NICOLA MINING INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

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

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

	Note	September 30, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		$ 1,959,225	$ 467,008
Amounts receivable	3	90,775	25,697
Prepaid expenses and other assets		193,530	161,790
		2,243,530	**654,495**
Non-current assets			
Property, plant and equipment	4	6,013,408	6,163,369
Mineral interests	5	3	3
Restricted cash	8	1,208,600	1,205,100
Total assets		**$ 9,465,541**	**$ 8,022,967**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 604,538	$ 733,134
Warrant liability	15	-	1,078
Flow-through obligation	16	3,662,361	3,662,361
Flow-through share premium	12	1,865	37,500
		4,268,764	**4,434,073**
Non-current liabilities			
Asset retirement obligation	7	1,405,100	1,405,100
Waterton debt loan	9	1,320,772	1,291,521
Secured convertible debenture	10	6,907,858	5,877,192
Total liabilities		**13,902,494**	**13,007,886**
Equity			
Shareholders' deficiency			
Share capital	12	64,742,487	61,439,308
Warrants	12	1,272,360	1,272,360
Equity component of convertible debentures	10,12	325,038	325,038
Contributed surplus		6,716,045	6,140,414
Accumulated deficit		(77,492,883)	(74,162,039)
Total deficiency		**(4,436,953)**	**(4,984,919)**
Total liabilities and shareholders' deficiency		**$ 9,465,541**	**$ 8,022,967**

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

Nature of operations, creditor protection and going concern (Note 1)
Subsequent events (Note 18)

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

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

		Three Months Ended September 30		Nine Months Ended September 30,	
	Note	2016	2015	**2016**	**2015**
Operating Expenses					
Exploration costs	5	$ 458,714	$ 232,258	$ 1,116,621	$ 776,763
Milling costs		72,771	-	72,771	-
Salaries and benefits	14	41,562	41,634	109,375	151,902
Professional fees		19,344	31,184	53,240	159,177
Consulting fees	14	131,460	45,000	365,420	180,685
Office and general		10,189	7,300	24,513	33,057
Travel		6,635	2,931	9,714	13,040
Rent		3,500	10,451	12,718	31,354
Regulatory and transfer agent fees		3,437	11,281	31,845	44,485
Vehicle expenses		640	276	3,554	2,404
Depreciation		1,704	159	4,958	406
Share-based compensation expense		340,022	96,984	495,553	145,835
Operating Loss		**(1,089,978)**	(479,458)	(2,300,282)	(1,539,108)
Gain (loss) on property, plant and equipment		-	9,500	7,225	1,566
Write-down of property, plant and equipment		-	(40,461)	-	(40,461)
Gravel and other sales		5,337	20,308	12,122	51,998
Finance Costs	11	(380,547)	(420,376)	(1,086,621)	(1,156,175)
CMJV claim	17	-	-	-	70,000
GST recovery		-	102,848	-	102,848
Flow-through share premium	12	28,969	-	35,635	-
Unrealized gain (loss) on warrant liability	15	26	(1,244)	1,078	5,890
Net Loss and Comprehensive Loss for the period		$ **(1,436,193)**	$ (808,883)	$ (3,330,843)	$ (2,503,442)
Net Loss Per Share – Basic and Diluted		$ **(0.01)**	$ (0.01)	$ (0.03)	$ (0.03)
Weighted Average Number of Common Shares Outstanding		**144,374,071**	80,606,630	131,955,975	81,384,684

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 periods reported.

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

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

	Nine Months Ended September 30	
	2016	**2015**
Operating Activities		
Net loss for the period	$ (3,330,844)	$ (2,503,442)
Adjustments for:		
Loss on disposal of property, plant and equipment	(7,225)	(1,566)
Write-down of property, plant & equipment	-	40,461
Depreciation	51,101	152,800
Non-cash interest expense	1,084,917	1,142,391
Unrealized (gain) loss on warrant liability	(1,078)	(5,890)
Share-based compensation	524,005	147,231
CMJV claim	-	(70,000)
Changes in non-cash working capital items		
Amounts receivable	(65,078)	(71,301)
Prepaid expenses and other assets	(31,740)	33,144
Accounts payable and accrued liabilities	(127,217)	(57,002)
Flow-through share premium	(35,635)	-
Cash and Cash Equivalents Used in Operating Activities	(1,938,794)	(1,193,174)
Investing Activities		
Disposal of property, plant and equipment	11,744	59,250
Restricted cash-reclamation deposit	(3,500)	-
Deposit on sale of land	25,000	-
Purchase of property, plant and equipment	(265,616)	(28,564)
Recoveries from mill operations net of costs	358,578	-
Cash and Cash Equivalents Provided by (used in) Investing Activities	126,206	30,686
Financing Activities		
Issuance of common shares, net of cash paid share issuance costs	3,304,807	-
Convertible debentures, net of cash paid issuance costs	-	238,916
Repayment of debtor-in-possession loan	-	(1,521,370)
Cash and Cash Equivalents Provided by (used in) Financing Activities	3,304,807	(1,282,454)
Net change in cash and cash equivalents for the period	1,492,219	(2,444,942)
Cash and cash equivalents, beginning of period	467,008	2,471,960
Cash and cash equivalents, end of period	$ 1,959,227	$ 27,018

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

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

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (Deficiency)
Balance, January 1, 2015	**421,033,186**	**$ 59,403,161**	**$ 1,1213,184**	**$ 325,038**	**$ 5,977,053**	**$ (71,399,554)**	**$ (4,481,118)**
Shares cancelled	(18,000,000)	(900,000)	-	-	-	900,000	-
Reduction on share consolidation	(322,426,556)	-	-	-	-	-	-
Issuance of warrants	-	-	59,176	-	-	-	59,176
Share-based compensation	-	-	-	-	147,232	-	147,232
Net loss for the period	-	-	-	-	-	(2,503,442)	(2,503,442)
Balance, September 30, 2015	**80,606,630**	**$ 58,503,161**	**$ 1,272,360**	**$ 325,038**	**$ 6,124,285**	**$ (73,002,996)**	**$ (6,778,152)**
Balance, January 1, 2016	**121,087,590**	**$ 61,439,308**	**$ 1,272,360**	**$ 325,038**	**$ 6,140,414**	**$ (74,162,040)**	**$ (4,984,920)**
Share issuances, financings	31,081,415	3,222,520	-	-	-	-	3,222,520
Stock options exercised	3,400,000	221,500	-	-	-	-	221,500
Share issue costs	-	(140,841)	-	-	-	-	(140,841)
Share-based compensation	-	-	-	-	517,337	-	517,337
Fair value of broker warrants	-	-	-	-	58,294	-	58,294
Net loss for the period	-	-	-	-	-	(3,330,843)	(3,330,843)
Balance, September 30, 2016	**155,569,005**	**$ 64,742,487**	**$ 1,272,360**	**$ 325,038**	**$ 6,716,045**	**$ (77,492,883)**	**$ (4,436,953)**

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

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, British Columbia (the "Merritt Mill"). The Company's head office is located at 3329 Aberdeen Road, Lower Nicola, British Columbia. Nicola is a publicly listed company incorporated under the Business Corporations Act of British Columbia. The Company's common shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol NIM.V.

On December 9, 2015, the Company successfully fulfilled its obligations pursuant to the creditor protection proceedings under the CCAA (see Note 17) and distributed the required payments pursuant to the Restructuring Plan.

As at September 30, 2016, the Company had an accumulated deficit of $77,492,883 (December 31, 2015 - $74,162,039) and a working capital deficiency of $2,025,234 (December 31, 2015 - $3,779,578). These factors represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. In order to continue operations, the Company will be required to raise funds through the issuance of equity or debt, or be successful recommencing operations at the Treasure Mountain Project and/or continuing construction and custom milling operations at Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

The unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2016 were prepared using International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared using the going concern concept, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

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

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

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

2. BASIS OF PRESENTATION

a) Statement of compliance with International Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's most recent annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS as issued by the IASB.

These unaudited condensed consolidated interim financial statements have been authorized for release by the Company's Board of Directors on November 28, 2016.

b) Basis of consolidation

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

c) Basis of Measurement

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

d) Use of Estimates and Judgments

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and estimates which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period.

3. AMOUNTS RECEIVABLE

	September 30, 2016	December 31, 2015
Other receivables	$ nil	$ 17,152
GST receivable (net)	90,775	8,545
	$ 90,775	**$ 25,697**

(Expressed in Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and Permits $	Mill $	Heavy Machinery and Equipment $	Computers $	Furniture and Office Equipment $	TOTAL $
Cost						
Balance at January 1, 2015	5,310,000	740,975	1,123,710	13,438	4,731	7,192,854
Additions	—	—	28,564	—	—	28,564
Disposals	—	—	(729,194)	—	—	(729,194)
Write downs			(109,176)	—	—	(109,176)
Balance at December 31, 2015	5,310,000	740,975	313,904	13,438	4,731	6,383,048
Additions	—	261,765	—	2,653	1,198	265,616
Disposals	—	—	(15,998)	—	—	(15,998)
Recoveries from sale of concentrate*	—	(358,579)	—	—	—	(358,579)
Write downs	—	—	—	—	—	—
Balance at September 30, 2016	5,310,000	644,161	297,906	16,091	5,929	6,274,087
Accumulated Depreciation						
Balance at January 1, 2015	—	—	698,510	6,138	2,681	707,329
Depreciation for the year	—	—	170,967	1,434	408	172,809
Disposals			(591,744)	—	—	(591,744)
Write-downs	—	—	(68,715)	—	—	(68,715)
Balance at December 31, 2015	—	—	209,018	7,572	3,089	219,679
Depreciation for the period	—	—	46,767	2,696	1,640	51,103
Disposals	—	—	(10,103)	—	—	(10,103)
Write downs	—	—	—	—	—	—
Balance at September 30, 2016	—	—	245,682	10,268	4,729	260,679
Carrying Amounts						
At January 1, 2015	5,310,000	740,975	425,200	7,300	2,050	6,485,525
At December 31, 2015	5,310,000	740,975	104,886	5,866	1,642	6,163,369
At September 30, 2016	5,310,000	644,161	52,224	5,823	1,200	6,013,408

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

The Company entered into an agreement for the sale of concentrate. Sales relating to the mill feed used during the mill commissioning process are credited against the cost of the mill as recoveries. Amounts associated with the sale of concentrate are recognized when all significant risks and rewards of ownership of the concentrate are transferred to the customer, which occurs when the concentrate has been delivered to the customer and collectability is reasonably assured.

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

The Company's concentrate sales contract provided for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on applicable commodity prices set on specified quoted periods, which occur two months after the shipment arrives at the smelter and is based on average metal prices. For this purpose, the selling price can be measured reliably for the Company's gold and silver sales as there exists an active and freely traded commodity exchange such as the London Metals Exchange and the value of product sold by the Company is directly linked to the form in which it is traded on the market.

For the period ending September 30, 2016, the Company received $1,008,649 in recoveries from the sale of concentrate and incurred processing costs of $650,070.

(Expressed in Canadian dollars)

5. MINERAL INTERESTS

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

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

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

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

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

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

(Expressed in Canadian dollars)

5. MINERAL INTERESTS (cont'd)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016 $	**2015** $	**2016** $	**2015** $
EXPLORATION COSTS, beginning of period	26,407,199	25,243,970	25,749,292	24,699,465
Costs incurred during the period				
Insurance	24,715	22,363	75,214	67,790
Meals and travel living allowance	1,070	779	1,604	2,216
Property tax	1,362	13,379	48,672	39,852
Exploration supplies and camp expenses	39,118	(7,598)	56,007	22,620
Water sampling	2,408	28,667	9,513	41,073
Fuel, Power and propane	-	8,101	32,014	39,204
Salaries and benefits	37,391	94,527	250,716	313,707
Share-based compensation	-	-	28,452	1,396
Outsourced labor	-	13,155	-	41,090
Vehicle & equipment expense	2,649	2,871	9,125	5,246
Depreciation	10,581	43,444	46,143	152,394
Permitting	(1,365)	-	14,018	2,938
Repairs and maintenance – mill	(966)	-	57,724	-
Tenure lease	-	87	16,597	9,022
Freight	8,540	-	8,540	1,186
Equipment rentals	(1,968)	407	7,689	1,492
Flow-through exploration on Thule Copper Property in 2016	231,752	-	285,090	-
Geological – Thule Copper Property	32,300	2,071	32,300	20,002
Surveying	3,360	4,838	5,133	6,938
Treasure Mountain reclamation	43,924	-	43,923	-
Assessment work – custom milling	6,193	5,167	19,583	5,167
Custom milling expense	(13,500)	-	6,490	-
Engineering	31,150	-	62,074	-
Tailings maintenance	-	-	-	3,430
Total costs incurred during the period	458,714	232,258	1,116,621	776,763
CUMULATIVE EXPLORATION COSTS, end of period	26,865,913	25,476,228	26,865,913	25,476,228

6. IMPAIRMENT

The Company's mill and mine have been under care and maintenance since June 26, 2013, which was a potential indicator of impairment of the carrying amount of its non-current non-financial assets. As a result, the Company carried out a review of the carrying amounts of the non-current non-financial assets. The Company had taken the view that mine and mill are determined to be a single cash generating unit ("CGU") for this purpose.

6. IMPAIRMENT (cont'd)

The remaining carrying value of PPE (see Note 4) represented the Company's best estimate of aggregate recoverable value which has been determined based on fair value less costs to sell. The fair value of each significant asset was determined separately by the Company. The fair value of the Merritt Mill and related lands was determined with references to related independent valuations and values of recent sales of similar used equipment. The fair value of the heavy machinery and equipment and remaining land was based on both independent valuations and values of recent sales of similar assets.

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

7. ASSET RETIREMENT OBLIGATION

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

As at September 30, 2016, there has been no change in either the estimated costs to settle the obligation or the real discount rate. In order to obtain its milling permits, the Company posted collateral of $230,000 with the government in May 2012 and posted further collateral of $400,000 in March 2013. On February 25, 2015, as part of the Craigmont claim, a $70,000 reclamation deposit was assigned to the Company (Note 17).

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

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

8. RESTRICTED CASH

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

(Expressed in Canadian dollars)

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 Company's Treasure Mountain property (Note 5).

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

	September 30, 2016	December 31, 2015
Opening balance	$ 1,291,521	$ 1,790,732
Finance costs (Note 11)	29,251	51,548
Repayments	-	(550,759)
	$ 1,320,772	$ 1,291,521

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

	September 30, 2016	December 31, 2015
Opening balance	$ -	$ 2,222,748
Finance costs (Note 11)	-	25,828
Repayments	-	(2,248,576)
	$ -	$ -

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 having an aggregate principal amount of $7,000,882 and the issuance of 35,004,410 share purchase warrants.

The First Tranche Debentures bear interest at a rate of 10% per annum, which is payable annually as 50% in cash and 50% by the issuance of common shares of the Company, at a price equal to the market price at time of issuance. The First Tranche Debentures will mature three years after the date of issuance and the principal amount of the First Tranche Debentures, together with any accrued and unpaid interest is payable on the maturity date. The principal amount of the First Tranche Debentures is convertible into shares prior to the maturity date, at the option of the holder, at a price of $0.055 per share ($0.275 post share consolidation). Each warrant is exercisable into one additional share for four years at an exercise price of $0.075 ($0.375 post share consolidation) per share in the first year and $0.10 ($0.50 post share consolidation) per share thereafter. The repayment of the outstanding principal and interest of the First Tranche Debentures will be secured against the assets of Nicola but will rank subordinate to the debt owed to Waterton (Note 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 debentures was determined to be $5,266,867 using a discount rate of 20%. The fair value of the warrants was determined to be $1,734,015. There is no residual value to be allocated to the equity component of the convertible debenture. Transaction costs of $300,163 and $98,831 have been allocated to the debentures and warrants respectively. In addition, the resulting deferred tax liability of $422,000 has been charged to the warrants.

10. SECURED CONVERTIBLE DEBENTURE (cont'd)

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

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

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

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

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

(Expressed in Canadian dollars)

10. SECURED CONVERTIBLE DEBENTURE (cont'd)

In November 2015, the Company agreed to pay all the interest owing on the First Tranche Debentures by the issuance of common shares. In order to incentivize the holders of the Debentures to accept shares in lieu of cash payment originally contemplated under the terms of the Debentures, the Company agreed to settle the interest payment due on November 21, 2015 by the issuance of common shares as if the rate of interest was 12%, rather than 10%, for the first year of the term of the Debentures. The Company issued 12,924,705 shares at a price of $0.065 per share in settlement of interest of $840,105 owing as at November 21, 2015 (the "Debt Settlement").

	September 30, 2016	December 31, 2015
Principal amount	$ 5,877,192	$ 5,096,756
Proceeds received	-	188,079
Less transaction costs	-	(8,339)
Less payment of interest	(12,500)	-
Less payment of interest in shares	(12,500)	(840,105)
Accrued interest	978,743	1,339,024
Accretion	76,923	101,777
	$ 6,907,858	$ 5,877,192

11. FINANCE COSTS

	September 30, 2016	September 30, 2015
Waterton pre-filing debt obligation and new loan (Note 9)	$ 29,251	$ 40,046
Waterton DIP loan obligation	-	19,008
Flow-through share obligation (Note 16)	-	116,414
Secured convertible debenture (Note 10)	1,055,666	956,656
Other	1,704	24,051
	$ 1,086,621	$ 1,156,175

12. SHARE CAPITAL AND RESERVES

a) Common Shares

Authorized

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

Issued

Common shares issued and outstanding at September 30, 2016 are 155,569,005 (December 31, 2015 – 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 common share at a price of $0.15 per share for a period of two years.

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

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

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

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 common share at a price of $0.15 per share for a period of two years. The Company also issued broker warrants to purchase an aggregate of 119,000 at a price of $0.15 per share for a period of two years.

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

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

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

On 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 $2,200,519.80. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one common share at a price of $0.18 per share for a period of three years. The Company also issued broker warrants to purchase an aggregate of 248,266 at a price of $0.18 per share for a period of three years.

On September 30, 2016, the Company booked a reduction in the flow-through premium of $28,969 as a result of eligible flow-through expenditures incurred during the third quarter. The current flow-through share premium liability is $1,865.

(Expressed in Canadian dollars)

12. SHARE CAPITAL AND RESERVES (cont'd)

b) Share Purchase Warrants

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

	Number of Warrants		Weighted Average Exercise Price
Balance at January 1, 2015	39,011,964	$	0.15
Issued warrants (pre 2015 consolidation)	1,250,000	$	0.09
Reduction on 2015 share consolidation	(32,209,572)	$	1.02
Issued warrants (post consolidation)	24,068,788	$	0.15
Expired warrants (post-consolidation)	(31,276)	$	4.00
Balance at December 31, 2015	32,089,871	$	0.48
Issued	31,323,648	$	0.17
Expired	(521,743)	$	5.17
Balance at September 30, 2016	62,891,809	$	0.23

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

Security	Number	Exercise Price	Expiry Date
Warrants	65,000	$12.10	January 17, 2017
Warrants	100,000	$13.00	May 23, 2017
Warrants	7,084,373	$0.50	November 21, 2018
Warrants	19,375,005	$0.15	November 24, 2017
Warrants	4,431,250	$0.15	December 7, 2017
Warrants	2,250,000	$0.15	March 22, 2018
Warrants	119,000	$0.15	April 29, 2018
Warrants	8,318,750	$0.15	April 29, 2018
Warrants	2,050,000	$0.15	May 27,2018
Warrants	262,500	$0.10	December 29, 2017
Warrants	250,000*	$0.375/$0.50	May 19, 2019
Warrants	248,266	$0.18	August 24, 2019
Warrants	18,337,665	$0.18	August 25, 2019
	62,891,809		

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

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 ¼ of the options vesting in any three-month period.

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

(Expressed in Canadian dollars)

13. SHARE-BASED PAYMENTS (cont'd)

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

	Number of Options	Weighted Average Exercise Price	
Balance at January 1, 2015	1,157,500	$	2.47
Expired options pre 2015 consolidation	(417,500)		2.35
Reduction on 2015 share consolidation	(592,000)		2.54
Issued options post-consolidation	3,340,000		0.06
Expired options post-consolidation	(7,500)		7.40
Balance at December 31, 2015	3,480,500	$	0.59
Issued	4,550,000		0.13
Expired	(49,000)		14.00
Exercised	(3,400,000)		0.07
Balance at December 31, 2015	4,581,500	$	0.37

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

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

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
39,500	39,500	$ 14.50	0.94	September 10, 2017
13,000	13,000	$ 14.00	1.08	November 1, 2017
4,000	4,000	$ 9.50	1.40	February 25, 2018
35,000	35,000	$ 9.50	1.41	February 27, 2018
190,000	190,000	$ 0.06	2.72	June 19, 2019
100,000	100,000	$ 0.06	2.75	July 1, 2019
200,000	133,000	$ 0.08	1.32	January 25, 2018
1,250,000	1,250,000	$ 0.11	3.67	June 5, 2020
200,000	200,000	$ 0.15	3.71	June 14,2020
2,550,000	2,550,000	$ 0.14	4.96	July 26, 2021
4,581,500	4,514,500		4.18	

(Expressed in Canadian dollars)

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 nine months ended September 30, 2016 was $0.13.

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

Grant Date	Expiry Date	Share Price at Grant Date $	Exercise Price $	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
25/1/2016	25/1/2018	0.06	.08	0.38%	24 months	229.74%	0%
30/5/2016	5/6/2020	0.11	.11	0.73%	48 months	194.15%	0%
14/06/2016	14/6/2020	0.15	.15	0.59%	48 months	194.15%	0%
26/7/2016	26/7/2021	0.14	.14	0.68%	60 months	176.57	0%

The Company expensed $517,337 during the nine months ended September 30, 2016 (September 30, 2015 - $147,231).

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016 $	**2015** $	**2016** $	**2015** $
Consulting fees	55,000	45,000	145,000	135,000
Salaries and benefits	40,000	16,000	73,000	36,000

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

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 September 30, 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	0.29 years

(Expressed in Canadian dollars)

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 period ended September 30, 2016:

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

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 September 30, 2016 under its financial instruments is approximately $1.9 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.

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

Foreign Exchange Rate Risk

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

(Expressed in Canadian dollars)

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
Balance at September 30, 2016	$	3,662,361

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

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 CCAA and distributed the required payments pursuant to the Restructuring Plan.

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

Craigmont Claim

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

18. SUBSEQUENT EVENTS

(a) 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 the historic stockpiles on the Thule Copper Property and HVCP has agreed to reimburse the Company for certain costs related to the exploration program.

(b) The Company intends to pay all of the interest owing on the secured convertible debenture holders issued on November 21, 2014 by the issuance of common shares of the Company.