



# **NICOLA MINING INC.**

**Condensed Consolidated Interim Financial Statements**

**For the three and nine months ended September 30, 2018 and 2017**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

### **CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORTING**

The accompanying condensed consolidated interim financial statements of Nicola Mining Inc. ("the Company") have been prepared by management in accordance with International Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the condensed consolidated interim financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

|   | Note | September 30, 2018   | December 31, 2017    |
|---|------|----------------------|----------------------|
| <b>Assets</b>   |      |                      |                      |
| <b>Current assets</b>                                 |      |                      |                      |
| Cash and cash equivalents                             |      | \$ 942,413           | \$ 2,493,885         |
| Amounts receivable                                    | 4    | 108,562              | 102,164              |
| Prepaid expenses and other assets                     |      | 105,209              | 41,583               |
|   |      | <b>1,156,184</b>     | <b>2,637,632</b>     |
| <b>Non-current assets</b>                             |      |                      |                      |
| Property, plant and equipment                         | 5    | 9,447,056            | 9,400,145            |
| Mineral interests                                     | 6    | 3                    | 3                    |
| Restricted cash                                       | 8    | 1,210,100            | 1,208,600            |
| <b>Total assets</b>                                   |      | <b>\$ 11,813,343</b> | <b>\$ 13,246,380</b> |
| <b>Liabilities</b>                                    |      |                      |                      |
| <b>Current liabilities</b>                            |      |                      |                      |
| Accounts payable and accrued liabilities              |      | \$ 604,182           | \$ 581,601           |
| Secured convertible debenture                         | 10   | -                    | 254,161              |
| Waterton debt loan                                    | 9    | 658,566              | 1,291,521            |
| Flow-through obligation                               | 16   | 4,030,014            | 3,969,428            |
| Flow-through share premium                            | 12   | 27,238               | 144,273              |
|   |      | <b>5,320,000</b>     | <b>6,240,984</b>     |
| <b>Non-current liabilities</b>                        |      |                      |                      |
| Asset retirement obligation                           | 7    | 3,867,238            | 3,961,302            |
| Secured convertible debenture                         | 10   | 7,028,478            | 5,914,918            |
| <b>Total liabilities</b>                              |      | <b>16,215,716</b>    | <b>16,117,204</b>    |
| <b>Equity</b>   |      |                      |                      |
| <b>Shareholders' deficiency</b>                       |      |                      |                      |
| Share capital   | 12   | 72,783,200           | 70,627,245           |
| Warrants  | 12   | 1,667,733            | 1,662,167            |
| Equity component of convertible debentures            |      | 808,230              | 789,645              |
| Contributed surplus                                   |      | 7,241,521            | 7,233,101            |
| Accumulated deficit                                   |      | (86,903,057)         | (83,182,982)         |
| <b>Total deficiency</b>                               |      | <b>(4,402,373)</b>   | <b>(2,870,824)</b>   |
| <b>Total liabilities and shareholders' deficiency</b> |      | <b>\$ 11,813,343</b> | <b>\$ 13,246,380</b> |

Peter Espig (signed) Director

Frank Hogel (signed) Director

Nature of operations, and going concern (Note 1)

*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<br>September 30, |                       | Nine Months Ended<br>September 30, |                       |
|---|------|-------------------------------------|-----------------------|------------------------------------|-----------------------|
|   |      | 2018                                | 2017                  | 2018                               | 2017                  |
| <b>Operating Expenses</b>                                   |      |                                     |                       |                                    |                       |
| Exploration costs   | 6    | \$ 1,029,419                        | \$ 225,361            | \$ 1,605,178                       | \$ 379,794            |
| Mill costs  |      | 105,343                             | 256,604               | 571,538                            | 639,560               |
| Accretion   | 7    | 18,157                              | 17,741                | 54,469                             | 53,223                |
| Salaries and benefits                                       | 14   | 34,108                              | 31,297                | 102,657                            | 98,445                |
| Professional fees   |      | 52,658                              | 43,857                | 173,259                            | 74,417                |
| Share-based compensation expense                            |      | -                                   | 407,043               | -                                  | 407,043               |
| Consulting fees   | 14   | 92,375                              | 63,566                | 337,542                            | 233,554               |
| Office and general  |      | 22,233                              | 11,668                | 60,777                             | 28,268                |
| Travel and investor relations                               |      | 5,959                               | 11,540                | 54,776                             | 48,087                |
| Rent  |      | (350)                               | 8,171                 | 16,010                             | 28,941                |
| Regulatory and transfer agent fees                          |      | 8,794                               | 2,762                 | 42,268                             | 16,628                |
| Vehicle expenses  |      | 1,662                               | 3,294                 | 5,163                              | 10,628                |
| Depreciation  |      | 345                                 | -                     | 1,035                              | -                     |
| <b>Operating Loss</b>                                       |      | <b>(1,370,703)</b>                  | <b>(1,082,904)</b>    | <b>(3,024,672)</b>                 | <b>(2,018,588)</b>    |
| Gain (loss) on property, plant and equipment                | -    | -                                   | -                     | (1,039)                            | -                     |
| Gravel and other sales                                      |      | 95,167                              | 2,650                 | 286,961                            | 5,582                 |
| Finance Costs   | 11   | (380,932)                           | (456,235)             | (1,108,290)                        | (1,301,534)           |
| Flow-through share premium                                  | 12   | 75,207                              | 20,868                | 117,035                            | 36,533                |
| <b>Loss before Income Taxes</b>                             |      | <b>(1,581,261)</b>                  | <b>(1,515,621)</b>    | <b>(3,730,005)</b>                 | <b>(3,278,007)</b>    |
| Deferred income tax recovery                                |      | -                                   | -                     | 9,930                              | -                     |
| <b>Net Loss and Comprehensive Loss for the Period</b>       |      | <b>\$ (1,581,261)</b>               | <b>\$ (1,515,621)</b> | <b>\$ (3,720,075)</b>              | <b>\$ (3,278,007)</b> |
| <b>Net Loss Per Share – Basic and Diluted</b>               |      | <b>\$ (0.01)</b>                    | <b>\$ (0.01)</b>      | <b>\$ (0.02)</b>                   | <b>\$ (0.02)</b>      |
| <b>Weighted Average Number of Common Shares Outstanding</b> |      | <b>203,092,926</b>                  | <b>166,624,749</b>    | <b>194,735,288</b>                 | <b>166,713,560</b>    |

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)**

|   | Nine Months ended September<br>30, |                    |
|---|------------------------------------|--------------------|
|   | 2018                               | 2017               |
| <b>Operating Activities</b>                                       |                                    |                    |
| Net loss for the period   | \$ (3,720,075)                     | \$ (3,278,007)     |
| Adjustments for:  |                                    |                    |
| Depreciation  | 22,448                             | 20,308             |
| Non-cash interest and finance expense                             | 1,046,714                          | 1,294,927          |
| Share-based compensation  | -                                  | 440,271            |
| Part X11.6 tax, tax penalties, and indemnification expense        | -                                  | 1,278              |
| Accretion of asset retirement obligation                          | 54,469                             | 53,224             |
| Flow through premium  | (117,035)                          | (36,533)           |
| Loss on sale of equipment   | 1,039                              | -                  |
| Deferred income tax recovery                                      | (9,930)                            | -                  |
| Changes in non-cash working capital items                         |                                    |                    |
| Amounts receivable  | (6,398)                            | 214,211            |
| Prepaid expenses and other assets                                 | (63,626)                           | 55,733             |
| Accounts payable and accrued liabilities                          | 22,581                             | (217,840)          |
| <b>Cash and Cash Equivalents Used in Operating Activities</b>     | <b>(2,769,813)</b>                 | <b>(1,452,428)</b> |
| <b>Investing Activities</b>                                       |                                    |                    |
| Purchase of property, plant, and equipment                        | (72,304)                           | (607,376)          |
| Disposal of property, plant, and equipment                        | 1,904                              | -                  |
| Reclamation expenditures incurred                                 | (148,533)                          | -                  |
| <b>Cash and Cash Equivalents Used in Investing Activities</b>     | <b>(218,933)</b>                   | <b>(607,376)</b>   |
| <b>Financing Activities</b>                                       |                                    |                    |
| Issuance of common shares, net of cash paid issuance costs        | 1,328,249                          | -                  |
| Exercise of share purchase warrants                               | 778,500                            | 969,558            |
| Exercise of stock options   | -                                  | 15,999             |
| Repayment of Waterton debt loan                                   | (643,750)                          | -                  |
| Interest payments   | (25,725)                           | (12,500)           |
| <b>Cash and Cash Equivalents Provided by Financing Activities</b> | <b>1,437,274</b>                   | <b>973,057</b>     |
| <b>Net change in cash and cash equivalents for the period</b>     | <b>(1,551,472)</b>                 | <b>(1,086,747)</b> |
| <b>Cash and cash equivalents, beginning of period</b>             | <b>2,493,885</b>                   | <b>1,916,458</b>   |
| <b>Cash and cash equivalents, end of period</b>                   | <b>\$ 942,413</b>                  | <b>\$ 829,711</b>  |

*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<br>Common Shares | Share<br>Capital | Warrants     | Equity<br>Component<br>of<br>Convertible<br>Debentures | Contributed<br>Surplus | Accumulated<br>Deficit | Total<br>Equity<br>(Deficiency) |
|---|----------------------------|------------------|--------------|--|------------------------|------------------------|---------------------------------|
| <b>Balance, January 1, 2017</b>                           | 163,389,465                | \$ 66,012,733    | \$ 1,272,360 | \$ 325,038   | \$ 6,628,277           | \$ (78,422,413)        | \$ (4,184,005)                  |
| Share purchase warrants exercised                         | 6,497,958                  | 994,882          | -            | -  | (25,324)               | -                      | 969,558                         |
| Stock options exercised                                   | 200,000                    | 23,427           | -            | -  | (7,428)                | -                      | 15,999                          |
| Share-based compensation                                  | -                          | -                | -            | -  | 440,271                | -                      | 440,271                         |
| Issuance of shares for interest on convertible debentures | 73,527                     | 12,500           | -            | -  | -                      | -                      | 12,500                          |
| Net loss for the period                                   | -                          | -                | -            | -  | -                      | (3,278,007)            | (3,278,007)                     |
| <b>Balance, September 30, 2017</b>                        | 170,160,950                | \$ 67,043,542    | 1,272,360    | \$ 325,038   | \$ 7,035,796           | \$ (81,700,420)        | \$ (6,023,684)                  |
| <b>Balance, January 1, 2018</b>                           | 190,327,750                | \$ 70,627,245    | \$ 1,662,167 | \$ 789,645   | \$ 7,233,101           | \$ (83,182,982)        | \$ (2,870,824)                  |
| Share purchase warrants exercised                         | 5,190,000                  | 785,848          | -            | -  | (7,348)                | -                      | 778,500                         |
| First Tranche Conversion                                  | 204,543                    | 45,126           | -            | (4,113)  | -                      | -                      | 41,013                          |
| Share issuance financing                                  | 9,333,329                  | 1,399,999        | -            | -  | -                      | -                      | 1,399,999                       |
| Share issue costs   | -                          | (71,750)         | -            | -  | -                      | -                      | (71,750)                        |
| Fair value of finder's warrants                           | -                          | (15,768)         | -            | -  | 15,768                 | -                      | -                               |
| Issuance of shares for interest on convertible debentures | 83,334                     | 12,500           | -            | -  | -                      | -                      | 12,500                          |
| Issuance of convertible debenture                         | -                          | -                | 7,521        | 30,673   | -                      | -                      | 38,194                          |
| Fair value of warrants issued on convertible debt         | -                          | -                | (1,955)      | (7,975)  | -                      | -                      | (9,930)                         |
| Net loss for the period                                   | -                          | -                | -            | -  | -                      | (3,720,075)            | (3,720,075)                     |
| <b>Balance, September 30, 2018</b>                        | 205,138,956                | \$ 72,783,200    | \$ 1,667,733 | \$ 808,230   | \$ 7,241,521           | \$ (86,903,057)        | \$ (4,402,373)                  |

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

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**  
**For the nine months ended September 30, 2018 and 2017**

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**1. NATURE OF OPERATIONS, CREDITOR PROTECTION AND GOING CONCERN**

Nicola Mining Inc. (the “**Company**” or “**Nicola**”), 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, B.C.(the “**Merritt Mill**”). The Company’s head office is located at 3329 Aberdeen Road, Lower Nicola, B.C. Nicola is a publicly listed company incorporated under the *Business Corporations Act* (British Columbia). The Company’s common shares are listed on the TSX Venture Exchange (the “**TSX-V**”) under the symbol “NIM.V.

As at September 30, 2018, the Company had an accumulated deficit of \$86,903,057 (December 31, 2017 - \$83,182,982) and a working capital deficiency of \$4,163,816 (December 31, 2017 - \$3,603,352), included in which is the current portion of the Waterton debt loan of \$658,566 due November 24, 2018. 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 (“**Treasure Mountain Property**”) and/or Merritt Mill, together with ongoing exploration programs at its New Craigmont Project (“**New Craigmont Project**”). These factors represent a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. 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 period ended September 30, 2018 were prepared using International Financial Reporting Standards (“**IFRS**”). These unaudited condensed consolidated interim 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.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
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**2. BASIS OF PRESENTATION**

**a) Statement of Compliance with International Financial Reporting Standards**

The unaudited condensed consolidated interim financial statements of Nicola have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements have been authorized for release by the Company’s Board of Directors on November 7, 2018.

**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. During 2016, Huldra Holdings Inc. and Thule Copper Corporation were amalgamated into Nicola Mining Inc. All inter-company balances and transactions are eliminated on consolidation.

**c) Basis of Measurement**

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company’s and its subsidiary functional currency and have been prepared on a historical cost basis, except for certain financial instruments, which are 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:

i) Impairment of non-current assets

Non-current assets are tested for impairment when indicators of impairment are present. Calculating the estimated fair values of cash generating units for non-current asset impairment tests requires management to make estimates and assumptions with respect to metal selling prices, future capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates. Reduction in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansory capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company’s non-current assets.

ii) Completion of commissioning

The determination of the date on which a mine or plant enters the production stage is a significant judgement since capitalization of certain costs ceases and depletion and amortization of capitalized costs commence upon entering production. As a mine or plant is constructed and commissioned, costs incurred are capitalized and proceeds from mineral sales are offset against the capitalized costs. This continues until the mine or plant is capable



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**2. BASIS OF PRESENTATION (cont'd)**

of operating in the manner intended by management which requires significant judgement in its determination.

**e) Key Sources of Estimation Uncertainty**

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

i) Share-based compensation

The inputs used in calculating the fair value for share-based compensation included in profit or loss. The share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.

ii) Rehabilitation provisions

The Company's rehabilitation provision represents management's best estimate of the present value of the future cash outflows required to settle the liability. Management assesses these provisions on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, inflation, and the impact of changes in discount rates, interest rates and foreign exchange rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

**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 \$942,413 at September 30, 2018 (December 31, 2017 - \$2,493,885). Included in cash at September 30, 2018 is \$314,202 that has been set aside to be applied towards qualified expenditures pursuant to the flow-through share financing.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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.

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

**d) Commercial and Pre-commercial Production**

Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine plant components is complete, operating results are being achieved consistently for a period of time, and that there are indicators that these operating results will continue. The following factors may indicate that commercial production has commenced:

- substantially all major capital expenditures have been completed to bring the plant or mine to the condition necessary for it to be capable of operating in the manner intended by management;
- a significant portion of plant throughput capacity is achieved; and
- all facilities are operating at a steady state of production.

**e) 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

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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.

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 loss.

**f) 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.

**g) 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.

**h) Revenue Recognition**

Revenue for sale of sand and aggregate is recognized where the Company has transferred control of sand and aggregate to the customer at the point in time where the sand and aggregate leaves the pit.

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**For the nine months ended September 30, 2018 and 2017**

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**i) Financial Instruments**

**Financial assets**

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive.

The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. Receivables and reclamation bonds are measured at amortized cost with subsequent impairments recognized in profit or loss and cash and investments are classified as FVTPL.

**Impairment**

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Financial liabilities**

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified as other financial liabilities and carried on the balance sheet at amortized cost.

As at September 30, 2018, the Company does not have any derivative financial liabilities.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**j) 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.

**k) Share-based Payments**

The Company has a stock option plan (the "**Stock Option Plan**") that is described in Note 13 a). 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.

**l) 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.

**m) 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**m) Asset Retirement Obligation (cont'd)**

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.

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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**n) 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, if any, between the current market price of the Company's common shares and the issue price of the flow-through shares. Upon incurring 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.

**o) 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.

**p) 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.

As the Company incurred net losses for all periods presented, the stock options and share purchase warrants, as disclosed in Notes 13 and 12b) respectively, were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

**q) 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.

**r) 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**s) Comparatives**

Certain comparatives have been reclassified to conform to the current year's presentation.

**t) New Standards, Amendments and Interpretation**

The following are significant accounting policies that have been amended as a result of the adoption of IFRS 9, Financial Instruments (IFRS 9) and IFRS 15, Revenue from Contracts with Customers (IFRS 15). All other significant accounting policies are consistent with those reported in our 2017 annual consolidated financial statements.

**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 former 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. The change did not impact the carry amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

**IFRS 15 - Revenue**

IFRS 15 Revenue from contracts with customers replaces IAS 18 – Revenue, IAS 11 – Construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. The change did not impact any of the Company's sales and no material changes resulted from adopting this standard.

**New Standards and Interpretation Not Yet Effective**

IFRS 16 Leases, the new leases standard, is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has been also applied. The Company has not yet completed the process of assessing the impact IFRS 16 will have on its consolidated financial statements, or whether to early adopt these new requirements.

IFRIC 23 – Uncertainty Over Income Tax Treatments: clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.



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**4. AMOUNTS RECEIVABLE**

|                      | September 30,<br>2018<br>\$ | December 31,<br>2017<br>\$ |
|----------------------|-----------------------------|----------------------------|
| Other receivables    | 54,753                      | 61,300                     |
| GST receivable (net) | 53,809                      | 40,864                     |
|                      | <b>108,562</b>              | <b>102,164</b>             |

**5. PROPERTY, PLANT AND EQUIPMENT**

|                                      | Land and<br>Permits<br>\$ | Mill<br>\$       | Camp and Site<br>Infrastructure<br>\$ | Heavy<br>Machinery<br>and Equipment<br>\$ | Computers<br>and Office<br>Equipment<br>\$ | TOTAL<br>\$      |
|--------------------------------------|---------------------------|------------------|---------------------------------------|---|--|------------------|
| <b>Cost</b>                          |                           |                  |                                       |   |  |                  |
| Balance at January 1, 2017           | 7,212,748                 | 970,328          | 23,977                                | 255,498                                   | 25,257                                     | 8,487,808        |
| Additions                            | -                         | 593,757          | -                                     | 37,450                                    | 1,263                                      | 632,470          |
| Change in reclamation<br>estimate    | 543,759                   | -                | -                                     | -   | -  | 543,759          |
| Balance at December 31, 2017         | 7,756,507                 | 1,564,085        | 23,977                                | 292,948                                   | 26,520                                     | 9,664,037        |
| Additions                            | -                         | 41,206           | 28,608                                | -   | 2,489                                      | 72,303           |
| Disposals                            | -                         | -                | -                                     | (6,413)                                   | -  | (6,413)          |
| <b>Balance at September 30, 2018</b> | <b>7,756,507</b>          | <b>1,605,291</b> | <b>52,585</b>                         | <b>286,535</b>                            | <b>29,009</b>                              | <b>9,729,927</b> |
| <b>Accumulated Depreciation</b>      |                           |                  |                                       |   |  |                  |
| Balance at January 1, 2017           | -                         | -                | 1,314                                 | 215,951                                   | 18,353                                     | 235,618          |
| Depreciation for the year            | -                         | -                | 4,796                                 | 21,893                                    | 1,585                                      | 28,274           |
| Balance at December 31, 2017         | -                         | -                | 6,110                                 | 237,844                                   | 19,938                                     | 263,892          |
| Depreciation for the period          | -                         | -                | 5,549                                 | 15,584                                    | 1,315                                      | 22,448           |
| Disposals                            | -                         | -                | -                                     | (3,469)                                   | -  | (3,469)          |
| <b>Balance at September 30, 2018</b> | <b>-</b>                  | <b>-</b>         | <b>11,659</b>                         | <b>249,959</b>                            | <b>21,253</b>                              | <b>282,871</b>   |
| <b>Carrying Amounts</b>              |                           |                  |                                       |   |  |                  |
| At January 1, 2017                   | 7,212,748                 | 970,328          | 22,663                                | 39,547                                    | 6,904                                      | 8,252,190        |
| At December 31, 2017                 | 7,756,507                 | 1,564,085        | 17,867                                | 55,104                                    | 6,582                                      | 9,400,145        |
| <b>At September 30, 2018</b>         | <b>7,756,507</b>          | <b>1,605,291</b> | <b>40,926</b>                         | <b>36,576</b>                             | <b>7,756</b>                               | <b>9,447,056</b> |

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**5. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

During 2016 the Company entered into an agreement to sell a certain lot held by the Company for \$75,000. The Company recognized a loss of \$155,000 on the transaction. In addition, the Company sold certain fully depreciated equipment for proceeds of \$13,151.

The Company entered into a milling and smelting profit share agreement during 2016 with Gavin Mines Inc. ("**Gavin Mines**") on a limited basis with the purpose of moving the Merritt Mill towards commissioning. A smelting sales agreement for the sale of gold and silver concentrate was entered into with MRI Trading, AG. The Merritt Mill feed from Gavin Mines was processed and culminated with ongoing modifications throughout. The mill is not commissioned. Sales relating to the mill feed used during the commissioning process are credited against the cost of the mill as recoveries.

During 2016 the Company received \$1,088,225 in recoveries from the sale of concentrate and incurred sales and processing costs of \$867,741.

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**6. MINERAL INTERESTS**

The Company holds a 100% interest in 38 mineral claims at the Treasure Mountain Property, located near Hope, B.C.

The Company holds a 100% interest in New Craigmont Project comprising 20 mineral claims and 10 mineral leases. The properties are subject to a 2% net smelter royalty.

Waterton Global Value, LP. (“**Waterton**”) received a 2% net smelter returns royalty with respect to the Treasure Mountain Property (Note 9).

The Company took an impairment write-down 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:

|  | September 30,<br>2018<br>\$ | December 31,<br>2017<br>\$ |
|--|-----------------------------|----------------------------|
|  | _____                       | _____                      |
| 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                          |
|  | _____                       | _____                      |
|  | <b>3</b>                    | <b>3</b>                   |
|  | _____                       | _____                      |

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**6. MINERAL INTERESTS (cont'd)**

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

|   | <b>Three Months<br/>Ended September 30,</b> |                       | <b>Nine Months<br/>Ended September 30,</b> |                       |
|---|---|-----------------------|--|-----------------------|
|   | <b>2018</b>                                 | <b>2017</b>           | <b>2018</b>                                | <b>2017</b>           |
|   | \$  | \$                    | \$   | \$                    |
| <b>EXPLORATION COSTS</b>                  |   |                       |  |                       |
| <b>Costs incurred during the period</b>   |   |                       |  |                       |
| Assaying                                  | 17,049                                      | 8,039                 | 25,874                                     | 10,097                |
| Drilling                                  | 771,640                                     | 61,017                | 1,097,046                                  | 61,017                |
| Field supplies and rentals                | 58,178                                      | 32,065                | 104,408                                    | 47,429                |
| First nations consulting                  | -   | 8,954                 | 2,225                                      | 17,221                |
| Geological consulting                     | 126,197                                     | 39,112                | 294,439                                    | 127,731               |
| Geophysics and mapping                    | 36,776                                      | 40,002                | 36,776                                     | 40,002                |
| 0.Share-based compensation expense        | -   | 33,228                | -  | 33,228                |
| Tenure lease                              | -   | -                     | 6,633                                      | 6,385                 |
|   | <u>1,009,840</u>                            | <u>222,417</u>        | <u>1,567,401</u>                           | <u>343,110</u>        |
| <b>Treasure Mountain Property</b>         |   |                       |  |                       |
| Depreciation                              | -   | 717                   | -  | 6,056                 |
| Permitting                                | -   | -                     | 471  | 2,056                 |
| Property taxes                            | 48  | 1,630                 | 7,135                                      | 4,911                 |
| Reclamation                               | 3,700                                       | -                     | 3,700                                      | -                     |
| Tenure lease                              | -   | -                     | 6,700                                      | 6,700                 |
| Water sampling                            | 15,831                                      | 597                   | 19,771                                     | 16,961                |
|   | <u>19,579</u>                               | <u>2,944</u>          | <u>37,777</u>                              | <u>36,684</u>         |
| <b>Total costs incurred during period</b> | <u><b>1,029,419</b></u>                     | <u><b>225,361</b></u> | <u><b>1,605,178</b></u>                    | <u><b>379,794</b></u> |

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**7. ASSET RETIREMENT OBLIGATION**

|                                   | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|-----------------------------------|---------------------------|--------------------------|
|                                   | <b>\$</b>                 | <b>\$</b>                |
| Opening balance                   | 3,961,302                 | 3,537,848                |
| Change in estimate                | -                         | 543,759                  |
| Reclamation expenditures incurred | (148,533)                 | (191,269)                |
| Accretion expense                 | 54,469                    | 70,964                   |
| Closing balance                   | <u>3,867,238</u>          | <u>3,961,302</u>         |

The Company discounted the estimated costs relating to the reclamation of the Treasure Mountain Property using a real discount rate of 0% since the short-term inflation and risk free rates are similar. The Merritt Mill reclamation costs were adjusted using a long-term inflation rate of 1.4% (2017 – 1.6%) and then discounted using a risk free rate of 2.34% (2017 – 2.26%).

*Merritt Mill*

The Company estimates the reclamation costs associated with the Merritt Mill as at September 30, 2018 to be \$3,660,198 (December 31, 2017 - \$3,808,731).

The Company anticipates it will settle these obligations over the mill life of approximately 15 years (2017 – 15 years).

In order to obtain its milling permits, the Company posted security bonds and deposits of \$700,000.

*Treasure Mountain*

The Company's estimated reclamation costs associated with the Treasure Mountain Property is as at September 30, 2018 \$505,100 (December 31, 2017 - \$505,100). In order to obtain its final permits, the Company posted collateral of \$505,100 with the government of British Columbia. The Company anticipates it will settle these obligations over the next 3 to 5 years.

*Ash Disposal Contract*

During 2017 the Company entered into a thirty-year ash management contract with Merritt Operations Services Limited Partnership. The Company plans to accept 7,500 dry tons of ash which will be blended with fill soils and plant seeds to assist with the remediation of the Merritt Mill site. The net proceeds from the receipt of ash are recorded in Gravel and Other Income in the Consolidated Statements of Operations and Comprehensive Loss.

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**8. RESTRICTED CASH**

The Company has in place deposits amounting to \$1,210,100 as at September 30, 2018 (December 31, 2017 - \$1,208,600) 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, the Merritt Mill, and the New Craigmont Project.

**9. WATERTON DEBT**

Waterton debt principal is \$643,750 (December 31, 2017 - \$1,287,500) and bears interest rate of 3% per annum paid annually maturing November 24, 2018. The Company repaid \$643,750 principal plus interest of \$13,227 on July 31, 2018.

Waterton received a 2% net smelter returns royalty with respect to the Treasure Mountain Property (Note 6) that will automatically terminate upon payment of the Waterton debt principal and interest in full.

|                         | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------|-------------------------------|------------------------------|
|                         | <b>\$</b>                     | <b>\$</b>                    |
| Opening balance         | 1,291,521                     | 1,291,521                    |
| Finance costs (Note 11) | 24,022                        | 38,675                       |
| Repayments              | <u>(656,977)</u>              | <u>(38,675)</u>              |
|                         | <u>658,566</u>                | <u>1,291,521</u>             |

**10. 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 (the “**First Tranche 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, 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 common 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 common 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.

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 First Tranche 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 First Tranche Debentures. Transaction costs of \$300,163 and \$98,831 have been allocated pro-rata to the debentures and warrants. In addition, the resulting deferred tax liability of \$422,000 has been charged to the warrants.

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**10. SECURED CONVERTIBLE DEBENTURE (cont'd)**

On May 20, 2015, the Company closed the second tranche of the Offering 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, 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 common shares prior to the maturity date, at the option of the holder, at a price of \$0.275 per share. Each warrant is exercisable into one additional common share for four years at an exercise price of \$0.375 per share in the first year and \$0.50 per share thereafter.

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 Second Tranche 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 Second Convertible Debentures. Transaction costs of \$8,339 and \$2,745 have been allocated pro-rata to the Second Tranche Debentures and warrants.

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 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 Treasure Mountain Property which is currently held by Waterton and will be terminated upon repayment of all amounts owed to Waterton by the Company.

In November 2016, the Company agreed to pay all the interest owing on the First Tranche Debentures by the issuance of common shares. The Company issued 4,242,960 common shares at a price of \$0.165 per share in settlement of interest of \$700,088 as at November 21, 2016. An additional \$12,500 was paid as per the original agreement by the issuance of 125,000 common shares at a value of \$0.10 per share.

In November 2017, 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, 2017 by the issuance of common shares as if the rate of interest was 12%, rather than 10%, for the third year of the term of the Debentures. The Company issued 4,941,799 common shares at a price of \$0.17 per share in settlement of interest of \$840,106 owing as at November 21, 2017.

On November 21, 2017 the Company extended the maturity of the First Tranche Debentures from November 21, 2017 to November 21, 2019 and the conversion price was decreased from \$0.275 to \$0.22 per share. The Company also extended the warrants issued in connection with the First Tranche Debentures from November 21, 2018 to November 21, 2019 and the exercise price was amended from \$0.50 to \$0.275, with a forced conversion in the event that the shares trade at or above \$0.34375 for at least 10 trading days. All other terms of the debentures and warrants remain the same.

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**10. SECURED CONVERTIBLE DEBENTURE (cont'd)**

For accounting purposes the extension was treated as an extinguishment and re-issuance as there were modifications to the existing terms. The debentures of \$7,000,882 have been allocated based on the relative fair values of the debt and warrants. The fair value of the re-issued First Tranche Debentures was determined to be \$5,834,068 using a discount rate of 20%. The fair value of the warrants was determined to be \$526,766 and the residual value of \$640,048 was allocated to the equity component of the re-issued First Tranche Debentures. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes model: (Risk free interest rate - 1.46%, Expected life - 2 years, Expected annual volatility - 106.01%, Expected dividends - Nil, Expected forfeiture rate - Nil. Transaction costs of \$45,146 and \$9,029 have been allocated pro-rata to the debentures and warrants. In addition, the resulting deferred tax liability of \$166,412 and \$136,959 has been allocated pro-rata to the equity component and the warrants.

On February 22, 2018 a First Tranche Debenture holder elected to convert \$15,000 at a conversion price of \$0.22 and the Company issued 68,181 common shares in accordance with the terms of the debenture. For accounting purposes the fair value of the convertible debenture on the conversion date of \$13,165 and the residual equity component of \$1,371 were transferred to share capital.

On May 20, 2018 the Company amended the Second Tranche secured convertible debentures in aggregate principal amount of \$250,000 maturing May 20, 2018. The following amendments were made to the second tranche convertible debentures: the conversion price reduced to \$0.22 from \$0.275, maturity date extended from May 20, 2018 to May 20, 2020, and the exercise price of the 250,000 warrants reduced from \$0.50 to \$0.275, with a forced conversion in the event that the shares trade at or above \$0.3475 for at least 10 consecutive trading days.

For accounting purposes the extension was treated as an extinguishment and re-issuance as there were modifications to the existing terms. The debentures of \$250,000 have been allocated based on the relative fair values of the debt and warrants. The fair value of the re-issued First Tranche Debentures was determined to be \$211,806 using a discount rate of 20%. The fair value of the warrants was determined to be \$7,521 and the residual value of \$30,673 was allocated to the equity component of the re-issued First Tranche Debentures. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes model: (Risk free interest rate - 1.88%, Expected life - 2 years, Expected annual volatility - 50.44%, Expected dividends - Nil, Expected forfeiture rate - Nil. Transaction costs of \$45,146 and \$9,029 have been allocated pro-rata to the debentures and warrants. In addition, the resulting deferred tax liability of \$7,975 and \$1,955 has been allocated pro-rata to the equity component and the warrants.

On June 5, 2018 a First Tranche debenture holder elected to convert \$15,000 at a conversion price of \$0.22 and the Company issued 68,181 common shares in accordance with the terms of the debenture. For accounting purposes the fair value of the convertible debenture on conversion date of \$14,033 and the residual equity component of \$1,371 were transferred to share capital.

On July 20, 2018 a First Tranche debenture holder elected to convert \$15,000 at a conversion price of \$0.22 and the Company issued 68,181 common shares in accordance with the terms of the debenture. For accounting purposes the fair value of the convertible debenture on conversion date of \$13,814 and the residual equity component of \$1,371 were transferred to share capital.



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**10. SECURED CONVERTIBLE DEBENTURE (cont'd)**

|   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|-------------------------------|------------------------------|
|   | <b>\$</b>                     | <b>\$</b>                    |
| Principal amount                        | 6,169,079                     | 6,584,459                    |
| Conversion of First Tranche (Note 12)   | (41,012)                      | -                            |
| Less payment of interest                | (12,500)                      | (12,500)                     |
| Less payment of interest in shares      | (12,500)                      | (852,606)                    |
| Accrued interest to November 21, 2017   | -                             | 1,439,069                    |
| Accretion to November 21, 2017          | -                             | 91,014                       |
| Retirement of First Tranche             | -                             | (7,000,882)                  |
| Re-issuance of First Tranche            | -                             | 5,788,922                    |
| Accrued interest to December 31, 2017   | -                             | 128,824                      |
| Accretion interest to December 31, 2017 | -                             | 2,779                        |
| Retirement of Second Tranche            | (250,000)                     | -                            |
| Re-issuance of Second Tranche           | 211,806                       | -                            |
| Accrued interest to September 30, 2018  | 945,671                       | -                            |
| Accretion to September 30, 2018         | 17,934                        | -                            |
|   | <u>7,028,478</u>              | <u>6,169,079</u>             |

**11. FINANCE COSTS**

|   | <b>September 30,<br/>2018</b> | <b>September 30,<br/>2017</b> |
|---|-------------------------------|-------------------------------|
|   | <b>\$</b>                     | <b>\$</b>                     |
| Waterton new loan (Note 9)              | 24,022                        | 28,919                        |
| Flow-through share obligation (Note 16) | 115,149                       | 115,149                       |
| Secured convertible debenture (Note 10) | 963,604                       | 1,152,137                     |
| Other                                   | 5,515                         | 5,329                         |
|   | <u>1,108,290</u>              | <u>1,301,534</u>              |

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**12. 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 September 30, 2018 were 205,138,956 (December 31, 2017 - 190,327,750).

During 2017, the Company issued 2,200,000 common shares at a value of \$296,000 in connection with the exercise of 2,200,000 stock options.

During 2017, the Company issued 9,139,626 common shares at a value of \$1,377,184 in connection with the exercise of 9,139,626 share purchase warrants.

During 2017, the Company issued 320,833 common shares at a value of \$36,750 in connection with the exercise of 320,833 finders share purchase warrants.

On May 25, 2017 the company issued 73,527 common shares at a value of \$0.17 per share in settlement of interest of \$12,500 owing on the May 2015 secured convertible debentures.

On November 23, 2017 the Company issued 4,941,799 common shares at a value of \$0.17 per share in settlement of interest of \$840,106.

On December 22, 2017 the Company issued 10,262,500 flow-through shares at \$0.20 per share for gross proceeds of \$2,052,500. The flow-through share premium liability associated with this issuance was \$153,938.

On February 22, 2018 the Company issued 68,181 common shares on conversion of \$15,000 of the First Tranche Debentures at an exercise price of \$0.22 (Note 10).

On May 20, 2018 the Company issued 83,334 shares at a value of \$0.15 per share in settlement of interest of \$12,500 (Note 10).

On June 5, 2018 the Company issued 68,181 common shares on conversion of \$15,000 of the First Tranche Debentures at an exercise price of \$0.22 (Note 10).

On July 20, 2018 the Company issued 68,181 common shares on conversion of \$15,000 of the First Tranche Debentures at an exercise price of \$0.22 (Note 10).

During the nine months to September 30, 2018 the Company issued 5,190,000 common shares at a value of \$778,500 in connection with the exercise of share purchase warrants.

During the nine months to September 30, 2018 the Company issued 9,333,329 units at a price of \$0.15 per unit for gross proceeds of \$1,399,999. Each unit consisted of one common share and one half purchase warrant, with each warrant exercisable into one additional common share at a price of \$0.18 per share for a period of two years. The Company also paid finders fees of

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**12. SHARE CAPITAL AND RESERVES (cont'd)**

\$71,750 and issued 478,333 finders warrants. The finders warrants are exercisable at a price of \$0.18 per share for a period of two years. The finder's share purchase warrants had a fair value of \$15,768 estimated using the Black-Scholes option pricing model with a volatility of 67%, risk-free interest rate of 2%, dividend rate of 0% and expected life of 2 years.

**Flow-Through Premium Liability:**

The following is a continuity schedule of the liability portion of the flow-through share issuances:

|   |                   |
|---|-------------------|
| <b>Balance as of January 1, 2017</b>  | <u>\$ 104,000</u> |
| Flow-through share premium liability  | 153,938           |
| Settlement of flow-through share premium liability pursuant to qualified expenditures | <u>(113,665)</u>  |
| <b>Balance as of December 31, 2017</b>  | 144,273           |
| Settlement of flow-through share premium liability pursuant to qualified expenditures | <u>(117,035)</u>  |
| <b>Balance as of September 30, 2018</b>   | <u>\$ 27,238</u>  |

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**12. SHARE CAPITAL AND RESERVES (cont'd)**

**b) Share Purchase Warrants**

The following is a summary of warrant transactions:

|                                      | <b>Number of<br/>Warrants</b> |    | <b>Weighted Average<br/>Exercise Price</b> |
|--------------------------------------|-------------------------------|----|--|
| <b>Balance at January 1, 2017</b>    | 64,831,809                    | \$ | 0.24                                       |
| Exercised warrants                   | (9,460,459)                   |    | 0.15                                       |
| Expired warrants                     | (18,854,630)                  |    | 0.26                                       |
| <b>Balance at January 1, 2018</b>    | 36,516,720                    |    | 0.20                                       |
| Exercised warrants                   | (5,190,000)                   |    | 0.15                                       |
| Expired warrants                     | (3,695,249)                   |    | 0.15                                       |
| Issued warrants                      | 5,144,998                     |    | 0.18                                       |
| <b>Balance at September 30, 2018</b> | 32,776,469                    | \$ | 0.20                                       |

As at September 30, 2018, the Company had outstanding warrants as follows:

| <b><u>Security</u></b> | <b><u>Number</u></b> | <b><u>Exercise Price</u></b> | <b><u>Expiry Date</u></b> |
|------------------------|----------------------|------------------------------|---------------------------|
| Warrants               | 83,491               | \$ 0.50                      | November 21, 2018         |
| Warrants               | 7,000,882 (1)        | \$ 0.275                     | November 21, 2019         |
| Warrants               | 250,000 (2)          | \$ 0.275                     | May 20, 2019              |
| Warrants               | 189,933              | \$ 0.18                      | August 24, 2019           |
| Warrants               | 18,129,665           | \$ 0.18                      | August 24, 2019           |
| Warrants               | 227,500              | \$ 0.35                      | December 12, 2019         |
| Warrants               | 1,750,000            | \$ 0.35                      | December 12, 2019         |
| Warrants               | 4,666,665            | \$ 0.18                      | July 23, 2020             |
| Warrants               | 478,333              | \$ 0.18                      | July 23, 2020             |
|                        | <b>32,776,469</b>    |                              |                           |

(1) On November 21, 2017 these warrants were extended from November 21, 2018 to November 21, 2019 and the exercise price was amended from \$0.50 to \$0.275 (Note 10).

(2) On April 26, 2018 the exercise price was amended from \$0.50 to \$0.275 (Note 10).

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**13. 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  $\frac{1}{4}$  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.

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**13. SHARE-BASED PAYMENTS (cont'd)**

The following is a summary of stock options transactions:

|                                      | <u>Number of<br/>Options</u> | <u>Weighted Average<br/>Exercise Price</u> |
|--------------------------------------|------------------------------|--|
| <b>Balance at January 1, 2017</b>    | 5,041,500                    | \$ 0.35                                    |
| Issued options                       | 5,300,000                    | 0.17                                       |
| Expired options                      | (52,500)                     | 14.38                                      |
| Exercised options                    | <u>(2,200,000)</u>           | 0.13                                       |
| <b>Balance at January 1, 2018</b>    | 8,089,000                    | 0.35                                       |
| Expired options                      | (39,000)                     | 9.50                                       |
| Cancelled options                    | <u>(50,000)</u>              | 0.175                                      |
| <b>Balance at September 30, 2018</b> | <u>8,000,000</u>             | \$ 0.20                                    |

The Company's 2017 annual general and special meeting of its shareholders was held on June 20, 2018. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

As at September 30, 2018, the following stock options were outstanding and exercisable:

| Number<br>Outstanding | Number<br>Exercisable | Exercise<br>Price | Weighted<br>Average<br>Contractual Life<br>(Years) | Expiry Price      |
|-----------------------|-----------------------|-------------------|--|-------------------|
| 150,000               | 150,000               | \$ 0.06           | 0.72   | June 19, 2019     |
| 100,000               | 100,000               | 0.06              | 0.75   | July 1, 2019      |
| 1,350,000             | 1,350,000             | 0.11              | 1.68   | June 5, 2020      |
| 200,000               | 200,000               | 0.15              | 1.71   | June 14, 2020     |
| 2,600,000             | 2,600,000             | 0.175             | 2.78   | July 10, 2021     |
| 550,000               | 550,000               | 0.14              | 2.82   | July 26, 2021     |
| 400,000               | 400,000               | 0.17              | 3.21   | December 13, 2021 |
| 2,650,000             | 2,650,000             | 0.165             | 4.24   | December 27, 2022 |
| <u>8,000,000</u>      | <u>8,000,000</u>      |                   |  |                   |

**b) Fair Value of Stock Options Issued During the Period**

No stock options were issued during the period. During the nine months to September 30, 2017 2,650,000 stock options were issued with a weighted average fair value at grant date of stock options was \$0.175 and total share based payments recognized for the period was \$440,271 for incentive options granted and vested.

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**14. 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

|                       | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|-----------------------|----------------------------|-------------|----------------------------|-------------|
|                       | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
|                       | <b>2018</b>                | <b>2017</b> | <b>2018</b>                | <b>2017</b> |
|                       | <b>\$</b>                  | <b>\$</b>   | <b>\$</b>                  | <b>\$</b>   |
| Consulting fees       | 45,000                     | 45,000      | 135,000                    | 135,000     |
| Salaries and benefits | 33,000                     | 30,000      | 95,000                     | 90,000      |

Included in convertible debentures is \$75,000 (December 31, 2017 – \$75,000) owing to the Chief Executive Officer of the Company.

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**15. FINANCIAL and CAPITAL RISK MANAGEMENT**

*Fair Value*

Cash and short-term investments are carried at fair value using level 1 fair value measurement. The carrying value of receivables, and accounts payable and accrued liabilities and other payables approximate their fair value because of the short-term nature of these instruments.

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.

*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, interest rate risks, 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 September 30, 2018 under its financial instruments is approximately \$1.1 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.



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**15. FINANCIAL and CAPITAL RISK MANAGEMENT (cont'd)**

Interest Rate Risk

The Company's financial assets exposed to interest rate risk consist of cash and short-term investments balances. The Company's current policy will be to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with credit ratings of its banks.

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 Property and New Craigmont Project 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 Property and New Craigmont 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 of the Treasure Mountain Property and New Craigmont Project 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.

Capital Management

The Company considers capital to be the elements of shareholders equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its mineral property interests and Merritt Mill operations. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There have been no changes to the management of capital during the current period.

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**16. FLOW-THROUGH SHARE OBLIGATION**

|                                      | <b>Flow-through<br/>Obligation</b> |
|--------------------------------------|------------------------------------|
| <b>Balance at January 1, 2017</b>    | \$ 3,815,896                       |
| Interest costs                       | 153,532                            |
| <b>Balance at December 31, 2017</b>  | 3,969,428                          |
| 2012 METC reassessment               | (23,440)                           |
| Part X11.6 tax                       | (31,123)                           |
| Interest costs                       | 115,149                            |
| <b>Balance at September 30, 2018</b> | <b>\$ 4,030,014</b>                |

The above provision relates 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 CRA claiming the Company failed to incur qualifying exploration expenditures previously renounced to the flow-through investors. The Company has filed a notice of objection to this claim.