NICOLA MINING INC.

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nicola Mining Inc.

Opinion

We have audited the accompanying consolidated financial statements of Nicola Mining Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive income (loss), cash flows and changes in shareholders' deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had an accumulated deficit of $86,970,001 and working capital deficiency of $155,231. 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 together with ongoing exploration programs. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Peter Maloff.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 26, 2020

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

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 500,797	$ 1,362,775
Amounts receivable	4	241,014	222,903
Prepaid expenses and other assets		25,955	62,606
		767,766	**1,648,284**
Non-current assets			
Property, plant and equipment	5	9,058,532	9,161,049
Right-of-use-Assets	8	28,424	-
Mineral interests	6	3	3
Restricted cash	9	1,210,100	1,210,100
Total assets		**$ 11,064,825**	**$ 12,019,436**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 644,071	$ 517,494
Current portion of lease liabilities	8	22,500	-
Secured convertible debenture	11	256,426	6,434,179
Flow-through obligation	16	-	4,068,397
Flow-through share premium	13	-	312,111
		922,997	**11,332,181**
Non-current liabilities			
Asset retirement obligation	7	3,674,785	3,832,001
Lease liabilities	8	7,712	-
Secured convertible debenture received in advance	18	160,000	-
Secured convertible debenture	11	5,354,118	237,000
Total liabilities		**10,119,612**	**15,401,182**
Equity			
Shareholders' deficiency			
Share capital	13	76,640,941	75,102,831
Warrants	13	1,692,331	1,692,331
Equity component of convertible debentures		2,063,082	808,230
Contributed surplus		7,518,860	7,505,581
Accumulated deficit		(86,970,001)	(88,490,719)
Total shareholders’ deficiency		**945,213**	**(3,381,746)**
Total liabilities and shareholders’ deficiency		**$ 11,064,825**	**$ 12,019,436**

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

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

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

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

	Note		Year Ended December 31 2019		2018
Operating Expenses					
Exploration costs	6	$	1,541,187	$	2,164,767
Mill costs			580,561		727,233
Accretion of asset retirement obligation	7		74,328		72,626
Salaries and benefits	15		136,213		140,496
Share-based compensation expense	14,15		-		239,700
Professional fees			180,298		242,013
Consulting fees	15		209,846		449,217
Office and general			56,488		73,059
Travel and investor relations			53,984		79,631
Regulatory and transfer agent fees			40,334		61,826
Rent			15,415		19,310
Vehicle expenses			1,068		8,480
Depreciation			1,416		280,463
Operating Loss			(2,891,138)		(4,558,821)
Gain on settlement of interest on convertible debentures	13		-		90,729
Gain (loss) on disposal of property, plant and equipment			6,628		(1,040)
Gravel and other income	7		588,059		459,661
Flow-through obligation recovery	16		4,106,780		-
Finance costs	12		(1,418,802)		(1,491,758)
Part X11.6 tax, recovery, tax penalties	16		313,696		-
Flow-through premium	13		347,311		183,562
Income (Loss) before income taxes			1,052,534		(5,317,667)
Deferred income tax recovery	11,17		468,184		9,930
Net Income (loss) and Comprehensive Income (Loss) for the year		$	1,520,718	$	(5,307,737)
Income (Loss) Per Share – basic and diluted		$	0.01	$	(0.03)
Weighted Average Number of Common Shares Outstanding – basic and diluted			233,471,269		200,135,786

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

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

	Year Ended December 31	
	2019	**2018**
Operating Activities		
Net Income (loss) for the year	$ 1,520,718	$ (5,307,737)
Adjustments for:		
Accretion of asset retirement obligation	74,328	72,626
Share-based compensation	18,513	272,480
Depreciation	121,045	309,674
Non-cash interest and finance expense	1,418,979	1,328,914
Part X11.6 tax, tax penalties, and indemnification expense	-	98,969
(Gain) loss on disposal of property, plant, and equipment	(6,628)	1,040
Flow-through premium	(347,311)	(183,562)
Flow-through obligation recovery	(4,106,780)	-
Deferred income tax recovery	(468,184)	(9,930)
Gain on settlement of debt	-	(90,729)
Changes in non-cash working capital items		
Amounts receivable	(18,111)	(120,739)
Prepaid expenses and other assets	36,651	(21,023)
Accounts payable and accrued liabilities	94,446	(64,107)
Cash and Cash Equivalents Used in Operating Activities	(1,662,334)	(3,714,124)
Investing Activities		
Purchase of property, plant, and equipment	(1,284)	(73,522)
Disposal of property, plant, and equipment	-	1,904
Reclamation expenditures incurred	(223,044)	(201,927)
Cash and Cash Equivalents Used in Investing Activities	(224,328)	(273,545)
Financing Activities		
Issuance of common shares, net of cash paid share issuance costs	850,988	3,410,599
Exercise of stock options and share purchase warrants	9,000	778,500
Interest payment	(12,500)	(45,040)
Repayment of Waterton debt	-	(1,287,500)
Repayment of lease liabilities	(17,328)	-
Convertible notes received in advance	160,000	-
Convertible notes issued	45,000	-
Convertible note issuance costs	(10,476)	-
Cash and Cash Equivalents Provided by Financing Activities	1,024,684	2,856,559
Net change in cash and cash equivalents for the year	(861,978)	(1,131,110)
Cash and cash equivalents, beginning of year	1,362,775	2,493,885
Cash and cash equivalents, end of year	$ 500,797	$ 1,362,775

The significant non-cash transactions for the year ended December 31, 2019 were the issuance of 7,446,981 common shares at a value of $708,088 for interest on convertible debentures, transaction costs incurred through accounts payable of $32,131, and the recognition of the right of use asset and lease liability of $47,540.

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

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

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

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (Deficiency)
Balance, January 1, 2018	190,327,750	$ 70,627,245	$ 1,662,167	$ 789,645	$ 7,233,101	$ (83,182,982)	$ (2,870,824)
Share issuance financings	28,623,329	3,579,999	-	-	-	-	3,579,999
Share issue costs	-	(169,400)	-	-	-	-	(169,400)
Share purchase warrants exercised	5,190,000	785,848	(7,348)	-	-	-	778,500
Issuance of shares for interest on convertible debentures	6,131,927	617,359	-	-	-	-	617,359
Issuance of convertible debenture	-	-	7,521	30,673	-	-	38,194
First tranche conversion	204,543	45,126	-	(4,113)	-	-	41,013
Fair value of warrants issued on convertible debt	-	-	(1,955)	(7,975)	-	-	(9,930)
Fair value of finder's warrants	-	(31,946)	31,946	-	-	-	-
Flow-through share premium	-	(351,400)	-	-	-	-	(351,400)
Share based compensation	-	-	-	-	272,480	-	272,480
Net loss for the year	-	-	-	-	-	(5,307,737)	(5,307,737)
Balance, December 31, 2018	230,477,549	$ 75,102,831	$ 1,692,331	$ 808,230	$ 7,505,581	$ (88,490,719)	$ (3,381,746)
Balance, January 1, 2019	230,477,549	$ 75,102,831	$ 1,692,331	$ 808,230	$ 7,505,581	$ (88,490,719)	$ (3,381,746)
Share issuances, financings	8,770,000	877,000	-	-	-	-	877,000
Stock options exercised	150,000	14,234	-	-	(5,234)	-	9,000
Share issue costs	-	(26,012)	-	-	-	-	(26,012)
Issuance of shares for interest on convertible debentures	7,446,981	708,088	-	-	-	-	708,088
Issuance of convertible debenture	-	-	-	1,254,852	-	-	1,254,852
Flow-through share premium	-	(35,200)	-	-	-	-	(35,200)
Share-based compensation	-	-	-	-	18,513	-	18,513
Net Income for the year	-	-	-	-	-	1,520,718	1,520,718
Balance, December 31, 2019	246,844,530	$ 76,640,941	$ 1,692,331	$ 2,063,082	$ 7,518,860	$ (86,970,001)	$ 945,213

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

As at December 31, 2019, the Company had an accumulated deficit of $86,970,001 (2018 - $88,490,719) and a working capital deficiency of $155,231 (2018 - $9,683,897). In order to continue operations, the Company will be required to raise funds through the issuance of equity or debt, or be successful recommencing operations at the Treasure Mountain project ("**Treasure Mountain Property**") and/or Merritt Mill, together with ongoing exploration programs at its New Craigmont property ("**New Craigmont Property**"). These factors represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and the Company's consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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

2. BASIS OF PRESENTATION

a) Statement of Compliance with International Financial Reporting Standards

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

These consolidated financial statements have been authorized for release by the Company's Board of Directors on February 26, 2020.

b) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Huldra Properties Inc. All inter-company balances and transactions are eliminated on consolidation.

c) Basis of Measurement

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

d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The judgments that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

i) <u>Impairment of non-current assets</u>

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

ii) <u>Completion of commissioning</u>

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

2. BASIS OF PRESENTATION (cont'd)

e) Key Sources of Estimation Uncertainty

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

Convertible debentures

The Company's convertible debentures represent management's best estimates and judgement in accounting for separate components of financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgement given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual is accounted for as an equity instrument at issuance.

Rehabilitation provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on deposit with banks, and highly liquid short-term interest-bearing investments which are subject to an insignificant risk of change in value. Cash and cash equivalents consists' of cash of $500,797 at December 31, 2019 (2018 - $1,362,775).

b) Restricted Cash

Cash is considered to be restricted as it is subject to rights of a government agency.

c) Property, Plant and Equipment

On initial recognition, property, plant and equipment ("**PPE**") are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

PPE is subsequently stated at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

statement of operations and comprehensive loss during the financial period in which they are incurred.

The Company allocates the amount initially recognized in respect of an item of PPE to its significant parts and depreciates separately each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within operating expenses in the statement of operations and comprehensive loss.

PPE are depreciated using the following methods:

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

d) Commercial and Pre-commercial Production

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

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

e) Impairment of Non-financial Assets

At the date of each statement of financial position, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations and comprehensive loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

prior years. A reversal of an impairment loss is recognized immediately in the statement of operations and comprehensive loss.

f) Mineral Interests

The Company follows the method of accounting for its mineral interests whereby all costs related to acquisition and site restoration are capitalized by project, net of recoveries received. The amounts shown as mineral interests represent costs incurred to date less amounts written off, and do not necessarily represent present or future values. These costs will be amortized against revenue from future production or written off if the interest is abandoned or sold. The ultimate recoverability of amounts capitalized for mineral interests is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete development and realize profitable production or proceeds from the disposition thereof. At such time as commercial production commences, these costs will be charged to profit or loss on a unit-of-production method based on proven and probable reserves.

g) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures ("**E&E**") excluding mineral interest acquisition and site restoration costs are charged to the statement of operations and comprehensive income (loss) as incurred. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs subsequently incurred to develop the mine on the property prior to the start of the mining operations are capitalized. Any recoveries received that relate to exploration costs are recorded as a recovery of such costs.

h) Revenue Recognition

Revenue from the sale of gold and silver concentrate is recognized at the fair value of the consideration received and when all significant risks and rewards of ownership pass to the purchaser including delivery of the product, there is a fixed or determinable selling price and collectability is reasonably assured. Gold and silver concentrate revenue is recorded at the time of physical delivery and transfer of title. Sales prices are fixed at the delivery date based on the terms of the contract or at spot prices. Any recoveries received that relate to exploration costs are recorded as a recovery of such costs given that the Company has not yet completed a positive economic analysis of its mineral interests.

Revenue associated with the sale of concentrate from the mill partnership agreements during the mill commissioning process are credited against the cost of the mill.

i) Financial Instruments

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

Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

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

Financial asset	IFRS 9 Classification
Cash and cash equivalents	Fair value through profit or loss
Amounts receivable and prepaid expenses and other assets	Amortized cost

Financial liabilities

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Share Capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds. The Company may issue units including common shares and warrants. To value these units, the Company uses the residual value method. Under this method the Company values the common share, the easier component to value, and assigns the residual value to the warrant.

k) Share-based Payments

The Company has a stock option plan (the "**Stock Option Plan**") that is described in Note (14a). The Stock Option Plan allows directors, officers, employees and consultants of the Company to acquire shares of the Company. The fair value of stock options granted is recognized as an employee or consultant expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Options issued to Employees and others providing similar services

The fair value of employee stock options are measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the stock options vest. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the stock option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the stock option.

Options issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services cannot be estimated reliably, the stock options are measured by determining the fair value of the stock options granted, using a Black-Scholes option pricing model.

l) Income Taxes

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it becomes probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

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

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

m) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as finance costs in the statement of operations and comprehensive income (loss).

n) Asset Retirement Obligation

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

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

As the estimate of the obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The present value of decommissioning and site restoration costs are recorded as a non-current liability. The provision is discounted using a real, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations and comprehensive income (loss) to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows.

Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the decommissioning provision, and a corresponding change in the carrying amount of the related long-lived asset. Where rehabilitation is conducted systematically over the life of the operation,

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

rather than at the time of closure, or provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date the cost is charged to the statement of operations and comprehensive income (loss).

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against the statement of operations and comprehensive income (loss) as extraction progresses.

o) Convertible secured debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgement given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual is accounted for as an equity instrument at issuance.

p) Flow-Through Shares

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. The issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the statement of financial position to recognize the obligation to incur and renounce eligible resource exploration and evaluation expenditures. The tax deduction is measured as the difference, if any, between the current market price of the Company's common shares and the issue price of the flow-through shares. Upon incurring eligible resource exploration and evaluation expenditures, the Company recognizes the sale of tax deductions as a flow-through share premium on the statement of operations and comprehensive income (loss) and reduces the liability.

q) Flow-Through Obligation

Flow-through obligations are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through obligations have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability.

r) Income and Loss per Share

Basic and diluted income per share in 2019 is calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. For 2019 period presented the income available to common shareholders equals the reported income. Diluted income per share does not adjust the income attributable to common shareholders when the effect is anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company incurred income for the 2019 period presented, the secured convertible debentures, stock options and share purchase warrants as disclosed in Notes 11, 14 and 13b respectively were not included in the computation of diluted income per share as their inclusion would be anti-dilutive.

Basic and diluted loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. For 2018 period presented, the loss available to common shareholders equals the reported loss. Diluted loss per share does not adjust the loss attributable to common shareholders when the effect is anti-dilutive.

The Company incurred a loss for the 2018 period presented, the secured convertible debentures, stock options and share purchase warrants, as disclosed in Notes 11, 14 and 13b) respectively, were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive

s) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations

t) Operating Segments

The Company operates in one segment being the exploration and development of its mineral exploration properties. All of the Company's assets are located in Canada.

u) 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, the Company assesses 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. The Company assesses whether the contract involves the use of an identified asset, whether we have the right to obtain substantially

u) New Standards, Amendments and Interpretation (cont'd)

IFRS 16, Leases (cont'd)

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, the Company recognizes 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 receiv

IFRS 16, Leases (cont'd)

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:

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 non-cancelable periods of the leases were 22 months, and 41 months

(Expressed in Canadian dollars)

u) New Standards, Amendments and Interpretation (cont'd)

IFRS 16, Leases (cont'd)

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 (Note 8) and lease liabilities (Note 8) with no net impact on deficit.

4. AMOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018
Gravel and other receivables	$ 217,872	$ 192,669
GST receivable (net)	23,142	30,234
	$ 241,014	**$ 222,903**

(Expressed in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	Land $	Mill $	Camp and Site Infrastructure $	Heavy Machinery and Equipment $	Computers and Office Equipment $	TOTAL $
Cost						
Balance at January 1, 2018	7,756,507	1,564,085	23,977	292,948	26,520	9,664,037
Additions	-	41,214	28,608	-	3,700	73,522
Disposals	-	-	-	(6,413)	-	(6,413)
Balance at December 31, 2018	7,756,507	1,605,299	52,585	286,535	30,220	9,731,146
Additions	-	-	-	1,284	-	1,284
Disposals	-	-	-	(5,350)	-	(5,350)
Balance at December 31, 2019	7,756,507	1,605,299	52,585	282,469	30,220	9,727,080
Accumulated Depreciation						
Balance at January 1, 2018	-	-	6,110	237,844	19,938	263,892
Depreciation for the year	-	279,022	8,178	20,608	1,866	309,674
Disposals		-	-	(3,469)	-	(3,469)
Balance at December 31, 2018	-	279,022	14,288	254,983	21,804	570,097
Depreciation for the year	-	80,265	10,400	9,312	1,952	101,929
Disposals	-	-	-	(3,478)	-	(3,478)
Balance at December 31, 2019	-	359,287	24,688	260,817	23,756	668,548
Carrying Amounts						
At January 1, 2018	7,756,507	1,564,085	17,867	55,104	6,582	9,400,145
At December 31, 2018	7,756,507	1,326,277	38,297	31,552	8,416	9,161,049
At December 31, 2019	7,756,507	1,246,012	27,897	21,652	6,464	9,058,532

(Expressed in Canadian dollars)

6. MINERAL INTERESTS

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

The Company holds a 100% interest in the New Craigmont Property comprising 21 mineral claims and 10 mineral leases located near Merritt, B.C. The properties are subject to a 2% net smelter royalty.

Upon repayment by the Company of all amounts owed to a third party ("**Waterton**") on November 24, 2018 (Note 10), the holders of the First Tranche Debentures in aggregate principal amount of $7,000,882 (Note 11 – the **"First Tranche Royalty"**) were granted an aggregate 2% net smelter returns royalty with respect to the Treasure Mountain Property, provided that each holder of the Debentures shall only be entitled to their pro rata share of such royalty based on their individual investment pursuant to the Debentures.

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

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

	December 31, 2019 $	December 31, 2018 $
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)

6. MINERAL INTERESTS (cont'd)

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

	Years Ended December 31,	
	2019 $	**2018** $
EXPLORATION COSTS		
Costs incurred during the year		
New Craigmont Property		
Assaying	109,029	60,490
Drilling and related costs	615,527	1,435,073
Field supplies and rentals	176,387	158,526
First Nations liaison consulting	-	2,225
Geological consulting and technical fees	450,542	398,759
Geophysics	-	39,051
Mapping	58,465	10,059
Tenure lease	8,481	6,633
Share-based compensation (Note 14)	18,513	32,780
Soil sampling	63,068	-
Recovery of costs	(16,019)	(21,978)
	1,483,993	2,121,618
Treasure Mountain Property		
Reclamation of mine site	-	8,189
Property taxes	8,976	7,135
Water sampling	20,612	20,454
Permitting	200	671
Soil sampling	20,706	-
Tenure lease	6,700	6,700
	57,194	43,149
Total costs incurred during the year	**1,541,187**	**2,164,767**

(Expressed in Canadian dollars)

7. ASSET RETIREMENT OBLIGATION

	December 31, 2019 $	December 31, 2018 $
Opening balance	3,832,001	3,961,302
Reclamation expenditures incurred	(231,544)	(201,927)
Accretion expense	74,328	72,626
Closing balance	3,674,785	3,832,001

Merritt Mill

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%).

The Company estimates the reclamation costs associated with the Merritt Mill to be $3,545,623 (2018 - $3,719,588). The Company anticipates it will settle these obligations over 15 years (2018 – 15 years).

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

Treasure Mountain

The Company discounted the estimated costs relating to the reclamation of the Treasure Mountain Property using a real discount rate of 0% since the short-term inflation and risk-free rates are similar.

The Company's estimated reclamation costs associated with the Treasure Mountain Property is $505,100 (2018 - $505,100). In order to obtain its final permits, the Company posted security bonds and deposits of $505,100 with the government of British Columbia. The Company anticipates it will settle these obligations over the next 3 to 5 years.

Ash Disposal Contract

During the year ended December 31, 2017, the Company entered into a thirty-year ash management contract with Merritt Operations Services Limited Partnership. The Company plans to accept 7,500 dry tons of ash which will be blended with fill soils and plant seeds to assist with the remediation of the Merritt Mill site. The net proceeds from the receipt of ash are recorded in Gravel and Other Income in the Consolidated Statements of Operations and Comprehensive Income (Loss).

(Expressed in Canadian dollars)

8. RIGHT OF USE ASSETS AND LEASE LIABILITY

Right of Use Assets		
Cost:		
At December 31, 2018	$	-
Adjustment on initial adoption of IFRS 16 (Note 2)		47,540
At December 31, 2019	$	47,540
Depreciation:		
At December 31, 2018	$	-
Charge for the year		19,116
At December 31, 2019	$	19,116
Net book value:		
At December 31, 2018	$	-
At December 31, 2019	$	28,424

Lease liability		
Lease liabilities recognized January 1, 2019	$	47,540
Lease payments made		(22,500)
Interest expense on lease payments		5,172
Balance, at December 31, 2019	$	30,212
Current portion	$	22,500
Non-Current portion	$	7,712

The lease liabilities were discounted at a discount rate of 13% as at January 1, 2019.

9. RESTRICTED CASH

The Company has in place deposits amounting to $1,210,100 as at December 31, 2019 (2018 - $1,210,100) registered in the name of the British Columbia Ministry of Finance as security for its mining permits and for reclamation clean up at the Treasure Mountain Property, the Merritt Mill and decommissioned tailings, and the New Craigmont Property.

(Expressed in Canadian dollars)

10. WATERTON DEBT

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

	December 31, 2019	December 31, 2018
Opening balance	$ -	$ 1,291,521
Finance costs (Note 12)	-	28,518
Repayments	-	(1,320,039)
	$ -	-

11. SECURED CONVERTIBLE DEBENTURE

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

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

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

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

11. SECURED CONVERTIBLE DEBENTURE (cont'd)

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

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

On May 20, 2019, the Company issued 125,000 common shares at a value of $0.10 per share in settlement of interest of $12,500.

The outstanding principal and interest of the Debentures and Second Tranche Debentures are secured against the assets of Nicola.

Repayment by the Company of all amounts owed to Waterton on November 24, 2018, the holders of the First Tranche Debentures in aggregate principal amount of $7,000,882 were granted an aggregate 2% net smelter returns royalty with respect to the Treasure Mountain Property (the "**First Tranche Royalty**"), provided that each holder of the First Tranche Debentures shall only be entitled to their pro rata share of such royalty based on their individual investment pursuant to the First Tranche.

On November 21, 2019 the Company agreed to pay all interest owing on the First Tranche Debentures by issuance of 7,321,981 common shares at a value of $0.095 in settlement of interest of $695,588.

On November 21, 2019 the Company closed a first tranche of the Debentures totaling $7,000,882, of which $45,000 was by issuance of a new Debenture and $6,955,882 was debt extinguishment and refinanced with the previous $6,955,882 First Tranche Debenture holders. The Debentures bear interest at a rate of 10% per annum, which is payable annually, in cash or in common shares at market price at the option of the Company and mature on November 21, 2022. The principal amount of the Debentures may be converted into common shares prior to the maturity date, at the option of the holder, at a price of $0.10 per share. Repayment of the outstanding principal and interest of the Debentures will be secured against the assets of the Company.

For accounting purposes the proceeds received of $7,000,882 have been allocated based on the relative fair values of the debt. The fair value of the debentures was determined to be $5,266,867 using a discount rate of 20%. Residual value of $1,734,015 has been allocated as $1,254,852 to the equity component net of $468,184 deferred income tax recovery and $10,980 relating to the equity component of transaction costs. Transaction costs of $44,331 have been allocated to the Debentures.

(Expressed in Canadian dollars)

11. SECURED CONVERTIBLE DEBENTURE (cont'd)

	December 31, 2019,	December 31, 2018
Principal amount	$ 6,671,179	$ 6,169,079
Conversion of First Tranche (Note 13)	-	(41,013)
Less payment of interest	(12,500)	(12,500)
Less payment of interest in shares	(708,088)	(708,088)
Retirement of Debentures	(6,955,664)	(250,000)
Issuance / Re-Issuance of Debentures	5,266,649	211,806
Less transaction costs	(31,628)	-
Accrued interest (Note 12)	1,359,276	1,278,274
Accretion (Note 12)	21,320	23,621
Subtotal	$ 5,610,544	$ 6,671,179
Current portion	$ 256,426	$ 6,434,179
Non-current portion	$ 5,354,118	$ 237,000

12. FINANCE COSTS

	2019 $	2018 $
Waterton debt (Note 10)	-	28,518
Secured convertible debenture (Note 11)	1,380,596	1,301,895
Flow-through share obligation (Note 16)	38,383	98,969
Other	(177)	32,376
	1,418,802	1,491,758

13. SHARE CAPITAL AND RESERVES

a) Common Shares

Authorized

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

Issued

Common shares issued and outstanding at December 31, 2019 were 246,844,530 (2018 – 230,477,549).

On May 20, 2018 the Company issued 83,334 common shares at a value of $0.15 per share in settlement of interest of $12,500 owing on the May 2018 secured convertible debentures (Note 11).

On July 23, 2018 the Company issued 9,333,329 units at a price of $0.15 per unit for gross proceeds of $1,399,999. Each unit consisted of one common share and one-half purchase warrant, with each warrant exercisable into one additional common share at a price of $0.18 per share for a period of two years. The Company also paid finders fees of $71,750 and issued 478,333 finders warrants. The finder’s share purchase warrants had a fair value of $15,746 estimated using Black-Scholes option pricing model with a volatility of 67%, risk-free interest rate of 2%, dividend rate of 0% and expected life of 2 years.

On November 26, 2018 the Company issued 6,048,593 common shares at a value of $604,859 in settlement of interest of $695,588 (Note 11) on the First Tranche Debentures resulting in a gain on settlement of $90,729.

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

During 2018 the Company issued 204,543 common shares on conversion of $45,126 of the First Tranche Debentures at an exercise price of $0.22 (Note 11).

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

13. SHARE CAPITAL AND RESERVES (cont'd)

On December 21, 2018, the Company issued 10,040,000 flow-through units at $0.125 per unit for gross proceeds of $1,255,000. Each unit consisted of one common share and one-half one common share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $0.15 per share for a period of two years. The Company also paid finder's fees of $81,900 and issued 655,200 share purchase warrants. The finder's warrants are exercisable at a price of $0.15 per share for a period of two years. The finder's share purchase warrants had a fair value of $12,134 estimated using the Black-Scholes option pricing model with a volatility of 68%, risk-free interest rate of 1.94%, dividend rate of 0% and expected life of 2 years. The flow-through share premium liability associated with this issuance was $351,400. The Company renounced $39,289 and incurred $140,321 in flow-through expenditures resulting in a flow-through obligation recovery of $39,289 in fiscal 2018. During the year ended December 31, 2019, the Company incurred the remaining $1,114,679 in flow-through expenditures resulting in a flow-though obligation recovery of $312,111.

On May 20, 2019, the Company issued 125,000 common shares at a value of $0.10 per share in settlement of interest of $12,500 owing on the May 20, 2018 secured convertible debentures (Note 11).

On June 6, 2019, the Company issued 150,000 common shares at a value of $9,000 in connection with the exercise of 150,000 stock options and $5,234 was transferred from contributed surplus to share capital.

On August 19, 2019, the Company closed a first tranche and on September 6, 2019 the Company closed a second tranche and issued an aggregate of 5,250,000 units at a price of $0.10 per unit for gross proceeds of $525,000. Each unit consisted of one common share and one-half of one purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.15 per share for a period of two years from the date of issuance.

On November 21, 2019, the Company issued 7,321,981 common shares at a value of $0.095 in settlement of interest of $695,588 (Note 11) on the First Tranche Debentures.

On December 19, 2019, the Company issued 3,520,000 flow-through shares at $0.10 per share for gross proceeds of $352,000. The Company paid cash finder's fees of $24,290. The flow-through share premium liability associated with this issuance was $35,200. The Company renounced $35,200 and incurred $352,000 in flow-through expenditures resulting in a flow-through obligation recovery of $35,200 in fiscal 2019.

(Expressed in Canadian dollars)

13. SHARE CAPITAL AND RESERVES (cont'd)

Flow-Through Premium Liability:

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

Balance as of December 31, 2017	$	144,273
Flow-through premium liability		351,400
Settlement of flow-through share premium Liability pursuant to qualified expenditures		(183,562)
Balance as of December 31, 2018		312,111
Flow-through share premium liability		35,200
Settlement of flow through share premium Liability pursuant to qualified expenditures -		(347,311)
Balance as of December 31, 2019	$	-

(Expressed in Canadian dollars)

13. SHARE CAPITAL AND RESERVES (cont'd)

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2018 to December 31, 2019:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2018	36,516,720	$ 0.20
Issued warrants	15,602,698	0.16
Exercised warrants	(5,190,000)	0.15
Expired warrants	(3,778,740)	0.15
Balance at December 31, 2018	43,150,678	0.20
Issued warrants	2,625,000	0.15
Expired warrants	(27,547,980)	0.22
Balance at December 31, 2019	18,227,698	$ 0.16

As at December 31, 2019, the Company had outstanding warrants as follows:

Number	Exercise Price	Expiry Date
4,666,665	$0.18	July 23, 2020
478,333	$0.18	July 23, 2020
3,715,000	$0.15	November 26, 2020
87,500	$0.15	November 26, 2020
910,000	$0.15	December 12, 2020
70,000	$0.15	December 12, 2020
5,020,000	$0.15	December 21, 2020
655,200	$0.15	December 21, 2020
2,250,000	$0.15	August 19, 2021
375,000	$0.15	September 6, 2021
18,227,698		

14. 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.

The Company's 2018 annual general and special meeting of its shareholders was held on June 25, 2019. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

(Expressed in Canadian dollars)

14. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options from January 1, 2018 to December 31, 2019:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2018	8,089,000	$ 0.35
Issued options	3,325,000	0.10
Expired options	(39,000)	9.50
Cancelled options	(50,000)	0.175
Balance at December 31, 2018	11,325,000	0.14
Issued options	200,000	0.10
Exercised options	(150,000)	0.06
Expired options	(100,000)	0.06
Cancelled options	(200,000)	0.10
Balance at December 31, 2019	11,075,000	$ 0.14

As at December 31, 2019, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
1,350,000	1,350,000	$0.11	.43	June 5, 2020
200,000	200,000	$0.15	.45	June 14, 2020
2,600,000	2,600,000	$0.175	1.53	July 10, 2021
550,000	550,000	$0.14	1.57	July 26, 2021
400,000	400,000	$0.17	1.95	December 13, 2021
2,650,000	2,650,000	$0.165	2.99	December 27, 2022
3,125,000	3,125,000	$0.10	3.99	December 28, 2023
200,000	200,000	$0.10	4.12	February 12, 2024
11,075,000	11,075,000			

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(Expressed in Canadian dollars)

14. SHARE-BASED PAYMENTS (cont'd)

b) Fair Value of Stock Options Issued During the Period

The weighted average fair value at grant date of stock options granted during the year ended December 31, 2019 was $0.09 per stock option (2018 - $0.10).

The model inputs for options granted during the year ended December 31, 2019 and 2018:

Grant Date	Expiry Date	Share Price at Grant Date $	Exercise Price $	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
02/12/2019	02/12/2024	0.10	0.10	1.82%	60 months	157.74%	0%
12/28/2018	12/28/2023	0.10	0.10	1.86%	60 months	117.45%	0%

The Company recorded share-based payment expense of $18,513 (2018 – $272,480) during the year ended December 31, 2019, of which $ 18,513 (2018 - $32,780) has been included in exploration costs.

15. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of its directors, the Chief Executive Officer and the Chief Financial Officer.

The following is a summary of the Company's key management compensation

	Year Ended December 31,	
	2019	**2018**
	$	$
Consulting fees	195,000	195,000
Salaries and benefits	145,000	131,500
Share-based compensation	-	180,288

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

15. FINANCIAL and CAPITAL RISK MANAGEMENT

Fair Value

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

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

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

The three levels of fair value estimation are:

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

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

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

Risk Exposure and Management

<u>Overview</u>

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

<u>Credit Risk</u>

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at December 31, 2019 under its financial instruments is approximately $500,000.

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 and CAPITAL RISK MANAGEMENT (cont'd)

Interest Rate Risk

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

Liquidity Risk

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

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

Foreign Exchange Rate Risk

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

Capital Management

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

(Expressed in Canadian dollars)

16. FLOW-THROUGH SHARE OBLIGATION

		Flow-through Obligation
Balance at January 1, 2018	$	3,969,428
Interest costs		153,532
2012 METC reassessment		(23,440)
Part X11.6 tax		(31,123)
Balance at December 31, 2018		4,068,397
Interest costs		38,383
Recovery of flow-through obligation		(4,106,780)
Balance at December 31, 2019	$	-

The above provision relates to the Company's requirement to indemnify flow-through investors for the amount of increased tax and other costs payable by investors as a consequence of the CRA claiming the Company failed to incur qualifying exploration expenditures previously renounced to the flow-through investors.

The Company filed a Notice of Objection on July 19, 2018. On July 11, 2019 the Company was advised by the 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. The Company recorded a recovery for the full amount of the recorded flow-through obligation of $4,106,780. On September 24, 2019 the Company received a tax refund of previously paid Part X11.6 taxes in the amount of $328,730 from CRA less related tax penalties of $15,034.

(Expressed in Canadian dollars)

17. INCOME TAXES

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

		2019		**2018**
Income (Loss) before income taxes	$	1,052,534	$	(5,317,667)
Expected income tax (recovery)		284,000		(1,436,000)
Change in statutory, foreign exchange rates and other		9,816		34,070
Permanent difference		(1,074,000)		110,000
Impact of flow through shares		396,000		557,000
Share issue costs		(19,000)		(46,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		182,000		(2,000)
Change in unrecognized deductible temporary differences		(247,000)		773,000
Total income tax expense (recovery)	$	(468,184)	$	(9,930)

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

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

	2019 $	**2018** $
Deferred tax assets (liability)		
Debt with accretion	(468,000)	(311,000)
Non-capital losses	468,000	311,000
Net deferred tax liability	**$ -**	**$ -**

	2019	**Expiry Date Range**	**2018**
Exploration and evaluation assets	$ 4,053,000	No expiry date	$ 1,395,000
Investment tax credit	441,000	2030 to 2032	441,000
Property, plant and equipment	20,475,000	No expiry date	20,303,000
Share issue costs	273,000	2038 to 2044	341,000
Asset retirement obligation	300,000	No expiry date	225,000
Non-capital losses available for future period	37,464,000	2026 to 2039	41,215,000

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

18. SUBSEQUENT EVENTS

On January 9, 2020 the Company closed the second and final tranche totaling $350,000 of secured convertible debentures. The key terms of tranche two are the same as the first tranche that closed November 21, 2019 (Note 11). The Company raised total proceeds of $7,350,882 from the closing of the first and second tranches. During December 2019 a total of $160,000 proceeds of the second tranche were deposited with the Company and was part of the closing of the second tranche on January 9, 2020.