



NICOLA MINING INC.

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Nicola Mining Inc.

We have audited the accompanying consolidated financial statements of Nicola Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, cash flows, and changes in shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Nicola Mining Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Nicola Mining Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 27, 2017

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

	Note	December 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		\$ 1,916,458	\$ 467,008
Amounts receivable	4	333,999	25,697
Prepaid expenses and other assets		97,578	161,790
		2,348,035	654,495
Non-current assets			
Property, plant and equipment	5	8,252,190	6,163,369
Mineral interests	6	3	3
Restricted cash	8	1,208,600	1,205,100
Total assets		\$ 11,808,828	\$ 8,022,967
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 659,109	\$ 733,134
Warrant liability	10,15	-	1,078
Secured convertible debenture	10	6,356,460	-
Flow-through obligation	16	3,815,896	3,662,361
Flow-through share premium	12	104,000	37,500
		10,935,465	4,434,073
Non-current liabilities			
Asset retirement obligation	7	3,537,848	1,405,100
Waterton debt loan	9	1,291,521	1,291,521
Secured convertible debenture	10	227,999	5,877,192
Total liabilities		15,992,833	13,007,886
Equity			
Shareholders' deficiency			
Share capital	12	66,012,733	61,439,308
Warrants	12	1,272,360	1,272,360
Equity component of convertible debentures		325,038	325,038
Contributed surplus		6,628,277	6,140,414
Accumulated deficit		(78,422,413)	(74,162,039)
Total deficiency		(4,184,005)	(4,984,919)
Total liabilities and shareholders' deficiency		\$ 11,808,828	\$ 8,022,967

Peter Espig (signed) Director

Frank Hogel (signed) Director

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

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

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

		Year Ended December 31	
	Note	2016	2015
Operating Expenses			
Exploration costs	6	\$ 524,783	\$ 231,247
Mill costs		635,054	738,732
Salaries and benefits	14	140,759	201,877
Share-based compensation expense	13,14	552,248	145,835
Professional fees		149,731	252,530
Consulting fees	14	484,446	329,185
Consulting – soils		-	79,848
Office and general		26,429	41,432
Travel and investor relations		46,664	17,674
Regulatory and transfer agent fees		47,416	52,073
Rent		14,967	41,805
Vehicle expenses		3,554	3,810
Depreciation		5,477	565
Operating Loss		(2,631,528)	(2,136,613)
Write-down of property, plant and equipment	5	-	(40,461)
Loss on disposal of property, plant and equipment		(141,849)	(14,688)
Gravel sales		25,918	62,935
Gain on settlement of interest	12	84,859	-
Finance costs	11	(1,637,352)	(1,713,423)
Flow-through premium	12	38,500	-
CMJV claim	17	-	70,000
GST recovery		-	102,848
Unrealized gain on warrant liability	15	1,078	6,917
Net Loss and Comprehensive Loss for the year		\$ (4,260,374)	\$ (3,662,485)
Loss Per Share – Basic and Diluted		\$ (0.03)	\$ (0.04)
Weighted Average Number of Common Shares Outstanding		138,348,661	84,780,425

Loss per common share has been calculated as if the consolidation of share capital on June 1, 2015 (Note 12) had been in place for all years reported.

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

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

	Year Ended December 31	
	2016	2015
Operating Activities		
Net loss for the year	\$ (4,260,374)	\$ (3,662,485)
Adjustments for:		
Write-down and disposal loss on property, plant and equipment	141,849	55,149
Share-based compensation	580,700	147,231
Depreciation	53,873	172,809
Non-cash interest expense	1,432,355	1,527,713
Unrealized (gain) on warrant liability	(1,078)	(6,917)
Part X11.6 tax, tax penalties, and indemnification expense	153,535	153,534
Gain on settlement of interest	(84,859)	-
Flow-through premium	(38,500)	-
CMJV claim	-	(70,000)
Changes in non-cash working capital items		
Amounts receivable	(308,302)	33,072
Prepaid expenses and other assets	64,212	5,087
Accounts payable and accrued liabilities	(74,025)	54,257
Cash and Cash Equivalents Used in Operating Activities	(2,340,614)	(1,590,550)
Investing Activities		
Disposal of property, plant, and equipment	108,623	122,762
Purchase of property, plant, and equipment	(480,902)	(28,564)
Reclamation security deposit	(3,500)	-
Recovery from sales of concentrate	220,484	-
Cash and Cash Equivalents Provided by (Used in) Investing Activities	(155,295)	94,198
Financing Activities		
Convertible debentures, net of cash paid issuance costs	-	238,917
Proceeds from director loan	-	12,500
Repayment of director loan	-	(12,500)
Issuance of common shares, net of cash paid share issuance costs	3,728,334	2,149,671
Repayment of Waterton debt obligation	-	(648,612)
Repayment of debtor-in-possession loan	-	(2,248,576)
Interest payment	(12,500)	-
Exercise of stock options	229,525	-
Cash and Cash Equivalents Provided by (Used in) Financing Activities	3,945,359	(508,600)
Net change in cash and cash equivalents for the year	1,449,450	(2,004,952)
Cash and cash equivalents, beginning of year	467,008	2,471,960
Cash and cash equivalents, end of year	\$ 1,916,458	\$ 467,008

The significant non-cash transactions for the year ended December 31, 2016 was the issuance of 4,367,960 (2015 – 12,924,705) common shares at a value of \$627,729 (2015 - \$840,106) for interest on convertible debentures, issuance of finders warrants with a value of \$80,607 and an addition to property, plant and equipment of \$2,132,748 through an increase 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)
Balance, January 1, 2015	421,033,186	\$ 59,403,161	\$ 1,213,184	\$ 325,038	\$ 5,977,053	\$ (71,399,554)	\$ (4,481,118)
Shares cancelled	(18,000,000)	(900,000)	-	-	-	900,000	-
Reduction on share consolidation	(322,426,556)	-	-	-	-	-	-
Issuance of warrants	-	-	59,176	-	-	-	59,176
Share issuance financings	27,556,255	2,204,500	-	-	-	-	2,204,500
Share issue costs	-	(54,829)	-	-	-	-	(54,829)
Issuance of shares for interest on convertible debentures	12,924,705	840,106	-	-	-	-	840,106
Fair value of finders warrants	-	(16,130)	-	-	16,130	-	-
Flow-through share premium	-	(37,500)	-	-	-	-	(37,500)
Share based compensation	-	-	-	-	147,231	-	147,231
Net loss for the year	-	-	-	-	-	(3,662,485)	(3,662,485)
Balance, December 31, 2015	121,087,590	\$ 61,439,308	1,272,360	\$ 325,038	\$ 6,140,414	\$ (74,162,039)	\$ (4,984,919)
Balance, January 1, 2016	121,087,590	\$ 61,439,308	\$ 1,272,360	\$ 325,038	\$ 6,140,414	\$ (74,162,039)	\$ (4,984,919)
Share issuances, financings	34,456,415	3,910,020	-	-	-	-	3,910,020
Stock options exercised	3,440,000	397,344	-	-	(173,444)	-	223,900
Share purchase warrants exercised	37,500	5,625	-	-	-	-	5,625
Share issue costs	-	(181,686)	-	-	-	-	(181,686)
Issuance of shares for interest on convertible debentures	4,367,960	627,729	-	-	-	-	627,729
Fair value of finder warrants	-	(80,607)	-	-	80,607	-	-
Flow-through share premium	-	(105,000)	-	-	-	-	(105,000)
Share-based compensation	-	-	-	-	580,700	-	580,700
Net loss for the year	-	-	-	-	-	(4,260,374)	(4,260,374)
Balance, December 31, 2016	163,389,465	\$ 66,012,733	\$ 1,272,360	\$ 325,038	\$ 6,628,277	\$ (78,422,413)	\$ (4,184,005)

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, 2016 and 2015

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.”

On December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under the *Companies’ Creditors Arrangement Act* (“**CCAA**”) and distributed the required payments pursuant to the Restructuring Plan (as discussed in Note 17).

As at December 31, 2016, the Company had an accumulated deficit of \$78,422,413 (2015 - \$74,162,039) and a working capital deficiency of \$8,587,430 (2015 - \$3,779,578). 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 Thule Copper property (“**Thule Copper 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.

The consolidated financial statements for the year ended December 31, 2016 were prepared using International Financial Reporting Standards (“**IFRS**”). These consolidated financial statements have been prepared using the going concern concept, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

NICOLA MINING INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2016 and 2015

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 April 27, 2017.

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 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 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
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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 \$916,458 at December 31, 2016 (December 31, 2015 - \$467,008) and a cashable guaranteed investment certificates of \$1,000,000 at December 31, 2016 (December 31, 2015 - \$nil).

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.
Notes to the Consolidated Financial Statements
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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

NICOLA MINING INC.
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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 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

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

Financial assets

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

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value

NICOLA MINING INC.
Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

recognized in the statement of operations and comprehensive loss. The Company classifies cash and cash equivalents and restricted cash as fair value through profit or loss.

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

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss. At December 31, 2016, the Company has not classified any financial assets as held-to-maturity investments.

Available-for-sale investments - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss. When financial assets classified as available-for-sale are sold, the accumulated fair-value adjustments recognized in other comprehensive income are included in the statement of operations and comprehensive loss. At December 31, 2016, the Company has not classified any financial assets as available-for-sale.

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

Financial liabilities

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

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

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

NICOLA MINING INC.
Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 Not Yet Effective

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

IFRS 9 – Financial Instruments Disclosure

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payment of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investment are measured at their fair values at the end of subsequent accounting periods. IFRS 9 amendments are tentatively effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from contracts with customers will replace 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. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

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 that IFRS 9, IFRS 15, and IFRS 16 will have on its consolidated financial statements, or whether to early adopt these new requirements.

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4. AMOUNTS RECEIVABLE

	December 31, 2016	December 31, 2015
Other receivables	\$ 217,377	\$ 17,152
GST receivable (net)	116,622	8,545
	\$ 333,999	\$ 25,697

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5. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits \$	Mill \$	Camp and Site Infrastructure \$	Heavy Machinery and Equipment \$	Computers and Office Equipment \$	TOTAL \$
Cost						
Balance at January 1, 2015	5,310,000	740,975	-	1,123,710	18,169	7,192,854
Additions	-	-	-	28,564	-	28,564
Disposals	-	-	-	(729,194)	-	(729,194)
Write-downs	-	-	-	(109,176)	-	(109,176)
Balance at December 31, 2015	5,310,000	740,975	-	313,904	18,169	6,383,048
Additions	-	449,837	23,977	-	7,088	480,902
Disposals	(230,000)	-	-	(58,406)	-	(288,406)
Recoveries from sale of concentrate	-	(220,484)	-	-	-	(220,484)
Change in reclamation estimate	2,132,748	-	-	-	-	2,132,748
Balance at December 31, 2016	7,212,748	970,328	23,977	255,498	25,257	8,487,808
Accumulated Depreciation						
Balance at January 1, 2015	-	-	-	698,510	8,819	707,329
Depreciation for the year	-	-	-	170,967	1,842	172,809
Disposals	-	-	-	(591,744)	-	(591,744)
Write-downs	-	-	-	(68,715)	-	(68,715)
Balance at December 31, 2015	-	-	-	209,018	10,661	219,679
Depreciation for the year	-	-	1,314	36,304	7,692	45,310
Disposals	-	-	-	(29,371)	-	(29,371)
Balance at December 31, 2016	-	-	1,314	215,951	18,353	235,618
Carrying Amounts						
At January 1, 2015	5,310,000	740,975	-	425,200	9,350	6,485,525
At December 31, 2015	5,310,000	740,975	-	104,886	7,508	6,163,369
At December 31, 2016	7,212,748	970,328	22,663	39,547	6,904	8,252,190

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

The Company entered into an agreement to sell a certain lot held by the Company for \$75,000. The funds were paid in full and title transferred as at December 29, 2016 and the Company recognized a loss of \$155,000. 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 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.

For the year ended December 31, 2016, the Company received \$1,088,225 in recoveries from the sale of concentrate and incurred sales and processing costs of \$867,741.

During 2015, an impairment charge of \$40,461 was recognized for obsolete equipment.

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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 Thule Copper Property comprising 20 mineral claims and 10 mineral leases. The properties are subject to a 2% net smelter royalty.

The Company entered into an Exploration and Material Purchase Agreement with Teck Highland Valley Copper Partnership (“**HVCP**”). The Company will work with HVCP to conduct an exploration program on certain waste mine dump material on the Thule Copper Property. HVCP also has the right to purchase waste mine dump material. The Company will carry out the exploration program, and HVCP has agreed to reimburse the Company at least \$200,000 for costs related to the initial exploration program.

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

The Company took an impairment write-down 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, 2016 \$	December 31, 2015 \$
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	3	3
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Notes to the Consolidated Financial Statements
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6. MINERAL INTERESTS (cont'd)

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

	Year Ended December 31,	
	2016	2015
	\$	\$
EXPLORATION COSTS		
Costs incurred during the year		
Thule Copper Property		
Drilling	181,067	-
Geophysics	28,900	-
Assaying	23,746	-
Field supplies	31,157	-
Geological consulting	76,093	21,002
Mapping	10,636	-
Tenure lease	9,697	6,747
Share-based compensation	28,452	-
Salaries and benefits	20,000	-
	<u>409,748</u>	<u>27,749</u>
Treasure Mountain Property		
Reclamation of mine site	43,944	-
Depreciation	48,396	172,244
Property taxes	3,949	7,292
Water sampling	11,846	17,062
Tenure lease	6,900	6,900
	<u>115,035</u>	<u>203,498</u>
Total costs incurred during the year	<u>524,783</u>	<u>231,247</u>

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7. ASSET RETIREMENT OBLIGATION

Merritt Mill

The Company assumed the asset retirement obligation relating to the Craigmont property (Note 5) and estimated the cost to remediate the Craigmont property at \$900,000 upon acquisition. As at December 31, 2016, the Company conducted a review of the estimated reclamation cost to reflect the changes to the Company's current mine permit and has increased the retirement obligation to \$3,032,748. The Company anticipates it will settle these obligations over the mill life of approximately 30 years.

In order to obtain its milling permits, the Company posted collateral of \$230,000 with the government in May 2012 and posted further collateral of \$400,000 in March 2013. On February 25, 2015, as part of the Craigmont claim, a \$70,000 reclamation deposit was assigned to the Company (see Note 17).

Treasure Mountain

The Company's estimated reclamation costs associated with the Treasure Mountain Property is \$505,100 (December 31, 2015 - \$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.

	December 31, 2016	December 31, 2015
	\$	\$
Opening balance	1,405,100	1,405,100
Change in estimate	2,132,748	-
Closing balance	<u>3,537,848</u>	<u>1,405,100</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% and then discounted using a risk free rate of 2.34%.

8. RESTRICTED CASH

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

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9. WATERTON DEBT

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

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

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

	December 31, 2016	December 31, 2015
Opening balance	\$ 1,291,521	\$ 1,790,732
Finance costs (Note 11)	38,730	51,548
Repayments	(38,730)	(550,759)
	<u>\$ 1,291,521</u>	<u>\$ 1,291,521</u>

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

	December 31, 2016	December 31, 2015
Opening balance	\$ -	\$ 2,222,748
Finance costs (Note 11)	-	25,828
Repayments	-	(2,248,576)
	<u>\$ -</u>	<u>\$ -</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 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. The repayment of the outstanding principal and interest of the First Tranche Debentures will be secured against the assets of Nicola but will rank subordinate to the debt owed to Waterton (Note 9) until such time as the debt owing to Waterton is repaid in full.

For accounting purposes the proceeds received of \$7,000,882 have been allocated based on the relative fair values of the debt and warrants. The fair value of the 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.

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

On May 19, 2015, the Company closed the second tranche 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 \$0.055 (\$0.275 post consolidation) per share. Each warrant is exercisable into one additional common share for four years at an exercise price of \$0.075 (\$0.375 post consolidation) per share in the first year and \$0.10 (\$0.50 post consolidation) per share thereafter. The repayment of the outstanding principal and interest of the Second Tranche Debentures will be secured against the assets of Nicola but will rank subordinate to the debt owed to Waterton (Note 9) until such time as the debt owing to Waterton is repaid in full.

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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. For purposes of the calculation of the fair value associated with the warrants, the following assumptions were used for the Black-Scholes model: (Risk-free interest rate – 0.885%, Expected life – 4 years, Expected annual volatility – 156.25%, Expected dividends – Nil, Expected forfeiture rate – Nil). The resulting deferred tax liability associated with the warrants was immaterial.

Upon repayment by the Company of all amounts owed to Waterton, the holders of the First Tranche Debentures will be granted an aggregate 2% net smelter returns royalty with respect to the 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 2015, the Company agreed to pay all the interest owing on the First Tranche Debentures by the issuance of common shares. In order to incentivize the holders of the Debentures to accept shares in lieu of cash payment originally contemplated under the terms of the Debentures, the Company agreed to settle the interest payment due on November 21, 2015 by the issuance of common shares as if the rate of interest was 12%, rather than 10%, for the first year of the term of the Debentures. The Company issued 12,924,705 common shares at a price of \$0.065 per share in settlement of interest of \$840,105 owing as at November 21, 2015.

In November 2016, the Company agreed to pay all interest owing on the First Tranche Debentures by the issuance of common shares at a rate of 10% interest as per the terms of the Debenture. 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.

	December 31, 2016	December 31, 2015
Principal amount	\$ 5,877,192	\$ 5,096,756
Proceeds received	-	188,079
Less transaction costs	-	(8,339)
Less payment of interest	(12,500)	-
Less payment of interest in shares	(712,588)	(840,105)
Accrued interest	1,329,238	1,339,024
Accretion	103,117	101,777
	<u>\$ 6,584,459</u>	<u>\$ 5,877,192</u>
Current portion	\$ 6,356,460	\$ -
Non-current portion	<u>\$ 227,999</u>	<u>\$ 5,877,192</u>

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11. FINANCE COSTS

	2016	2015
Waterton pre-filing debt obligation and new loan (Note 9)	\$ 38,730	\$ 51,548
Waterton DIP loan obligation (Note 9)	-	25,828
Flow-through share obligation (Note 16)	153,535	155,113
Secured convertible debenture (Note 10)	1,432,355	1,440,801
Other	12,732	40,133
	<u>\$ 1,637,352</u>	<u>\$ 1,713,423</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, 2016 were 163,389,465 (December 31, 2014 – 121,087,590).

On February 25, 2015, 18,000,000 shares were returned to the Company and cancelled (see Note 17).

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

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

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

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

On December 29, 2015, the Company issued 3,750,000 of flow-through shares at \$0.08 per share for gross proceeds of \$300,000. The Company also issued broker warrants to purchase an aggregate of 262,500 common shares, on a non-flow-through basis, at a price of \$0.10 per share until December 29, 2017. The broker warrants had a fair value of \$16,130 estimated using the Black-Scholes option pricing model with a volatility of 230%, risk-free interest rate of 0.48%, dividend rate at 0% and expected life of 2 years. The flow-through share premium liability associated with this issuance was \$37,500. During fiscal 2016, the Company incurred the qualifying exploration expenditures and the liability was derecognized and the premium was recognized in the statement of operations.

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12. SHARE CAPITAL AND RESERVES (cont'd)

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

On April 29, 2016, the Company issued 8,318,750 units at \$0.08 per unit for gross proceeds of \$665,500. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of \$0.15 per share for a period of two years. The Company also issued broker warrants to purchase an aggregate of 119,000 at a price of \$0.15 per share for a period of two years. The broker warrants had a fair value of \$12,492 estimated using the Black-Scholes option pricing model with a volatility of 224%, risk-free interest rate of 0.68%, dividend rate of 0% and expected life of 2 years.

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

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

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

On July 18, 2016, the Company issued 1,800,000 common shares at a price of \$0.06 for gross proceeds of \$108,000 in connection with the exercise of 1,800,000 stock options.

On July 27, 2016, the Company issued 350,000 common shares at a price of \$0.11 for gross proceeds of \$38,500 in connection with the exercise of 350,000 stock options.

On August 24, 2016, the Company issued 18,337,665 units at \$0.12 per unit for gross proceeds of \$2,200,520. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of \$0.18 per share for a period of three years. The Company also issued broker warrants to purchase an aggregate of 248,266 common shares at a price of \$0.18 per share for a period of three years. The broker warrants had a fair value of \$39,135 estimated using the Black-Scholes option pricing model with a volatility of 208%, risk-free interest rate of 0.59%, dividend rate of 0% and expected life of 3 years.

On October 13, 2016, the Company issued 37,500 common shares at a price of \$0.15 for gross proceeds of \$5,625 in connection with the exercise of 37,500 share purchase warrants.

On October 31, 2016, the Company issued 40,000 common shares at a price of \$0.06 for gross proceeds of \$2,400 in connection with the exercise of 40,000 stock options.

On November 23, 2016, the Company issued 4,242,960 common shares at a value of \$615,229 in settlement of interest of \$700,088 owing on the secured convertible debentures resulting in a gain on settlement of \$84,859.

On December 14, 2016, the Company issued 3,500,000 of flow-through units at \$0.20 per share for gross proceeds of \$700,000. Each unit consisted of one common share and one half share purchase warrant with each warrant exercisable into one additional common share at a price of \$0.35 per share for a period of three years. The Company also issued finders warrants to purchase an aggregate of 227,500 common shares, on a non-flow-through basis, at a

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12. SHARE CAPITAL AND RESERVES (cont'd)

price of \$0.35 for a period of three years. The finders warrants had a fair value of \$28,980 estimated using the Black-Scholes option pricing model with a volatility of 189%, risk-free interest rate of 0.82%, dividend rate at 0% and expected life of 3 years. The flow-through share premium liability associated with the issuance was \$105,000. During fiscal 2016, the Company incurred certain qualifying exploration expenditures resulting in \$1,000 of the liability being decreased with the resulting premium being recognized.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2016 to December 31, 2016:

	Number of Warrants		Weighted Average Exercise Price
Balance at January 1, 2015	39,011,964	\$	0.15
Issued warrants (pre 2015 consolidation)	1,250,000	\$	0.09
Issued warrants (post consolidation)	(32,209,572)	\$	1.02
Issued warrants (post-consolidation)	24,068,755	\$	0.15
Expired warrants (post-consolidation)	(31,276)	\$	4.00
Balance at December 31, 2015	32,089,871	\$	0.37
Exercised warrants	(37,500)	\$	0.15
Issued warrants	33,301,181	\$	0.18
Expired warrants	(521,743)	\$	5.17
Balance at December 31, 2016	64,831,809	\$	0.24

As at December 31, 2016, the Company had outstanding warrants as follows:

<u>Security</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Warrants	65,000	\$ 12.10	January 17, 2017 •
Warrants	100,000	\$ 13.00	May 23, 2017
Warrants	19,375,005	\$ 0.15	November 24, 2017
Warrants	4,431,250	\$ 0.15	December 7, 2017
Warrants	262,500	\$ 0.10	December 29, 2017
Warrants	2,250,000	\$ 0.15	March 22, 2018
Warrants	119,000	\$ 0.15	April 29, 2018
Warrants	8,281,250	\$ 0.15	April 29, 2018
Warrants	2,050,000	\$ 0.15	May 27, 2018
Warrants	7,084,373	\$ 0.50	November 21, 2018
Warrants	250,000	\$ 0.50	May 19, 2019
Warrants	248,266	\$ 0.18	August 24, 2019
Warrants	18,337,665	\$ 0.18	August 24, 2019
Warrants	227,500	\$ 0.35	December 12, 2019
Warrants	1,750,000	\$ 0.35	December 12, 2019
	64,831,809		

- Subsequently expired unexercised

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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 changes in stock options from January 1, 2016 to December 31, 2016:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance at January 1, 2015	1,157,500	\$ 2.47
Expired options pre 2015 consolidation	(417,500)	2.35
Reduction on 2015 share consolidation	(592,000)	2.54
Issued options post-consolidation	3,340,000	0.06
Expired options post-consolidation	(7,500)	7.40
Balance at December 31, 2015	3,480,500	0.58
Issued options	5,050,000	0.13
Expired options	(49,000)	14.27
Exercised	<u>(3,440,000)</u>	0.07
Balance at December 31, 2016	<u>5,041,500</u>	\$ 0.35

The Company's 2015 annual general and special meeting of its shareholders was held on December 16, 2016. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

As at December 31, 2016, 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>
39,500	39,500	\$ 14.50	.69	September 10, 2017
13,000	13,000	\$ 14.00	.83	November 1, 2017
4,000	4,000	\$ 9.50	1.15	February 25, 2018
35,000	35,000	\$ 9.50	1.16	February 27, 2018
150,000	150,000	\$ 0.06	2.47	June 19, 2019
100,000	100,000	\$ 0.06	2.50	July 1, 2019
200,000	150,000	\$ 0.08	1.07	January 25, 2018
1,350,000	1,350,000	\$ 0.11	3.42	June 5, 2020
200,000	200,000	\$ 0.15	3.46	June 14, 2020
2,550,000	2,550,000	\$ 0.14	4.71	July 26, 2021
400,000	400,000	\$ 0.17	4.96	December 13, 2021
<u>5,041,500</u>	<u>4,991,500</u>			

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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, 2016 was \$0.11 per stock option (2015 - \$0.06).

The model inputs for options granted during the year ended December 31, 2016:

Grant Date	Expiry Date	Share Price at Grant Date \$	Exercise Price \$	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
25/1/2016	25/1/2018	0.06	0.08	0.38%	24 months	229.74	0%
30/5/2016	5/6/2020	0.11	0.11	0.73%	48 months	194.15%	0%
14/6/2016	14/6/2020	0.15	0.15	0.59%	48 months	194.15%	0%
26/7/2016	26/7/2021	0.14	0.14	0.68%	60 months	176.57	0%
13/12/2016	13/12/2021	0.15	0.17	1.11%	60 months	169.18	0%

The Company expensed \$580,700 during the year ended December 31, 2016 (December 31, 2015 - \$147,231) of which \$552,248 (2015 - \$145,835) has been expensed and \$28,452 (2015 - \$Nil) has been included in exploration costs and \$Nil (2015 - \$1,396) in mill 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

	Year Ended December 31,	
	2016 \$	2015 \$
Consulting fees	190,000	172,500
Salaries and benefits	103,000	58,000
Share-based compensation	334,008	48,851

In April 2016, the Chief Executive Officer provided a short term loan to the Company of \$6,100. The loan was unsecured, non-interest bearing, and with no fixed terms of repayment. The loan was repaid in full in April, 2016.

Included in accounts payables as at December 31, 2016 was \$1,450 (2015 - \$55,120) due to the Chief Executive Officer of the Company.

Included in convertible debentures is \$75,000 (2015 - \$75,000) owing to the Chief Executive Officer of the Company.

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15. FINANCIAL INSTRUMENTS

Fair Value

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

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

The three levels of fair value estimation are:

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

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

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

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

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

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

The Company estimated the fair value of the warrant liability relating to the warrants issued to Waterton for the first and third advances under the Credit Facility as at December 31, 2016 using the Black-Scholes model with the following assumptions:

Share Price	\$0.24
Exercise Price	\$12.10
Risk Free Rate	0.00%
Discount Rate	0.48%
Expected Life	0.04 years

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15. FINANCIAL INSTRUMENTS (cont'd)

The following tables present the changes in the fair value of the Company's Level 3 financial instruments that are carried at fair value during the year ended December 31, 2016 and 2015:

	Liability at December 31, 2015	Profit Participation Amounts	Mark to Market (gain) loss	Liability at December 31, 2016
Warrant liability	\$ 1,078	\$ -	\$ (1,078)	\$ -
	\$ 1,078	\$ -	\$ (1,078)	\$ -

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

Risk Exposure and Management

Overview

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at December 31, 2016 under its financial instruments is approximately \$1.8 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 INSTRUMENTS (cont'd)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

Management anticipates that it may incur expenditures towards exploring the Treasure Mountain Property and Thule Copper 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 Thule Copper 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 Thule Copper 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.

16. FLOW-THROUGH SHARE OBLIGATION

	Flow-through Obligation
Balance at January 1, 2015	\$ 3,508,827
Interest costs	155,113
Remittances to Canada Revenue Agency	(1,579)
Balance at December 31, 2015	3,662,361
Interest costs	153,535
Balance at December 31, 2016	\$ 3,815,896

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 Company failing to incur qualifying exploration expenditures previously renounced to the flow-through investors.

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17. RESTRUCTURING AGREEMENT and EXITING CCAA

As discussed in Note 1, on December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under the CCAA and distributed the required payments pursuant to the Restructuring Plan.

Craigmont Claim

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

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18. INCOME TAXES

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

	2016	2015
Loss before income taxes	\$ (4,260,374)	\$ (3,662,485)
Expected income tax (recovery)	(1,108,000)	(952,000)
Change in statutory, foreign exchange rates and other	123,000	180,000
Permanent difference	226,000	81,000
Impact of flow through share	78,000	-
Share issue costs	(47,000)	(17,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(653,000)	80,000
Change in unrecognized deductible temporary differences	1,381,000	628,000
Income tax (recovery)	\$ -	\$ -

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada/British Columbia to 26% from 25.75%.

The significant components of the Company's deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the consolidated statement of financial position are as follows:

	2016	Expiry Date Range	2015
Temporary Differences			
Exploration and evaluation assets	\$1,098,000	No expiry date	\$ 1,135,000
Investment tax credit	441,000	2030 to 2032	441,000
Property, plant and equipment	20,464,000	No expiry date	20,373,000
Share issue costs	410,000	2037 to 2040	1,627,000
Debt with accretion	(1,478,000)	No expiry date	(1,524,000)
Non-capital losses available for future Period	36,548,000	2026 to 2036	30,120,000

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

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19. SUBSEQUENT EVENTS

- (a) The Company issued 2,603,833 shares for gross proceeds of \$371,440. The shares issued consisted of the following: 2,083,000 share purchase warrants exercised for proceeds of \$318,690, 320,833 finders broker warrants exercised for proceeds of \$36,750, and 200,000 stock options exercised for proceeds of \$16,000.
- (b) The Company entered into a long-term Mining and Milling Profit Share Agreement with Gavin Mines. 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.