



# **NICOLA MINING INC.**

**Condensed Consolidated Interim Financial Statements**

**For the three months ended March 31, 2021 and 2020**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

### **CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORTING**

The accompanying unaudited condensed consolidated interim financial statements of Nicola Mining Inc. ("the Company") have been prepared by management in accordance with International Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the unaudited condensed consolidated interim financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for review of interim financial statements by an entity's auditor.

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

	<b>Note</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 676,888	\$ 824,705
Amounts receivable	4	124,871	100,881
Prepaid expenses and other assets		56,473	52,665
		<b>858,232</b>	<b>978,251</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	9,060,351	9,090,448
Right-of-use-assets	8	65,138	69,845
Mineral interests	6	3	3
Restricted cash	9	1,211,013	1,211,013
<b>Total assets</b>		<b>\$ 11,194,737</b>	<b>\$ 11,349,560</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 660,468	\$ 671,821
Current portion of lease liabilities	8	16,451	15,927
Current portion of equipment loan	10	36,896	43,739
Flow-through share premium	13	83,327	95,231
		<b>797,142</b>	<b>826,718</b>
<b>Non-current liabilities</b>			
Asset retirement obligation	7	3,851,295	3,831,834
Lease liabilities	8	50,826	55,141
Equipment loan	10	63,964	67,755
Secured convertible debenture	11	6,593,894	6,369,276
<b>Total liabilities</b>		<b>11,357,121</b>	<b>11,150,724</b>
<b>Equity</b>			
<b>Shareholders' deficiency</b>			
Share capital	13	78,960,699	78,605,424
Warrants	13	1,694,494	1,694,494
Equity component of convertible debentures		2,156,200	2,167,952
Contributed surplus		7,833,614	7,591,331
Accumulated deficit		(90,807,391)	(89,860,365)
<b>Total shareholders' deficiency</b>		<b>(162,384)</b>	<b>198,836</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 11,194,737</b>	<b>\$ 11,349,560</b>
<b><u>Peter Espig (signed)</u></b>		<b><u>Frank Hogel (signed)</u></b>	
Director		Director	

Nature of operations and going concern (Note 1)  
Subsequent events (Note 17)

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

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

		<b>Three Months Ended March 31</b>	
	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Operating Expenses</b>			
Exploration costs	6	\$ 101,150	\$ 90,381
Mill costs	5	214,429	155,026
Accretion of asset retirement obligation	7	19,461	19,016
Salaries and benefits	15	34,404	33,304
Share-based compensation-	14,15	338,465	72,470
Professional fees		37,759	27,619
Consulting fees	15	15,000	73,674
Office and general		15,078	15,831
Travel and investor relations		4,332	13,748
Regulatory and transfer agent fees		4,702	6,836
Rent		7,638	5,470
Vehicle expenses		1,143	906
Depreciation		411	387
<b>Operating Loss</b>		<b>(793,972)</b>	<b>(514,668)</b>
Gravel, ash, soil, and other income	7	147,026	375,188
Finance costs	12	(311,984)	(294,209)
Part X11.6 tax, tax penalties, and indemnification expense		-	(8,439)
Flow-through premium	13	11,904	-
<b>Loss before taxes</b>		<b>(947,026)</b>	<b>(442,128)</b>
Deferred income tax recovery		-	23,406
<b>Loss and comprehensive loss</b>		<b>(947,026)</b>	<b>(418,722)</b>
<b>Loss Per Share – Basic and Diluted</b>		<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>		<b>265,202,596</b>	<b>246,844,530</b>

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

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

	<b>Three Months Ended March 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Net loss for the period	\$ (947,026)	\$ (418,722)
Adjustments for:		
Accretion of asset retirement obligation	19,461	19,016
Depreciation	36,062	29,363
Non-cash interest and finance expense	315,682	300,795
Gain and Loss on disposal of property, plant, and equipment	-	(6,628)
Flow-through premium	(11,904)	(33,489)
Share-based compensation	357,011	72,471
Deferred income tax recovery	-	(23,406)
Changes in non-cash working capital items		
Amounts receivable	(23,990)	(173,204)
Prepaid expenses and other assets	(3,808)	(39,885)
Accounts payable and accrued liabilities	(11,353)	(44,052)
<b>Cash and Cash Equivalents Used in Operating Activities</b>	<b>(269,865)</b>	<b>(277,624)</b>
<b>Investing Activities</b>		
Purchase of property, plant, and equipment	(1,258)	(2,000)
Reclamation expenditures incurred	-	(53,966)
<b>Cash and Cash Equivalents Used in Investing Activities</b>	<b>(1,258)</b>	<b>(65,311)</b>
<b>Financing Activities</b>		
Repayment of lease liabilities	(6,060)	(4,695)
Exercise of stock options	140,000	-
Repayment of equipment loan	(10,634)	-
Proceeds from convertible notes issued	-	190,000
<b>Cash and Cash Equivalents Provided by Financing Activities</b>	<b>123,306</b>	<b>185,305</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>(147,817)</b>	<b>(148,285)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>824,705</b>	<b>500,797</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 676,888</b>	<b>\$ 352,512</b>

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

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

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity (Deficiency)
<b>Balance, January 1, 2020</b>	246,844,530	\$ 76,640,941	\$ 1,692,331	\$ 2,063,082	\$ 7,518,860	\$ (86,970,001)	\$ 945,213
Share based compensation	-	-	-	-	72,471	-	72,471
Issuance of convertible debenture	-	-	-	63,284	-	-	63,284
Net loss for the period	-	-	-	-	-	(418,722)	(418,722)
<b>Balance, March 31, 2020</b>	246,844,530	\$ 76,640,941	\$ 1,692,331	\$ 2,126,366	\$ 7,591,331	\$ (87,388,723)	\$ 662,246
<b>Balance, January 1, 2021</b>	263,314,888	\$ 78,605,424	\$ 1,694,494	\$ 2,167,952	\$ 7,591,331	\$ (89,860,365)	\$ 198,836
Share-based compensation	-	-	-	-	357,011	-	357,011
Issuance of shares for interest on convertible debentures	264,000	33,000	-	-	-	-	33,000
Convertible debenture conversions	650,000	67,547	-	(11,752)	-	-	55,795
Stock options exercised	1,400,000	254,728	-	-	(114,728)	-	140,000
Net loss for the period	-	-	-	-	-	(947,026)	(947,026)
<b>Balance, March 31, 2021</b>	265,628,888	\$ 78,960,699	\$ 1,694,494	\$ 2,156,200	\$ 7,833,614	\$ (90,807,391)	\$ (162,384)

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

## NICOLA MINING INC.

### Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited – Expressed in Canadian dollars)

---

#### 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 March 31, 2021, the Company had an accumulated deficit of \$90,807,391 (December 31, 2020 - \$89,860,365) and a working capital of \$61,090 (December 31, 2020 - \$151,533). 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.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position, and operating results in the future. In addition, it is possible that estimates in the Company's consolidated financial statements will change in the near term as are a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things impairment of long-lived assets including property, plant, and equipment. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

The unaudited condensed consolidated interim financial statements for the period ended March 31, 2021 were prepared using International Financial Reporting Standards (“**IFRS**”). These unaudited condensed consolidated interim financial statements have been prepared using the going concern concept, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**2. BASIS OF PRESENTATION**

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

These unaudited condensed consolidated interim financial statements, including comparatives 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 unaudited condensed consolidated interim financial statements have been authorized for release by the Company's Board of Directors on May 28, 2021

**b) Basis of Consolidation**

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Huldra Properties Inc.

**c) Basis of Measurement**

These unaudited condensed consolidated interim 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.

**d) Use of Estimates and Judgments**

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

i) Impairment of non-current assets

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

ii) Completion of commissioning

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



**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**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 consist of cash of \$676,888 at March 31, 2021 (December 31, 2020 - \$824,705).

**b) Restricted Cash**

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

**c) Property, Plant and Equipment**

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

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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

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

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

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within operating expenses in the statement of operations and comprehensive loss. During the period, no depreciation was recognized on the mill or related assets.

PPE are depreciated using the following methods:

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

**d) Right-of-use Assets and Lease Liabilities**

The Company has applied IFRS 16, *Leases* since January 1, 2019. The Company assesses whether a contract is or contains a lease inception of a contract. The Company recognize a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term unless another systematic basis is more representative of the usage of the economic benefits from the leased asset.

The lease liability is initially measured at a present value of the future lease payments at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrow rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, payments made on or before the lease commencement and any direct costs. They are subsequently measured at cost less depreciation and any impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

During the period ended March 31, 2021, the Company incurred \$10,558 for short-term leases not included in lease liabilities.

**e) 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

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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.

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

**g) 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.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

**h) Exploration and Evaluation Expenditures**

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

**i) 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 revenue are 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.

Revenue from the sale of gravel, ash, soil, and other income 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 product, there is a fixed or determinable selling price and collectability is reasonably assured.

**j) Financial Instruments**

***Financial assets***

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

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

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

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

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

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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	Classification
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable 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 (loss).

*Other financial liabilities* - This category includes accounts payable and accrued liabilities, secured convertible debentures, equipment loan, and lease liabilities 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.

**k) Share Capital**

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds.

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

**l) Share-based Payments**

The Company has a stock option plan (the "**Stock Option Plan**") that is described in Note 14(a). 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.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

*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.

**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 include dismantling and removing structures, rehabilitating mines and the tailings dam, dismantling facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

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

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

The present value of decommissioning and site restoration costs are recorded as a non-current liability. The provision is discounted using a real, risk free pre-tax discount rate. Charges for accretion and restoration expenditures are recorded as operating activities. In subsequent periods, the carrying amount of the liability is accreted by a charge to the statement of operations and comprehensive 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,

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**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 loss as extraction progresses.

**o) Flow-Through Shares**

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

**p) Secured convertible 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.

**q) Income and Loss per Share**

Income (loss) per share is based on the weighted average number of common shares outstanding for the year.

Diluted income (loss) per common share is calculated by adjusting the weighted average number of common shares outstanding for the effect of conversion of all potentially dilutive share equivalents, such as stock options and warrants, and assumes that the receipt of proceeds upon exercise of the options are used to repurchase common shares at the average market price during the period. The net effect of the shares issued less the shares assumed to be repurchased is added to the basic weighted average shares outstanding. For convertible instruments, the common shares to be included in the diluted per share calculation assumes that the instrument is converted at the beginning of the period (or issue date if later). The profit or loss attributable to common shareholders is adjusted to eliminate related interest costs recognized in profit or loss for the period.

In a period when the Company reports a loss, the effect of potential issuances of shares under options and warrants outstanding would be anti-dilutive and, therefore basic and diluted loss and comprehensive per share are the same.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

**r) Related Party Transactions**

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

**s) Operating Segments**

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

**4. AMOUNTS RECEIVABLE**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Gravel, ash, soil, and other receivables	\$ 120,412	\$98,379
GST receivable (net)	4,459	2,502
	<b>\$ 124,871</b>	<b>\$ 100,881</b>



**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

**5. PROPERTY, PLANT AND EQUIPMENT**

	Land \$	Mill \$	Camp and Site Infrastructure \$	Heavy Machinery and Equipment \$	Computers and Office Equipment \$	TOTAL \$
<b>Cost</b>						
Balance at January 1, 2020	7,756,507	1,605,299	52,585	282,469	30,220	9,727,080
Additions	-	-	-	145,150	2,000	147,150
Balance at December 31, 2020	7,756,507	1,605,299	52,585	427,619	32,220	9,874,230
Additions	-	-	-	-	1,258	1,258
<b>Balance at March 31, 2021</b>	<b>7,756,507</b>	<b>1,605,299</b>	<b>52,585</b>	<b>427,619</b>	<b>33,478</b>	<b>9,875,488</b>
<b>Accumulated Depreciation</b>						
Balance at January 1, 2020	-	359,287	24,688	260,817	23,756	668,548
Depreciation for the year	-	80,264	10,142	23,085	1,743	115,234
Balance at December 31, 2020	-	439,551	34,830	283,902	25,499	783,782
Depreciation for the period	-	20,067	2,484	8,393	411	31,355
<b>Balance at March 31, 2021</b>	<b>-</b>	<b>459,618</b>	<b>37,314</b>	<b>292,295</b>	<b>25,910</b>	<b>815,137</b>
<b>Carrying Amounts</b>						
At January 1, 2020	7,756,507	1,246,012	27,897	21,652	6,464	9,058,532
At December 31, 2020	7,756,507	1,165,748	17,755	143,717	6,721	9,090,448
<b>At March 31, 2021</b>	<b>7,756,507</b>	<b>1,145,681</b>	<b>15,271</b>	<b>135,324</b>	<b>7,568</b>	<b>9,060,351</b>

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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

	<b>3 months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>MILL COSTS</b>		
<b>Costs incurred during the year</b>		
Amortization and depreciation	30,944	24,197
Power and fuel	10,188	9,923
Mill supplies and rentals	6,705	6,939
Mill repairs	29,240	10,715
Reclamation of mill site	8,881	-
Mill insurance	47,893	43,697
Property taxes	8,237	-
Salaries and wages	59,632	59,355
Water sampling and reports	12,709	-
Permitting and regulatory fees	-	200
<b>Total costs incurred during the period</b>	<b>214,429</b>	<b>155,026</b>

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – 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 properties are subject to a 2% net smelter royalty.

The Company holds a 100% interest in New Craigmont Property comprising 21 mineral claims and 10 mineral leases. The properties are subject to a 2% net smelter royalty.

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

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

	March 31, 2021 \$	December 31, 2020 \$
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
	<b>3</b>	<b>3</b>

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>EXPLORATION COSTS</b>		
<b>Costs incurred during the period</b>		
<b>New Craigmont Property</b>		
Assaying	11,500	26,279
Drilling and related costs	-	651
Field supplies and rentals	10,988	19,156
First Nations consultation (Note 15)	15,000	-
Geological consulting (Note 15)	40,756	42,745
Tenure lease	-	1,550
Share-based compensation (Note 14)	18,546	-
	<u>96,790</u>	<u>90,381</u>
<b>Treasure Mountain Property</b>		
Property taxes	1,852	-
Water sampling and reports	2,508	-
	<u>4,360</u>	<u>-</u>
<b>Total costs incurred during the period</b>	<b><u>101,150</u></b>	<b><u>90,381</u></b>

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**7. ASSET RETIREMENT OBLIGATION**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Opening balance	3,831,834	3,674,785
Accretion expense	19,461	157,049
Closing balance	<b>3,851,295</b>	<b>3,831,834</b>

*Merritt Mill*

The Merritt Mill reclamation costs were adjusted using a long-term inflation rate of 1.4% (2020 – 1.4%) and then discounted using a risk-free rate of 2.34% (2020 – 2.34%).

The Company estimates the reclamation costs associated with the Merritt Mill to be \$3,346,195 (December 31, 2020 - \$3,326,734). The Company anticipates it will settle these obligations over 25 years (2020 – 25 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 (December 31, 2020 - \$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*

On March 15, 2020 the Company amended the August 15, 2017 thirty-year ash management contract with Merritt Operations Services Limited Partnership. The Company accepts ash which are 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, ash, soil, and other income in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss).

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**8. RIGHT OF USE ASSETS AND LEASE LIABILITIES**

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Right-of-Use Assets</b>		
Opening balance	\$ 69,845	\$ 28,424
Additions	-	75,295
Disposals	-	(14,087)
Depreciation	(4,707)	(19,787)
	<u>65,138</u>	<u>69,845</u>
<b>Lease Liabilities</b>		
Opening balance	\$ 71,068	\$ 30,212
Additions	-	75,295
Disposals	-	(14,087)
Payments	(6,060)	(25,375)
Accrued interest	2,269	5,023
	<u>67,277</u>	<u>71,068</u>
 Current portion	 \$ 16,451	 \$ 15,927
Non-current portion	<u>50,826</u>	<u>55,141</u>

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

As at March 31, 2021, the remaining payments for operating leases are due as follows: \$18,180 in 2021, \$24,240 in 2022 and 2023, and \$10,153 in 2024.

**9. RESTRICTED CASH**

The Company has in place deposits amounting to \$1,211,013 as at March 31, 2021 (December 31, 2020 - \$1,211,013) 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.

**10. EQUIPMENT LOAN**

On June 1, 2020, the Company financed the purchase of used equipment (Note 5) with a third-party leasing company. The loan will incur interest at a rate of 7.4% per annum and will be repaid over a three-year term.

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Principal amount	\$ 111,494	\$ 135,650
Accrued interest	1,997	5,317
Less payment of principal	(10,634)	(24,156)
Less payment of interest (Note 12)	(1,997)	(5,317)
Subtotal	<u>\$ 100,860</u>	<u>\$ 111,494</u>
 Current portion	 \$ 36,896	 \$ 43,739
Non-current portion	<u>63,964</u>	<u>67,755</u>

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**11. SECURED CONVERTIBLE DEBENTURE**

On January 9, 2020, the Company closed the second and final tranche of the Debentures of \$350,000 raising total proceeds of \$7,350,882 from the closing of the first and second tranches (first tranche of \$7,000,882 closed on November 21, 2019).

For accounting purposes the proceeds of \$350,000 have been allocated based on the relative fair values of debt. The fair value of the debentures was determined to be \$263,310 using a discount rate of 20%. Residual value of \$86,690 has been allocated as \$63,284 to the equity component net of \$23,406 deferred income tax recovery.

On May 20, 2020, the Company issued in \$250,000 secured convertible debentures on expiry of the original debentures. 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 May 20, 2023. The principal amount may be converted into common shares prior to 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 principal value of \$250,000 has been allocated first to the fair value of the debt portion. The fair value of the debentures was determined to be \$188,079 using a discount rate of 20%. Residual value of \$61,921 has been allocated as \$45,202 to the equity component net of \$16,719 deferred income tax recovery.

On May 20, 2020, the Company issued 138,888 common shares at a value of \$0.09 per share in settlement of interest of \$12,500 of Second Tranche Debentures.

On August 4, and August 13, 2020, a January 9, 2020 Debenture holder elected to convert a total of \$20,000 at a conversion price of \$0.10 and issued 200,000 common shares in accordance with terms of the Debenture. For accounting purposes, the fair value of the Debenture on conversion dates of \$16,818 and the residual equity component of \$3,616 were transferred to share capital.

On November 24, 2020, the Company issued 5,600,705 common shares at a value of \$0.125 per share in settlement of interest of \$700,088 of November 21, 2019 \$7,000,882 convertible debentures.

On January 12, 2021, the Company issued 264,000 common shares at a value of \$0.125 per share in settlement of interest of \$33,000 of January 9, 2020 \$330,000 convertible debentures.

On February 2, 2021, a November 21, 2019 Debenture holder elected to convert a total of \$45,000 at a conversion price of \$0.10 and issued 450,000 common shares in accordance with terms of the Debenture. For accounting purposes, the fair value of the Debenture on conversion date of \$38,405 and residual equity component of \$8,136 were transferred to share capital.

On February 2, 2021, a May 20, 2020 Debenture holder elected to convert a total of \$20,000 at a conversion price of \$0.10 and issued 200,000 common shares in accordance with terms of the Debenture. For accounting purposes, the fair value of the Debenture on conversion date of \$17,390 and the residual equity component of \$3,616 were transferred to share capital.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Principal amount	\$ 6,369,276	\$ 5,610,544
Conversion of Convertible Debenture	(55,795)	(16,818)
Less payment of interest	-	(12,500)
Less payment of interest in shares	(33,000)	(712,588)
Retirement of Second Tranche Debentures	-	(250,000)
Issuance of Debentures	-	451,389
Accrued interest and accretion (Note 12)	313,413	1,299,249
	<u>\$ 6,593,894</u>	<u>\$ 6,369,276</u>
 Non-current portion	 <u>\$ 6,593,894</u>	 <u>\$ 6,369,276</u>

**12. FINANCE COSTS**

	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	\$	\$
Equipment loan (Note 10)	1,997	-
Secured convertible debentures (Note 11)	313,413	300,795
Lease liability (Note 8)	2,269	930
Other	(5,695)	(7,516)
	<u>311,984</u>	<u>294,209</u>

**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 March 31, 2021 were 265,628,888 (December 31, 2020 – 263,314,888).

On May 20, 2020, the Company issued 138,888 common shares at a value of \$0.09 per share in settlement of interest of \$12,500 (Note 11).



**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

On August 4 and 13, 2020, the Company issued a total of 200,000 common shares on conversion of \$20,000 of the convertible debentures issued January 9, 2020 at an exercise price of \$0.10 (Note 11).

On September 2, 2020, the Company issued 5,769,230 units at a price of \$0.13 per unit for gross proceeds of \$750,000. Each unit consisted of one common share and one-half one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.20 per share for a period of two years from the date of issuance.

On November 24, 2020, the Company issued 5,600,705 common shares at a value of \$0.125 per share in settlement of interest of \$700,088 (Note 11).

On December 22, 2020, the Company issued 4,761,535 flow-through units at a price at \$0.13 per unit for gross proceeds of \$618,999. 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 \$0.17 per share for a period of 2 years. The Company also paid finders fees of \$40,144 and issued 66,500 share purchase warrants. The finder's share purchase warrants had a fair value of \$2,163 estimated using the Black-Scholes option pricing model with a volatility of 77.63%, risk-free interest rate of 0.23%, dividend rate of 0%, and expected life of 2 years. The flow-through share premium liability associated with this issuance was \$95,231.

On January 6, 2021, the Company issued 900,000 common shares at a value of \$0.10 per share in connection with the exercise of 900,000 stock options and \$73,827 was transferred from contributed surplus to share capital.

On January 11, 2021, the Company issued 264,000 common shares at a value \$0.125 per share in settlement of interest of \$33,000 (Note 11).

On January 21, 2021, the Company issued 500,000 common shares at a value of \$0.10 per share in connection with the exercise of 500,000 stock options and \$40,989 was transferred from contributed surplus to share capital.

On February 2, 2021, the Company issued 650,000 common shares on conversion of \$45,000 of the convertible debentures issued November 21, 2019 and \$20,000 of the convertible debentures issued May 20, 2020, both conversions exercised at \$0.10 (Note 11).

**Flow-Through Premium Liability:**

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

<b>Balance as of December 31, 2019</b>	\$ -
Flow-through premium liability	95,231
<b>Balance as of December 31, 2020</b>	95,231
Settlement of flow through share premium liability pursuant to qualified expenditures	(11,904)
<b>Balance as of March 31, 2021</b>	\$ 83,327

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

**b) Share Purchase Warrants**

: The following is summary of warrant transactions:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance at January 1, 2020</b>	18,227,698	\$ 0.16
Issued warrants	5,331,882	0.19
Expired warrants	(10,936,033)	0.15
<b>Balance at December 31, 2020 and March 31, 2021</b>	<b>12,623,547</b>	<b>\$ 0.18</b>

As at December 31, 2020, the Company had outstanding warrants as follows:

<b><u>Number</u></b>	<b><u>Exercise Price</u></b>	<b><u>Expiry Date</u></b>
2,250,000	\$0.15	August 19, 2021
375,000	\$0.15	September 6, 2021
4,666,665	\$0.18	July 23, 2022
2,884,615	\$0.20	September 2, 2022
2,380,767	\$0.17	December 22, 2022
66,500	\$0.17	December 22, 2022
<b>12,623,547</b>		

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**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  $\frac{1}{4}$  of the options vesting in any three-month period.

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

The Company's 2019 annual general and special meeting of its shareholders was held on June 24, 2020. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

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

The following is a summary of changes in stock options:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>Balance at January 1, 2020</b>	11,075,000	\$ 0.14
Issued options	1,350,000	0.12
Expired options	(1,550,000)	0.11
Cancelled options	<u>(200,000)</u>	0.10
<b>Balance at December 31, 2020</b>	10,675,000	0.14
Issued options	3,850,000	0.15
Exercised options	<u>(1,400,000)</u>	0.10
<b>Balance at March 31, 2021</b>	<u>13,125,000</u>	\$ 0.14

As at March 31, 2020, the following stock options were outstanding and exercisable:

<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Exercise Price</b>	<b>Weighted Average Contractual Life (Years)</b>	<b>Expiry Date</b>
2,600,000	2,600,000	\$0.175	1.28	July 10, 2021
550,000	550,000	\$0.14	1.32	July 26, 2021
400,000	400,000	\$0.17	1.70	December 13, 2021
2,650,000	2,650,000	\$0.165	2.74	December 27, 2022
1,525,000	1,525,000	\$0.10	3.74	December 28, 2023
200,000	200,000	\$0.10	2.87	February 12, 2024
1,350,000	1,350,000	\$0.12	4.22	January 20, 2025
3,850,000	3,850,000	\$0.15	4.77	January 8, 2026
<u>13,125,000</u>	<u>13,125,000</u>			

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – 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 three months ended March 31, 2021 was \$0.15 per stock option.

The model inputs for options granted during the three months ended March 31, 2020:

Grant Date	Expiry Date	Share Price at Grant Date \$	Exercise Price \$	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
03/23/2020	01/20/2025	0.075	0.12	0.68%	58 months	109%	0%
01/08/2021	01/08/2026	0.15	0.15	0.44%	60 months	77.51%	0%

The Company recorded share-based payment expense of \$357,011 (2020 - \$72,470) during the three months ended March 31, 2021, of which \$338,465 (2020 - \$72,470) has been included in operating expenses and \$18,546 (2020 - \$Nil) 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.

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	45,000	85,000
Salaries and benefits	30,000	30,000

Included in convertible debentures is \$Nil (December 31, 2020 – \$65,000) owing to the Chief Executive Officer of the Company.

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**16. FINANCIAL and CAPITAL RISK MANAGEMENT**

*Fair Value*

Cash and cash equivalents 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, with the exceptions of convertible debentures, lease liabilities, and equipment loans, approximate their fair value because of the short-term nature of these instruments.

The Company records its financial instruments at amortized cost.

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

The three levels of fair value estimation are:

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

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

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

*Risk Exposure and Management*

Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The principal financial risks to which the Company is exposed are credit risk, interest rate risk, liquidity risk, commodity and equity 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. As at March 31, 2021, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents, and accounts receivables in the amount of \$801,759.

All off 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.

**NICOLA MINING INC.****Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2021 and 2020  
(Unaudited – Expressed in Canadian dollars)**

---

**16. 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 interest earned on the cash balances approximates fair value rates, and the Company is not at a significant risk to fluctuating rates.

The Company's debt which accrues interest is at a fixed rate and does not expose the Company to interest rate risk.

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 marginal working capital, 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, access to 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.

Commodity and Equity Price Risk

The ability of the Company to explore its exploration assets, recommence milling operations, and the future profitability of the Company are directly related to the market price of copper, gold, silver, and other precious metals. Equity price risk is defined as the potential adverse impact on the Company's performance to movements in individual equity prices or general movements in the level of the stock market.

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 by making adjustments to

**NICOLA MINING INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended March 31, 2021 and 2020**  
**(Unaudited – Expressed in Canadian dollars)**

---

**16. FINANCIAL and CAPITAL RISK MANAGEMENT (cont'd)**

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.

Contingencies

During the year ended December 31, 2020, the Company received a demand from Clibetre Exploration Ltd. for approximately \$337,000 in relation to a claimed breach of a Profit-Sharing Agreement dated June 6, 2015 by the Company. The Company plans to vigorously defend the claim as it considers this claim to be without merit. It is too early to estimate any resolution for the matter. No liability has been accrued for the claim at March 31, 2021.

**17. SUBSEQUENT EVENTS**

- a) The Company on September 23, 2020 announced that it had signed a Letter of Intent (the “LOI”) with High Range Exploration Ltd (“**High Range**”) to acquire 50% of the Dominion Creek Property. On January 13, 2021, the Company and High Range amended the LOI to extend the date for the good faith negotiations and execution of the Definitive Agreement to on or before June 15, 2021. The Company has carried out initial due diligence, but no transfer of funds has taken place.
- b) The Company on April 28, 2021 issued 13,333,334 common shares at a price of \$0.15 per share for gross proceeds of \$2,000,000.
- c) The Company on April 6, 2021, signed a purchase contract for gold and silver concentrate with Ocean Partners UK Limited. The purchase contract includes a USD\$500,000 advance prepayment clause that allows the Company to draw down funds for the purpose of working capital. On April 26, 2021, the Company requested a prepayment of USD\$250,000, which was received on April 27, 2021. Funds are expected to be allocated towards preparing the mill for production and potential acquisitions. Terms of prepayment are three-month LIBOR based on USD plus 6.5% per annum plus USD\$5,000 draw fee and repayable within six months. The repayment terms are interest only for first five months and sixth and final repayment of US\$250,000 principal plus any outstanding interest.
- d) The Company issued 125,000 common shares at a price of \$0.10 for gross proceeds of \$12,500 in connection with the exercise of 125,000 stock options due December 28, 2023 (Note 14 (a)). The Company issued 500,000 common shares at a price of \$0.12 for gross proceeds of \$60,000 in connection with the exercise of 500,000 stock options due January 20, 2025 (Note 14 (a)). The Company issued 135,000 common shares at a price of \$0.175 for gross proceeds of \$23,625 in connection with the exercise of 135,000 stock options due July 10, 2021 (Note 14 (a)).
- e) The Company on May 18, 2021, announced it intends to pay all of the interest owing to holders of debentures issued May 20, 2020 by issuing 143,750 common shares at a value of \$0.16 per share in settlement of \$23,000 interest (Note 11).