



NICOLA MINING INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2021, and 2020.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORTING

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

	Note	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		\$ 803,371	\$ 824,705
Amounts receivable	4	591,968	100,881
Prepaid expenses and other assets		80,298	52,665
		1,475,637	978,251
Non-current assets			
Property, plant, and equipment	5	9,170,583	9,090,448
Right-of-use-assets	8	55,724	69,845
Mineral interests	6	225,003	3
Restricted cash	9	1,211,013	1,211,013
Total assets		\$ 12,137,960	\$ 11,349,560
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 555,642	\$ 671,821
Current portion of lease liabilities	8	17,553	15,927
Current portion of equipment loan	10	46,226	43,739
Working Capital loan	11	321,304	-
Flow-through share premium	14	-	95,231
		940,725	826,718
Non-current liabilities			
Asset retirement obligation	7	3,890,216	3,831,834
Lease liabilities	8	41,765	55,141
Equipment loan	10	32,768	67,755
Secured convertible debenture	12	7,276,861	6,369,276
Total liabilities		12,182,335	11,150,724
Equity			
Shareholders' equity			
Share capital	14	81,148,435	78,605,424
Warrants	14	1,694,494	1,694,494
Equity component of convertible debentures		2,156,200	2,167,952
Contributed surplus		7,797,471	7,591,331
Accumulated deficit		(92,840,975)	(89,860,365)
Total shareholders' (deficiency) equity		(44,375)	198,836
Total liabilities and shareholders' equity		\$ 12,137,960	\$ 11,349,560

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 consolidated interim financial statements.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2021	2020	2021	2020
Operating Expenses					
Exploration costs	6	\$ 146,438	\$ 99,778	\$ 753,911	\$ 283,645
Mill costs	5	324,753	181,915	1,179,575	565,698
Accretion of asset retirement obligation	7	19,461	19,016	58,382	57,048
Salaries and benefits	16	32,121	33,493	102,439	104,923
Share-based compensation	15	-	-	338,465	72,470
Professional fees		39,089	31,853	100,484	127,943
Consulting fees	16	68,826	74,811	140,076	213,485
Office and general		16,324	18,363	40,314	49,603
Shareholder communications and investor relations		18,686	5,372	42,094	22,987
Regulatory and transfer agent fees		15,595	14,087	53,192	28,408
Rent		7,222	6,946	22,153	20,727
Vehicle expenses		(51)	1,109	6,522	5,373
Depreciation	5	1,722	461	2,774	1,283
Operating Loss		(690,186)	(487,204)	(2,840,381)	(1,553,593)
Gravel, ash, soil, and other income		460,865	115,319	771,425	723,466
Finance Costs	13	(372,389)	(339,636)	(1,039,018)	(954,782)
Part X11.6 tax		-	-	-	(8,439)
Flow-through share premium	14	12,845	-	95,231	-
Recovery - Write-off of accounts payables		36,000	-	36,000	39,055
Foreign exchange loss		(4,264)	-	(3,867)	-
Loss before income taxes		(557,129)	(711,521)	(2,980,610)	(1,754,293)
Deferred income tax recovery		-	-	-	40,125
Loss and Comprehensive Loss for the period		\$ (557,129)	\$ (711,521)	\$ (2,980,610)	\$ (1,714,168)
Loss Per Share – Basic and Diluted		\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted Average Number of Common Shares Outstanding					
Basic		279,915,972	248,853,401	273,680,133	247,542,371
Diluted		279,915,972	248,853,401	273,680,133	247,542,371

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

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

	Nine Months Ended September 30	
	2021	2020
Operating Activities		
Net loss for the period	\$ (2,980,610)	\$ (1,714,168)
Adjustments for:		
Accretion of asset retirement obligation	58,382	57,048
Depreciation	124,032	97,658
Non-cash interest and finance expense	1,034,829	957,655
Flow-through premium	(95,231)	-
Share-based compensation	384,479	72,471
Deferred income tax recovery	-	(40,125)
Write-off of accounts payables	(36,000)	(39,055)
Foreign exchange	5,583	-
Changes in non-cash working capital items		
Amounts receivable	(491,087)	138,488
Prepaid expenses and other assets	(27,633)	(56,871)
Accounts payable and accrued liabilities	(80,179)	(112,533)
Cash and Cash Equivalents Used in Operating Activities	(2,103,435)	(639,432)
Investing Activities		
Acquisition of mineral interests	(225,000)	-
Purchase of property, plant, and equipment	(214,189)	(11,500)
Reclamation expenditures incurred	-	(186,093)
Recoveries from sales of concentrate, net	24,143	-
Cash and Cash Equivalents Used in Investing Activities	(415,046)	(197,593)
Financing Activities		
Issuance of common shares	2,000,000	750,000
Convertible debentures issued	-	440,000
Repayment of convertible debenture	-	(250,000)
Interest payment on convertible debt	-	(12,500)
Repayment of lease liabilities	(18,180)	(14,550)
Repayment of equipment loan	(32,500)	(13,717)
Working capital loan	310,245	-
Interest payment on working capital loan	(3,543)	-
Exercise of stock options	241,125	-
Cash and Cash Equivalents Provided by Financing Activities	2,497,147	899,233
Net change in cash and cash equivalents for the period	(21,334)	(62,208)
Cash and cash equivalents, beginning of period	824,705	500,797
Cash and cash equivalents, end of period	\$ 803,371	\$ 563,005

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

NICOLA MINING INC.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited - 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, 2020	246,844,530	\$ 76,640,941	\$ 1,692,331	\$ 2,063,082	\$ 7,518,860	\$ (86,970,001)	\$ 945,213
Issuance of convertible debenture	-	-	-	63,284	-	-	63,284
Share issuance financing	5,769,230	750,000	-	-	-	-	750,000
Convertible debenture conversion	200,000	20,434	-	(3,616)	-	-	16,818
Share based compensation	-	-	-	-	72,471	-	72,471
Issuance of Second Tranche Debentures	-	-	-	45,202	-	-	45,202
Issuance of shares for interest on convertible debentures	138,888	12,500	-	-	-	-	12,500
Net loss for the period	-	-	-	-	-	(1,714,168)	(1,714,168)
Balance, September 30, 2020	252,952,648	\$ 77,423,875	\$ 1,692,331	\$ 2,167,952	\$ 7,591,331	\$ (88,684,169)	\$ 191,320
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	13,333,334	2,000,000	-	-	-	-	2,000,000
Share-based compensation	-	-	-	-	384,479	-	384,479
Issuance of shares for interest on convertible debentures	407,750	56,000	-	-	-	-	56,000
Convertible debenture conversions	650,000	67,547	-	(11,752)	-	-	55,795
Stock options exercised	2,210,000	419,464	-	-	(178,339)	-	241,125
Net loss for the period	-	-	-	-	-	(2,980,610)	(2,980,610)
Balance, September 30, 2021	279,915,972	\$ 81,148,435	\$ 1,694,494	\$ 2,156,200	\$ 7,797,471	\$ (92,840,975)	\$ (44,375)

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

NICOLA MINING INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2021, and 2020 (Unaudited – Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Nicola Mining Inc. (the “**Company**” or “**Nicola**”) is a junior exploration company that is engaged in the business of identification, acquisition, and exploration of mineral property interests together with custom milling operations at its mill located in Merritt, B.C. (the “**Merritt Mill**”). The Company’s head office is located at 3329 Aberdeen Road, Lower Nicola, B.C. Nicola is a publicly listed company incorporated under the *Business Corporations Act* (British Columbia). The Company’s common shares are listed on the TSX Venture Exchange (the “**TSX-V**”) under the symbol “NIM.V.”

As at September 30, 2021, the Company had an accumulated deficit of \$92,840,975 (December 31, 2020 - \$89,860,365) and working capital of \$534,912 (December 31, 2020 - \$151,533). In order 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.

The unaudited condensed consolidated interim financial statements for the period ended September 30, 2021, were prepared using International Financial Reporting Standards (“**IFRS**”). These unaudited condensed consolidated interim financial statements have been prepared using the going concern concept, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

NICOLA MINING INC.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2021, and 2020
(Unaudited – Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

a) Statement of Compliance with International Financial Reporting Standards

These unaudited condensed consolidated interim financial statements, including comparatives of Nicola have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited condensed consolidated interim financial statements have been authorized for release by the Company's Board of Directors on November 26, 2021.

b) Basis of Consolidation

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

c) Basis of Measurement

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company's and its subsidiary's functional currency and have been prepared on a historical cost basis, except for certain financial instruments, which are carried at fair value.

d) Use of Estimates and Judgments

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

i) Impairment of non-current assets

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

ii) Completion of commissioning

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

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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 \$803,371 at September 30, 2021 (December 31, 2020 - \$824,705).

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

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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 loss during the financial period in which they are incurred.

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

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

PPE are depreciated using the following methods:

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

e) Right-of-use Assets and Lease Liabilities

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

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

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

NICOLA MINING INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2021, and 2020 (Unaudited – Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Commercial and Pre-commercial Production

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

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

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 loss for the period.

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

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.

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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 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,

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

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

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

Financial asset	Classification
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable and other assets	Amortized cost

Financial liabilities

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

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

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

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

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

The Company has a stock option plan (the "**Stock Option Plan**") that is described in Note 15(a). The Stock Option Plan allows directors, officers, employees, and consultants of the Company to acquire shares of the Company. The fair value of stock options granted is recognized as an employee or consultant expense with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

NICOLA MINING INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2021, and 2020 (Unaudited – Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Options issued to Employees and others providing similar services

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

Options issued to non-Employees

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

n) Provisions

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

o) 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 judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

p) Flow-Through Shares

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

q) 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.

r) 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.

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

t) 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.

u) Standards Issued or Amended but not yet effective

The Company has not applied the following revised IFRS that has been issued but was not yet effective at September 30, 2021. This accounting standard is not currently expected to have a significant effect on the Company's accounting policies or financial statements.

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.

4. AMOUNTS RECEIVABLE

	September 30, 2021	December 31, 2020
Gravel, ash, soil, and other receivables	\$ 595,445	\$98,379
GST receivable (net)	(3,477)	2,502
	\$ 591,968	\$ 100,881

NICOLA MINING INC.**Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2021, and 2020
(Unaudited – Expressed in Canadian dollars)****5. PROPERTY, PLANT AND EQUIPMENT**

	Land \$	Mill \$	Camp and Site Infrastructure \$	Heavy Machinery and Equipment \$	Computers and Office Equipment \$	TOTAL \$
Cost						
Balance at January 1, 2020	7,756,507	1,605,299	52,585	282,469	30,220	9,727,080
Additions	-	-	-	145,150	2,000	147,150
Balance at December 31, 2020	7,756,507	1,605,299	52,585	427,619	32,220	9,874,230
Additions	-	-	175,000	32,500	6,689	214,189
Recoveries from sale of concentrate	-	(24,143)	-	-	-	(24,143)
Balance at September 30, 2021	7,756,507	1,581,156	227,585	460,119	38,909	10,064,276
Accumulated Depreciation						
Balance at January 1, 2020	-	359,287	24,688	260,817	23,756	668,548
Depreciation for the year	-	80,264	10,142	23,085	1,743	115,234
Balance at December 31, 2020	-	439,551	34,830	283,902	25,499	783,782
Depreciation for the period	-	60,199	19,001	28,747	1,964	109,911
Balance at September 30, 2021	-	499,750	53,831	312,649	27,463	893,693
Carrying Amounts						
At January 1, 2020	7,756,507	1,246,012	27,897	21,652	6,464	9,058,532
At December 31, 2020	7,756,507	1,165,748	17,755	143,717	6,721	9,090,448
At September 30, 2021	7,756,507	1,081,406	173,754	147,470	11,446	9,170,583

The Company entered into an agreement for the sale of concentrate. Sales relating to the mill feed used during the mill commissioning process are credited against the cost of the mill as recoveries. Amounts associated with the sale of concentrate are recognized when all significant risks and rewards of ownership of the concentrate are transferred to the customer, which occurs when the concentrate has been delivered to the customer and collectability is reasonably assured.

The Company's concentrate sales contract provided for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on applicable commodity prices set on specified quoted periods, which occur two months after the shipment arrives at the smelter and is based on average metal prices. For this purpose, the selling price can be measured reliably for the Company's gold and silver sales as there exists an active and freely traded commodity exchange such as the London Metals Exchange and the value of product sold by the Company is directly linked to the form in which it is traded on the market.

For the period ending September 30, 2021, the Company received \$254,715 in recoveries from the sale of concentrate and incurred processing costs of \$230,572, for net recoveries of \$24,143.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Mill				
Costs incurred during the period				
Amortization and depreciation	42,333	31,523	107,137	82,109
Power and fuel	-	12,195	31,085	33,417
Mill operating supplies and rentals	10,590	6,505	47,066	19,915
Mill repairs	106,986	11,010	403,390	61,879
Reclamation of mill site	4,857	-	53,625	-
Mill insurance	46,268	43,402	140,556	131,971
Property taxes	10,214	8,168	30,642	24,639
Salaries and wages	99,791	69,112	341,786	206,687
Water sampling and reports	3,714	-	23,561	4,881
Permitting and regulatory fees	-	-	727	200
Total costs incurred during period	324,753	181,915	1,179,575	565,698

6. MINERAL INTERESTS

The Company holds a 100% interest in 30 mineral claims and 1 mineral lease at the Treasure Mountain Property, located near Hope, B.C. The properties are subject to a 2% net smelter royalty.

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

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

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 ("Gold Project") 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.

NICOLA MINING INC.**Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited – Expressed in Canadian dollars)****6. MINERAL INTERESTS (cont'd)**

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

	September 30, 2021 \$	December 31, 2020 \$
a) The Treasure Mountain group of claims located in the Similkameen Mining Division of British Columbia	1	1
b) A Crown Grant mineral claim (Lot 1210) in the Yale Mining Division contiguous to the Treasure Mountain Claims known as the "Eureka"	1	1
c) The surface rights to Lot 1209 located in the Yale Mining Division of British Columbia known as the "Whynot Fraction"	1	1
d) Acquisition of 50% interest in Dominion Creek Property, located in the Cariboo Mining Division of British Columbia	225,000	-
	225,003	3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
EXPLORATION COSTS				
Costs incurred during the period:				
New Craigmont Property				
Assaying	16,078	-	40,215	26,279
Drilling and related costs	6,812	-	299,009	651
Field supplies and rentals	4,999	(229)	56,355	30,114
First Nations liaison consulting	21,406	-	39,734	-
Geological consulting (Note 16)	44,940	3,567	163,690	74,396
Mapping & surveying	1,706	-	43,736	7,550
Tenure lease	-	-	-	1,637
Share-based compensation (Note 15)	-	-	46,014	-
	95,941	3,338	688,753	140,627
Treasure Mountain Property				
Property taxes	-	1,853	-	5,557
Water sampling and reports	31,144	31,562	34,142	39,176
Environmental and permitting	10,077	325	16,588	21,169
Tenure lease	9,276	-	14,428	6,700
Mapping and soil surveying	-	62,700	-	70,416
	50,497	96,440	65,158	143,018
Total costs incurred during period	146,438	99,778	753,911	283,645

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7. ASSET RETIREMENT OBLIGATION

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	3,831,834	3,674,785
Accretion expense	58,382	157,049
Closing balance	3,890,216	3,831,834

Merritt Mill

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

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

Ash and Material Disposal Remediation Contracts

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

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	September 30, 2021	December 31, 2020
Right-of-Use Assets		
Opening balance	\$ 69,845	\$ 28,424
Additions	-	75,295
Disposals	-	(14,087)
Depreciation	(14,121)	(19,787)
	<u>55,724</u>	<u>69,845</u>
Lease Liabilities		
Opening balance	\$ 71,068	\$ 30,212
Additions	-	75,295
Disposals	-	(14,087)
Payments	(18,180)	(25,375)
Accrued interest	6,430	5,023
	<u>59,318</u>	<u>71,068</u>
 Current portion	 \$ 17,553	 \$ 15,927
Non-current portion	<u>41,765</u>	<u>55,141</u>

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

As at September 30, 2021, the remaining payments for operating leases are due as follows: \$6,060 in 2022, \$24,240 in 2023 and 2024, plus \$4,778 in 2025.

9. RESTRICTED CASH

The Company has in place deposits amounting to \$1,211,013 at September 30, 2021 (December 31, 2020 - \$1,211,013) registered in the name of the British Columbia Ministry of Finance as security for its mining permits and for reclamation clean up at the Treasure Mountain Property, the Merritt Mill and decommissioned tailings, and the New Craigmont Property.

10. EQUIPMENT LOAN

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

	September 30, 2021	December 31, 2020
Principal amount	\$ 111,494	\$ 135,650
Accrued interest	5,394	5,317
Less payment of principal	(32,500)	(24,156)
Less payment of interest (Note 13)	(5,394)	(5,317)
Subtotal	<u>\$ 78,994</u>	<u>\$ 111,494</u>
 Current portion	 \$ 46,226	 \$ 43,739
Non-current portion	<u>\$ 32,768</u>	<u>\$ 67,755</u>

NICOLA MINING INC.**Notes to the Condensed Consolidated Interim Financial Statements
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11. WORKING CAPITAL 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.

	September 30, 2021	December 31, 2020
Principal amount	\$ 310,245	\$ -
Accrued interest (Note 13)	9,019	-
Less payment of interest	(3,543)	-
Foreign Exchange	5,583	-
	<u>\$ 321,304</u>	<u>\$ -</u>

12. SECURED CONVERTIBLE DEBENTURE

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

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

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

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

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

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12. SECURED CONVERTIBLE DEBENTURE (cont'd)

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.

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.

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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.

	September 30, 2021	December 31, 2020
Principal amount	\$ 6,369,276	\$ 5,610,544
Conversion of Convertible Debenture	(55,795)	(16,818)
Less payment of interest	-	(12,500)
Less payment of interest in shares	(56,000)	(712,588)
Retirement of Second Tranche Debentures	-	(250,000)
Issuance of Debentures	-	451,389
Accrued interest and accretion (Note 13)	1,019,380	1,299,249
	\$ 7,276,861	\$ 6,369,276
 Non-current portion	 \$ 7,276,861	 \$ 6,369,276

13. FINANCE COSTS

	September 30, 2021	September 30, 2020
	\$	\$
Equipment loan (Note 10)	5,394	3,052
Working capital loan (Note 11)	9,019	-
Secured convertible debentures (Note 12)	1,019,380	957,655
Lease liability (Note 8)	6,430	2,325
Other	(1,205)	(8,250)
	1,039,018	954,782

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 September 30, 2021 were 279,915,972 (December 31, 2020 – 263,314,888).

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

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14. SHARE CAPITAL AND RESERVES (cont'd)

On August 4 and 13, 2020, the Company issued a total of 200,000 common shares on conversion of \$20,000 of the convertible debentures issued January 9, 2020, at an exercise price of \$0.10 (Note 12).

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

On November 24, 2020, the Company issued 5,600,705 common shares at a value of \$0.125 per share in settlement of interest of \$700,088 (Note 12).

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

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

On January 11, 2021, the Company issued 264,000 common shares at a value \$0.125 per share in settlement of interest of \$33,000 (Note 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 23, 2021, the Company issued 13,333,334 common shares at a price of \$0.15 per share for gross proceeds of \$2,000,000.

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.

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(Unaudited – Expressed in Canadian dollars)****14. SHARE CAPITAL AND RESERVES (cont'd)**

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.

Flow-Through Premium Liability:

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

Balance as of December 31, 2019	\$ -
Flow-through premium liability	95,231
Balance as of December 31, 2020	95,231
Settlement of flow through share premium liability pursuant to qualified expenditures	(95,231)
Balance as of September 30, 2021	\$ -

b) Share Purchase Warrants

: The following is summary of warrant transactions:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2020	18,227,698	\$ 0.16
Issued warrants	5,331,882	0.19
Expired warrants	(10,936,033)	0.15
Balance at December 31, 2020	12,623,547	0.18
Expired warrants	(2,625,000)	0.15
Balance at September 30, 2021	9,998,547	0.18

As of September 30, 2021, the Company had outstanding warrants as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
4,666,665	\$0.18	July 23, 2022
2,884,615	\$0.20	September 2, 2022
2,380,767	\$0.17	December 22, 2022
66,500	\$0.17	December 22, 2022
<u>9,998,547</u>		

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15. SHARE-BASED PAYMENTS**a) Stock Option Plan**

The Company's Board of Directors approved the adoption of the Stock Option Plan in accordance with the policies of the TSX-V. The Board of Directors is authorized to grant stock options to directors, officers, consultants and or employees. The exercise price of stock options granted under the Stock Option Plan shall be as determined by the Board of Directors when such stock options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority.

The Company shall not grant stock options under the Stock Option Plan which will, when exercised, exceed 10% of the issued and outstanding shares, and further subject to the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the TSX-V, provided that the number of shares reserved for issuance, within any twelve-month period:

- i) to any one option holder shall not exceed 5% of the total number of issued shares,
- ii) to any one consultant shall not exceed 2% in the aggregate of the total number of issued shares, and
- iii) to all persons employed or engaged to provide investor relations activities shall not exceed 2% in the aggregate of the total number of issued shares. In addition, stock options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than $\frac{1}{4}$ of the options vesting in any three-month period.

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

The Company's 2020 annual general, and special meeting of its shareholders was held on June 15, 2021. At such meeting, the motion to permit the Stock Option Plan to continue as a rolling plan was approved.

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The following is a summary of changes in stock options:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2020	11,075,000	\$ 0.14
Issued options	1,350,000	0.12
Expired options	(1,550,000)	0.11
Cancelled options	(200,000)	0.10
Balance December 31, 2020	10,675,000	0.14
Cancelled options	(400,000)	0.17
Expired options	(3,015,000)	0.175
Issued options	4,150,000	0.15
Exercised options	(2,210,000)	0.11
Balance at September 30, 2021	9,200,000	\$ 0.14

As at September 30, 2021, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Contractual Life (Years)	Expiry Date
2,650,000	2,650,000	\$0.165	1.24	December 27, 2022
1,350,000	1,350,000	\$0.10	2.24	December 28, 2023
200,000	200,000	\$0.10	2.37	February 12, 2024
850,000	850,000	\$0.12	3.31	January 20, 2025
3,850,000	3,850,000	\$0.15	4.28	January 8, 2026
300,000	300,000	\$0.16	4.58	April 28, 2026
9,200,000	9,200,000			

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15. SHARE-BASED PAYMENTS (cont'd)

b) Fair Value of Stock Options Issued During the Period

The weighted average fair value at grant date of stock options granted during the nine months ended September 30, 2021, was \$0.15 per stock option.

The model inputs for options granted during the nine months ended September 30, 2021:

Grant Date	Expiry Date	Share Price at Grant Date \$	Exercise Price \$	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
01/08/2021	01/08/2026	0.15	0.15	0.44%	60 months	77.51%	0%
04/28/2021	04/28/2026	0.16	0.16	0.93%	60 Months	73.33%	0%

The Company recorded share-based payment expense of \$384,479 (2020 - \$72,470) during the nine months ended September 30, 2021, of which \$338,465 (2020 - \$72,470) has been included in operating expenses and \$46,014 (2020 - \$Nil) has been included in exploration costs.

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 September 30		Nine Months Ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Consulting fees	45,000	55,000	135,000	155,000
Salaries and benefits	30,000	30,000	90,000	90,000
Share-based compensation	-	-	111,276	32,209

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

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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 September 30, 2021, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents, and accounts receivables in the amount of \$1,395,339.

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.

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

The Company's financial assets exposed to interest rate risk consist of cash and short-term investments balances. The interest earned on the cash balances approximates fair value rates, and the Company is not at a significant risk to fluctuating rates.

The Company's 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. 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. The Company's working capital loan due October 27, 2021, in the amount of USD\$250,000 is exposed to foreign exchange risk. As at September 30, 2021, with variables unchanged, a 5% increase or decrease in value of the US\$12,500 against the Canadian dollar would result in an insignificant change in net loss. As at September 30, 2021, 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.

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

Contingencies

During the year ended December 31, 2020, the Company received a demand from Clibetre Exploration Ltd. ("Clibetre") for approximately \$337,000 in relation to a claimed breach of a Profit-Sharing Agreement dated June 6, 2015. The Company and Clibetre sampled and tested the Clibetre material in May 2021. Following testing, Clibetre advised the Company that it had identified a potential buyer for the material and the material was removed from the Company's Merritt Mill site by Clibetre in June 2021.

18. SUBSEQUENT EVENTS

- a) The Company on October 13, 2021, repaid the USD\$250,000 working capital loan plus accrued interest to Ocean Partners UK Limited (Note 11).
- b) The Company 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. The flow-through share premium liability associated with the issuance was \$43,750.
- c) The Company on October 24, 2021, executed a Mining and Milling Profit Share Agreement with High Range Exploration Ltd ("**High Range**") for mill feed to Merritt Mill. High Range is currently preparing a 10,000-tonne bulk sample permit application for the gold project. High Range upon receiving the permit, the Company will within 30 days commence incremental funding of \$450,000 plus all costs to produce and ship 3,000 tonnes of mill feed to Merritt Mill for processing concentrate. The \$450,000 plus \$75,000 previously advanced as part of the Mineral Property Purchase Agreement shall be reimbursed from distribution proceeds of the sale of concentrates (Note 6).
- d) The Company on November 22, 2021, 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).