

Nicola Mining Inc.

(TSXV:NIM)

\$700k in Drilling at the Embayment Target Commences

Event

Dating back to our latest [Update Report](#) filed in November 2016, Nicola has hit several exciting milestones. Specifically:

- Raised \$700k in flow-through financing in December 2016, issuing shares at \$0.20/unit, with a ½ warrant (full warrant exercisable at \$0.35 for a period of three years).
- Re-sampled historic hole S-100 at the Embayment zone, showing 0.54% Cu over 116.7m. Hole S-100 was originally drilled in January of 1978 and intercepts the mineralized zone approximately 140m northwest and 60 metres below hole THU-002 (a hole drilled by Nicola in 2016 that intersected 1.11% Cu over 85.92m). The high mineralization, distance between the intercepts and 60 metres difference in depth highlight the potential of a high grade larger zone of mineralization.
- Newly initiated exploration program to test 10-15 holes at the Embayment zone, as well as other geophysical work planned at other targets on the Thule Copper property. The program will test the Embayment zone at length and at depth. Additionally, an IP survey will be performed at Titan Queen, a high potential target located 1km northeast from the Embayment zone and characterized by porphyritic mineralization.

Impact & Analysis

Exploration funding never hurts. The high-grade copper target, the Embayment zone, has shown some good previous results, but it's true size is yet to be known, at length and at depth. This is the exciting part, considering that this newly initiated \$700k drilling program will keep testing the zone until no material mineralization shows. We would also like to remind our readers that the Embayment zone is a fault extension to the Craigmont Copper mine (operating from 1961-1982 with over 34 million tonnes of high grade Cu ore mined).

Outlook

We expect Nicola to process roughly 25k tonnes of ore in 2017, and ramp up production to 40k by 2018 (not accounting for any additional mill improvements). Just from mill processing, we forecast Nicola to produce \$1.4mm and \$2.2mm in pre-tax profit over 2017 and 2018, respectively. Large upside stems from their Craigmont waste dumps offtake agreement, and the potential reopening of Treasure Mountain.

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Price Performance - 52 weeks



Market Data (TSXV:NIM)

Price (March 1, 2017 close)	\$0.25
52 Week Range	\$0.07 - \$0.54
Market Cap (mm)	\$39.8
Shares Outstanding (basic, mm)	159.1
Free Float	77%
Average Daily Volume (3 months)	496k
Total Debt (mm)	\$8.5
Cash & Short-Term Investments (pro-forma, mm)	\$2.7
Total Assets (pro-forma, mm)	\$10.2

Headquarters Vancouver, B.C., Canada

Top Shareholders

Concept Capital Management Ltd.	22.0%
Waterton	6.7%
Peter Espig, CEO	2.3%

*All figures in CAD unless otherwise stated.
Source: Thomson Reuters (3/1/2017)*

Business Description

Nicola Mining Inc. ("Nicola"), formerly Huldra Silver, is a mining exploration and mineral processing company situated in Merritt, B.C. A three-hour drive north-east from downtown Vancouver and situated right next to the old Craigmont copper mine (operating from 1962-1982 with over 34 million tonnes of ore mined), Nicola holds the fully-permitted gold/silver ore processing mill, a lined tailings facility, Craigmont's old copper waste dumps, as well as a couple exploration projects. Managed by Peter Espig, a renowned Wall Street investment banker of Goldman Sachs origin. Mr. Espig has lead companies on a global scale and has raised \$2.5 billion in funds for these projects. The Company is producing cash flow from ore processing and that could fund exploration activities at its various mining claims.

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Investment Highlights

Several Streams of Cash Flow with an Exploration Upside

Nicola Mining is not your typical mining company. Unlike the average junior miner which issues stock to fund exploration activities, Nicola actually manages to produce internal cash flow. Specifically, Nicola operates a profitable ore processing mill, in addition to having two other near-term cash flow opportunities.

Processing Mill

Nicola owns a 200 tonnes per day (tpd) processing mill/facility, located 10 kilometers northwest of Merritt, B.C. The mill is permitted to conduct custom milling of ore, with recovery of gold and silver metal

Figure 1: Nicola's Mill (Merritt, B.C.)



Source: Ubika Research, property visit (06/06/2016)

The company's milling objective is to partner with British Columbia based miners and help them extract an economic value from their resource. Ore in the ground is meaningless unless it is mined, processed, and sold. Nicola provides its mill to miners without one.

Currently, the mill is being worked on, with a scheduled restart in April, 2017. At this point, we expect production to commence at a 130 tpd level, with further room for growth (given the mill's capacity at 200 tpd). **Operations from mill processing should yield \$1.4mm and \$2.2mm in profit for 2017 and 2018, respectively.**

Upside: Material Purchase Agreement for Nicola's Waste-dumps

Within the 100%-owned, 10,084 hectare Thule Copper property, lies the old Craigmont copper mine. Operated up to the early 1980's, the mine remains valuable due to its surrounding waste-rock material, which was left behind by previous mine owners. This waste material is estimated at 80-90 million tonnes, with visible copper mineralization at surface.

Nicola announced an off-take agreement in October, 2016, with Teck Highland Valley Copper ("THVC"), a wholly-owned subsidiary of Teck Resources Limited (TSX:TCK.B). This partnership is hugely significant, as it acts as a near-term cash-flow generator for Nicola, as it finally places a monetary value to the waste dumps. As per the agreement, THVC will pay \$0.40 per tonne of ore.

We anticipate that the cash flow will kick in at the start of 2018, as both companies are currently exploring the site, and figuring out an ore extraction strategy. Once complete, we anticipate that the offtake agreement will yield 2-3 million tonnes of ore per year.

Another Upside: Reopening of Treasure Mountain as Silver Prices Rise

As is true with every single mine, it is only possible to extract ore if it is economically feasible to do so. A big detriment to economic mining stems from fluctuating metal prices. However, Treasure Mountain is different.

Treasure Mountain, the 7,000-acre silver deposit located 29 kilometers northeast of Hope, BC, has very little startup costs, as most of the capital expenditure requirements have already been fulfilled. For a total of \$1.9mm in expenses (startup cost, mining, shipping, milling, G&A), reopening of Treasure Mountain could yield \$6.4mm in cash flow (given silver price reaches \$20/oz).

Keep in mind that extracting the resource can be profitable even at a \$13.90/oz Ag price, but given that extraction will only take 4 months, a better time to play this card would be when silver prices rise to a \$19-20/oz level.

Figure 2: Treasure Mountain - profitability sensitivity to price of silver

	Silver Price (USD/oz)					
	\$17.00	\$18.00	\$19.00	\$20.00	\$21.00	\$22.00
Net Cash Flow to Nicola	\$5,281,443	\$5,670,118	\$6,058,793	\$6,447,468	\$6,836,144	\$7,224,819

Source: Ubika Research

Exploration Continues at Thule Copper

Recent Exploration Work

In early September, 2016, Nicola announced the results of its 5-hole, 1,084 meter, drill program designed to test identified target areas within the Thule Copper property. Specifically, there are three target areas which have provided preliminary interest to Nicola – the Embayment, Titan Queen, and Eric zones. Results of the drilling program were to everyone's delight, having hit copper mineralization at each hole, with the most significant result coming from the Embayment zone, capturing 1.11% copper over 85.92 meters.

Upcoming Exploration

Having raised \$700,000 in flow-through financing in December, 2016, Nicola is ready to continue testing the Embayment target at both length and depth. The Embayment zone is a fault extension of the previously mined Craigmont copper mine, and is optimistically showing that it could be a larger ore body than Craigmont itself.

Further drilling will include 10-15 holes, with the hope of continuing to drilling along strike. This would expand the potential resource body, who's size is currently unknown. This process is similar to playing battleships and hitting the first couple pawns. The length of the ship is unknown, but we haven't missed yet!

Moreover, Nicola also plans to convey an IP survey of the Titan Queen target. If metal conductivity shows, then the company will allocate a portion of the exploratory budget on putting a few drill holes at this high-potential target.

Financial Analysis

Debenture Balloon Payment of \$7.7 million due in November 2017

Having raised \$7.0mm in secured convertible debentures on November 21, 2014, Nicola will need to worry about repaying this debt as it comes due on November 21, 2017 (plus interest of \$700k).

For the second year in a row, Nicola has agreed to pay for the annual 10% interest on this convertible debenture in the issuance of shares (although the agreed payment of interest was supposed to be paid 50/50 in cash and shares). This signifies a couple points:

1. The company is tight on cash, and would rather pay for obligations in shares.
2. The debt interest settlement news release mentioned that the insiders of the company were issued 84% of the shares to settle for interest. This implies that insiders effectively own that portion of the debt. **In an event that Nicola cannot pay for this obligation, a refinancing, or renegotiation of terms is much easier to settle with insiders, than unrelated creditors.**

Although the magnitude of this payment does concern us, the fact that insiders own a large portion of the debt as well as the conversion price being \$0.275 (compared to current price of \$0.255 on Feb. 21, 2017) gives us some breathing room. In any case, we expect that almost all of the debenture will be repaid with the issuance of new shares.

Funds for Operations

Nicola burns approximately \$274k in cash per quarter of operations, a figure which does not include exploration costs. This figure is equivalent to how much cash the company absolutely need to run its business on a quarterly basis. **Anything funds generated in excess, will most likely be used to pay for debt, fund exploration, and consider any corporate transactions.**

That being said, including the recently raised \$700k FT financing, Nicola should currently have about \$2.1mm in cash. This will be enough to fund 2017's operations, expend \$700k on exploration, as well as have about half a million left over for servicing existing debentures (although not nearly enough to settle the maturing convertible debt).

Additionally, we estimate that Nicola will also generate \$1.4mm in profit from milling operations in 2017.

Appendix A: Recent News

- January 23, 2017 **Nicola Mining Resamples Historic Craigmont Drill Hole S-100 Intersecting 0.54% Copper Over 116.7 Metres**
- Early in January 2017, Nicola Mining geologists re-sampled S-100 Hole S-100, a historic surface drill hole originally drilled in January 1978 on the Embayment target located on the Thule property 10 km west of Merritt, B.C. The results of the historic sampling of S-100 include sections of 0.92% Cu over 61.9 metres within a section of 116.7 metres grading 0.54%.
- January 10, 2017 **Nicola Mining Ships and Receives Payment for 296.352 Dry Metric Tonnes Concentrate Grading 97.1 g/t Gold and 535.5 g/t Silver**
- The source of the mill feed that produced the concentrate is from Gavin Mines. The Company has received the initial payment for the concentrate and will receive final payment upon grade confirmation and final processing by the smelter.
- December 14, 2016 **Nicola Mining Announces Completion of Flow-Through Financing**
- The Company completed a non-brokered private placement, selling an aggregate of 3,500,000 units at a price of \$0.20/unit for gross proceeds of \$700,000. Each unit consists of one flow-through common share of the Company, and one-half of one transferrable common share purchase warrant, with each warrant entitling the holder to acquire one common share of the Company at a price of \$0.35 for a period of three years from the closing of the financing.
- December 5, 2016 **Nicola Mining Announces Issuance of Shares in Settlement of Interest Owing on Convertible Debentures**
- Pertaining to the secured convertible debentures issued on November 21, 2014, and maturing on November 21, 2017, the Company has paid all of the interest owed in the issuance of common shares. Accordingly, the Company has issued 4,242,960 shares at a price of \$0.165 in settlement of interest owing of \$700,088.20. Insiders of the Company were issued 3,578,788 shares pursuant to the debt settlement.
- November 28, 2016 **Nicola Mining Files Q3/2016 Financial Statements and MD&A for the Three and Nine Month Ended September 30, 2016**

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