



NICOLA MINING INC.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023, and 2022.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CONDENSED INTERIM CONSOLIDATED FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated 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 interim consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

The Company's independent auditor has not performed a review of these condensed interim consolidated 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 Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	March 31, 2023	December 31, 2022
Assets			
Current assets			
Cash		\$ 2,506,245	\$ 895,774
Amounts receivable	4	2,573,220	1,199,008
Prepaid expenses and other assets		50,900	11,881
		5,130,365	2,106,663
Non-current assets			
Property, plant, and equipment	5	15,148,950	15,214,392
Right-of-use-assets	8	27,482	32,189
Mineral interests	6	4	4
Restricted cash	9	1,222,520	1,227,520
Total assets		\$ 21,529,321	\$ 18,580,768
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 758,131	\$ 560,282
Current portion of lease liabilities	8	21,307	20,628
Current portion of equipment loan	10	8,344	20,668
Current portion of secured convertible debentures	12	226,905	596,658
Flow-through share premium	14	27,791	29,416
Other	11	-	12,044
		1,042,478	1,239,696
Non-current liabilities			
Asset retirement obligation	7	10,234,839	10,178,251
Lease liabilities	8	10,795	16,383
Secured convertible debenture	12	5,556,727	5,071,428
Total liabilities		16,844,839	16,505,758
Equity			
Shareholders' equity			
Share capital	14	84,941,412	82,922,658
Warrants	14	1,694,494	1,694,494
Equity component of convertible debentures		2,564,842	2,552,797
Contributed surplus		8,223,493	8,223,493
Accumulated deficit		(92,739,759)	(93,318,432)
Total shareholders' equity		4,684,482	2,075,010
Total liabilities and shareholders' equity		\$ 21,529,321	\$ 18,580,768

Peter Espig (signed) Director

Frank Hogel (signed) Director

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

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

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

Three Months Ended March 31

	Note	2023	2022
Operating Expenses			
Exploration costs	6	\$ 36,762	\$ 158,236
Mill costs	5	930,768	282,363
Accretion of asset retirement obligation	7	56,588	19,917
Salaries and benefits	16	50,282	44,567
Professional fees		34,981	21,588
Consulting fees	16	160,500	42,500
Office and general		25,181	16,923
Travel and investor relations		113,674	55,513
Regulatory and transfer agent fees		14,834	15,165
Rent		8,015	7,737
Depreciation		519	719
Operating Loss		(1,432,104)	(665,228)
Flow-through premium	14	1,625	-
Gravel, ash, soil, and other income	7	2,192,624	608,175
Finance costs	13	(193,843)	(356,428)
Foreign exchange gain		5,005	-
Income (Loss) before income taxes		573,307	(413,481)
Deferred income tax recovery	12	5,366	-
Net income (loss) for the period		\$ 578,673	\$ (413,481)
Income (Loss) Per Share – basic and diluted		\$ 0.00	\$ (0.00)
Weighted Average Number of Common Shares Outstanding – basic and diluted		311,844,435	291,717,192

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

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

	Three Ended March 31	
	2023	2022
Operating Activities		
Net income (loss) for the period	\$ 578,673	\$ (413,481)
Adjustments for:		
Accretion of asset retirement obligation	56,588	19,917
Deferred income tax recovery	(5,366)	-
Depreciation	70,149	44,420
Non-cash interest and finance expense	196,129	357,012
Foreign exchange	(5,063)	-
Flow-through premium	(1,625)	-
Changes in non-cash working capital items		
Amounts receivable	(1,374,212)	139,186
Prepaid expenses and other assets	(39,019)	43,026
Accounts payable and accrued liabilities	194,849	(26,096)
Cash Provided by (Used in) Operating Activities	(328,897)	163,984
Investing Activities		
Purchase of property, plant, and equipment	-	(59,500)
Recoveries from sales of concentrate, net	-	377,084
Restricted cash	5,000	-
Cash (Used in) Provided by Investing Activities	5,000	317,584
Issuance of common shares, net of share issuance costs	1,990,000	-
Interest payment on secured convertible debenture	(30,000)	-
Interest payment on working capital and revolving prepayment loan	(6,981)	-
Repayment of lease liabilities	(6,060)	(6,060)
Repayment of equipment loan	(12,591)	(12,631)
Cash Provided by (Used in) Financing Activities	1,934,368	(18,691)
Net change in cash for the period	1,610,471	462,877
Cash beginning of period	895,774	916,286
Cash end of period	\$ 2,506,245	\$ 1,379,163
Non-cash transactions:		
Shares issued to settle convertible debentures and interest	28,754	33,000
Recognition of equity component of convertible debentures	19,873	-

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

NICOLA MINING INC.
Condensed Consolidated Interim 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, 2022	291,363,854	\$82,346,704	1,694,494	2,153,819	7,912,000	(93,265,600)	841,417
Issuance of shares for interest on convertible debentures	388,236	33,000	-	-	-	-	33,000
Net loss for the period	-	-	-	-	-	(413,481)	(413,481)
Balance, March 31, 2022	291,752,090	\$ 82,379,704	\$ 1,694,494	\$ 2,153,819	\$ 7,912,000	\$ (93,679,081)	\$ 460,936
Balance, January 1, 2023	298,072,147	\$ 82,922,658	\$ 1,694,494	\$ 2,552,797	\$ 8,223,493	\$ (93,318,432)	\$ 2,075,010
Share issuance financing, net of share issuance costs	16,000,000	1,990,000	-	-	-	-	1,990,000
Issuance of convertible debenture	-	-	-	14,507	-	-	14,507
Convertible debenture conversions	323,167	28,754	-	(2,462)	-	-	26,292
Net income for the period	-	-	-	-	-	578,673	578,673
Balance, March 31, 2023	314,395,314	\$ 84,941,412	\$ 1,694,494	\$ 2,564,842	\$ 8,223,493	\$ (92,739,759)	\$ 4,684,482

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

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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 March 31, 2023, the Company had an accumulated deficit of \$92,739,759 (December 31, 2022 - \$93,318,432) and working capital of \$4,087,887 (December 31, 2022 - \$866,967). 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 unaudited condensed interim 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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

2. BASIS OF PRESENTATION

a) Statement of Compliance with International Financial Reporting Standards

The condensed unaudited interim 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 May 29, 2023.

b) Basis of Consolidation

These condensed unaudited interim 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 condensed unaudited interim 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 condensed unaudited interim 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) 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 can operate in the manner intended by management, which requires significant judgement in its determination.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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 \$2,506,245 at March 31, 2023 (December 31, 2022- \$895,774).

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

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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. Repair 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 income (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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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,

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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	Fair value through profit or loss
Restricted cash	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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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,

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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 March 31, 2023.

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 consequently records concentrate recoveries as recoveries of mill costs.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2023, and have not been early adopted in preparing these unaudited condensed interim 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

	March 31, 2023	December 31, 2022
Gravel, ash, soil, and other receivables	\$ 2,573,220	\$ 1,199,008
	\$ 2,573,220	\$ 1,199,008

5. PROPERTY, PLANT, AND EQUIPMENT

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

	Land \$	Mill \$	Camp and Site Infrastructure \$	Heavy Machinery and Equipment \$	Computers and Office Equipment \$	TOTAL \$
Cost						
Balance at January 1, 2022	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	4,188,904	2,000,000	-	-	-	6,188,904
Balance at December 31, 2022	11,945,411	3,646,984	157,585	514,619	38,909	16,303,508
Balance at March 31, 2023	11,945,411	3,646,984	157,585	514,619	38,909	16,303,508

Accumulated Depreciation						
Balance at January 1, 2022	-	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
Depreciation for the period	-	46,087	6,580	12,174	601	65,442
Balance at March 31, 2023	-	650,253	88,014	384,608	31,683	1,154,558

Carrying Amounts						
At December 31, 2022	11,945,411	3,042,818	76,151	142,185	7,827	15,214,392
At March 31, 2023	11,945,411	2,996,731	69,571	130,011	7,226	15,148,950

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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

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

	Three Months Ended March 31,	
	2023	2022
	\$	\$
	<hr/>	
MILL COSTS		
Costs incurred during the year		
Amortization and depreciation	64,923	38,994
Power and fuel	29,410	10,583
Mill supplies and rentals	59,068	12,169
Mill repairs	209,543	21,884
Mill insurance	48,771	52,358
Property taxes	22,000	15,000
Reclamation of mill site	186,566	4,740
Salaries and wages	297,857	124,343
Water sampling and reports	12,630	2,292
	<hr/>	
Total costs incurred during the period	930,768	282,363
	<hr/>	

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 near 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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

6. MINERAL INTERESTS (cont'd)

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

	March 31, 2023 \$	December 31, 2022 \$
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
d) Acquisition of 50% interest in Dominion Creek Property, located in the Cariboo Mining Division of British Columbia	1	1
	4	4

Exploration costs incurred is as follows:

	Three Months Ended March 31,	
	2023 \$	2022 \$
EXPLORATION COSTS		
Costs incurred during the year		
New Craigmont Property		
Assay	229	5,358
Drilling and related costs	-	350
Field supplies and rentals	2,976	6,373
First Nations liaison consulting	5,000	77,664
Geological consulting and technical fees	6,484	46,494
Mapping	11,273	2,102
Tenure lease	1,450	-
	27,412	138,341
Treasure Mountain Property		
Property taxes	2,650	2,965
Water sampling		16,449
Soil sampling		481
Tenure lease	6,700	-
	9,350	19,895
Total costs incurred during the period	36,762	158,236

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

7. ASSET RETIREMENT OBLIGATION

	March 31, 2023	December 31, 2022
	\$	\$
Opening balance	10,178,251	3,909,679
Change in estimate	-	6,188,904
Accretion expense	56,588	79,668
Closing balance	10,234,839	10,178,251

Merritt Mill

The Merritt Mill reclamation costs were adjusted using a long-term inflation rate of 2.69% (2022 – 2.69%) and then discounted using a risk-free rate of 3.28% (2022 – 3.28%)

The Company estimates the reclamation costs associated with the Merritt Mill to be \$10,709,142 (December 31, 2022 - \$10,709,142). The Company anticipates it will settle these obligations over 25 years (2022 – 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, 2022 - \$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).

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	March 31, 2022	December 31, 2022
Right-of-Use Assets		
Opening balance	\$ 32,189	\$ 51,017
Depreciation	(4,707)	(18,828)
	<u>27,482</u>	<u>32,189</u>
Lease Liabilities		
Opening balance	\$ 37,011	\$ 55,118
Payments	(6,060)	(24,240)
Accrued interest	1,151	6,133
	<u>32,102</u>	<u>37,011</u>
Current portion	\$ 21,307	\$ 20,628
Non-current portion	\$ 10,795	\$ 16,383

The lease liabilities were discounted at a discount rate of 13% on inception of the lease.

As at March 31, 2023, the remaining payments over the term of the leases are due as follows: \$24,240 in 2023, and \$7,862 in 2024.

9. RESTRICTED CASH

The Company has in place deposits amounting to \$1,222,520 at March 31, 2023 (December 31, 2022 - \$1,227,520) 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.

	March 31 2023	December 31, 2022
Principal amount	\$ 20,668	\$ 67,755
Accrued interest	307	3,438
Less payment of principal	(12,324)	(47,087)
Less payment of interest (Note 13)	(307)	(3,438)
Subtotal	<u>\$ 8,344</u>	<u>\$ 20,668</u>
Current portion	\$ 8,344	\$ 20,668
Non-current portion	\$ -	\$ -

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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.

	March 31, 2023	December 31, 2022
Principal amount	\$ 12,044	\$ 974,325
Accrued interest (Note 13)	-	53,146
Less payment of interest	(6,981)	(42,205)
Less payment of principal	-	(1,028,475)
Foreign Exchange	(5,063)	55,253
	<u>\$ -</u>	<u>\$ 12,044</u>

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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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 \$550,069 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.

On January 6, 2023, the Company completed amendments to the \$330,000 January 9, 2023 secured convertible debentures that mature on January 9, 2025 and bear interest at a rate of 10% per annum which is payable annually in cash or in common shares at the option of the Company and are convertible into common shares at a conversion price of \$0.10 per share.

For accounting purposes, the proceeds of \$330,000 have been allocated based on the relative fair values of debt. The fair value of the debentures was determined to be \$310,126 using a discount rate of 13%. Residual value of \$19,873 has been allocated as \$14,507 to the equity component net of \$5,366 deferred income tax recovery.

On February 14, 2023, the Company issued 80,525 common shares on conversion of \$8,000 of convertible debentures issued January 9, 2023, exercised at \$0.10. For accounting purposes, the fair value of the Debenture on conversion date of \$7,600 and residual equity component of \$482 were transferred to share capital.

On March 15, 2023, the Company issued 242,642 common shares on conversion of \$20,000 of convertible debentures issued November 21, 2022, exercised at \$0.085. For accounting purposes, the fair value of the Debenture on conversion date of \$18,692 and residual equity component of \$1,980 were transferred to share capital.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

12. SECURED CONVERTIBLE DEBENTURE (cont'd)

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

	March 31, 2023	December 31, 2022
Principal amount	\$ 5,668,086	\$ 6,917,938
Conversion of Convertible Debenture	(26,292)	-
Retirement of Debenture	(330,000)	(5,554,306)
Issuance of Debenture	330,000	5,554,306
Less equity component of convertible debenture	(19,873)	(550,069)
Less transaction costs	-	(23,408)
Principal repayment	-	(1,388,576)
Less payment of interest	(33,000)	(643,307)
Less payment of interest in shares	-	(56,000)
Accrued interest and accretion (Note 13)	194,711	1,411,508
	<u>\$ 5,783,632</u>	<u>\$ 5,668,086</u>
Current portion	226,905	596,658
Non-current portion	5,556,727	5,071,428
	<u>\$ 5,783,632</u>	<u>\$ 5,668,086</u>

13. FINANCE COSTS

	Three Months to March 31, 2023	Three Months to March 31, 2022
Equipment loan (Note 10)	\$ 307	\$ 1,453
Secured convertible debentures (Note 12)	194,711	353,814
Lease liability (Note 8)	1,151	1,745
Other	(2,326)	(584)
	<u>193,843</u>	<u>356,428</u>

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 March 31, 2023 were 314,395,314 (December 31, 2022 – 298,072,147).

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

14. SHARE CAPITAL AND RESERVES (cont'd)

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.

On January 13, 2023, the Company issued 16,000,000 common shares at a value of \$0.125 per share for gross proceeds of \$2,000,000.

On February 14, 2023, the Company issued 80,525 common shares on conversion of \$8,000 of convertible debentures issued January 9, 2023, exercised at \$0.10. For accounting purposes, the fair value of the Debenture on conversion date of \$7,600 and residual equity component of \$482 were transferred to share capital (Note 12).

On March 15, 2023, the Company issued 242,642 common shares on conversion of \$20,000 of convertible debentures issued November 21, 2022, exercised at \$0.085. For accounting purposes, the fair value of the Debenture on conversion date of \$18,692 and residual equity component of \$1,980 were transferred to share capital (Note 12).

Flow-Through Premium Liability:

	March 31, 2023	December 31, 2022
Flow-through premium liability	\$ 29,416	\$ 30,247
Settlement of flow-through premium liability pursuant to qualified expenditures	(1,625)	(831)
Closing Balance	<u>\$ 27,791</u>	<u>\$ 29,416</u>

The Company raised in 2022 \$574,700 flow-through financing of which \$41,757 has been expended in eligible exploration expenditures to March 31, 2023 with \$532,943 remaining in fiscal 2023.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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 December 31, 2022	Nil	\$ 0.00
Balance at March 31, 2023	Nil	0.00

As of March 31, 2023, 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 three months ended March 31, 2023, the Company issued Nil Performance-Based Awards and recorded a share-based payment expense of \$Nil (2022 – \$Nil) related to the vesting of Performance-Based Awards.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

15. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of changes in stock options:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance at January 1, 2022	10,400,000	\$ 0.14
Issued options	5,150,000	0.08
Expired options	(2,650,000)	0.17
Cancelled options	<u>(500,000)</u>	0.14
Balance December 31, 2022	12,400,000	0.11
Cancelled options	<u>(150,000)</u>	0.08
Balance at March 31, 2023	<u>12,250,000</u>	\$ 0.11

As at March 31, 2023, the following stock options were outstanding and exercisable:

<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Exercise Price</u>	<u>Weighted Average Contractual Life (Years)</u>	<u>Expiry Date</u>
1,300,000	1,300,000	\$0.10	0.75	December 28, 2023
850,000	850,000	\$0.12	1.81	January 20, 2025
3,650,000	3,650,000	\$0.15	2.77	January 8, 2026
1,450,000	1,450,000	\$0.11	3.50	October 5, 2026
<u>5,000,000</u>	<u>5,000,000</u>	\$0.08	4.50	October 5, 2027
<u>12,250,000</u>	<u>12,250,000</u>			

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:

	Three Months Ended March 31,	
	2023	2022
	\$	\$
Consulting fees	150,500	87,500
Salaries and benefits	<u>45,000</u>	<u>40,000</u>
	<u>205,500</u>	<u>127,500</u>

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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.

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, 2023, the Company's maximum exposure to credit risk is the carrying value of its cash, restricted cash, and amounts receivables in the amount of \$6,301,985.

All off the Company's cash 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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

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

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 its mineral interests 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 its mineral interests. 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.

Foreign Exchange Rate Risk

The functional currency of the Company is the Canadian dollar. As at March 31, 2023, 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.

NICOLA MINING INC.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the three months ended March 31, 2023 and 2022

18. SUBSEQUENT EVENTS

- a) On April 19, 2023, the Company issued 1,000,000 common shares at a value of \$0.08 per share in connection with the exercise of 1,000,000 stock options.
- b) On May 18, 2023, the Company issued 2,032,787 common shares on conversion of \$185,000 of convertible debentures issued May 20, 2020, exercised at \$0.10.
- c) On May 19, 2023, the Company issued 494,881 common shares on conversion of \$45,000 of convertible debentures issued May 20, 2020, exercised at \$0.10.