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NICOLA MINING INC.

February 26, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

For the Year Ended December 31, 2019

NICOLA MINING INC.
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For the Year Ended December 31, 2019
(Prepared by Management)

GENERAL

The following discussion of financial performance, financial condition, cash flows and future prospects ("MD&A") should be read in conjunction with the audited consolidated financial statements of Nicola Mining Inc. ("Nicola" or the "Company") and notes thereto for the year ended December 31, 2019.

This MD&A for the year ended December 31, 2019 was prepared as of February 26, 2020. Unless otherwise indicated, all dollar amounts set out herein are expressed in Canadian dollars. Additional information and filings are available for review on the Company's SEDAR profile at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Company, including (i) that Nicola or another party may be able to recommence operations at its Treasure Mountain Project, (ii) that Nicola will be able to close future financings, (iii) that Nicola will be able to continue to process mill feed in its Merritt Mill for third parties and move towards commissioning, (iv) that Nicola will be able to sell any of its real estate properties or any other non-core assets, (v) that Nicola will be able to close future financings to continue exploration of the New Craigmont Project and (vi) that Nicola will enter into any merger and acquisition transactions. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this MD&A. These assumptions, which include management's current expectations, estimates and assumptions about the Company raising sufficient capital such that it is able to meet its obligations, the Company's ability to recommence operations, including refurbishing, modifying and testing the Merritt Mill to produce other metal concentrates, current mineral property interests, the global economic environment, the market price and demand for silver and other minerals, the Company's ability to manage its property interests and operating costs, and the value of its real property holdings and its non-core assets may prove to be incorrect. A number of risks and uncertainties could cause the Company's actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) that Nicola or another party will be unable to recommence operations at its Treasure Mountain Project and continue operations at its Merritt Mill for any reason whatsoever, (2) a downturn in general economic conditions in North America and internationally, (3) volatility and fluctuation in the prices of gold, silver, lead, zinc and other metals, (4) volatility and fluctuation in the price of the Company's stock and stock of resource issuers generally, and (5) other factors beyond the Company's control. Readers are cautioned that the foregoing list of factors is not exhaustive.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors and shareholders are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the sections entitled “Risk Exposure and Management” and “Risk Factors and Uncertainties”.

This section is qualified in its entirety by the material documents in connection with the CCAA proceeding, including the Court orders, copies of which have been filed and are available under the Company’s profile on SEDAR (www.sedar.com).

DESCRIPTION OF BUSINESS

Nicola is a junior exploration and custom milling company that is engaged in the business of identification, acquisition, and exploration of mineral property interests together with custom milling partnerships at its Merritt Mill.

PROJECTS

Treasure Mountain Project

Nicola’s Treasure Mountain Project is located northeast of Hope, British Columbia, approximately 3 hours from Vancouver, British Columbia. In November 2011, the Company completed the development of the required infrastructure at the Treasure Mountain Project to begin removal and evaluation of a 10,000 tonne bulk sample permit. In May 2012, the Company received a mining lease covering 335 hectares of which 248 hectares are active workings. The Company’s mineral claim holdings consist of 30 mineral claims covering 2,178 hectares, one mining lease covering 335 hectares at the Treasure Mountain Project and a Mines Act permit for the Treasure Mountain Project for the removal of 60,000 tonnes per year of silver/lead/zinc mill feed from the underground mine and the transfer of the mill feed offsite for processing. The Treasure Mountain Project has been in care and maintenance since July 26, 2013. The Company intends to keep the Treasure Mountain Project on care and maintenance and continues to review options for the Treasure Mountain Project, which includes reviewing merger and acquisition opportunities, future exploration, and commencing mining activity on level 1 stope 2 of the Treasure Mountain Project. To date, the majority of the Company’s mineral resources have been classified as Inferred, whereby the economic viability of such resources cannot be determined. The removal of mineralized material from the Company’s Treasure Mountain Project is considered an exploration and evaluation activity, and as such, all costs associated with the removal of this mill feed are expensed as exploration costs. Currently, no value has been assigned to any stockpiled mineralized material as the removal is considered an exploration and evaluation activity.

On October 29, 2019 the Company announced soil sampling program commenced in the area west of the MB zone to the western claim extent and follow up the NE-SW geochemical anomaly. Due to unfavorable weather only 137 sample sites (six lines extending 500m west from MB Zone) and 3 rock samples out of the planned 538 sample sites were assessed. On January 23, 2020 the Company announced results from 2019 soil sampling program identifying the fringe of the western extent of a northeast-trending silver anomaly, identified in the MB zone. This has a similar orientation to that of the silver-bearing veins encountered in the Treasure Mountain underground workings and seen in outcrop at the Cal Vein-trench. These results are encouraging and warrant further work to the south and east of MB zone, including additional geological mapping of this area in 2020.

On February 21, 2020 the Company announced rock sample results taken during the Company’s 2019 soil sampling program. A total of five rock samples were taken, three from soil sample location and two from mineralized material that appears to be part of the Cal Vein. The Cal Vein is a structure located within the MB Zone and is 1.5 km from Treasure Mountain Mine. One sample 2100151 taken within the Cal Vein resulted testing 813 grams Ag and 518 grams Au per tonne and 19% zinc and 4.66% copper.

New Craigmont Project

The Company's claim holdings at the New Craigmont Project consist of 21 contiguous mineral claims covering approximately 10,913 hectares, and 10 mineral leases covering approximately 347 hectares known as New Craigmont Project located near Merritt, BC approximately 3 hours from Vancouver, British Columbia.

Overview

The New Craigmont Project does not conform to a "typical" exploration pipeline. The Project is a permitted historic mine site with active permits under mine permit M-68. In addition, extensive work done on the mine (c.1958-c.1982) was focused primarily on ore definition, development and extraction of mineral inventory, known at the time. This work resulted in a cumulative production of 36.75 million tonnes of ore grading 1.28% Cu. However, the project had limited exploration beyond its historic operations.

The geological model adopted by Craigmont Mines exploration team was one in which the Guichon Creek Batholith was the real heat source with metals (Cu & Fe) being derived from country rock. Ore grade mineralization occurred along preferential limy lithologies resulting in a strata-bound skarn deposit. This view surmised that no porphyry-sourced fluid was required to form the Craigmont Ore Bodies. This resulted in limited exploration was outboard of the known mineralization within these units. In the last decade, through increased demand for copper and diminishing copper grades, academic research primarily focussed on low- grade, large tonnage porphyry systems. This research suggests genetic links exist between magmatic-derived fluids (i.e. porphyry deposits) to skarn and epithermal deposits. The Nicola Mining geological team realise that the broader alteration system at Craigmont was not fully explored. Re-evaluation of this alteration system is believed to aid in efficient and effective exploration of the land package which may have been historically overlooked.

Objectives and Strategy

The primary objective is to prove the historic un-exploited mineral inventory through target definition drilling on in-situ ore bodies and underground surveying to delineate volume of material remaining in sub-level caves in Craigmont Central area. In tandem, a NI-43-101 mineral inventory is in process of being defined on the historic mining terraces. Target development and confirmation drilling aims to develop copper targets (copper showings) deemed to have the potential for significant mineralization on the project land package. Nicola Mining has utilized various exploration methods and has generated numerous targets on the New Craigmont Project which are summarized below:

1. Target Development in Promontory Hills,

2. Target Confirmation west of the Craigmont Open Pit in the Embayment Zone, Eric and Titan Queen,

3. Target Delimitation in and around the Craigmont Central Zone in the Number 3 ore body, and

4. Mineral Inventory Development in the mining terraces.

On June 29, 2016, the Company commenced a diamond drill program on the New Craigmont Project focusing in on three key target zones: Craigmont East - the Eric; Craigmont Central - the Titan Queen Zone, and; Craigmont West – the Embayment. On September 7, 2016, the Company announced a significant copper mineralization intersection of 1.11% copper over 85.92 metres in THU-002, through the Craigmont West - Embayment Zone, located approximately 1 km northwest of the past-producing Craigmont Mine. The drilling results indicate that Craigmont West - Embayment Zone to be a fault-offset, westward continuation of the skarn zone that hosts the Craigmont Mine deposit.

On January 23, 2017, the Company announced results of historic and resampled diamond drill core from Hole S-100 which was originally drilled in January of 1978 and is on the Craigmont West - Embayment Zone. The results of the historic sampling of S-100 include sections of 0.92% Cu over 61.9 metres within a section of 116.7 metres grading 0.54%.

On November 10, 2017 the Company announced results on three additional IP surveys on the Craigmont Central - Titan Queen, Craigmont West – Embayment and the Promontory Hill zones. Results of the Titan Queen IP survey provided significant insight into the geophysical expression of the Craigmont West - South Embayment Zone, a previously unexplored anomaly, and the ability to view historic underground mineralized sections and the Craigmont West - Embayment Zone via IP survey augments the ability to accurately target mineralization in future drill programs. The increasing strength of the anomaly towards the west aligns with historic interpretation of the Craigmont West - Embayment target as the offset of the Craigmont body continuing west.

On September 18, 2017 the Company announced results of Reverse Circulation drill program ("RC Program") on waste piles located at 3060-Craigmont portal. The program was designed to evaluate the copper grade and volume of the historical material excavated from underground workings of the Craigmont Mine. Results of the RC Program confirm significant copper mineralization in the material sampled by drilling. The program demonstrated the viability of using RC drilling to obtain reliable samples of unconsolidated dump material for tonnage and grade estimation. In addition, underground mining techniques allow for more controlled excavation and precise grade control than large-scale open pit mining. Therefore, the material sampled in the RC program is considered to be low grade mineralization external to what was deemed economic mineralization during historical mining. This suggests some of the strip material placed in the larger waste piles from the open pit is representative of a similar low-grade mineralization halo. On January 12, 2018 the Company received the required permitting to commence RC Drilling on the approximate 80-90 million tonnes of waste piles surrounding the historic Craigmont Mine in 2018. On August 10, 2018 the Company announced results on its 20-hole Phrase 1 RC drill program that provided insight into overview of copper grade and sectional volume. An average grade of 2463 ppm Cu (0.25%) over 40 metres for the deepest RC hole and indication of potential high-grade CU mineralization in the southern side of the waste piles that is believed to also contain the greatest volume. Phrase 1 RC program found the south-central quadrant contains the thickest and most potentially economic grade for the waste piles. Results have warranted a follow up Phrase 2 program to delineate copper mineralization and trace the extent of the higher grading material within the waste piles.

The Company received the Notice of Work (filed in April of 2017) effective September 1, 2017 to August 31, 2018. The Notice of Work permit and drilling on the Craigmont West - Embayment target were delayed due to the severe bush fires experienced throughout BC during the 2017 summer. Drilling on the Craigmont West - Embayment Zone commenced in late September of 2017 designed to test for continuity at depth and along the west-striking zone of skarn-type alteration and copper mineralization encountered in historical drill holes and more recently in DDH-THU-002. On December 21, 2017 the Company announced the first four holes of the 2017 Exploration Program all successfully intersected skarn alteration, including previously untested segments of the Craigmont West - Embayment zone increasing the strike length by 250 metres and it remains open to the west and at depth. On December 15, 2017 a Notice of Work application was filed with the Ministry of Energy, Mines & Petroleum Resources to conduct a diamond drill program on Promontory Hill, as follow up to the IP geophysical survey and mapping conducted during 2017.

On December 22, 2017 the Company issued 10,262,500 flow-through shares for gross proceeds of $2,052,500 to continue diamond drill program on Craigmont West - Embayment Zone, conduct diamond drill program on Promontory Hill, RC Drilling on the 80-90 million tonne waste piles surrounding the historic Craigmont pit, which had a cut-off grade of 0.7% Cu and diamond drill program around the historic Craigmont pit halo to confirm historic grades and hope to increase the size of the Embayment shell.

The Company on January 12, 2018 announced the strike extent of the Craigmont West - Embayment Skarn Zone to 400 metres and established the true width reaching 150 metres. On February 28, 2018 the

Company announced highlights from the 2017-2018 winter drilling program that include hole NC-2018-01 with 0.6% copper over 71.4 metres, including 1.4% copper over 16 metres. On April 2, 2018 the Company announced the final hole NC-2018-03 from 2017/2018 program that intersected 100.6 metres at 1.33% Cu including 40.2m at 2.52%Cu and 15.0m grading 5.18% Cu. The Company has changed the name of Embayment to Craigmont West to denote the westward extension of the mineralized skarn mined during the historic Craigmont open pit and underground mine.

On July 19, 2018 the Company provided an exploration update on the New Craigmont Project. The Company announced it has received all required permits and commenced the 2018 diamond drilling program. The program includes three diamond drill holes at Craigmont West targeting the westward and down-plunge extension of the skarn, based on the geological model. On East Promontory five diamond drill holes are planned that will examine the geophysical anomalies. Two additional IP lines from Craigmont West extending to East Promontory to the west of lines surveyed in 2017. The North Promontory area includes the Marb72/GUS and WP historic showings. Three north-south IP lines are planned that will aim to correlate existing magnetic and sampling data collected in the area. Craigmont Central includes two initial diamond drill holes to test the mineralized corridor, or halo, that encompasses the skarn deposit associated alteration around the pit.

On September 25, 2018 the Company announced the presence of a previously unexplored mineralized zone north of the historic Craigmont open pit called the mineralized historic pit halo. The Company targeted the area after historic data and recent mapping from the Company's 2017 and 2018 exploration program revealed the potential of mineralization north of the pit. The near-surface zone is located within the boundaries of the Company's active mine permit M-68. The second exploratory diamond drill hole located approximately 100 metres from the pit intercepted 1.05% Cu over 73.6 metres. Intercepts from the second hole include 150 meters grading 0.54% Cu, 30.7 metres grading 2.1% Cu, and 1.5 metres grading 9.6% Cu. The mineralization within the hole appeared unique because, in addition to chalcopyrite, the presence of bornite was seen for the first time. The Company continues to follow up by drilling additional holes to the east and west along the predicted strike orientation in a previously un-drilled area within Craigmont Central.

On October 30, 2018 the Company announced the commencement of Phrase 2 of Reverse Circulation ("RC") drilling program on the historic Craigmont Copper Mine waste piles and the 3060 Ore Portal. In addition to the 49 holes drilled between 2017 and early 2018, the Company planned an additional 60 RC holes focused on the South Waste Piles and Ore Portal to test the economic viability of the crushed rock. In addition, the Company will conduct metallurgical testing post RC drilling program to understand how copper and magnetite extraction may be optimized. The Company awarded Northspan Explorations Ltd., of Kelowna, BC with the contract for RC drilling and a drill rig was mobilized on October 19, 2018 to commence the Phrase 2RC program. The Company has entered into a Consulting Agreement with James N. Gray P. Geo of Advantage Geoservices Ltd. with the goal of completing a resource estimate in third quarter of 2019, in accordance with CIM Definition Standards for Mineral Resources and Mineral Reserves.

On December 13, 2018 the Company announced field reconnaissance and grab sampling results along with the completion and interpretation of an induced polarization survey ("IP survey"). The IP totalled 8.55 line-kilometers over Craigmont West Zone and North Promontory Zone there was no significant anomaly resulting from the portion of the survey at North Promontory. At Craigmont West there was potential to pick the chargeability response back up further to the south, which would require extending some existing lines further south. This will be considered a potential option for 2019. Key takeaways from Marb zone field sampling showing has elevated copper grades within favourable intrusive host-rock for a porphyry system and one of the seven samples occurred within basalt lithology (extrusive) while the others were all diorite (intrusive). Follow-up detailed outcrop mapping plus potential diamond drilling and IP will be planned for 2019 to further explore the Marb showing.

On December 24, 2018 the Company issued 10,040,000 flow-through units for gross proceeds of $1,255,000 to continue exploration at New Craigmont Project. 2019 exploration program is currently being planned that will encompass further diamond drilling at mineralized historic pit halo at Craigmont

Central, further metallurgical testing program, updating of data base and modelling of deposit, and a resource for historic waste piles following 2017 and 2018 RC drilling programs.

On February 19, 2019 the Company announced test results from preliminary metallurgical testing program and the significance of a copper-magnetite grade equivalent magnetite recovery ("CuEq"). The Company contracted ALS Metallurgy's Kamloops laboratory to perform magnetic separation and froth floatation testing on samples collected from a number of selected diamond drill and RC drill holes to determine copper recovery ("Cu") and the iron ("Fe") recovery after the copper extraction. A total of thirty-nine samples classified into low-grade ("LG") and high-grade ("HG") copper composites that reflect mineralization grades encountered at the Project. Low-grade copper composite feed assays returned grades of 0.27% Cu and 5.1% Fe. High-grade copper composite returned grades of 3.26% Cu and 11.4% Fe. Based on these results, for the LG composite the economic contribution of magnetite accounted for 34% of the overall CuEq, which increased by from 0.27% Cu to 0.36% CuEq (an increase of approximately 0.09% CuEq). The contribution and increased CuEq could be significant in cutoff grades and future NI 43 101 resource estimates.

On March 1, 2019 the Company announced final results for 39-hole Reverse Circulation drill program on the 3060-RC Portal Program. The program is designed to evaluate the copper equivalent grade and volume of historical material excavated from underground workings of the Craigmont Mine and piled on surface at 3060-Portal. These results confirm significant grades of copper and magnetite, which are combined to create a copper equivalent ("CuEq"). The second phrase of RC drilling, conducted in 2018, use an updated CuEq calculation for both 2017 and 2018 RC drill holes. The highlights of these results include an average grade of 2424 ppm Cu and 0.4% CuEq for the 39 holes.

On March 29, 2019 the Company announced positive results from Outotec's Initial Inspection Study, in which select material from the terraces and highly mineralized zones at the New Craigmont Copper Project were evaluated. The test work was conducted at Tomra Sorting's Test Center in Hamburg, Germany. This study successfully demonstrated that the COM Tertiary XRT Sorter can clearly distinguish mineralized material from waste material. The material used in the Initial Inspection was comprised of 29 representative samples of waste, low-grade material, and high-grade material. These samples were collected from the terraces and targeted zones that represent historic waste material at the Craigmont Project.

On April 8, 2019 the Company announced additional drill results from the Craigmont Central Zone designed to explore the boundaries of the historic open pit during the 2018 Exploration Program. The economic contribution from magnetite is taken into consideration and reported as copper equivalent ("CuEq"). A total of 8 diamond drill holes totalling 2,755 meters were drilled to test low to moderate grades peripheral to the mine open pit. The focus was on the north of the open-pit and drilled stratigraphy from north toward the open pit, testing previously unexplored corridor between the mine and the contact with the Guichon batholith. Of the eight diamond drill holes, three intersected significant mineralization: Hole CC-18-02 intercepted 76.6m at 1.35% CuEq including 33.65m at 2.45% CuEq, Hole CC-18-03 intercepted 89.0m at 0.38% CuEq, and Hole CC-18-04 intercepted 6.0m at 0.7% and 63.4m at 0.49% CuEq. Mineralization was encountered as shallow as 50m depth, with high-grade intercepts appearing to be extensions of the Craigmont Skarn. A significant observation was identified within the hornfelsed wacke units, formerly not considered to have potential for economic mineralization. The mineralization and veining within the Units displayed characteristics of porphyry mineralization. Prior to the 2019 exploration program, exploration focussed on skarn mineralization; 2019 exploration focused on understanding porphyry style mineralization. This idea creates potential for exploration beyond the limestone and "limey" sediments, along strike and proximal to the historic Craigmont deposit. Drilling in 2019 will continue to focus on the potential of Craigmont Central.

On May 27, 2019 the Company announced that it has received all required permits and has commenced its 2019 Exploration Program (the "2019 Program"). The diamond drilling program ("DD Program") aims to intersect the unexploited, and incompletely delineated historic Number 3 Body ("No.3 Body") in Craigmont Central. The Number 3 Body is characterized by silicified sediments with fine-grained chalcopyrite and little or no associated iron (Fe), thus differentiating it from the extracted ore bodies numbers 1 and 2. The first two drill pads aim to intersect Number 3 Body. The second proposed drill pads aim to extend strike length westward, toward the approximately N-S striking Embayment Fault. The Company has already conducted and confirmed high-grade mineralization west of the Embayment Fault, indicative that the mineralizing event occurs further West than the historic Craigmont Open Pit and underground workings. The third drill pad will target the eastward extension of the Number 3 Body to test the potential mineralization south of the 2400 level historic drilling. The fourth drill pad will aim to explore stratigraphy on North of the Open pit and extend mineralization at the 3500-level westward. The DD Program may be adjusted, as will subsequent holes, depending on initial drilling results and data from other forms of exploration undertaken during 2019 Program. The 2019 Program will also include the goal of completing a resource estimate of the historic mine terraces in 2019. In addition, a substantial soil geochemistry survey, reconnaissance geological mapping, analysis of historic core, and alteration mineral mapping using high-resolution PhotoSat multi-spectral satellite (WorldView-3)

On July 24, 2019 the Company announced assay results of the first two diamond drill holes that intersected the unexploited, and incompletely delineated No. 3 Body. A second mineralized zone was intersected at shallower depth (“Upper Zone”), south of open pit. No. 3 Body is directly adjacent to Portal 2400 and was left in situ for future extraction. A significance observation is the copper mineralization’s association with potassic alteration, indicative of a relatively high temperature fluids permeating further south of the Guichon Creek Batholith-Nicola Group contact than originally thought. The Company is reclaiming the historic core with the objective of utilizing this in geological modelling. Soil sampling program has commenced over known geophysical anomalies, with intention of refining targets. Photosat have recently acquired satellite imagery over the New Craigmont Project which will assist in understanding of regional scale alteration system across the property.

On August 19, 2019 the Company announced assay results from its third drill hole that intersected No 3 Body and intersected 84 meters grading Cu 0.34% (CuEq 0.46%) of the shallower Upper Zone. This is a 50-meter westward step-out which demonstrates the lateral continuity of the Upper Zone encountered in the first two drill holes. The mineralization intersected in the No.3 Body is characterized by disseminated and fracture-controlled chalcopyrite. The type of mineralization indicates a proximity to a mineralizing porphyry system. The Company continues to work on developing a NI 43-101 resource on the historic waste mine terraces surrounding the historic Craigmont open pit.

On January 7, 2020 the Company announced staking mineral claims totalling 828 hectares to the immediate south of the New Craigmont Property expanding the Company’s land package to 10,913 hectares.

On February 11, 2020 the Company announced preliminary grade and copper recovery results on floatation tests conducted at ALS Metallurgy Kamloops laboratory under program KM5954. The tests were designed to simulate copper and magnetite recovery into separate concentrates through floatation and magnetic separation. A sample from the mine’s historic waste rock terraces underwent sorting via Com Tertiary XRT Sorter tests. This material had feed grades of 0.34% copper (Cu) and 6.9% iron (Fe) and was separated into 2 key concentrates; 1. Cu cleaner concentrate containing 29.6 Cu and 29.4 Fe with copper recovery 73.1% and 2. magnetite cleaner concentrate containing 64.8% Fe. The Company plans to conduct further testing on the grades and fines in the historic waste rock terraces.

Merritt Mill

Nicola’s Merritt Mill is located 14 km northwest of Merritt, British Columbia, approximately 3 hours from Vancouver, British Columbia. The Merritt Mill and property consists of $8.00 MM for cost of land (900 acres of freehold land), $21.6 MM for the cost of the mill and related infrastructure, and $1.8 MM for cost of construction of a fully lined tailings facility. The Merritt Mill was constructed during 2012 and operated from November 2012 to July 26, 2013. The Merritt Mill was permitted for 200 tonne per day silver/lead/zinc processing plant to process mill feed from Treasure Mountain Project.

The British Columbia Mines Act custom milling operations permit was received on April 18, 2016. It allows the Company to enter into third party custom milling contracts and enables it to mill up to 200 tonnes per day at its Merritt Mill.

The Company carried out extensive modifications during 2017 and 2018 following testing of mill in 2016. The Company is hopeful of recommencement of testing in 2020. The Merritt Mill has to date not been successfully commissioned.

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This review of the Company's results of operations should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2019 and 2018.

The following table summarizes selected audited consolidated financial information for the Company's three most recently completed years to December 31, 2019, 2018 and 2017. All amounts shown are stated in Canadian dollars in accordance with IFRS.

	December 31, 2019 ($)	December 31, 2018 ($)	December 31, 2017 ($)
Net Income (Loss)	1,520,718	(5,307,737)	(4,760,569)
Income (Loss) from Continuing Operations (basic and diluted)	0.01	(0.03)	(0.03)
Total assets	11,064,825	12,019,436	13,246,280
Total non- current financial liabilities	9,196,615	4,069,001	9,876,220

During year ended December 31, 2019, the Company recorded a net income and comprehensive income of $1,520,718 compared to a net loss and comprehensive loss of $5,307,737 for the comparable year of 2018. The differences between the two years were recording the recovery of $328,730 for previously paid Part X11.6 tax following the July 11, 2019 notification by CRA that sufficient CEE had been incurred by the Company at the relevant times in order to allow a full renunciation of CEE to flow-through investors together with related flow-through obligation recovery of $4,106,780. Also reduced exploration costs of $1,541,187 for 2019 compared to $2,164,767 for 2018, share-based compensation expenses of nil in 2019 compared to $239,700 in 2018, reduced mill depreciation of $80,265 in 2019 compared to $279,022 in 2018 for prior years, increased gravel and other income of $588,059 for 2019 compared to $459,661 for 2018, and increased flow-through premium of $347,311 in 2019 compared to $183,562 in 2018. Deferred income tax recovery of $468,184 was booked in 2019 as a result of refinancing the November 21, 2019 secured convertible debentures.

Operating expenses for the year ended December 31, 2019 decreased to $2,891,138 from $4,558,821 for the year ended December 31, 2018. The significant fluctuations between the two years included decreased exploration costs of $1,541,187 for 2019 compared to $2,164,767 for 2018, decreased mill costs of $580,561 for 2019 compared to $727,233 for 2018, reduced professional fees of $180,298 for 2019 from $242,013 for 2018 resulting from successful resolution of CRA 2012 flow-through obligation in July 2019, and reduced consulting fees of $209,846 for 2019 from $449,217 for 2018. Mill depreciation of $279,022 for prior years together with $239,700 for share-based compensation expense were both expensed in 2018 and nil related expenses in 2019.

FOURTH QUARTER RESULTS

During the three months ended December 31, 2019, the Company recorded a net loss and comprehensive loss of $539,534 compared to a net loss and comprehensive loss of $1,587,592 for the three months ended December 31, 2018. The reduced net loss in the three months to December 31, 2019 compared to the 2018 comparable period was a result of nil share-based compensation expense in 2019 compared to $239,700 in 2018, mill depreciation of $279,022 expensed for prior years in 2018, and deferred income tax recovery of $468,184 in 2019 and nil in 2018.

Operating expenses for the three months ended December 31, 2019 decreased to $949,950 from $1,534,149 for the three months ended December 31, 2018. The significant fluctuations between the two periods included expenses of share-based compensation of $239,700 and depreciation of $279,022 in 2018 and nil in 2019. Exploration costs, professional fees and consulting fees were reduced in the three months to December 31, 2019 compared to 2018 comparable period, combined with increased gravel and other income.

The following table provides selected audited financial information for the most recent eight quarters. All amounts shown are stated in Canadian dollars in accordance with IFRS.

	December 31, 2019 ($)	**September 30, 2019 ($)**	**June 30, 2019 ($)**	**March 31, 2019 ($)**	**December 31, 2018 ($)**	**September 30, 2018 ($)**	**June 30, 2018 ($)**	**March 31, 2018 ($)**
Net Income (loss)	(539,534)	(603,782)	3,420,189	(756,155)	(1,587,592)	(1,581,261)	(1,021,288)	(1,117,526)
Income /(Loss) per share from continuing operations (basic and diluted)	(0.01)	(0.01)	0.01	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

The net loss of $539,534 for the quarter ended December 31, 2019 compared to net loss quarter ended December 31, 2018 of $1,587,592 was due to expense items of $239,700 for share-based compensation and $279,022 for depreciation for prior years in 2018, and recovery of deferred income tax in 2019 from refinancing of November 21, 2019 secured convertible debentures of $468,184.

The decrease in net loss for the quarter ended September 30, 2019 compared to net loss quarter ended September 30, 2018 was due to refund of previously paid Part X11.6 tax following July 11, 2019 ruling from CRA, reduced exploration costs, professional and consulting fees, together with increased gravel and other income.

The net income for the quarter ended June 30, 2019 compared to net loss for the quarter ended June 30, 2018 was due to recording recovery of flow-through obligation plus Part X11.6 tax following July 11, 2019 ruling from CRA that the Company had incurred sufficient CEE at the relevant times in order to allow a full renunciation of CEE to flow-through investors.

The decrease in net loss for the quarter ended March 31, 2019 compared to quarter ended March 31, 2018 was due to decreased exploration costs, mill costs and consulting fees. Exploration costs were reduced as 2019 diamond drilling program did not commence till May 23, 2019. Mill costs reduced as all improvements and upgrades were completed in the first quarter of 2018. Consulting fees were reduced as consulting contracts were concluded in fourth quarter of 2018.

The increase in net loss for the quarter ended December 31, 2018 compared to quarter ended December 31, 2017 was due to increased exploration costs and amortization of the Mill offset by reduced finance costs and increased gravel and other income from new Ash Management Contract.

SUBSEQUENT EVENTS

The Company on January 9, 2020 announced the closing of the second and final tranche totalling $350,000 of secured convertible debentures. During December 2019 a total of $160,000 proceeds of the second tranche were deposited with the Company and was part of the second tranche closing on January 9, 2020. The Company raised total proceeds of $7,350,882. The key terms for both tranches are 3-year term, 10% interest payable annually, in cash or in common shares at market price at option of the Company, and principal amount may be converted at option of the holder at a price of $0.10 per share.

FINANCING, LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2019, the Company had a working capital deficiency of $155,231 that included cash and cash equivalents of $500,797 as compared to a working capital deficiency of $9,683,897 that included cash and cash equivalents of $1,362,775 as at December 31, 2018. The reduced working capital deficiency in 2019 is a result of the Company refinancing the $6,955,882 November 21, 2019 secured convertible debentures with a three year term to November 21, 2022 and recovery of the flow-through obligation $4,106,780 with the Company being advised by CRA on July 11, 2019 of successful notice of objection filed July 19, 2018.

Cash used in operating activities for the year ended December 31, 2019 was $1,662,334 compared to $3,714,124 for the year ended December 31, 2018. The is attributable to reduced exploration costs, mill costs, consulting fees, professional fees, refund of previously paid Part X11.6 taxes, recovery of flow-through obligation during the year and deferred income tax recovery.

Cash used by investing activities was $224,328 for the year ended December 31, 2019 compared to $273,545 for the year ended December 31, 2018. The decrease is attributable to reduced purchases of mill equipment expenses to Merritt Mill.

Cash provided in financing activities for the year ended December 31, 2019 was $1,024,684 compared to cash provided of $2,856,559 for the year ended December 31, 2018. The decrease is attributable to both reduced issuance of common shares of $850,988 in 2019 compared to $3,410,599 during 2018, reduced exercise of stock options of $9,000 in 2019 compared to $778,500 during 2018 and a one-time loan debt repayment of $1,287,500 to Waterton in 2018.

The Company had the following major cash obligations as of December 31, 2019:

- Repayment of amounts owing to holders of the Second Tranche Secured Convertible Debentures in the amount of $256,426 which are due on May 20, 2020.

As at December 31, 2019, the Company had an accumulated deficit of $86,970,001 (December 31, 2018 $88,490,719) and a working capital deficiency of $155,231 (December 31, 2018 - $9,683,897). However, additional funds will be needed for exploration of the Treasure Mountain Project, exploration of the New Craigmont Property and testing of Merritt Mill. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements which 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. Further, the failure to make the payments outstanding to Secured Convertible Debentures could materially change the carrying amounts and classifications reported in the consolidated financial statements.

The audited consolidated financial statements for the year ended December 31, 2019 were prepared using IFRS. These audited consolidated financial statements have been prepared on a going concern basis, 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. However, there are substantial payment obligations remaining in connection with the secured convertible debentures and, as such, there is substantial doubt regarding the realization of assets and discharge of liabilities. Due to the closing of non-brokered private placement of secured convertible debentures on November 21, 2019 and January 9, 2020 in the aggregate amount of $7,350,882 and amendment and extension to the Second Tranche Debentures to May 20, 2020, the various financings completed between June 2017 and December 2019, testing milling operations at the Merritt Mill in June 2016 till November 2016, and successful flow-through financing in December, 2019 for continued New Craigmont Project exploration in 2020, management believes that these actions make the going concern basis determination appropriate. However, there are substantial payments remaining to the holders of the secured convertible debentures, and accordingly substantial doubt exists as to whether the Company will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in the restructuring, financing and operational activities will result in improvements to the financial condition of the Company sufficient to allow it to continue as a going concern. If the Company were to be forced into bankruptcy resulting in the liquidation of its assets, adjustments would be necessary to the carrying amounts and/or classification of assets and liabilities, in the Company's consolidated financial statements. 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.

Secured Convertible Debenture Maturity and Financing

The Company on November 21, 2019, announced the closing first tranche of its non-brokered private placement of Secured Convertible Debentures (the "Debentures") with proceeds of $7,000,882 for repayment of outstanding First Tranche Debentures and general working capital, terms are:

- the Conversion Price of the Debentures $0.10 per share at option of the holder;
- the interest at 10% per annum, payable annually, in cash or in common shares, at the option of the Company, and
- the Maturity date November 21, 2022

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

The Company on November 26, 2018 settled the interest owing on the First Tranche Debentures by issuing 6,048,593 common shares at a price of $0.115 per share in settlement of $695,588 as at November 21, 2018.

The Company on November 21, 2019 settled the interest owing on the First Tranche Debentures by issuing 7,321,981 common shares at a price of $0.095 per share in settlement of $695,588 as at November 21, 2019.

The Second Tranche Secured Convertible Debentures issued May 20, 2015 in the aggregate principal amount of $250,000 originally had a maturity date of May 20, 2018. The Company amended the Second Tranche debentures issued on May 20, 2015 by the following: the conversion price be reduced to $0.22 from $0.275, the maturity date be extended from May 20, 2018 to May 20, 2020, and the exercise price of the 250,000 warrants be reduced from $0.50 to $0.275, with a forced conversion in the event that the Shares trade at or above $0.3475 for at least 10 consecutive trading days.

Repayment of Waterton Debt

The Waterton aggregate debt principal of $1,287,500 which bears interest rate of 3% per annum was repaid together with accrued interest in two equal tranches during 2018. $643,750 was repaid on July 31, 2018 and $643,750 repaid on November 24, 2018 together with accrued interest.

Flow-Through Share Obligation

The Company in December 2012 filed for a renunciation of Canadian Exploration Expenses (“CEE”) of $3,940,786 and $1,864,693 under the so-called look-back rule for a total of $5,805,479. Following an audit conducted by Canadian Revenue Agency (“CRA”) during 2017, CRA disallowed amounts totalling $5,805,479 on the basis that the Company commenced mining and or commercial production in mid-2012 with the result that the CEE cannot be renounced. The Company filed a notice of objection in the manner and within the time prescribed by the Income Tax Act on July 19, 2018 (Canada). On July 11, 2019 the Company announced it had been advised by the CRA Appeals Officer assigned to the matter that sufficient CEE had in fact been incurred by the Company at the relevant times in order to allow renunciation of CEE to the flow-through investors. The Company recorded a recovery for the full amount of the recorded flow-through obligation of $4,106,760. On September 24, 2019 the Company received a tax refund of previously paid Part X11.6 tax in the amount of $328,730 from Canada Revenue Agency.

Asset Retirement Obligation

As part of the acquisition of Craigmont Holdings Ltd., the Company estimates as at December 31, 2019 the reclamation costs associated with the Merritt Mill to be $3,169,685 (December 31, 2018 - $3,326,901). During the year ended December 31, 2019 the Company reviewed the estimates and revised the term of obligation and estimated it will settle these obligations over 15 years (2018 – 15 years).

During the year ended December 31, 2019 the Company incurred reclamation expenditures of $231,544 (year ended December 31, 2018 – $201,927), recorded accretion expense of $74,328 (year ended December 31, 2018 – $72,626) and as at December 31, 2019 has an estimated asset retirement obligation of $3,545,623 (December 31, 2018 - $3,719,588). The Merritt Mill reclamation costs were adjusted using a long-term inflation rate of 1.4% (2018 – 1.4%) and then discounted using a risk-free rate of 2.34% (2018 – 2.34%). In order to obtain its Merritt Mill permit, the Company has posted collateral of $700,000 with the government to date.

As part of the ongoing reclamation the Company on September 18, 2017 entered into a thirty-year ash management contract (the “Agreement”) with Merritt Operations Services Limited Partnership. Under the Agreement the Company agrees to accept up to 7,500 dry tons per year of ash generated from burning renewable wood for a fee that includes escalation clauses. The Company on September 17, 2018 applied for an amendment to the Company’s Mine Permit M-68 to blend the ash with fill soil, and plant seeds to assist with the remediation of the Merritt Mill site. In the interim the ash and fill soils are being blended as part of testing ongoing remediation of the Company’s lower tailings facility, storage on former magnetite storage facility and reclamation of sand and gravel pit.

OUTLOOK

The Company continues to consider rationalizing its non-core assets, moving towards leveraging the value of its core assets in an effort to generate operational cash flow. The Company continues to develop the New Craigmont Project exploration diamond drill program through testing high grade structures, development of resource of waste stockpiles following RC drill program, diamond drilling Craigmont Central surrounding the historic Craigmont open pit mine, further metallurgical testing of diamond drilling core, and undertake further mapping, soil sampling and IP surveys.

PROPOSED TRANSACTIONS

The Company has no proposed asset or business acquisition or disposition of Company's assets at this time.

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.

During the years ended December 31, 2019 and 2018, the Company incurred the following expenditures to related parties:

	Years ended December 31	
	2019 ($)	**2018 ($)**
Consulting fees paid or accrued to directors (i)	195,000	195,000
Salaries and benefits (ii)	145,000	131,500
Share-based compensation	Nil	180,288

(i) Peter Espig, Chief Executive Officer and director of the Company is paid a consulting fee of $15,000 per month.

(ii) Warwick Bay, Chief Financial Officer, is paid a salary of $10,000 per month.

Included in convertible debentures is $65,000 (2018 - $20,000) owing to Chief Executive Officer of the Company.

All related party transactions are in the normal course of business and are measured at the exchange amount.

OUTSTANDING SHARE DATA

- Authorized and issued share capital as at February 26, 2020:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	**246,844,530**

- As at February 26, 2020, there were 11,075,000 stock options outstanding.
- As at February 26, 2020, there were 18,227,698 warrants outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements which may affect its current or future operations or conditions.

NEW STANDARDS, AMENDMENTS AND INTERPRETATION

IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability was measured at January 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets was measured at the amount equal to the lease liability on January 1, 2019.

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16: At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset.

As a lessee, we recognize a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term. Impact of transition to IFRS 16:

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in deficit at January 1, 2019. Comparative amounts for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liabilities. Lease liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 13.0% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

As of the initial date of application of IFRS 16, the Company has two vehicle leases outstanding. The remaining noncancelable periods of the leases were 22 months, and 41 months respectively. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets of $47,540 and lease liabilities with no net impact on deficit.

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.

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 the balance sheet date under its financial instruments is approximately $500,000.

All of the Company's cash is 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.

Interest Rate Risk

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

Liquidity Risk

Liquidity 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 as well as care and maintenance, and if warranted, the exploration and development of its Treasure Mountain and New Craigmont projects, and continuing custom milling testing operations at its Merritt Mill.

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 New Craigmont projects and milling operations at its Merritt Mill. 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 and development of the Treasure Mountain and New Craigmont projects or the loss or substantial dilution of any of its property interests.

Foreign Exchange Rate Risk

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

Capital Management

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

The following is a summary of the maturities for the Company's non-derivative financial liabilities as at December 31, 2019

	Less than 30 days ($)	30 days to 1 year ($)	1 year to 2 years ($)	More than 2 years ($)
Accounts Payable and Accrued Liabilities	70,326	573,744	Nil	Nil
Secured convertible debentures	Nil	256,426	5,354,118	Nil
Leasing liabilities	Nil	22,500	7,712	Nil
TOTAL:	70,326	852,670	5,361,830	Nil

RISK FACTORS AND UNCERTAINTIES

The Company may be unable to meet its liquidity requirements for operations

There can be no assurance that the amounts of cash from operations, together with amounts raised through financings will be sufficient to fund the Company's ongoing operations and care and maintenance program. If these amounts are insufficient to meet the Company's liquidity requirements, it may have to seek additional financing. There can be no assurance that such additional financing would be available or, if available, offered on acceptable terms. Failure to secure any necessary additional financing would have a material adverse impact on the Company's continued operations and viability.

Mineral Exploration and Development Activities are Inherently Risky

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into mineral deposits with significant value. Unusual or unexpected ground conditions, geological formation pressures, fires, power outages, labour disruptions, flooding, earthquakes, explorations, cave-ins, landslides and the inability to obtain suitable adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. There are also physical risks to the exploration personnel working on the site of a mineral project. The Company's exploration properties and any future mining operations will be subject to all the hazards and risks normally incidental to exploration, development and production of silver and other metals, any of which could result in damage to or destruction of exploration facilities or mines, damage to life and property, environmental damage and possible legal liability for any or all damage. Although the Company maintains insurance in an amount, which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Uncertainty of Mineral Resources

The figures for mineral resources for the Treasure Mountain Project disclosed in the Company's Annual Information Form for the year ended December 31, 2012 and in its technical report filed on SEDAR on June 12, 2012, are only estimates. Mineral reserves at the Treasure Mountain Project have not been defined therefore the mineral resources currently cannot be considered ore. In addition, there are no mineral reserves at the New Craigmont Project. There is no certainty that any expenditures made in the exploration of the Company's mineral properties will result in identification of commercially recoverable quantities of ore or that ore reserves will be mined or processed profitably. In addition, substantial expenditures will be required to develop the mining and processing facilities and infrastructure at any site chosen for mining.

Uncertainty of Economic Viability of Production from the Treasure Mountain Project

The Company has not undertaken any preliminary economic assessment or preliminary feasibility study with respect to the Treasure Mountain Project or any of its other projects and does not intend to undertake such a study or assessment. There are significant risks associated with making a production decision without a valid, current, economic analysis and the Company may subsequently determine that recommencing operations at the Treasure Mountain Project is not economically feasible.

Insurance

The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company currently maintains insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development, however the insurance the Company has may not be sufficient to cover the full extent of any liabilities that may arise.

Prices, Markets and Marketing of Silver and Metal Prices

World prices for commodities fluctuate and are affected by numerous factors including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities, and the resulting impact on the viability of any of the Company's exploration projects, cannot accurately be predicted.

Liquidity and Capital Requirements

The Company has a significant working capital deficit, no history of profitable operation and no assurance that additional funding will be available to it for further exploration and development of any of its projects. The Company may also need further financing if it decides to obtain additional mineral properties or upgrade the Merritt Mill. 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 and development of its mineral properties, the loss of substantial dilution of any of its property interests or all the liquidation of all of it's assets.

Going Concern Risk

As at December 31, 2019, the Company had an accumulated deficit of $86,970,001 (December 31, 2018 - $88,490,719) and working capital deficiency of $155,231 (December 31, 2018 - $9,683,897). These factors represent a material uncertainty that may cast 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 maintaining on-going pre-commission testing of custom milling at the 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 audited consolidated financial statements for the year ended December 31, 2019 were prepared using IFRS. These audited 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.

Management believes that these actions continue to make the going concern basis appropriate. However, it is not possible to predict whether the Company will be able to raise the working capital required for maintaining the care and maintenance program at the Treasure Mountain Project, continued custom milling operations at the Merritt Mill to commissioning, continued exploration programs for the New Craigmont Project and accordingly, substantial doubt exists as to whether the Company will be able to continue as a going concern.

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.

Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons could be required to manage and operate the Company.

Environmental Risks

All phases of the mineral exploration and development business present environmental risks and hazards and are subject to environmental regulations. Compliance with such legislation and regulations can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner which may lead to stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of exploration or production, a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Government Regulation

The natural resource exploration industry is subject to controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other natural resource exploration companies of similar size. The current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Indigenous Peoples' title claims and rights to consultation and accommodation may affect our existing operations as well as development projects and future acquisitions.

Governments in many jurisdictions must consult Indigenous Peoples with respect to grants of mineral rights and the issuance or amendment of exploration and project authorizations. Consultation and other rights of Indigenous Peoples may require accommodations, including undertakings regarding financial compensation, employment and other matters in impact and benefit agreements. This may affect our ability to acquire, explore or develop, within a reasonable time frame, mineral titles in these jurisdictions and may affect the timetable and costs of development of mineral properties in these jurisdictions. The risk of unforeseen aboriginal title claims also could affect existing operations as well as exploration and development projects and future acquisitions. These legal requirements may increase our operating costs and affect our ability to expand our operations or to explore and develop new projects.

Competition

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future. The Company also competes with other mining companies in the recruitment and retention of qualified employees.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers of, or may be associated with, other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the *Business Corporations Act* (British Columbia) and any other applicable laws and rules dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his interest and refrain from voting on the matter unless otherwise permitted by the *Business Corporations Act* (British Columbia). In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

No Current Plans to Pay Cash Dividends

The Company has no plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Company’s Board of Directors and will depend on, among other things, the Company’s financial results, cash requirements, contractual restrictions and other factors that the Board of Directors may deem relevant. In addition, the Company’s ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness that the Company or its subsidiaries incur. As a result, investors may not receive any return on an investment in the Company’s securities unless they sell the securities for a price greater than that which they paid for them.

Economic Conditions

Unfavourable economic conditions may negatively impact the Company’s financial viability. Unfavourable economic conditions could also increase the Company’s financing costs, decrease estimated income from prospective mining operations, limit access to capital markets and negatively impact the availability of credit facilities or other financing to the Company.

Price Volatility of Public Stock

The market price of the Company’s securities has experienced wide fluctuations, which may not necessarily be related to the operating performance, underlying asset values or prospects of the Company. Any market for the Company’s securities may be subject to market trends generally and the value of the Company’s securities on the Exchange may be affected by such volatility in response to numerous factors, many of which are beyond the Company’s control, including:

- actual or anticipated fluctuations in the Company’s quarterly results of operations;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- the addition or departure of the Company’s executive officers or other key personnel;
- release or other transfer restrictions on outstanding Company securities;
- sales or perceived sales of additional Company securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- news reports relating to trends, concerns, competitive developments or regulatory changes; and

- other related issues in the Company's industry or target markets.

Financial markets continue to experience significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's securities may decline even if the Company's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that fluctuations in price and volume will not occur in the future. If increased levels of volatility and market turmoil occur, the Company's operations may be adversely impacted and the trading price of the Company's securities may be adversely affected.

Regulatory and Permitting

Regulatory and permitting requirements have a significant impact on the Company's operations and can have a material and adverse effect on future cash flow, results of operations and financial condition. In order to conduct mineral exploration and mining activities the Company must obtain or renew exploration or mining permits and licenses in accordance with the relevant mining laws and regulations required by governmental authorities having jurisdiction over mineral projects. There is no guarantee that the Company will be granted the necessary permits and licenses, that they will be renewed, or that the Company will be in a position to comply with all the conditions that are imposed. Mining is subject to potential risks and liabilities associated with pollution and the disposal of waste from mineral exploration and mine operations. Costs related to discovery, evaluation, planning, designing, developing, constructing, operating, closing and remediating mines and other facilities in compliance with these laws and regulations are significant. In addition to environmental protection, applicable laws and regulations govern employee health and safety. Not complying with these laws and regulations can result in enforcement actions that may include corrective measures requiring capital expenditures, installation of additional equipment, remedial action and changes to operating procedures resulting in additional costs and temporary or permanent shutdown of operations. The Company may also be required to compensate those parties suffering loss or damage and may face civil or criminal fines or penalties for violating certain laws or regulations. Changes to these laws and regulations in the future could have an adverse effect on the Company's cash flow, results of operations and financial condition. Further, the issuance of permits may be subject to review by third parties who may challenge future permitting and the validity of existing permits based on, among other things, the government's obligation to consult and accommodate.

Forward-Looking Statements May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements contained in this MD&A. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements, or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading "Cautionary Note Regarding Forward-Looking Statements"

OTHER INFORMATION

This MD&A of the financial position and results of operations of the Company is dated as of February 26, 2020 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2019 and 2018. Additional information relating to the Company can be accessed through the Company's public filings on SEDAR at www.sedar.com.

The Company's website address is www.nicolamining.com.