NICOLA MINING INC.

Consolidated Financial Statements

For the years ended December 31, 2022, and 2021.

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, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows 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, 2022 and 2021, 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 audit 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 audit 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 $93,318,432 and a working capital of $866,967. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of Asset Retirement Obligations

As described in Note 7 to the consolidated financial statements, the Company recognized an asset retirement obligation of $7,098,906 as at December 31, 2022. As more fully described in Notes 2 and 3 to the consolidated financial statements, accounting for the Company's asset retirement obligation requires management to exercise judgement and make estimates on the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations.

The principal considerations for our determination that the asset retirement obligation is a key audit matter are that there was judgment made by management when assessing the reclamation work to be performed, and estimation uncertainty as to the amount and timing of costs to be incurred. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the estimates and judgments made by management in their assessment of the asset retirement obligation.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, not were not limited to:

- Obtaining an understanding of the key controls associated with management's evaluation of the asset retirement obligation.
- Evaluating the qualifications, competence and objectivity of management's internal expert who assisted management with the cost estimates.
- Comparing the rehabilitation costs being estimated to an external expert's assessment of the rehabilitation obligation.
- Assessing the appropriateness of the changes in the cost estimates against the prior year calculation.
- Evaluating the appropriateness of discount rates applied to calculate the net present value of the provision and comparing them against market available data.

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.

Vancouver, Canada | Chartered Professional Accountants

DATE

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

	Note	December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		$ 895,774	$ 916,286
Amounts receivable	4	1,199,008	734,870
Prepaid expenses and other assets		11,881	93,923
		2,106,663	**1,745,079**
Non-current assets			
Property, plant, and equipment	5	15,214,392	9,129,286
Right-of-use-assets	8	32,189	51,017
Mineral interests	6	4	225,003
Restricted cash	9	1,227,520	1,211,367
Total assets		**$ 18,580,768**	**$ 12,361,752**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 560,282	$ 569,845
Current portion of lease liabilities	8	20,628	17,553
Current portion of equipment loan	10	20,668	57,087
Current portion of secured convertible debentures	12	596,658	6,372,891
Flow-through share premium	14	29,416	-
Other (Note 11)		12,044	-
		1,239,696	**7,017,376**
Non-current liabilities			
Asset retirement obligation	7	10,178,251	3,909,679
Lease liabilities	8	16,383	37,565
Equipment loan	10	-	10,668
Secured convertible debenture	12	5,071,428	545,047
Total liabilities		**16,505,758**	**11,520,335**
Equity			
Shareholders' equity			
Share capital	14	82,922,658	82,346,704
Warrants	14	1,694,494	1,694,494
Equity component of convertible debentures		2,552,797	2,153,819
Contributed surplus		8,223,493	7,912,000
Accumulated deficit		(93,318,432)	(93,265,600)
Total shareholders’ equity		**2,075,010**	**841,417**
Total liabilities and shareholders’ equity		**$ 18,580,768**	**$ 12,361,752**

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

Nature of operations and going concern (Note 1)
Subsequent Events (Note 19)

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

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

	Note		Year Ended December 31 2022		2021
Operating Expenses					
Exploration costs	6	$	568,572	$	851,926
Environmental penalty			141,000 ,c		-
Mill costs	5		971,886		1,480,156
Accretion of asset retirement obligation	7		79,668		77,845
Salaries and benefits	16		149,285		136,193
Share-based compensation expense	15,16		287,300		438,678
Professional fees			166,636		163,331
Consulting fees	16		186,000		150,000
Office and general			74,720		54,459
Travel and investor relations			233,479		148,747
Regulatory and transfer agent fees			58,325		85,445
Rent			30,093		29,338
Vehicle expenses			-		9,021
Depreciation			2,875		3,511
Operating Loss			(2,949,839)		(3,628,650)
Flow-through premium	14		831		95,231
Gravel, ash, soil, and other income	7		4,493,584		1,401,694
Gain on disposal of mobile equipment	5		-		77,750
Finance costs	13		(1,465,674)		(1,384,857)
Foreign exchange loss			(55,254)		(2,403)
Impairment of exploration and evaluation assets	5		(224,999)		-
Recovery - re settlement of 2021 environmental penalty – account payables			-		36,000
Loss before income taxes			(201,351)		(3,405,235)
Deferred income tax recovery	18		148,519		-
Net loss for the year		$	(52,832)	$	(3,405,235)
Loss Per Share – basic and diluted		$	(0.00)	$	(0.01)
Weighted Average Number of Common Shares Outstanding – basic and diluted			292,658,690		276,957,605

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	
	2022	**2021**
Operating Activities		
Net loss for the year	$ (52,832)	$ (3,405,235)
Adjustments for:		
Accretion of asset retirement obligation	79,668	77,845
Share-based compensation	311,493	499,008
Deferred income tax recovery	(148,519)	-
Depreciation	182,126	169,614
Impairment of exploration and evaluation assets	224,999	
Non-cash interest and finance expense	1,474,226	1,391,185
Foreign exchange	55,253	(2,343)
Flow-through premium	(831)	(95,231)
Gain on disposal of mobile equipment	-	(77,750)
Recovery - write-off of accounts payables	-	(36,000)
Changes in non-cash working capital items		
Amounts receivable	(464,138)	(633,989)
Prepaid expenses and other assets	82,042	(41,258)
Accounts payable and accrued liabilities	(9,563)	(65,976)
Cash and Cash Equivalents Provided by (Used in) Operating Activities	1,733,924	(2,220,130)
Investing Activities		
Purchase of property, plant, and equipment	(59,500)	(295,886)
Purchase of mineral interests	-	(225,000)
Proceeds on disposal of mobile equipment	-	144,000
Restricted cash	(16,153)	-
Recoveries from sales of concentrate, net	-	40,012
Cash and Cash Equivalents Used in Investing Activities	(75,653)	(336,874)
Financing Activities		
Issuance of common shares, net of cash paid share issuance costs	550,201	2,490,000
Exercise of stock options and share purchase warrants	-	241,125
Interest payment on secured convertible debenture	(643,307)	-
Repayment of lease liabilities	(24,240)	(24,240)
Repayment of equipment loan	(47,087)	(43,739)
Interest payment on equipment loan	(3,438)	(6,787)
Working capital and revolving prepayment loan	974,325	310,245
Interest payment on working capital and revolving prepayment loan	(42,205)	(7,774)
Repayment of working capital and revolving prepayment loan	(1,028,475)	(310,245)
Repayment of secured convertible debenture	(1,388,576)	-
Transaction costs on the convertible debenture	(25,981)	-
Cash and Cash Equivalents (Used In) Provided by Financing Activities	(1,678,783)	2,648,585
Net change in cash and cash equivalents for the year	(20,512)	91,581
Cash and cash equivalents, beginning of year	916,286	824,705
Cash and cash equivalents, end of year	$ 895,774	$ 916,286
Non-cash transactions:		
Shares issued to settle convertible debentures and interest	56,000	831,816
Change of estimate of ARO	6,188,904	
Exercise of stock options	-	178,339
Recognition of equity component of convertible debentures	1,375,719	-

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

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

	Number of Common Shares	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Deficit	Total Equity
Balance, January 1, 2021	263,314,888	$ 78,605,424	$ 1,694,494	$ 2,167,952	$ 7,591,331	$ (89,860,365)	$ 198,836
Share issuance financing	17,708,334	2,525,000	-	-	-	-	2,525,000
Share issuance costs	-	(35,000)	-	-	-	-	(35,000)
Convertible debenture conversion	780,000	81,528	-	(14,133)	-	-	67,395
Share based compensation	-	-	-	-	499,008	-	499,008
Issuance of shares for interest on convertible debentures	7,350,632	750,288	-	-	-	-	750,288
Stock options exercised	2,210,000	419,464	-	-	(178,339)	-	241,125
Net loss for the year	-	-	-	-	-	(3,405,235)	(3,405,235)
Balance, December 31, 2021	291,363,854	$ 82,346,704	$ 1,694,494	$ 2,153,819	$ 7,912,000	$ (93,265,600)	$ 841,417
Balance, January 1, 2022	291,363,854	$ 82,346,704	$ 1,694,494	$ 2,153,819	$ 7,912,000	$ (93,265,600)	$ 841,417
Share issuance financing	6,049,470	550,201	-	-	-	-	550,201
Share-based compensation	-	-	-	-	311,493	-	311,493
Issuance of convertible debenture	-	-	-	398,978	-	-	398,978
Issuance of shares for interest on convertible debentures	658,823	56,000	-	-	-	-	56,000
Flow-through share premium	-	(30,247)	-	-	-	-	(30,247)
Net loss for the year	-	-	-	-	-	(52,832)	(52,832)
Balance, December 31, 2022	298,072,147	$ 82,922,658	$ 1,694,494	$ 2,552,797	$ 8,223,493	$ (93,318,432)	$ 2,075,010

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" and on OTCQB operated by the OTC Markets Group Inc. under the ticker "HUSIF".

As at December 31, 2022, the Company had an accumulated deficit of $93,318,432 (December 31, 2021 - $93,265,600) and working capital of $866,967 (December 31, 2021 - $(5,272,297)). To continue operations, the Company will be required to raise funds through the issuance of equity or and or debt, be successful recommencing operations at the Treasure Mountain project (**"Treasure Mountain Property"**) and/or Merritt Mill (**"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.

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 April 27, 2023.

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 Judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements and estimates which affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The judgements 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 can operate 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 investment, which are subject to an insignificant risk of change in value. Cash and cash equivalents consist of cash of $895,774 at December 31, 2022 (December 31, 2021 - $916,286).

b) Foreign Currencies

Transactions in currencies other than the functional currency are recorded at rates of exchange prevailing on the transaction dates. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured of historical cost in a foreign currency are not retranslated.

c) Restricted Cash

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

d) 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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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, apart from 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 income (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 lincome (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

e) Right-of-use Assets and Lease Liabilities

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Property, Plant and Equipment – Proceeds before Intended Use

IAS 16*, Property, Plant and Equipment – Proceeds before Intended Use (effective January 1, 2022).* The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss.

g) 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 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 income (loss) for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations and comprehensive income (loss).

h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

i) 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 is capitalized. Any recoveries received that relate to exploration costs are recorded as a recovery of such costs.

j) 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.

k) 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,

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 income (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.

l) 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.

m) Share-based Payments

Share-based payments are arrangements in which the Company receives goods or services in consideration for its own equity instruments granted to non-employees. These are accounted for as equity settled share-based payment transactions and measured at the fair value of goods and services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) Share-based compensation

The Company grants share-based awards in the form of stock options, deferred share units ("DSUs"), restricted share units ("RSUs"), and performance share units ("PSUs") which are all considered to be equity-settled awards. The Company determines the fair value of the awards on the date of grant. This fair value is expensed to the statement of loss and comprehensive income (loss) using a graded vesting attribution method over the vesting period of the awards, with a corresponding credit to contributed surplus. When the share options or share units are exercised, the applicable amounts of contributed surplus are transferred to share capital.

o) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred because 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).

p) 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 is 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 because 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, several assumptions and judgements 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.

q) 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.

r) 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.

s) 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.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

t) Related Party Transactions

Parties are 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 a related party transaction when there is a transfer of resources, services, or obligations.

u) Operating Segments

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

v) Adoption of New and Revised IFRS and IFRS Not Yet Effective

The accounting policies adopted in the preparation of these consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2022.

In May 2020, the IASB issued an amendment to IAS 16, Property, Plant and Equipment - Proceeds before Intended Use. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in the consolidated statements of income (loss). The amendment became effective January 1, 2022. The Company has assessed the impact of the amendment and it does not have a significant effect on the Company's financial statements.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2022, and have not been early adopted in preparing these consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. AMOUNTS RECEIVABLE

		December 31, 2022		December 31, 2021
Gravel, ash, soil, and other receivables	$	1,366,670		750,513
GST - (net)		(167,662)		(15,643)
	$	**1,199,008**	**$**	**734,870**

(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, 2021	7,756,507	1,605,299	52,585	427,619	32,220	9,874,230
Additions	-	41,685	175,000	32,500	6,689	255,874
Disposal	-	-	(75,000)	-	-	(75,000)
Balance at December 31, 2021	7,756,507	1,646,984	152,585	460,119	38,909	10,055,104
Additions	-	-	5,000	54,500	-	59,500
Change in reclamation estimate	6,188,904	-	-	-	-	6,188,904
Balance at December 31,2022	13,945,411	1,646,984	157,585	514,619	38,909	16,303,508
Accumulated Depreciation						
Balance at January 1, 2021	-	439,551	34,830	283,902	25,499	783,782
Depreciation for the year	-	80,265	29,036	38,782	2,703	150,786
Disposals	-	-	(8,750)			(8,750)
Balance at December 31, 2021	-	519,816	55,116	322,684	28,202	925,818
Depreciation for the year	-	84,350	26,318	49,750	2,880	163,298
Balance at December 31,2022	-	604,166	81,434	372,434	31,082	1,089,116
Carrying Amounts						
At January 1, 2021	7,756,507	1,165,748	17,755	143,717	6,721	9,090,448
At December 31, 2021	7,756,507	1,127,168	97,469	137,435	10,707	9,129,286
At December 31, 2022	**13,945,411**	**1,042,818**	**76,151**	**142,185**	**7,827**	**15,214,392**

(Expressed in Canadian dollars)

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

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

	Note	Years Ended December 31, 2022 $	2021 $
MILL COSTS			
Costs incurred during the year			
Amortization and depreciation		160,423	147,275
Power and fuel		96,528	77,708
Mill supplies and rentals		50,607	71,266
Mill repairs		123,135	343,107
Mill insurance		192,106	191,469
Property taxes		88,728	40,856
Reclamation of mill site		186,188	59,984
Salaries and wages		483,732	519,176
Share based compensation	15	15,129	3,579
Water sampling and reports		19,051	25,009
Permitting and regulatory fees		-	727
Concentrate recoveries		(443,741)	-
Total costs incurred during the year		**971,886**	**1,480,156**

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 22 mineral claims and 10 mineral leases located in Lower Nicola, BC. The properties are subject to a 2% net smelter royalty.

The Company recorded 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.

Dominion Creek Property

On May 31, 2021, the Company entered into a Mineral Property Purchase Agreement and acquired a 50% interest in 8 mineral claims known as the Dominion Creek Property from High Range Exploration Ltd (**"High Range"**). The Dominion Creek Property is located 110 kilometers east-southeast of Prince George, BC. The Company acquired the 50% by paying $225,000, $75,000 of which was used to commence work on a 10,000-tonne bulk sample permit application. During the year ended December 31, 2022, the Company impaired the Dominion Creek Property by $224,999 to $1 due to the delays in development.

(Expressed in Canadian dollars)

6. MINERAL INTERESTS (cont'd)

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

	December 31, 2022 $	December 31, 2021 $
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 Diversion of British Columbia known as the "Whynot Fraction"	1	1
d) Acquisition of 50% interest in Dominion Creek Property, located in the Cariboo Mining Diversion of British Columbia	1	225,000
	4	**225,003**

Exploration costs incurred is as follows:

	Note	Years Ended December 31, 2022 $	2021 $
EXPLORATION COSTS			
Costs incurred during the year			
New Craigmont Property			
Assay		11,147	44,540
Drilling and related costs		350	299,534
Field supplies and rentals		34,260	70,543
First Nations liaison consulting	16	134,315	68,553
Geological consulting and technical fees		136,110	217,725
Mapping		186,542	68,282
Tenure lease		6,859	12,444
Share-based compensation	15	9,064	56,751
BC Mining exploration tax credit		-	(100,504)
		518,647	737,868
Treasure Mountain Property			
First Nations liaison consulting		2,438	16,588
Property taxes		10,274	10,304
Water sampling		30,032	63,466
Soil sampling		481	17,000
Tenure lease		6,700	6,700
		49,925	114,058
Total costs incurred during the year		**568,572**	**851,926**

(Expressed in Canadian dollars)

7. ASSET RETIREMENT OBLIGATION

	December 31, 2022 $	December 31, 2021 $
Opening balance	3,909,679	3,831,834
Change in estimate	6,188,904,	-
Accretion expense	79,668	77,845
Closing balance	**10,178,251**	**3,909,679**

Merritt Mill

The Merritt Mill reclamation costs were adjusted using a long-term inflation rate of 2.69% (2021 – 1.4%) and then discounted using a risk-free rate of 3.28% (2021 – 2.34%)

The Company estimates the reclamation costs associated with the Merritt Mill to be $10,709,142 (December 31, 2021 - $3,326,734). The Company anticipates it will settle these obligations over 25 years (2021 – 25 years).

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, 2021 - $505,100). 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.

Gravel, Ash and Material Disposal Remediation Contracts

The Company on March 3, 2022, entered into a five-year exclusive rock and gravel extraction contract with Lower Nicola Site Services LP for the operation of the Company's gravel pit and rock quarry. The ash management services with Nicola Clean Power Ltd is on a month-to-month basis since December 1, 2021. On June 18, 2020, the Company received an amendment approving the import and storage of fly ash and remediated soil from Ministry of Energy, Mines and Low Carbon Innovation. The Company accepts ash which are blended with fill soils and plant seeds to assist with the remediation of the Merritt Mill site. The Company received on October 21, 2020, a Notice of Departure from Ministry of Energy, Mines and Low Carbon Innovation to receive Trans Mountain material for reclamation purposes. Net proceeds from the receipt of ash and soil materials for remediation purposes are recorded in Gravel, ash, soil, and other income in the Consolidated Statements of Operations and Comprehensive Income (Loss).

(Expressed in Canadian dollars)

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	December 31, 2022	December 31, 2021
Right-of-Use Assets		
Opening balance	$ 51,017	$ 69,845
Depreciation	(18,828)	(18,828)
	32,189	51,017
Lease Liabilities		
Opening balance	$ 55,118	$ 71,068
Payments	(24,240)	(24,240)
Accrued interest	6,133	8,290
	37,011	55,118
Current portion	**$ 20,628**	**$ 17,553**
Non-current portion	**$ 16,383**	**$ 37,565**

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

As at December 31, 2022, the remaining payments over the term of the leases are due as follows: $24,240 in 2023, and $17,243 in 2024.

9. RESTRICTED CASH

The Company has in place deposits amounting to $1,227,520 at December 31, 2022 (December 31, 2021 - $1,211,367) 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.

	December 31 2022	December 31, 2021
Principal amount	$ 67,755	$ 111,494
Accrued interest	3,438	6,787
Less payment of principal	(47,087)	(43,739)
Less payment of interest (Note 13)	(3,438)	(6,787)
Subtotal	$ 20,668	$ 67,755
Current portion	**$ 20,668**	**$ 57,087**
Non-current portion	**$ -**	**$ 10,668**

(Expressed in Canadian dollars)

11. WORKING CAPITAL LOAN and REVOLVING PREPAYMENT LOAN

On April 6, 2021, the Company signed a purchase contract for the sale of gold and silver concentrate to Ocean Partners UK Limited. The purchase contract includes a USD$500,000 clause that allows the Company to draw down funds for the purpose of working capital. On April 27, 2021, the Company drew-down USD$250,000 (CAD$310,245). The funds are expected to be allocated towards preparing the mill for production and potential acquisitions. The loan bears interest at 5.5% plus the three-month LIBOR rate per annum which is payable monthly and repayable in six months. The loan has been designated a financial liability at amortized costs. The loan was repaid on October 14, 2021.

On July 12, 2022, the Company signed an amended agreement with Ocean Partners increasing the Revolving Prepayment from US$500,000 to US$1,500,000. The loan bears interest at 5.5% plus the three-month LIBOR rate per annum which is payable monthly and repayable in six months. On July 6, 2022, the Company drew-down US$750,000 (CA$947,325). The loan was repaid on December 29, 2022.

	December 31, 2022	December 31, 2021
Principal amount	$ 974,325	$ 310,245
Accrued interest (Note 13)	53,146	9,763
Less payment of interest	(42,205)	(7,774)
Less payment of principal	(1,028,475)	(310,245)
Foreign Exchange	55,253	(1,989)
	$ 12,044	**$ -**

12. SECURED CONVERTIBLE DEBENTURE

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

In fiscal 2019, 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**") in exchange for retirement of the First Tranche Debentures, 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 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.

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.

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.

12. SECURED CONVERTIBLE DEBENTURE (cont'd)

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.

On June 1, 2021, the Company issued 143,750 common shares at a value of $0.16 per share in settlement of interest of $23,000 of May 20, 2020 convertible debentures.

On November 5, 2021, a November 21, 2019 Debenture holder elected to convert a total of $13,000 at a conversion price of $0.10 and issued 130,000 common shares in accordance with terms of the Debenture. For accounting purposes, the fair value of the Debenture on conversion date of $11,600 and residual equity component of $2,381 were transferred to share capital.

(Expressed in Canadian dollars)

12. SECURED CONVERTIBLE DEBENTURE (cont'd)

On November 22, 2021, the Company issued 6,942,882 common shares at a value of $0.10 per share in settlement of interest of $694,288 of November 21, 2019 $6,942,882 convertible debentures.

On January 10, 2022, the Company issued 388,236 common shares at a value of $0.085 per share in settlement of interest of $33,000 of January 9, 2020 convertible debentures.

On May 20, 2022, the Company issued 270,587 common shares at a value of $0.085 per share in settlement of interest of $23,000 of May 20, 2020 convertible debentures.

On July 4, 2022, the Company repaid $1,329,176 principal plus $81,936 accrued interest to July 4, 2022, of the November 21, 2019 convertible debentures

On December 6, 2022, the Company completed the amendments to November 21, 2019, Debentures. In aggregate principal amount of $5,554,306 was extinguishment and refinanced with the previous $5,554,306 debentures. The Debentures mature on November 21, 2025 and 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. The Debentures are convertible into common shares of the Company at a conversion price of $0.085 per share for the period from November 21, 2022, to November 21, 2023, and $0.10 thereafter.

For accounting purposes, the proceeds received of $5,554,306 have been allocated based on the relative fair values of the debt. The fair value of the debentures was determined to be $5,004,236 using a discount rate of 13%. Residual value of $550,070 has been allocated as $401,551 to the equity component net of $148,519 deferred income tax recovery and $2,573 relating to the equity component of transaction costs. Transaction costs of $23,408 have been allocated to the Debentures.

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

		December 31, 2022		**December 31, 2021**
Principal amount	$	6,917,938	$	6,369,276
Conversion of Convertible Debenture		-		(67,395)
Retirement of Debenture		(5,554,306)		-
Issuance of Debenture		5,554,306		-
Less equity component of convertible debenture		(550,069)		-
Less transaction costs		(23,408)		-
Principal repayment		(1,388,576)		-
Less payment of interest		(643,307)		-
Less payment of interest in shares		(56,000)		(750,288)
Accrued interest and accretion (Note 13)		1,411,508		1,366,345
	$	5,668,086	$	6,917,938
Current portion		**596,658**		**6,372,891**
Non-current portion		**5,071,428**		**545,047**
	$	**5,668,086**	**$**	**6,917,938**

(Expressed in Canadian dollars)

13. FINANCE COSTS

	2022 $	2021 $
Equipment loan (Note 10)	3,438	6,787
Working capital loan and revolving prepayment loan (Note 11)	53,146	9,763
Secured convertible debentures (Note 12)	1,411,508	1,366,345
Lease liability (Note 8)	6,133	8,290
Other	(8,551)	(6,328)
	1,465,674	**1,384,857**

14. 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, 2022 were 298,072,147 (December 31, 2021 – 291,363,854).

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 12).

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 12).

On April 12, 2021, the Company issued 500,000 common shares at a value of $0.12 per share in connection with the exercise of 500,000 stock options and $26,814 was transferred from contributed surplus to share capital.

On April 16, 2021, the Company issued 125,000 common shares at a value of $0.10 per share in connection with the exercise of 125,000 stock options and $10,235 was transferred from contributed surplus to share capital.

On April 27, 2021, the Company issued 13,333,334 common shares at a price of $0.15 per share for gross proceeds of $2,000,000.

(Expressed in Canadian dollars)

14. SHARE CAPITAL AND RESERVES (cont'd)

On May 17, 2021, the Company issued 135,000 common shares at a value of $0.175 per share in connection with the exercise of 135,000 stock options and $21,125 was transferred from contributed surplus to share capital.

On June 1, 2021, the Company issued 143,750 common shares at a value of $0.16 per share in settlement of interest of $23,000 (Note 12).

On June 7, 2021, the Company issued 50,000 common shares at a value of $0.10 per share in connection with the exercise of 50,000 stock options and $4,075 was transferred from contributed surplus to share capital.

On October 14, 2021, issued 4,375,000 flow-through shares at a price of $0.12 per share for gross proceeds of $525,000. The Company also paid finders fees of $34,999. No flow-through share premium liability is associated with the issuance.

On November 5, 2021, a November 21, 2019 Debenture holder elected to convert a total of $13,000 at a conversion price of $0.10 and issued 130,000 common shares in accordance with terms of the Debenture. For accounting purposes, the fair value of the Debenture on conversion date of $13,981 and the residual equity component of $2,381 were transferred to share capital (Note 12).

On November 22, 2021, the Company issued 6,942,882 common shares at a value of $0.10 per share in settlement of interest of $694,288 of November 21, 2019 $6,942,882 convertible debentures (Note 12).

On January 10, 2022, the Company issued 388,236 common shares at a value of $0.085 per share in settlement of interest of $33,000 of January 9, 2020 convertible debentures (Note 12).

On May 20, 2022, the Company issued 270,587 common shares at a value of $0.085 per share in settlement of interest of $23,000 of May 20, 2020 convertible debentures (Note 12).

On November 14, 2022, the Company issued 6,049,470 flow-through shares at a price of $0.095 per flow-through share for gross proceeds of 574,700. The Company paid finders fees of $24,499. The flow-through share premium liability associated with this issuance was $30,247.

Flow-Through Premium Liability:

		December 31, 2022		December 31, 2021
Flow-through premium liability	$	30,247	$	95,231
Settlement of flow-through premium liability pursuant to qualified expenditures		(831)		(95,231)
Closing balance	**$**	**29,416**	**$**	**-**

The Company raised in 2022 $574,699 flow-through financing of which $15,796 has been expended in eligible exploration expenditures to December 31, 2022 with $558,903 remaining in fiscal 2023.

(Expressed in Canadian dollars)

14. SHARE CAPITAL AND RESERVES (cont'd)

b) Share Purchase Warrants

The following is summary of warrant transactions:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2021	12,623,547	$ 0.18
Expired warrants	(2,625,000)	0.15
Balance at December 31, 2021	9,998,547	0.18
Expired warrants	(9,998,547)	0.18
Balance at December 31, 2022	Nil	0.00

As of December 31, 2022, the Company had no outstanding warrants.

15. SHARE-BASED PAYMENT

2022 Equity Incentive Plan

Until May 14, 2022, the Company had a "rolling" stock option plan (the "Stock Option Plan") whereby the Company was authorized to grant stock options ("Options") equal to up to 10% of the number of issued and outstanding common shares.

Effective May 14, 2022, the Company adopted an equity incentive plan (the "Equity Incentive Plan") that replaced the Stock Option Plan. The Equity Incentive Plan has two components as follows: (i) a rolling stock option plan for the grant of Options equal to up to 10% of the number of issued and outstanding common shares, and (ii) a fixed plan for the grant of performance equity securities including Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs"), and Performance Share Units ("PSUs") ("DSUs" and, collectively with the RSUs and PSUs, the "Performance-Based Awards").

Pursuant to the Equity Incentive Plan, the Company is authorized to grant Options to executive officers, directors, employees, and consultants. The Board shall determine any vesting terms applicable to the grants.

Pursuant to the Equity Incentive Plan, the Company is authorized to grant Performance-Based Awards to executive officers, directors, employees, and consultants with the maximum aggregate number of common shares that may be issuable for Performance Based Awards not to exceed 29,175,209 common shares. The Board shall determine any vesting terms applicable to the grants.

During the year ended December 31, 2022, the Company issued Nil Performance-Based Awards and recorded a share-based payment expense of $Nil (2021 – $Nil) related to the vesting of Performance-Based Awards.

(Expressed in Canadian dollars)

15. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2021	10,675,000	$ 0.14
Issued options	5,750,000	0.12
Expired options	(3,415,000)	0.14
Exercised options	(2,210,000)	0.11
Cancelled options	(400,000)	0.13
Balance December 31, 2021	10,400,000	0.14
Cancelled options	(500,000)	0.14
Expired options	(2,650,000)	0.17
Issued options	5,150,000	0.08
Balance at December 31, 2022	12,400,000	$ 0.11

As at December 31, 2022, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
1,300,000	1,300,000	$0.10	1.00	December 28, 2023
850,000	850,000	$0.12	2.06	January 20, 2025
3,650,000	3,650,000	$0.15	3.02	January 8, 2026
1,450,000	1,450,000	$0.11	3.75	October 5, 2026
5,150,000	5,150,000	$0.08	4.75	October 5, 2027
12,400,000	12,400,000			

b) Fair Value of Stock Options Issued During the Year ended

The weighted average fair value at grant date of stock options granted during the year ended December 31, 2022, was $0.08 per stock option.

The model inputs for options granted during the year ended December 31, 2022:

Grant Date	Expiry Date	Share Price at Grant Date $	Exercise Price $	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
10/05/2022	10/05/2027	0.075	0.08	3.42%	60 months	99.50%	0%

The Company recorded share-based payment expense of $311,493 (2021 - $499,008) during the year ended December 31, 2022, of which $287,300 (2020 - $438,678) has been included in operating expenses, $9,064 (2021 - $56,751) has been included in exploration costs and $15,129 (2021 - $3,579) included in mill expenses.

(Expressed in Canadian dollars)

16. 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, 2022 $	2021 $
Consulting fees	186,000	180,000
First nations liaison consulting	45,000	-
Salaries and benefits	130,000	120,000
Share-based compensation	287,299	182,206
	648,299	482,206

17. 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.

17. FINANCIAL and CAPITAL RISK MANAGEMENT (cont'd)

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 December 31, 2022, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents and amounts receivables in the amount of $2,094,782.

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.

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 Convertible Debenture debt which accrues interest is at a fixed rate and does not expose the Company to interest rate risk.

The Company's advance prepayment loan is subject to interest rate risk, but the Company does not believe that it is exposed to material 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.

17. FINANCIAL and CAPITAL RISK MANAGEMENT (cont'd)

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 functional currency of the Company is the Canadian dollar. As at December 31, 2022, the Company has not entered into contracts to manage 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 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 adjusting to changes in economic conditions, and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There have been no changes to the management of capital during the current fiscal year.

(Expressed in Canadian dollars)

18. INCOME TAXES

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

		2022		2021
Loss before income taxes	$	(52,832)	$	(3,405,235)
Expected income tax (recovery)		(14,000)		(919,000)
Change in statutory, foreign exchange rates and other		(545,481)		2,000
Permanent difference		106,000		119,000
Impact of flow through shares		107,000		202,000
Share issue costs		(14,000)		(9,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		-		164,000
Change in unrecognized deductible temporary differences		549,000		441,000
Total income tax expense (recovery)	$	**148,519**	$	-

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

		2022		2021
Deferred tax assets (liability)				
Debt with accretion	$	(120,000)	$	(345,000)
Right of use assets		(10,000)		(14,000)
Lease liabilities		10,000		14,000
Non-capital losses		120,000		345,000
Net deferred tax liability	**$**	**-**	**$**	**-**

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

	2022	Expiry Date Range	2021
Exploration and evaluation assets	$1,660,000	No expiry date	$4,367,000
Investment tax credit	$455,000	2030 to 2032	$441,000
Property, plant, and equipment	$21,013,000	No expiry date	$20,734,000
Share issue costs	$91,000	2040 to 2045	$113,000
Asset retirement obligation	$10,178,000	No expiry date	$3,910,000
Non-capital losses available for future periods	$39,802,000	2027 to 2041	$41,626,000

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

19. SUBSEQUENT EVENTS

a) On January 6, 2023, the Company completed the amendments to the $330,000 January 9, 2023 secured convertible debentures extending maturity to January 9, 2025.

b) On January 13, 2023, the Company completed a non-brokered private placement consisting of 16,000,000 shares at a price of $0.125 per share for gross proceeds of $2,000,000.