

Nicola Mining Inc.

NIM \$0.185

TSXV Exchange | OTC: HUSIF | Market Cap \$59M

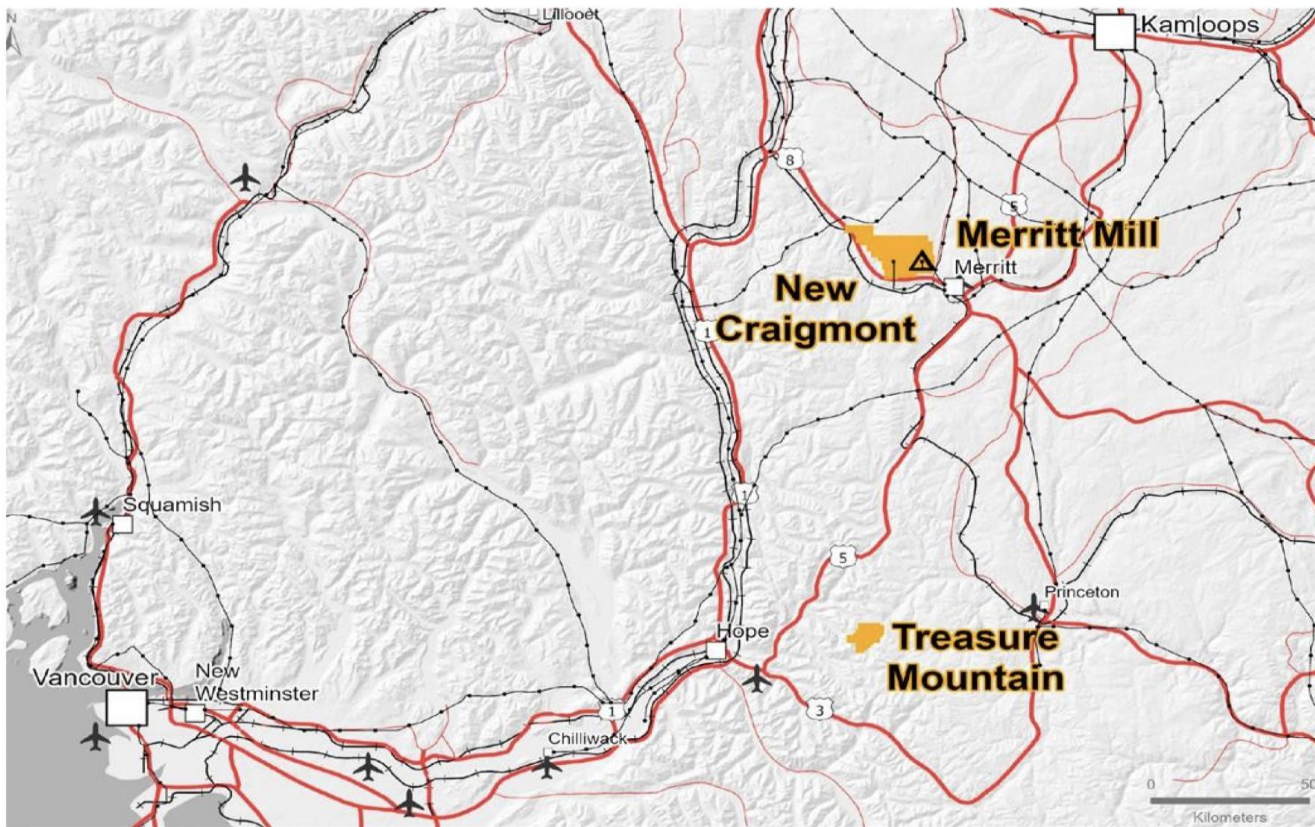
Description: Nicola is a junior mining company with a unique and very valuable set of assets in British Columbia. See Figure 1. Most notably, Nicola is both cash flow and earnings positive, which is almost unheard of amongst junior mining companies. Furthermore, the company owns the New Craigmont Copper Project, which is valued at \$62.5 million based on a transaction valued at \$25.0 million announced yesterday with a leading Japanese mineral resources company. See pages 8-9.

In addition, Nicola owns 100% of Merritt Mill, the only facility in British Columbia permitted to process third-party gold and silver throughout the province. The cost merely to secure a permit to build such a processing facility would be in the tens of millions of dollars, and total construction costs would likely exceed \$100 million. Even more daunting: the time entailed for a new entrant to build a processing plant -- from discovery to appraisal to construction -- probably is 13 years or more. Remarkably, investors have assigned Nicola an enterprise value (EV) of only about \$61 million, despite these high-value -- and in Merritt Mill's case, nearly irreplaceable -- assets.

In addition to construction costs, when one considers that it requires an average of 13 years¹ for a project to garner mine permits in British Columbia, as well as millions of dollars to complete required processes, there is significant value in Nicola's Treasure Mountain Silver Mine and New Craigmont Copper Project mine permits and the Merritt Milling Facility permit.

¹ Source: <https://www.mining.com/building-a-mine-in-british-columbia-hurry-up-and-wait/>

Figure 1: Map of Nicola Mining Inc.'s Key Assets



Source: Nicola Mining Inc.

Merritt Mill: Located 14 kilometers (km) northwest of Merritt, BC and within Nicola's New Craigmont Copper property, Merritt Mill is a modern grinding, crushing, and floatation facility. The mill, which is connected to BC's power grid and has highway access, is currently operating at its 200 tonne-per-day processing capacity. Nicola is considering whether to expand Merritt Mill's capacity to 500 tonnes per day.

Nicola has invested more than \$30 million in the mill, including the purchase of 980 acres of land, construction and infrastructure costs, construction of a fully lined tailings facility, and upgrades to its jig separation and tabling systems. See Figure 2. Nicola owns the Merritt Mill site on a freehold basis; the land is zoned as an industrial site.

Figure 2: Nicola's Merritt Mill Processing Facility

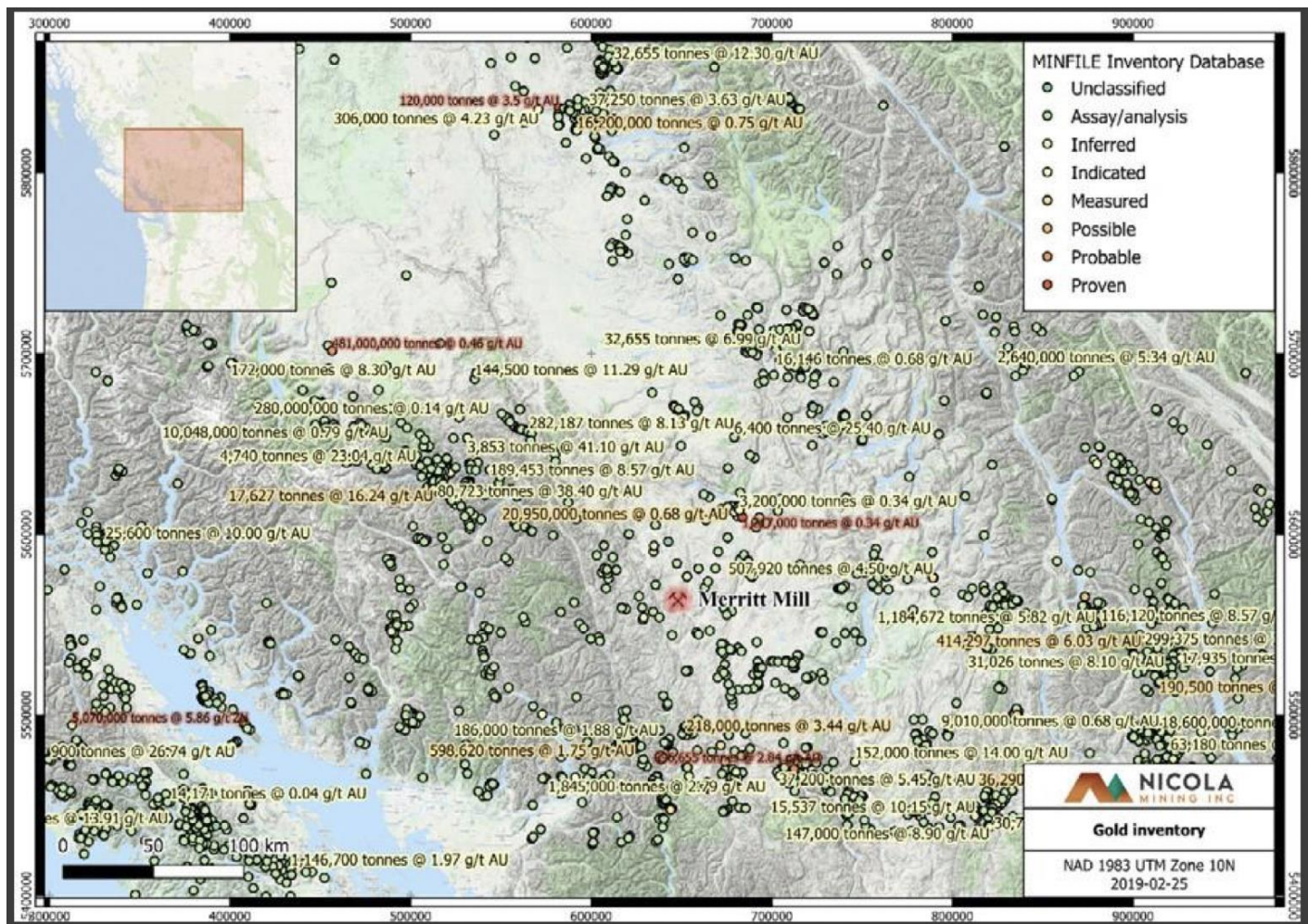


Source: Nicola Mining Inc.

Merritt Mill not only generates significant cash flow for Nicola, but it also represents a vital asset for small gold mining projects across BC. Figure 3 depicts the large number of projects nearby the mill. Merritt Mill can be considered a facilitator of those projects; for most, it represents the simplest way to convert precious metals resources to cash.

Nicola's Merritt Mill is the only facility permitted to accept third party gold and silver mill feed from throughout the Province of British Columbia.

Figure 3: Gold Inventory Proximal to Nicola's Merritt Mill Facility



Source: MINFILE Inventory Database (accessed 2-25-2019); Nicola Mining Inc.

Not surprisingly, a key aspect of Nicola's capacity utilization plan for Merritt Mill is reaching agreements to process high-grade precious metals resources. Nicola has signed such accords with three feedstock suppliers:

1. In April 2021, Nicola signed an agreement with Ocean Partners UK Limited, a global metals trading company. In September 2021, Nicola shipped 140.9 tonnes of gold and silver concentrate to Ocean Partners. In February 2022, Nicola Ocean shipped a further 196 tonnes of gold and silver concentrate to Ocean Partners. This concentrate contained 92 grams of gold and 562 grams of silver per tonne.
2. In March 2017, Nicola signed an initial processing accord with Blue Lagoon Resources Inc. That agreement has since been extended through March 31, 2027. Blue Lagoon's mill feed contains high-grade gold material.

3. In January 2023, Nicola agreed to accept gold mill feed from Osisko Development Corp. (NYSE: ODV), which is developing the Cariboo Gold Project in central BC. Nicola has received more than 15,000 tonnes of input material from Osisko. The parties are now considering the next steps in their relationship.

This Nicola-Osisko accord is quite strategic for Nicola because it highlights that a company much larger than Nicola recognizes the value of Merritt Mill. Furthermore, Nicola is likely to be introduced to additional entities with which it previously had no relationship as it executes on the accord.

Another key consideration regarding the Osisko agreement: Nicola's Merritt Mill-related profits are understated in 2Q 2023 because of a lag between recognizing the revenue from the Osisko agreement and the processing costs associated with Osisko's material. The revenue will begin to be recognized in Nicola's 3Q 2023 financials, while the costs began to be reflected in 2Q 2023. See pages 10-11.

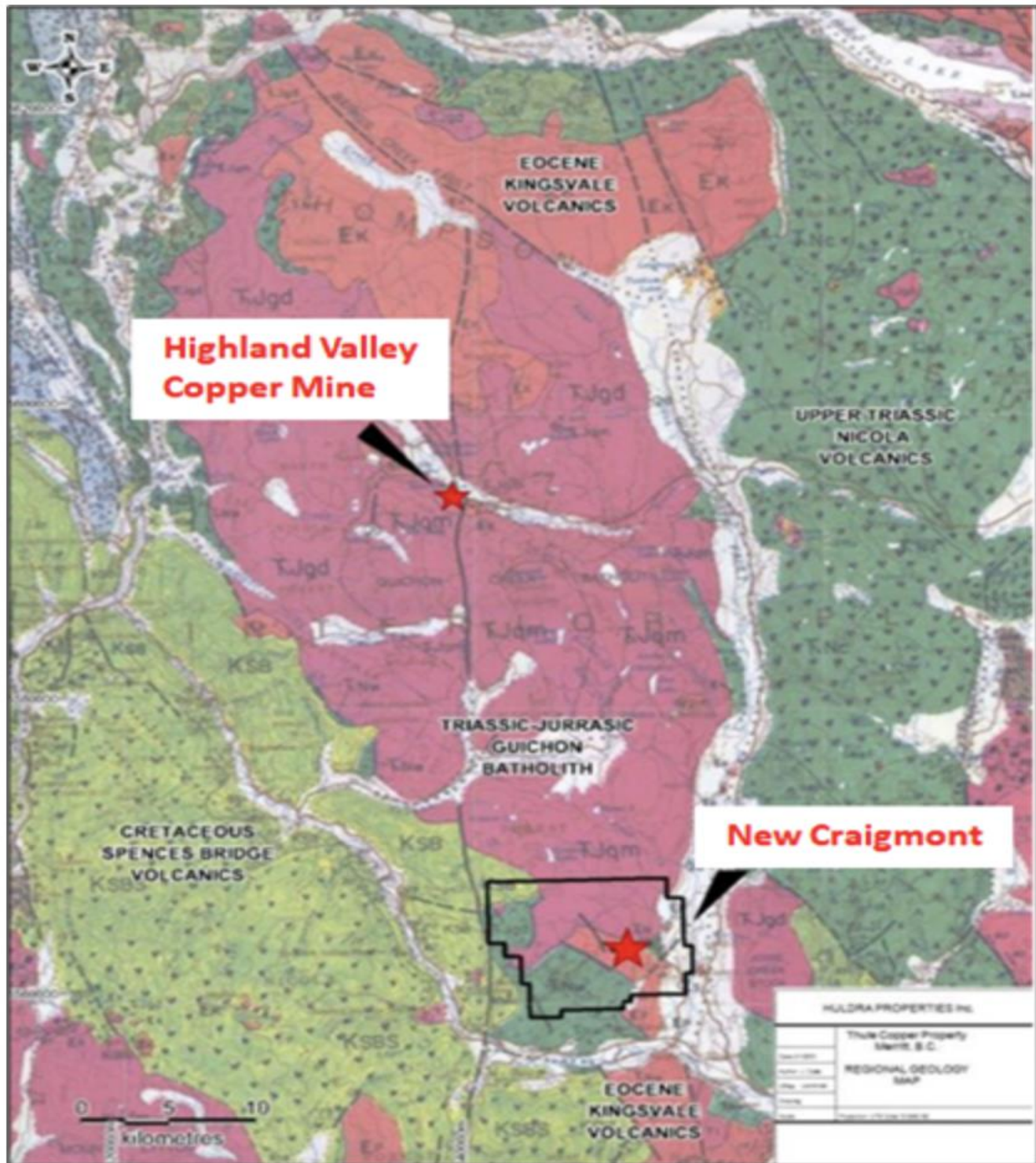
All these agreements have been structured to minimize risks to Nicola. Nicola's milling costs and the costs of mining transportation are repaid first from the gross proceeds in any transaction. Nicola and its mill feed supplier then split the remaining profits according to a specified, but undisclosed, formula.

New Craigmont Copper Project: The fully permitted, 10,913-hectare New Craigmont Project includes the historic Craigmont Copper mine. In November 2021, British Columbia authorities granted Nicola a multi-year area-based exploration permit for the entire property which allows the company to drill 190 holes and runs through November 21, 2027.

This permit is extremely valuable both from time and economic perspectives. More specifically, it may take up to 15 years in BC to progress a greenfield copper mine from concept to production. In December 2017, the BC government refused to issue an environment assessment certificate to KGHM Ajax Mining which hoped to open a copper/gold mine near Kamloops, BC. Reportedly, KGMH Ajax invested around C\$100 million -- and six years -- in this fruitless attempt to secure the permit.

The New Craigmont Copper Project is adjacent to Teck Resources' (NYSE: TECK) Highland Valley Copper Mine. In addition, the project is connected to BC Hydro's electric power grid and may be reached by paved road from the city of Merritt. See Figure 4.

Figure 4: Geological Formation of the New Craigmont Copper Project



Source: Nicola Mining Inc.

The Craigmont Copper mine was operational from 1961 through 1982, a period during which 890 million pounds of copper were produced. More specifically, 34 million tonnes of resources containing an average copper grade of 1.3% were mined at the Craigmont Copper mine. This grade was the highest of all North American mines producing at the time. (Material recovered from underground mining at New Craigmont had an even higher grade, around 2.8%.) The mine closed in 1982 due to low copper prices (US\$0.60 per pound).

While the Craigmont Copper mine has not been in production for many years, there are precedents for a mine to re-start and eventually become an impressive producer. Most notably, the Canadian Malartic gold mine in Quebec, now owned 100% by Agnico Eagle (TSX: AEM), restarted commercial production in 2011, about 55 years after it was shut down in the 1950s following about a 30-year production run. Canadian Malartic produced 659,000 ounces of gold in 2022 (after producing a record 715,000 ounces in 2021).

Nicola consolidated the ownership of the New Craigmont Copper Project at its current size in late 2015 and since then has extensively explored the property, including performing about 10,500 meters of diamond drilling and 1,900 meters of reverse circulation drilling, as well as significant soil mapping and induced polarization and ground magnetic surveys. These drilling programs, which prove the existence of skarn and porphyry mineralization, have intercepted the following high-grade spans of copper. See Table 1.

Table 1: New Craigmont Copper Project – Selected Assay Results

<u>Drill Hole</u>	<u>Span (in meters)</u>	<u>Copper Grade</u>
DDH-THU-002	85.9	1.11%
S-100	116.7	0.54%
NC-2018-01	71.4	0.60%
NC-2018-03	100.6	1.33%
CC-18-02	73.6	1.05%
CC-19-72	44.0	0.56%

Porphyry systems can contain tens of millions to billions of tonnes of resources. The type of mineralization seen in the pit and underground indicates the New Craigmont Copper Project skarn is associated with a larger system. (Teck Resources' nearby Highland Valley property is a porphyry copper deposit.)

In June 2023, Nicola began a six-hole 2023 drilling program at the New Craigmont Copper Project. Assay results on these holes will be available in late September.

Agreement with Nittetsu: On September 6, Nicola signed a non-binding letter of intent (LOI) with Nittetsu Mining Co. Ltd., a Japan-based global mining company, to establish a joint venture (JV) entity regarding the New Craigmont Copper Project. Under the LOI, Nittetsu would contribute up to \$25 million to the New Craigmont Copper Project, primarily to fund exploration costs, in exchange for a 40% interest in the project. Subject to further due diligence and other factors, Nicola and Nittetsu plan to sign a definitive agreement by December 23, 2023.

Nittetsu is an international mining company which has limestone mines across Japan and operates a copper mine in Chile. Its revenue in the fiscal year ended March 31, 2023 was about US\$1.1 billion. This accord with Nicola represents Nittetsu's first investment in Canada.

This transaction values 100% of the New Craigmont Copper Project at \$62.5 million (\$25 million divided by 40%). Note that the enterprise value of Nicola, which owns 100% of the project until the definitive agreement is signed, as well as other very valuable assets, is only \$61 million.

Nittetsu plans to invest in the project in two stages. In the first stage, which is expected to span about three years, Nittetsu would contribute \$10 million to the New Craigmont Copper Project in exchange for a 20% ownership stake.

Upon completion of Stage One, Nittetsu has the option to advance to a second stage in which Nittetsu would contribute a further \$15 million to the project for an incremental project ownership stake of 20% that would bring its aggregate ownership interest to 40%. During Stage Two, which is expected to take about two years, the parties would focus on the feasibility of the New Craigmont Copper Project and would prepare to extract copper from the mine.

Some key aspects of the Nicola-Nittetsu agreement (of course, assuming the LOI becomes a definitive accord) are:

1. The implied value of the New Craigmont Copper Project, according to this arm's length transaction, is higher than Nicola's total enterprise value.
2. Upon signing of the definitive agreement, essentially all exploration spending at the project for the next five years will be funded by Nittetsu.
3. The agreement is non-dilutive at the corporate level for Nicola.

When the project begins to produce copper, Nittetsu will have the opportunity to buy 40% of the output of the mine, but the Japanese company will be required to pay market price for the copper, not a discounted price. Specifically, if the JV company which owns the project (in which Nicola will own a 60% stake) reaches a deal to sell 60% of the output at a certain price, Nittetsu will have the opportunity to buy the other 40% at that same price.

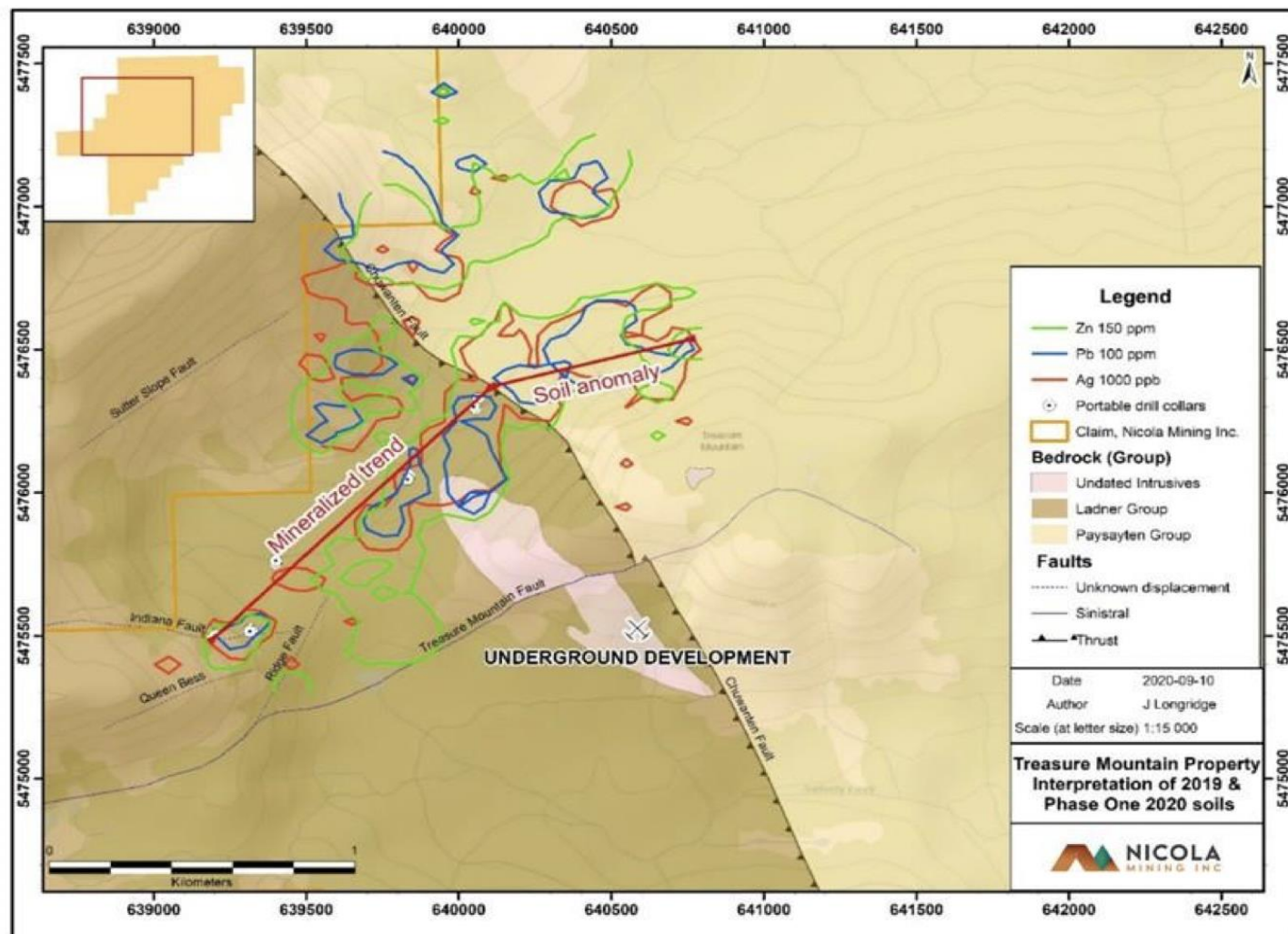
4. Nittetsu plans to relocate some of its technical personnel. This skilled and experienced team, together with University of British Columbia personnel, will help formulate the most effective future drilling programs at the New Craigmont Copper Project.

Treasure Mountain Silver Project: Nicola owns a 7,000-hectare, fully permitted silver mine located northeast of Hope, British Columbia (or about 270 km from Vancouver). Treasure Mountain has indicated resources of 31,000 tonnes with grades of 39.14 ounces of silver (Ag) per tonne and 5.52% and 6.42% lead (Pb) and zinc (Zn) contents, respectively. These calculations are based on a cut-off silver grade of 10 ounces per tonne.

In 2020, Nicola completed a successful, two-stage soil sampling program at Treasure Mountain. The 472 aggregate samples collected show anomalous Ag in the soils along the potential 1.2-km northeast-southwest mineralized trend at the project. In addition, a second trend extending about 700 meters was identified which showed high soil concentrations of Ag, Pb and Zn. See Figure 5.

Under previous management, Nicola operated the Treasure Mountain mine at a profit in 2013 when the price of silver was about US\$17 per ounce, and the Canadian/U.S. dollar traded at parity. The mine has been closed for about ten years, but management is considering reopening the mine in the future.

Figure 5: Nicola's Treasure Mountain Silver Project



Source: Nicola Mining Inc.

Impressive Financial Results, Particularly for a Junior Miner: Nicola has reported positive net income during each of the last four quarters and aggregate operating cash flow over that period of positive \$2.5 million -- both of which are extremely unusual operating statistics for a junior miner. Most notably, Nicola has reported sharp increases in the “Gravel, Ash, Soil and Other Income” line item on its income statement, including \$3.39 million in 2Q 2023 and \$2.19 million in 1Q 2023.

The largest contributor to this line item is profits from Merritt Mill’s operations. See Table 2. This 2Q 2023 result is especially impressive because the accounting methodology used for the Merritt Mill-Osisko agreement caused a loss to be recorded on the contract in the quarter as

Osisko costs, but no associated revenue, were booked. Osisko revenue will begin to be recognized in 3Q 2023. See page 5.

Table 2: Nicola Mining Inc. – Selected Financial Statistics

(in Canadian dollars)

	<u>2Q 2023</u>	<u>1Q 2023</u>	<u>4Q 2022</u>	<u>3Q 2022</u>	<u>2Q 2022</u>
Operating Expenses	(\$1,489,567)	(\$1,432,104)	(\$608,574)	(\$847,788)	(\$828,249)
Gravel, Ash, Soil, and Other Income	\$3,390,961	\$2,192,624	\$1,817,778	\$1,569,175	\$498,456
Net Income	\$1,712,952	\$578,673	\$625,907	\$293,467	(\$707,244)
Weighted Average of Shares Outstanding, in millions	320.1	311.8	295.0	293.5	291.9
Earnings Per Share	\$0.01	\$0.00	\$0.00	\$0.00	(\$0.00)
Operating Cash Flow	\$1,143,863	(\$328,897)	\$1,866,385	(\$218,030)	(\$78,415)
Cash and Cash Equivalents	\$3,644,141	\$2,506,245	\$895,774	\$665,206	\$1,272,057
Amounts Receivable	\$3,297,847	\$2,573,220	\$1,199,008	\$1,460,426	\$291,916
Working Capital	\$6,379,010	\$4,087,887	\$866,967	(\$6,044,831)	(\$6,465,532)
Debt, Including Convertible Debt and Lease Liabilities	\$5,751,066	\$5,834,078	\$5,725,765	\$7,658,141	\$7,681,570
Common Shares Outstanding, in millions	317.9	314.4	298.1	292.0	292.0

Another operation reflected in Nicola's "Gravel, Ash, Soil, and Other Income" is a gravel pit located on the Merritt Mill Property. The pit is permitted to produce about 60,000 tonnes of gravel per year. The Infracon-Lower Nicola Site Services Limited Partnership operates the quarry. Nicola's gravel permit is quite valuable; attaining that designation in BC can take several years.

As Nicola's operating results have improved, so has its cash position. The company had \$3.64 million of cash as of June 30, 2023, up from \$2.51 million at the end of the first quarter and \$896,000 as of December 31, 2022.

Strong, Experienced Management: President and CEO Peter Espig has led Nicola for nearly ten years. He has significant mining and diamond drilling experience, as well as an impressive track record in financial restructurings, corporate turnarounds, and capital raises during a lengthy Wall Street career. Indeed, Mr. Espig has structured over US\$2.0 billion in private equity and pre-IPO investments from the principal side and in SPACs, having completed over US\$1.0 billion of such transactions.

Investment Summary: Nicola, which trades at an enterprise value of only \$61 million, is a unique junior miner in that it currently generates both positive earnings and positive operating cash flow. Equally important, the company's cash flow has improved markedly in 2023 (positive \$0.8 million in 1H 2023 versus positive \$0.1 million in 1H 2022), primarily due to impressive results at the Merritt Mill processing facility.

Perhaps even more important than its recent financial results, Nicola owns a collection of strategic, fully permitted assets in BC that investors are not reflecting in its stock market valuation. Indeed, Merritt Mill, the only facility in British Columbia permitted to process third-party gold and silver throughout the province, not only generates significant cash flow, but building a competing plant would likely take about 13 years from conception to operation and would entail total land procurement and construction costs exceeding \$100 million.

Furthermore, Nicola's flagship exploration project, the New Craigmont Copper Project, is valued at \$62.5 million per a recently announced LOI with Nittetsu, a major Japanese mineral resources company. Moreover, under the terms of that accord, Nittetsu would fund essentially all New Craigmont Copper Project exploration costs over the next five years. Both skarn and porphyry mineralization have been proven to exist at the New Craigmont Project. Six holes are currently being drilled on the property, and geology experts from Nittetsu are expected to help plan effective future drilling programs on the site.

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