debt was then accounted for on an amortized cost basis using the effective interest rate method.

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.

Under the CCAA proceedings (see Notes 1 and 18), Waterton submitted a claim as a secured creditor of the Company for $7,234,363.

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 initial order of the Court pursuant to the CCAA proceedings (Note 1).

On November 20, 2014, in connection with the Restructuring Plan (Note 18), the Company entered into a settlement agreement with Waterton 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 was due within twelve months of the Restructuring Plan implementation date. The Company will pay Waterton interest at 3% per annum.

On November 20, 2015, the Company and Waterton entered into a settlement agreement. The Company owed Waterton $2,500,000 in principal and approximately $75,000 in accrued interest. The Company, on the closing of the unit financing on November 23, 2015 repaid Waterton $1,250,000 in principal and $37,500 in accrued interest. Waterton agreed to convert the remaining $1,250,000 in principal and $37,500 in accrued interest into a new loan (the "Loan"), which bears interest at a rate of 3% per annum paid annually maturing November 24, 2018.

Waterton received a 2% net smelter returns royalty with respect to the Company's Treasure Mountain property (Note 6).

10. WATERTON DEBT (cont'd)

The change in the Waterton debt obligation is summarized as follows:

	June 30, 2016	December 31, 2015
Opening balance	$ 1,291,521	$ 1,790,732
Finance costs (Note 12)	19,366	51,548
Repayments	-	(550,759)
	$ 1,310,887	$ 1,291,521

The change in the Waterton DIP Loan obligation is summarized as follows:

	June 30, 2016	December 31, 2015
Opening balance	$ -	$ 2,222,748
Finance costs (Note 12)	-	25,828
Repayments	-	(2,248,576)
	$ -	$ -

11. SECURED CONVERTIBLE DEBENTURE

On October 6, 2014, Nicola launched a private placement of secured convertible debentures (the "Debentures") to raise gross proceeds of up to $8,000,000 (the "Offering").

On November 21, 2014, the Company closed the First Tranche by the issuance of Debentures having an aggregate principal amount of $7,000,882 and the issuance of 35,004,410 share purchase warrants.

The First Tranche Debentures bear interest at a rate of 10% per annum, which is payable annually as 50% in cash and 50% by the issuance of common shares of the Company, at a price equal to the market price at time of issuance. The First Tranche Debentures will mature three years after the date of issuance and the principal amount of the First Tranche Debentures, together with any accrued and unpaid interest is payable on the maturity date. The principal amount of the First Tranche Debentures is convertible into shares prior to the maturity date, at the option of the holder, at a price of $0.055 per share ($0.275 post share consolidation). Each warrant is exercisable into one additional share for four years at an exercise price of $0.075 ($0.375 post share consolidation) per share in the first year and $0.10 ($0.50 post share consolidation) per share thereafter. The repayment of the outstanding principal and interest of the First Tranche Debentures will be secured against the assets of Nicola but will rank subordinate to the debt owed to Waterton (Note 10) until such time as the debt owing to Waterton is repaid in full.

For accounting purposes the proceeds received of $7,000,882 have been allocated based on the relative fair values of the debt and warrants. The fair value of the debentures was determined to be $5,266,867 using a discount rate of 20%. The fair value of the warrants was determined to be $1,734,015. There is no residual value to be allocated to the equity component of the convertible debenture. Transaction costs of $300,163 and $98,831 have been allocated to the debentures and warrants respectively. In addition, the resulting deferred tax liability of $422,000 has been charged to the warrants.

11. SECURED CONVERTIBLE DEBENTURE (cont'd)

In connection with closing of the First Tranche, the Company paid cash finder's fees of $22,960 and issued finder's warrants with a total fair value of $20,578 to purchase an aggregate of 417,455 shares. The terms of the finder's warrants are the same as the terms of the warrants. For purposes of the calculation of the fair value associated with the warrants and finder's warrants, the following assumptions were used for the Black-Scholes model: (Risk-free interest rate – 1.32%, Expected life – 4 years, Expected annual volatility - 144.87%, Expected dividends – Nil, Expected forfeiture rate – Nil).

On May 19, 2015, the Company closed the second tranche by the issuance of debentures (the "Second Tranche Debentures") having an aggregate principal amount of $250,000 and the issuance of 1,250,000 share purchase warrants.

The Second Tranche Debentures bear interest at a rate of 10% per annum, which is payable annually as 50% in cash and 50% by the issuance of common shares of the Company, at a price equal to the market price at time of issuance. The Second Tranche Debentures will mature three years after the date of issuance, and the principal amount of the Second Tranche Debentures, together with any accrued and unpaid interest is payable on the maturity date. The principal amount of the Second Debentures is convertible into shares prior to the maturity date, at the option of the holder, at a price of $0.055 ($0.275 post consolidation) per share. Each warrant is exercisable into one additional share for four years at an exercise price of $0.075 ($0.375 post consolidation) per share in the first year and $0.10 ($0.50 post consolidation) per share thereafter. The repayment of the outstanding principal and interest of the Second Tranche Debentures will be secured against the assets of Nicola but will rank subordinate to the debt owed to Waterton (Note 10) until such time as the debt owing to Waterton is repaid in full.

For accounting purposes, the proceeds received of $250,000 have been allocated based on the relative fair values of the debt and warrants. The fair value of the debentures was determined to be $188,079 using a discount rate of 20%. The fair value of the warrants was determined to be $61,921. There is no residual value to be allocated to the equity component of the convertible debentures. Transaction costs of $8,339 and $2,745 have been allocated to the debentures and warrants respectively. For purposes of the calculation of the fair value associated with the warrants, the following assumptions were used for the Black-Scholes model: (Risk-free interest rate – 0.885%, Expected life – 4 years, Expected annual volatility – 156.25%, Expected dividends – Nil, Expected forfeiture rate – Nil). The resulting deferred tax liability associated with the warrants was immaterial.

Upon repayment by the Company of all amounts owed to Waterton, the holders of the First Tranche Debentures will be granted an aggregate 2% net smelter returns royalty with respect to the Company's Treasure Mountain property ("the "First Tranche Royalty"), provided that each holder of the First Tranche Debentures shall only be entitled to their pro rata share of such royalty based on their individual investment pursuant to the First Tranche. The First Tranche Royalty will replace the 2% net smelter returns royalty with respect to the Company's Treasure Mountain property which is currently held by Waterton and will be terminated upon repayment of all amounts owed to Waterton by the Company.

11. SECURED CONVERTIBLE DEBENTURE (cont'd)

In November 2015, the Company agreed to pay all the interest owing on the First Tranche Debentures by the issuance of common shares. In order to incentivize the holders of the Debentures to accept shares in lieu of cash payment originally contemplated under the terms of the Debentures, the Company agreed to settle the interest payment due on November 21, 2015 by the issuance of common shares as if the rate of interest was 12%, rather than 10%, 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 of $840,105 owing as at November 21, 2015 (the "Debt Settlement").

	June 30, 2016	December 31, 2015
Principal amount	$ 5,877,192	$ 5,096,756
Proceeds received	-	188,079
Less transaction costs	-	(8,339)
Less payment of interest	(12,500)	
Less payment of interest in shares	(12,500)	(840,105)
Accrued interest	634,438	1,339,024
Accretion	51,277	101,777
	$ 6,537,907	$ 5,877,192

12. FINANCE COSTS

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	June 30, 2016	June 30, 2015
Waterton pre-filing debt obligation and new loan (Note 10)	$ 19,366	$ 26,551
Waterton DIP loan obligation (Note 10)	-	13,600
Flow-through share obligation (Note 17)	-	76,136
Secured convertible debenture (Note 11)	685,715	613,512
Other	(993)	6,000
	$ 706,074	$ 735,799

13. SHARE CAPITAL AND RESERVES

a) Common Shares

Authorized

The authorized capital stock of the Company is an unlimited number of common shares without par value.

Issued

Common shares issued and outstanding at June 30, 2016 are 135,081,340 (December 31, 2015 – 121,087,590).

On July 17, 2014, the Company effected a consolidation of its outstanding common shares on the basis of two (2) pre-consolidation shares for one (1) post-consolidation share leaving 27,794,594 shares giving effect to rounding and other adjustment.

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 by issuing 114,368,382 shares to the secured creditors and 278,870,210 shares to the unsecured creditors at $0.05 per share for $5,718,419 and $13,943,511 respectively.

On February 25, 2015, 18,000,000 shares were returned to the Company and cancelled (see Note 18).

On June 1, 2015, the Company effected a consolidation of its outstanding common shares on the basis of five (5) pre-consolidation shares for one (1) post-consolidation share leaving 80,606,630 shares giving effect to rounding and other adjustment.

On November 23, 2015, the Company issued 19,375,005 units at $0.08 unit share for gross proceeds of $1,550,000. Each unit consisted of one common share and one share purchase warrant exercisable into one common share at a price of $0.15 per share for a period of two years.

On November 27, 2015, the Company issued 12,924,705 shares at a value of $0.065 per share in settlement of interest of $840,105 owing on the secured convertible debentures.

On December 4, 2015, the Company issued 4,431,250 units at $0.08 per share for gross proceeds of $354,500. Each unit consisted of once common share and one share purchase warrant exercisable into one common share at a price of $0.15 per share for a period of two years.

On December 29, 2015, the Company issued 3,750,000 of flow–through shares at $0.08 per share for gross proceeds of $300,000. The Company also issued broker warrants to purchase an aggregate of 262,500 shares of the Company, on a non-flow-through basis, at a price of $0.10 per share until December 29, 2017. The broker warrants had a fair value of $16,130 estimated using the Black-Scholes option pricing model with a volatility of 230%, risk-free interest rate of 0.48%, dividend rate at 0% and expected life of 2 years. The flow-through share premium associated with this issuance was $37,500.

13. SHARE CAPITAL AND RESERVES (cont'd)

On March, 31, 2016, the Company booked a reduction in the flow-through premium of $2,055 as a result of its eligible flow-through expenditures incurred during the first quarter. The current flow-through share premium liability is $35,445.

On March 22, 2016, the Company issued 2,250,000 units at $0.08 per unit for gross proceeds of $180,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of $0.15 per share for a period of two years.

On April 29, 2016, the Company issued 8,318,750 units at $0.08 per unit for gross proceeds of $665,500. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one common share at a price of $0.15 per share for a period of two years. The Company also issued broker warrants to purchase an aggregate of 119,000 at a price of $0.15 per share for a period of two years.

On May 24, 2016, the Company issued 125,000 shares at a value of $0.10 per share in settlement of interest of $12,500 owing on the May 2015 secured convertible debentures.

On May 27, 2016, the Company issued 2,050,000 units at $0.08 per unit for gross proceeds of $164,000. Each unit consisted of one common share and one share purchase warrant with each warrant exercisable into one additional common share at a price of $0.15 per share for a period of two years.

On June 23, 2016, the Company issued 1,250,000 common shares at a price of $0.06 for gross proceeds of $75,000 in connection with the exercise of 1,250,000 stock options.

On June 30, 2016, the Company booked a reduction in the flow-through premium of $4,611 as a result of the eligible flow-through expenditures incurred during the second quarter. The current flow-through share premium liability is $30,834.

13. SHARE CAPITAL AND RESERVES (cont'd)

b) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from January 1, 2015 to June 30, 2016:

	Number of Warrants		Weighted Average Exercise Price
Balance at January 1, 2015	39,011,964	$	0.15
Issued warrants (pre 2015 consolidation)	1,250,000	$	0.09
Reduction on 2015 share consolidation	(32,209,572)	$	1.02
Issued warrants (post consolidation)	36,806,505	$	0.15
Expired warrants (post-consolidation)	(553,019)	$	4.00
Balance at June 30, 2016	44,305,878	$	0.25

As at June 30, 2016, the Company had outstanding warrants as follows:

Security	Number	Exercise Price	Expiry Date
Warrants	65,000	$12.10	January 17, 2017
Warrants	100,000	$13.00	May 23, 2017
Warrants	7,084,373	$0.50	November 21, 2018
Warrants	19,375,005	$0.15	November 24, 2017
Warrants	4,431,250	$0.15	December 7, 2017
Warrants	2,250,000	$0.15	March 22, 2018
Warrants	119,000	$0.15	April 29, 2018
Warrants	8,318,750	$0.15	April 29, 2018
Warrants	2,050,000	$0.15	May 27,2018
Warrants	262,500	$0.10	December 29, 2017
Warrants	250,000*	$0.375/$0.50	May 19, 2019
	44,305,878		

*Exercise price in the first year is $0.375 and in the second, third and fourth year the exercise price is $0.50.

14. SHARE-BASED PAYMENTS

a) Stock Option Plan

The Company's Board of Directors approved the adoption of the Stock Option Plan in accordance with the policies of the TSX-V. The Board of Directors is authorized to grant stock options to directors, officers, consultants or employees. The exercise price of stock options granted under the Stock Option Plan shall be as determined by the Board of Directors when such stock options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority.

The Company shall not grant stock options under the Stock Option Plan which will, when exercised, exceed 10% of the issued and outstanding shares, and further subject to the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the TSX-V, provided that the number of shares reserved for issuance, within any twelve-month period:

i) to any one option holder shall not exceed 5% of the total number of issued shares;

ii) to any one consultant shall not exceed 2% in the aggregate of the total number of issued shares, and

iii) to all persons employed or engaged to provide investor relations activities shall not exceed 2% in the aggregate of the total number of issued shares. In addition, stock options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than ¼ of the options vesting in any three-month period.

If any stock option expires or otherwise terminates for any reason without having been exercised in full, the number of shares which would have been acquired on the exercise of such stock option shall again be available for the purposes of the Stock Option Plan.

14. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options from January 1, 2015 to June 30, 2016:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2015	1,157,500	$ 2.47
Expired options pre 2015 consolidation	(417,500)	2.35
Reduction on 2015 share consolidation	(592,000)	2.54
Issued options post-consolidation	5,240,000	0.06
Expired options post-consolidation	(23,500)	
Exercised post-consolidation	(2,500,000)	0.06
Balance at June 30, 2016	2,864,500	$ 0.61

At the Company's 2015 annual general and special meeting of its shareholders on December 15th, 2015, the shareholders re-approved the Stock Option Plan.

As at June 30, 2016, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
33,000	33,000	$ 14.40	0.08	July 28, 2016
39,500	39,500	$ 14.50	1.19	September 10, 2017
13,000	13,000	$ 14.00	1.33	November 1, 2017
4,000	4,000	$ 9.50	1.65	February 25, 2018
35,000	35,000	$ 9.50	1.66	February 27, 2018
190,000	190,000	$ 0.06	2.97	June 19, 2019
650,000	650,000	$ 0.06	3.00	July 1, 2019
200,000	200,000	$ 0.15	3.96	June 23, 2020
1,700,000	1,700,000	$ 0.11	3.92	May 19, 2010
2,864,500	2,864,500		3.55	

14. SHARE-BASED PAYMENTS (cont'd)

b) Fair Value of Stock Options Issued During the Period

The weighted average fair value at grant date of stock options granted during the six months ended June 30, 2016 was $0.11.

The model inputs for options granted during the period ended June 30, 2016:

Grant Date	Expiry Date	Share Price at Grant Date $	Exercise Price $	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
25/1/2016	25/1/2018	0.06	.08	0.38%	24 months	229.74%	0%
30/5/2016	5/6/2020	0.11	.11	0.73%	48 months	194.15%	0%
14/06/2016	14/6/2020	0.15	.15	0.59%	48 months	194.15%	0%

The Company expensed $183,983 during the six months ended June 30, 2016 (June 30, 2015- $50,246)

15. RELATED PARTY TRANSACTIONS

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.

The following is a summary of the Company's key management compensation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 $	2015 $	2016 $	2015 $
Consulting fees	45,000	45,000	90,000	90,000
Salaries and benefits	20,000	20,000	34,000	20,000

Included in accounts payables as at June 30, 2016 was $71,625 (December 31, 2015 - $55,120) due to officers of the Company.

Included in convertible debentures is $75,000 (December 31, 2015 $75,000) owing to the Chief Executive Officer as at June 30, 2016.

16. 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 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 June 30, 2016 using the Black-Scholes model with the following assumptions:

Share Price	$0.07
Exercise Price	$12.10
Risk Free Rate	0.00%
Discount Rate	0.48%
Expected Life	0.54 years

16. FINANCIAL INSTRUMENTS (cont'd)

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 period ended June 30, 2016:

	Liability at January 1, 2016	Profit Participation Amounts	Mark to Market (gain) loss	Liability at June 30, 2016
Warrant liability	$ 1,078	$ -	$ (1,052)	$ 26
	$ 1,078	$ -	$ (1,052)	$ 26

	Liability at January 1, 2015	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

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 June 30, 2016 under its financial instruments is approximately $0.5 million.

All of the Company's cash and cash equivalents are 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.

16. FINANCIAL INSTRUMENTS (cont'd)

Liquidity Risk

Liquidity risk 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.

Management anticipates that it may incur expenditures towards exploring the Treasure Mountain and Thule Copper properties and other Company assets. However, 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. 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 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.

17. FLOW-THROUGH SHARE OBLIGATION

		Flow-through Obligation
Balance at January 1, 2015	$	3,508,827
Interest costs		155,113
Remittances to Canada Revenue Agency		(1,579)
Balance at December 31, 2015	$	3,662,361
Balance at June 30, 2016	$	3,662,361

The above provision includes an estimated cumulative amount of $3,631,000 (2014 – $3,553,602) relating to the Company's requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the Company failing to incur qualifying exploration expenditures previously renounced to the flow-through investors. It also includes a further $31,361 representing an estimate of tax penalties and interest that may be assessed against the Company. The final assessment of liability by the CRA may differ from management's assessment. In 2014, METC refunds of $346,165 were applied by CRA to the balance owing to them. Additionally, on December 1, 2014, the Company issued payment in the amount of $208,224 to the CRA related to the Company's flow-through share obligation.

18. RESTRUCTURING AGREEMENT and EXITING CCAA

As discussed in Note 1, 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 by settling an aggregate of $5,718,419 secured claims by issuing an aggregate of 114,368,382 shares to the secured creditors and made payments to the secured creditors (excluding Waterton which is discussed in Note 10) in the aggregate amount of $88,021 plus interest. Additionally, the Company settled unsecured claims by issuing an aggregate of 278,870,210 shares to the unsecured creditors and made payments to the unsecured creditors in the aggregate amount of $25,408. On December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under CCAA and distributed the required payments pursuant to the Plan.

18. RESTRUCTURING AGREEMENT and EXITING CCAA (cont'd)

Craigmont Claim

In May 2011, the Company acquired Craigmont (Note 5). As part of that acquisition, the Company assumed a $900,000 reclamation obligation. In April 2014, Craigmont Mines, A Joint Venture ("CMJV") filed a proof of claim under the CCAA proceedings claiming a $900,000 reclamation credit on the grounds that CMJV could potentially remain liable for the reclamation obligations assumed by the Company in the event of failure to emerge from CCAA proceedings. CMJV also claimed $70,000 relating to a reclamation bond improperly assumed by the Company as well as certain operating and site expenditures totaling $385,947 incurred on behalf of the Company. On November 21, 2014, the Company issued shares to CMJV as an unsecured creditor pursuant to the Restructuring Plan. On February 25, 2015, the 18,000,000 shares issued relating to the $900,000 claim were returned by CMJV to treasury and cancelled. In addition, the $70,000 reclamation deposit was assigned by CMJV to the Company (Note 8).

19. SUBSEQUENT EVENTS

(a) The Company granted 2,550,000 stock options to certain directors and consultants for purchase up to 2,550,000 common shares of the Company for a period of 5 years at a price of $0.14 per common share.

(b) The Company issued 2,150,000 common shares for gross proceeds of $146,500 in connection with the exercise of 2,150,000 stock options.

(c) The Company issued 18,337,665 units at $0.12 per unit for gross proceeds of 2,200,519.80. Each unit consists of one common share and one share purchase warrant, with each warrant exercisable into one common share at a price of $0.18 per share for a period of three years.