



# **NICOLA MINING INC.**

## **Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Nicola Mining Inc.

### **Opinion**

We have audited the accompanying consolidated financial statements of Nicola Mining Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Nicola Mining Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of \$5,307,737 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets by \$9,683,897. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information. The other information obtained at the date of this auditors' report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Peter Maloff.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

February 26, 2019

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

	Note	December 31, 2018	December 31, 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,362,775	\$ 2,493,885
Amounts receivable	4	222,903	102,164
Prepaid expenses and other assets		62,606	41,583
		<b>1,648,284</b>	<b>2,637,632</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	9,161,049	9,400,145
Mineral interests	6	3	3
Restricted cash	8	1,210,100	1,208,600
<b>Total assets</b>		<b>\$ 12,019,436</b>	<b>\$ 13,246,380</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 517,494	\$ 581,601
Waterton debt	9	-	1,291,521
Secured convertible debenture	10	6,434,179	254,161
Flow-through obligation	16	4,068,397	3,969,428
Flow-through share premium	12	312,111	144,273
		<b>11,332,181</b>	<b>6,240,984</b>
<b>Non-current liabilities</b>			
Asset retirement obligation	7	3,832,001	3,961,302
Secured convertible debenture	10	237,000	5,914,918
<b>Total liabilities</b>		<b>15,401,182</b>	<b>16,117,204</b>
<b>Equity</b>			
<b>Shareholders' deficiency</b>			
Share capital	12	75,102,831	70,627,245
Warrants	12	1,692,331	1,662,167
Equity component of convertible debentures		808,230	789,645
Contributed surplus		7,505,581	7,233,101
Accumulated deficit		(88,490,719)	(83,182,982)
<b>Total shareholders' deficiency</b>		<b>(3,381,746)</b>	<b>(2,870,824)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 12,019,436</b>	<b>\$ 13,246,380</b>

Peter Espig (signed) Director

Frank Hogel (signed) Director

Nature of operations and going concern (Note 1)

Subsequent events (Note 18)

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

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

	Note	Year Ended December 31	
		2018	2017
<b>Operating Expenses</b>			
Exploration costs	6	\$ 2,164,767	\$ 922,355
Mill costs		727,233	758,050
Accretion of asset retirement obligation	7	72,626	70,964
Salaries and benefits	14	140,496	155,256
Share-based compensation expense	13,14	239,700	871,032
Professional fees		242,013	184,717
Consulting fees	14	449,217	355,054
Office and general		73,059	45,944
Travel and investor relations		79,631	55,353
Regulatory and transfer agent fees		61,826	34,652
Rent		19,310	38,031
Vehicle expenses		8,480	13,507
Depreciation		280,463	1,480
<b>Operating Loss</b>		<b>(4,558,821)</b>	<b>(3,506,395)</b>
Gain on settlement of interest on convertible debentures	12	90,729	-
Loss on disposal of property, plant and equipment		(1,040)	-
Gravel and other income	7	459,661	187,756
Finance costs	11	(1,491,758)	(1,858,966)
Flow-through premium	12	183,562	113,665
<b>Loss before income taxes</b>		<b>(5,317,667)</b>	<b>(5,063,940)</b>
Deferred income tax recovery	17	9,930	303,371
<b>Net Loss and Comprehensive Loss for the year</b>		<b>\$ (5,307,737)</b>	<b>\$ (4,760,569)</b>
<b>Loss Per Share – Basic and Diluted</b>		<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>		<b>200,135,786</b>	<b>168,739,777</b>

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

**NICOLA MINING INC.**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian dollars)**

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (5,307,737)	\$ (4,760,569)
Adjustments for:		
Accretion of asset retirement obligation	72,626	70,964
Share-based compensation	272,480	904,260
Depreciation	309,674	28,274
Non-cash interest and finance expense	1,328,914	1,661,685
Part X11.6 tax, tax penalties, and indemnification expense	98,969	153,532
Loss on disposal of property, plant, and equipment	1,040	-
Flow-through premium	(183,562)	(113,665)
Deferred income tax recovery	(9,930)	(303,371)
Gain on settlement of debt	(90,729)	-
Changes in non-cash working capital items		
Amounts receivable	(120,739)	231,835
Prepaid expenses and other assets	(21,023)	55,995
Accounts payable and accrued liabilities	(64,107)	(77,508)
<b>Cash and Cash Equivalents Used in Operating Activities</b>	<b>(3,714,124)</b>	<b>(2,148,568)</b>
<b>Investing Activities</b>		
Purchase of property, plant, and equipment	(73,522)	(632,470)
Disposal of property, plant, and equipment	1,904	-
Reclamation expenditures incurred	(201,927)	(191,269)
<b>Cash and Cash Equivalents Used in Investing Activities</b>	<b>(273,545)</b>	<b>(823,739)</b>
<b>Financing Activities</b>		
Issuance of common shares, net of cash paid share issuance costs	3,410,599	1,906,474
Exercise of stock options and share purchase warrants	778,500	1,709,934
Interest payment	(45,040)	(12,500)
Repayment of Waterton debt	(1,287,500)	-
Convertible note issuance costs	-	(54,174)
<b>Cash and Cash Equivalents Provided by Financing Activities</b>	<b>2,856,559</b>	<b>3,549,734</b>
<b>Net change in cash and cash equivalents for the year</b>	<b>(1,131,110)</b>	<b>577,427</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,493,885</b>	<b>1,916,458</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,362,775</b>	<b>\$ 2,493,885</b>

The significant non-cash transactions for the year ended December 31, 2018 were the issuance of 6,131,927 common shares at a value of \$617,359 for interest on convertible debentures,

The significant non-cash transactions for the year ended December 31, 2017 were the issuance of 5,015,326 common shares at a value of \$852,606 for interest on convertible debentures, an addition of property plant and equipment of \$543,759 through a change in estimate in asset retirement obligation.

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

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

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (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 issuance financings	10,262,500	2,052,500	-	-	-	-	2,052,500
Share issue costs	-	(146,026)	-	-	-	-	(146,026)
Stock options exercised	2,200,000	570,112	-	-	(274,112)	-	296,000
Share purchase warrants exercised	9,460,459	1,439,258	-	-	(25,324)	-	1,413,934
Issuance of shares for interest on convertible debentures	5,015,326	852,606	-	-	-	-	852,606
Fair value of warrants issued on convertible debt	-	-	389,807	464,607	-	-	854,414
Flow-through share premium	-	(153,938)	-	-	-	-	(153,938)
Share based compensation	-	-	-	-	904,260	-	904,260
Net loss for the year	-	-	-	-	-	(4,760,569)	(4,760,569)
<b>Balance, December 31, 2017</b>	<b>190,327,750</b>	<b>\$ 70,627,245</b>	<b>\$ 1,662,167</b>	<b>\$ 789,645</b>	<b>\$ 7,233,101</b>	<b>\$ (83,182,982)</b>	<b>\$ (2,870,824)</b>
<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 issuances, financings	28,623,329	3,579,999	-	-	-	-	3,579,999
Share purchase warrants exercised	5,190,000	785,848	(7,348)	-	-	-	778,500
Fair value of finder's warrants	-	(31,946)	31,946	-	-	-	-
Share issue costs	-	(169,400)	-	-	-	-	(169,400)
First tranche conversion	204,543	45,126	-	(4,113)	-	-	41,013
Issuance of shares for interest on convertible debentures	6,131,927	617,359	-	-	-	-	617,359
Issuance of convertible debenture	-	-	7,521	30,673	-	-	38,194
Flow-through share premium	-	(351,400)	-	-	-	-	(351,400)
Fair value of warrants issued on convertible debt	-	-	(1,955)	(7,975)	-	-	(9,930)
Share-based compensation	-	-	-	-	272,480	-	272,480
Net loss for the year	-	-	-	-	-	(5,307,737)	(5,307,737)
<b>Balance, December 31, 2018</b>	<b>230,477,549</b>	<b>\$ 75,102,831</b>	<b>\$ 1,692,331</b>	<b>\$ 808,230</b>	<b>\$ 7,505,581</b>	<b>\$ (88,490,719)</b>	<b>\$ (3,381,746)</b>

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

**NICOLA MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**For the years ended December 31, 2018 and 2017**

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**1. NATURE OF OPERATIONS 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 December 31, 2018, the Company had an accumulated deficit of \$88,490,719 (2017 - \$83,182,982) and a working capital deficiency of \$9,683,897 (2017 - \$3,603,352). 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 property (“**New Craigmont Property**”). 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.

These consolidated financial statements have been prepared using the going concern concept, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

**NICOLA MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
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**2. BASIS OF PRESENTATION**

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

The consolidated 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 February 26 2019.

**b) Basis of Consolidation**

These consolidated 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 consolidated financial statements are presented in Canadian dollars, which is also the Company’s and its subsidiary’s functional currency and have been prepared on a historical cost basis, except for certain financial instruments, which are carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**d) Use of Estimates and Judgments**

The preparation of the consolidated 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 consolidated 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 consolidated 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 of operating in the manner intended by management, which requires significant judgement in its determination.

**NICOLA MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**For the years ended December 31, 2018 and 2017**

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

**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) Deferred income taxes

The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.

iii) 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 \$1,362,775 at December 31, 2018 (2017 - \$2,493,885).

**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.

**NICOLA MINING INC.**  
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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 loss.

PPE are depreciated using the following methods:

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
Mill	20 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

**NICOLA MINING INC.**  
**Notes to the Consolidated Financial Statements**  
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**For the years ended December 31, 2018 and 2017**

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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 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 from the sale of gold and silver is recognized at the fair value of the consideration received and when all significant risks and rewards of ownership pass to the purchaser including delivery of the product, there is a fixed or determinable selling price and collectability is reasonably assured.

Gold and silver revenue is recorded at the time of physical delivery and transfer of title. Sales prices are fixed at the delivery date based on the terms of the contract or at spot prices.

**i) Financial Instruments**

On January 1, 2018 the Company adopted IFRS 9, *Financial Instruments*. This new standard replaces International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and, therefore, the accounting policy with respect to financial liabilities is unchanged.

The following is the new accounting policy for financial assets and liabilities under IFRS 9:

**NICOLA MINING INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**For the years ended December 31, 2018 and 2017**

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

***Financial assets***

The Company will now classify its financial assets in the following categories: at fair value through profit and loss (“**FVTPL**”), at fair value through other comprehensive income (“**FVTOCI**”), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company’s accounting policy for each of the categories is as follows:

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statement of (loss) income in the period.

**Financial assets at FVTOCI:** Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in they arise.

**Financial assets at amortized cost:** A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset’s contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

**Impairment of financial assets at amortized cost:** The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company’s financial assets under IFRS 9:

Financial asset	IFRS 9 Classification
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable	Amortized cost

***Financial liabilities***

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

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

*Fair value through profit or loss* – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities* - This category includes accounts payable and accrued liabilities, secured convertible debentures and flow-through obligation, all of which are recognized at amortized cost using the effective interest method.

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

As the accounting reflected by the adoption of IFRS 9 under the above classifications and election is similar to that of IAS 39, there was no impact on the Company's financial statements and no restating of prior periods was required.

**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. The Company may issue units including common shares and warrants. To value these units, the Company uses residual value method. Under this method the Company values the common share, the easier component to value, and assigns the residual value to the warrant.

**k) Share-based Payments**

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

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

**l) Income Taxes**

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

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

Deferred tax is provided for using temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

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

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

**m) 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.

**n) Asset Retirement Obligation**

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

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

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

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.

**o) 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.

**p) 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.

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

**q) 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 the 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

**r) 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

**s) 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.

**t) Comparatives**

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

**u) 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).

**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.

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

**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 have reviewed IFRS 16 and evaluated all contractual lease agreements, the change does not have a significant impact on its consolidated financial statements.

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.

**4. AMOUNTS RECEIVABLE**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other receivables	\$ 192,669	\$ 61,300
GST receivable (net)	30,234	40,864
	<b>\$ 222,903</b>	<b>\$ 102,164</b>

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**5. PROPERTY, PLANT AND EQUIPMENT**

	Land \$	Mill \$	Camp and Site Infrastructure \$	Heavy Machinery and Equipment \$	Computers and Office Equipment \$	TOTAL \$
<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 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	-	41,214	28,608	-	3,700	73,522
Disposals	-	-	-	(6,413)	-	(6,413)
<b>Balance at December 31, 2018</b>	<b>7,756,507</b>	<b>1,605,299</b>	<b>52,585</b>	<b>286,535</b>	<b>30,220</b>	<b>9,731,146</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 year	-	279,022	8,178	20,608	1,866	309,674
Disposals	-	-	-	(3,469)	-	(3,469)
<b>Balance at December 31, 2018</b>	<b>-</b>	<b>279,022</b>	<b>14,288</b>	<b>254,983</b>	<b>21,804</b>	<b>570,097</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 December 31, 2018</b>	<b>7,756,507</b>	<b>1,326,277</b>	<b>38,297</b>	<b>31,552</b>	<b>8,416</b>	<b>9,161,049</b>

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

The Company entered into a four year milling and smelting profit share agreement with Gavin Mines Inc. ("**Gavin Mines**") during 2017. The mill feed will be material mined from Gavin Mine's Dome Mountain which is located near Houston, B.C. Gavin Mines has agreed to ship up to 40,000 tonnes of mill feed per year to the Merritt Mill.

**6. MINERAL INTERESTS**

The Company holds a 100% interest in 30 mineral claims and 1 mineral lease at the Treasure Mountain Property, located near Hope, B.C.

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

Upon repayment by the Company of all amounts owed to a third party ("**Waterton**") on November 24, 2018, the holders of the First Tranche Debentures are granted an aggregate 2% net smelter returns royalty with respect to the Treasure Mountain Property (Note 10 - 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 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:

	December 31, 2018 \$	December 31, 2017 \$
	<u>          </u>	<u>          </u>
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
	<u>          </u>	<u>          </u>
	<b>3</b>	<b>3</b>

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

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

	Year Ended December 31,	
	2018	2017
	\$	\$
<b>EXPLORATION COSTS</b>		
<b>Costs incurred during the year</b>		
<b>New Craigmont Property</b>		
Assaying	60,490	38,247
Drilling and related costs	1,435,073	512,261
Field supplies and rentals	158,526	75,583
First Nations liaison consulting	2,225	25,206
Geological consulting and technical fees	398,759	162,469
Geophysics	39,051	66,302
Mapping	10,059	14,405
Tenure lease	6,633	6,385
Share-based compensation (Note 13)	32,780	33,228
Recovery of costs	(21,978)	(56,601)
	2,121,618	877,485
<b>Treasure Mountain Property</b>		
Reclamation of mine site	8,189	-
Depreciation	-	6,773
Property taxes	7,135	6,542
Water sampling	20,454	22,799
Permitting	671	2,056
Tenure lease	6,700	6,700
	43,149	44,870
<b>Total costs incurred during the year</b>	<b>2,164,767</b>	<b>922,355</b>

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**7. ASSET RETIREMENT OBLIGATION**

	<b>December 31, 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	(201,927)	(191,269)
Accretion expense	72,626	70,964
Closing balance	<u>3,832,001</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 to be \$3,606,804 (2017 - \$3,808,731). The Company anticipates it will settle these obligations over 15 years (2017 – 30 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 \$505,100 (2017 - \$505,100). In order to obtain its final permits, the Company posted security bonds and deposits 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 the year ended December 31, 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 December 31, 2018 (2017 - \$1,208,600) registered in the name of the British Columbia Ministry of Finance as security for its mining permits and for reclamation clean up at the Treasure Mountain Property, the Merritt Mill and decommissioned tailings , and the New Craigmont Property.

**9. WATERTON DEBT**

Waterton debt principal of \$1,287,500 which bears interest at a rate of 3% per annum paid annually maturing November 24, 2018 was repaid in two instalments during 2018, namely July 31, 2018 \$643,750 principal plus interest and November 24, 2018 \$643,750 principal plus interest.

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Opening balance	\$ 1,291,521	\$ 1,291,521
Finance costs (Note 11)	28,518	38,675
Repayments	(1,320,039)	(38,675)
	<u>\$ -</u>	<u>\$ 1,291,521</u>

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**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 7,000,882 share purchase warrants.

The First Tranche Debentures bear interest at a rate of 10% per annum, which was 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 had an original term of three years. The principal amount of the First Tranche Debentures was 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 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 \$7,000,882 were 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.

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.

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

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. The resulting deferred tax liability associated with the warrants was immaterial.

Repayment by the Company of all amounts owed to Waterton on November 24, 2018, the holders of the First Tranche Debentures are 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.

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.

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 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 secured 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.

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

On November 26, 2018, the Company agreed to pay all the interest owing on the First Tranche Debentures by issuance of common shares. The Company issued 6,048,593 common shares valued at \$604,859 in settlement of interest of \$695,588 as at November 21, 2018. A gain of \$90,729 was recognized on settlement of the interest.

During 2018 a First Tranche Debenture holder elected to convert \$45,000 at a conversion price of \$0.22 and the Company issued 204,543 common shares in accordance with the terms of the debenture. For accounting purposes the fair value of the convertible debenture on the conversion dates of \$41,013 and the residual equity component of \$4,113 were transferred to share capital.

The outstanding principal and interest of the First Tranche Debentures and Second Tranche Debentures are secured against the assets of Nicola following the repayment of debt owing to Waterton repaid in full on November 24, 2018.

	<b>December 31 2018,</b>	<b>December 31, 2017</b>
Principal amount	\$ 6,169,079	\$ 6,584,459
Conversion of First Tranche	(41,013)	-
Less payment of interest	(12,500)	(12,500)
Less payment of interest in shares	(708,088)	(852,606)
Retirement of First Tranche Debentures	-	(7,000,882)
Re-issuance of First Tranche Debentures, net	-	5,788,922
Retirement of Second Tranche	(250,000)	-
Re-issuance of Second Tranche	211,806	-
Accrued interest	1,278,274	1,567,893
Accretion	23,621	93,793
Subtotal	<u>\$ 6,671,179</u>	<u>\$ 6,169,079</u>
Current portion	\$ 6,434,179	\$ 254,161
Non-current portion	<u>\$ 237,000</u>	<u>\$ 5,914,918</u>

**11. FINANCE COSTS**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Waterton debt (Note 9)	28,518	38,675
Secured convertible debenture (Note 10)	1,301,895	1,661,686
Flow-through share obligation (Note 16)	98,969	153,532
Other	32,376	5,073
	<u>1,491,758</u>	<u>1,858,966</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 December 31, 2018 were 230,477,549 (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 owing on the November 2017 secured convertible debentures.

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

On July 23, 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 \$71,750 and issued 478,333 finders warrants. The finder's share purchase warrants had a fair value of \$15,746 estimated using 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.

On November 26, 2018 the Company issued 6,048,593 common shares at a value of \$604,859 in settlement of interest of \$695,588 (Note 10) on the secured convertible debentures resulting in a gain on settlement of \$90,729.

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

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

During 2018 the Company issued 204,543 common shares on conversion of \$45,126 of the First Tranche Debentures at an exercise price of \$0.22 (Note 10).

On November 26, 2018 the Company closed the first tranche of a financing and issued 7,430,000 units at a price of \$0.10 per unit for gross proceeds of \$743,000. Each unit consisted of one common share and one-half one common share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.15 per share for a period of two years. The Company also paid finders fees of \$10,500 and issued 87,500 finders warrants. The finder's warrants are exercisable at a price of \$0.15 per share for a period of two years. The finder's share purchase warrants had a fair value of \$2,240 estimated using the Black-Scholes option pricing model with a volatility of 67%, risk-free interest rate of 2.24%, dividend rate of 0% and expected life of 2 years. On December 12, 2018 the Company closed a second tranche and issued 1,820,000 units at a price of \$0.10 per unit for gross proceeds of \$182,000. The Company also paid finders fees of \$5,250 and issued 70,000 finders warrants. The finder's warrants are exercisable at a price of \$0.15 per share for a period of two years. The finder's share purchase warrants had a fair value of \$1,804 estimated using the Black-Scholes option pricing model with a volatility of 68%, risk-free interest rate of 2.06%, dividend rate of 0% and expected life of two years.

On December 21, 2018 the Company issued 10,040,000 flow-through units at \$0.125 per unit for gross proceeds of \$1,255,000. Each unit consisted of one common share and one-half one common share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.15 per share for a period of two years. The Company also paid finder's fees of \$81,900 and issued 655,200 share purchase warrants. The finder's warrants are exercisable at a price of \$0.15 per share for a period of two years. The finder's share purchase warrants had a fair value of \$12,134 estimated using the Black-Scholes option pricing model with a volatility of 68%, risk-free interest rate of 1.94%, dividend rate of 0% and expected life of 2 years. The flow-through share premium liability associated with this issuance was \$351,400.

**Flow-Through Premium Liability:**

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

<b>Balance as of December 31, 2016</b>	\$ 104,000
Flow-through premium liability	153,938
Settlement of flow-through premium	
Liability pursuant to qualified expenditures	<u>(113,665)</u>
<b>Balance as of December 31, 2017</b>	144,273
Flow-through share premium liability	351,400
Settlement of flow through share premium	
liability pursuant to qualified expenditures	<u>(183,562)</u>
<b>Balance as of December 31, 2018</b>	<u>\$ 312,111</u>

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

**b) Share Purchase Warrants**

The following is a summary of changes in warrants from January 1, 2017 to December 31, 2018:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
<b>Balance at January 1, 2017</b>	64,831,809	\$ 0.24
Exercised warrants	(9,460,459)	0.15
Expired warrants	<u>(18,854,630)</u>	0.26
<b>Balance at December 31, 2017</b>	36,516,720	0.20
Issued warrants	15,602,698	0.16
Exercised warrants	(5,190,000)	0.15
Expired warrants	<u>(3,778,740)</u>	0.15
<b>Balance at December 31, 2018</b>	<u>43,150,678</u>	\$ 0.20

As at December 31, 2018, the Company had outstanding warrants as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
250,000 (2)	\$ 0.275	May 20, 2019
189,933	0.18	August 24, 2019
18,129,665	0.18	August 24, 2019
7,000,882 (1)	0.275	November 21, 2019
227,500	0.35	December 12, 2019
1,750,000	0.35	December 12, 2019
4,666,665	0.18	July 23, 2020
478,333	0.18	July 23, 2020
3,715,000	0.15	November 26, 2020
87,500	0.15	November 26, 2020
910,000	0.15	December 12, 2020
70,000	0.15	December 12, 2020
5,020,000	0.15	December 21, 2020
655,200	0.15	December 21, 2020
<u>43,150,678</u>		

- (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.

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.

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

The following is a summary of changes in stock options:

	<u>Number of Options</u>	<u>Weighted Average 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>(2,200,00)</u>	0.13
<b>Balance at December 31, 2017</b>	8,089,000	0.35
Issued options	3,325,000	0.10
Expired options	(39,000)	9.50
Cancelled options	<u>(50,000)</u>	0.175
<b>Balance at December 31, 2018</b>	<u>11,375,000</u>	\$ 0.14

As at December 31, 2018, the following stock options were outstanding and exercisable:

<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Exercise Price</u>	<u>Weighted Average Contractual Life (Years)</u>	<u>Expiry Date</u>
150,000	150,000	\$ 0.06	0.47	June 19, 2019
100,000	100,000	0.06	0.50	July 1, 2019
1,350,000	1,350,000	0.11	1.43	June 5, 2020
200,000	200,000	0.15	1.45	June 14, 2020
2,600,000	2,650,000	0.175	2.53	July 10, 2021
550,000	550,000	0.14	2.57	July 26, 2021
400,000	400,000	0.17	2.95	December 13, 2021
2,650,000	2,650,000	0.165	3.99	December 27, 2022
<u>3,325,000</u>	(1) <u>3,325,000</u>	0.10	4.99	December 28, 2023
<u>11,375,000</u>	<u>11,375,000</u>			

(1) On February 12, 2019 200,000 stock options were cancelled.

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

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

The weighted average fair value at grant date of stock options granted during the year ended December 31, 2018 was \$0.10 per stock option (2017 - \$0.17).

The model inputs for options granted during the year ended December 31, 2018 and 2017:

Grant Date	Expiry Date	Share Price at Grant Date \$	Exercise Price \$	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
12/28/2018	12/28/2023	0.10	0.10	1.86%	60 months	117.45%	0%
7/10/2017	7/10/2021	0.19	0.175	1.58%	48 months	149.41%	0%
2/27/2017	12/12/2022	0.185	0.165	1.82%	60 months	168.61%	0%

The Company recorded share-based payment expense of \$272,480 (2017 – \$904,260) during the year ended December 31, 2018, of which \$32,780 (2017 - \$33,228) has been included in exploration costs.

**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>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	195,000	234,075
Salaries and benefits	131,500	145,000
Share-based compensation	180,288	350,880

As at December 31, 2017, there was a balance of \$15,000 in prepaid expenses to the Chief Executive Officer of the Company. As at December 31, 2017 there was \$15,000 in accounts payables due to the Chief Financial Officer of the Company.

Included in convertible debentures is \$20,000 (2017 – \$20,000) 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 December 31, 2018 under its financial instruments is approximately \$1.5 million.

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

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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 its 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 Property 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 Property. The Company may also need further financing if it decides to obtain additional mineral properties. As such, the Company is subject to many risks common to exploration enterprises, including undercapitalization, cash shortages and limitations with respect to personnel, financial and other resources and lack of revenues. Although the Company has been successful in the past in obtaining financing through credit facilities or the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Such means of financing typically result in dilution of the positions of existing shareholders, either directly or indirectly. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration of the Treasure Mountain Property and New Craigmont Property 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 has been no changes to the management of capital during the current fiscal year.

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**16. FLOW-THROUGH SHARE OBLIGATION**

	<b>Flow-through Obligation</b>
<b>Balance at January 1, 2017</b>	\$ 3,815,896
Interest costs	<u>153,532</u>
<b>Balance at December 31, 2017</b>	3,969,428
2012 METC reassessment	(23,440)
Part X11.6 tax	(31,123)
Interest costs	<u>153,532</u>
<b>Balance at December 31, 2018</b>	<u>\$ 4,068,397</u>

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.

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**17. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	<b>2018</b>	<b>2017</b>
Loss before income taxes	\$ (5,317,667)	\$ (5,063,940)
Expected income tax (recovery)	(1,436,000)	(1,317,000)
Change in statutory, foreign exchange rates and other	34,070	(681,371)
Permanent difference	110,000	288,000
Impact of flow through shares	557,000	214,000
Share issue costs	(46,000)	(52,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(2,000)	36,000
Change in unrecognized deductible temporary differences	773,000	1,209,000
Deferred income tax recovery	\$ 9,930	\$ 303,371

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>2018</b>	<b>2017</b>
Deferred tax assets (liability)	\$	\$
Debt with accretion	(311,000)	(303,371)
Non-capital losses	311,000	303,371
<b>Net deferred tax liability</b>	<b>\$ -</b>	<b>\$ -</b>

	<b>2018</b>	<b>Expiry Date Range</b>	<b>2017</b>
Exploration and evaluation assets	\$ 1,395,000	No expiry date	\$ 1,251,000
Investment tax credit	441,000	2030 to 2032	441,000
Property, plant and equipment	20,303,000	No expiry date	20,538,000
Share issue costs	341,000	2037 to 2042	356,000
Asset retirement obligation	225,000	No expiry date	153,000
Non-capital losses available for future period	41,215,000	2026 to 2038	37,154,188

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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**18. SUBSEQUENT EVENTS**

The Company on February 12, 2019 issued 200,000 stock options vesting immediately with exercise price of \$0.10 and expiry date of February 12, 2024.