

Nicola Mining (TSXV:NIM) is a Strategic Takeover Target

Company Description

Nicola Mining Inc. (TSXV:NIM; “Nicola”) is a copper explorer advancing its flagship 100%-owned, fully-permitted New Craigmont mine located in Merritt, B.C. The Company also operates the permitted Merritt mill, the only facility permitted to process Au/Ag anywhere in the province. The facility produced gold and silver concentrate in 2016 from Gavin Mines, but is currently awaiting feeds from miners under signed Mining and Milling Profit share agreements. Production has been delayed approximately six months due to hiccups at the mining properties. However, management now has clarity on a restart date and expects the mill to commence processing ores from its partners in late Q4/18 or Q1/19. The Company is unique amongst junior mining companies as it expects positive 2019 operational cash flow while maintaining significant exploration upside. Lastly, Nicola has a silver option to reopen Stope 2 in its Treasure Mountain mine at a relatively low capital cost.

Investment Thesis

- Ambitious 2018 exploration program to find porphyry.** The Craigmont mine was previously in operation from 1962-1982, with over 34 Mt of ore mined at 1.28% Cu, until it closed due to falling copper prices (US\$0.60/lb). According to a Technical Report from 1985, the mine left behind ~500M lbs grading 0.42% Cu, with 27,754t grading 1.79% Cu for 1,095,000 lbs Cu in the underground section, with the intention of recommencing operations in the future. Of note, the historical cut-off grade was 0.7% to 1.2% and the stockpile is estimated to have ~88Mt. Nicola Mining is the first company since 1982 to own the Thule property (includes Craigmont), which comprises 10,084 Ha, on a 100% basis. The property continues to remain permitted to mine.
- Currently, an ambitious 2018 exploration plan is underway, targeting five zones with diamond drilling, reverse circulation (RC) drilling, as well as geophysical surveys.** While the 80-90Mt historic waste piles exploration encompasses RC drilling other targets including Craigmont Central, Craigmont West, Northwest & East Promontory porphyry are expected to be through diamond drilling. Its key exploration focus is on identifying porphyry in near mine targets of Waste Piles and Craigmont Central.
- Phase I of its RC drilling program on waste piles, comprising 20 drill holes, was completed between May 23, 2018 and June 8, 2018.** Results were announced in August, highlighted by the deepest hole returning 0.25% Cu over 40m. Phase II program, expected to commence in the fourth quarter, will drill 100 holes targeting southern Waste Piles and Portal 3060, with the primary goal of delineating copper mineralization and trace the extent of the higher grading material within the waste piles. Based on Phase II results, Nicola expects to report a non-NI-Compliant resource calculation in Q1/19.
- In July, NIM announced the receipt of required permits and the commencement of a diamond drilling program, which consists of 10 initial holes for a total of 5,000m across Craigmont Central (2 holes), Craigmont West (3 holes) and East Promontory (5 holes) sections.** Concurrently, geochemical sampling and IP ground geophysics will be conducted at North Promontory zone.

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Price Performance



Market Data (TSXV:NIM)

Price (October 22, 2018)	\$0.115
52 Week Range	\$0.10-\$0.21
Market Cap (M)	\$23.6
Shares Outstanding, Basic & Diluted (M)	205.1
Free Float	79%
Average Daily Volume (3 months)	140K
Last Reported Debt (M)*	\$8.0
Total Assets (M)*	\$12.4

Headquarters

Lower Nicole, BC

Website

nicolamining.com

Top Shareholders

Insiders and Management	35%
Concept Capital Management	22%
BMO Nesbitt Partners	8%
Mountain Valley Partners	7%
Gravitas Securities	3%

Management

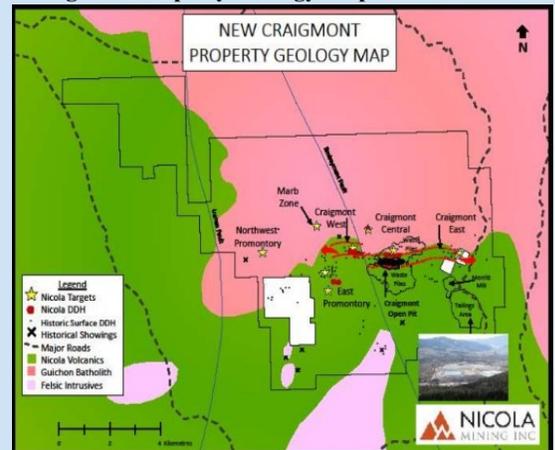
Peter Espig	President, CEO & Director
Warwick Bay	CFO & Corporate Secretary
Frank Hogel	Chairman
Doug Robinson	Director
Paul Johnston	Director

*As of October 22, 2018

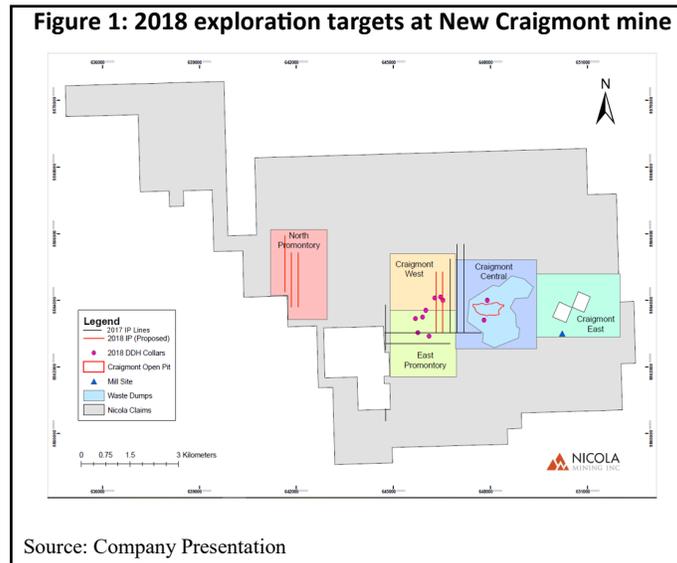
All figures in CAD unless otherwise stated.

Source: Company Reports, Capital IQ

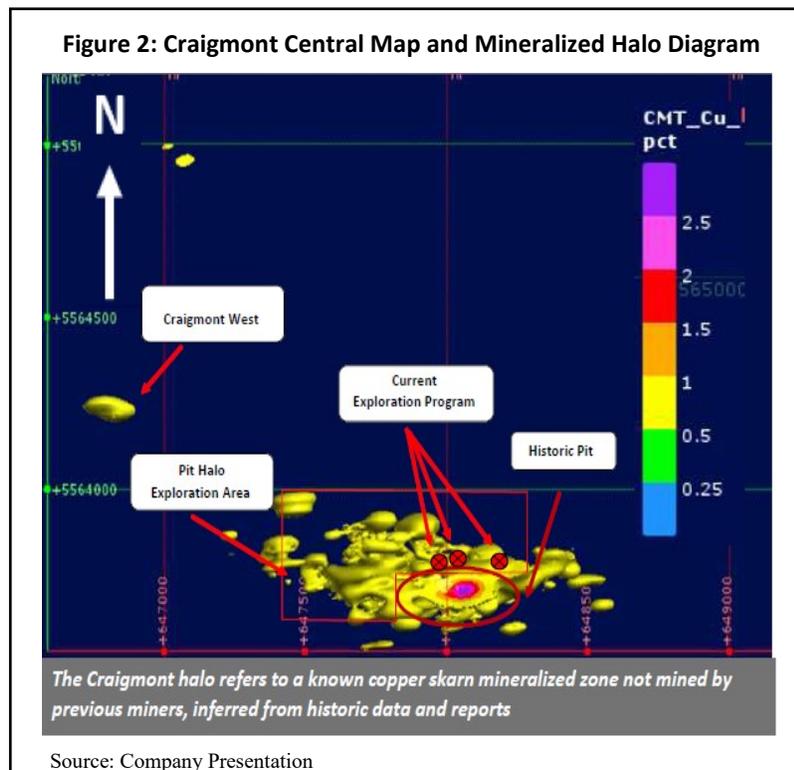
Craigmont Property Geology Map



Source: Company Presentation

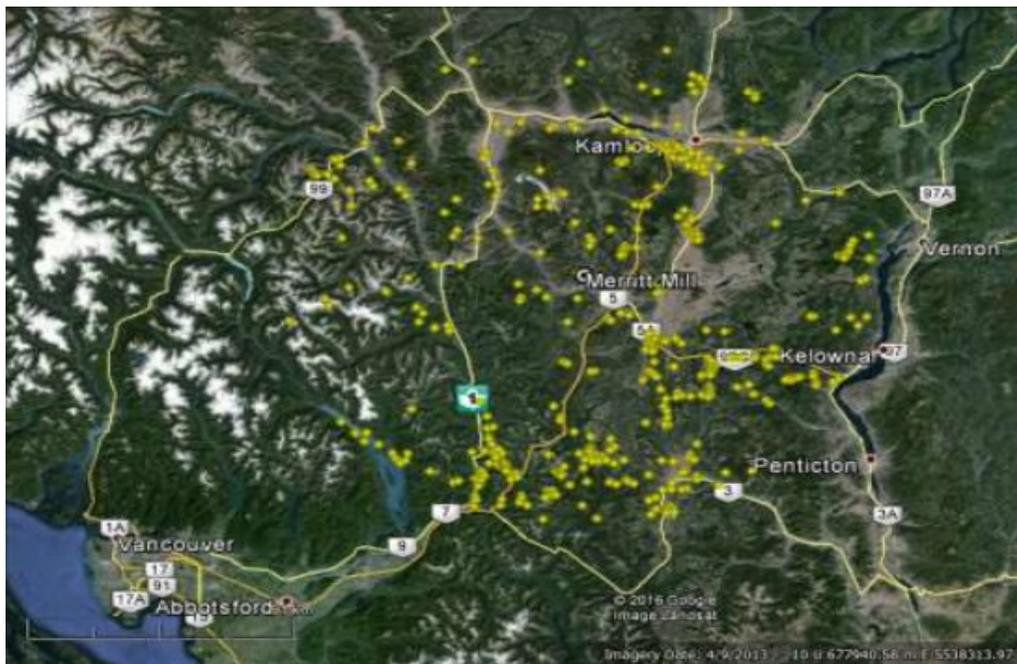


Positive results to-date. On September 25, results from the two holes at Craigmont Central were released. The first drill hole confirmed the presence of a new mineralized zone north of the historic Craigmont open pit, while the second hole targeted the mineralized Craigmont Pit Halo, which intercepted 1.05% Cu over 73.6m. Also, at the Craigmont West, Nicola’s earlier drilling programs (2016 & 2017) have confirmed copper-skarn mineralization, highlighted by 1.3% Cu over 100.6m. In general, the 2018 drilling program at this section is focused on delineation of mineralization extension and depth. Meanwhile, at the East and Northwest Promontory, drilling is expected to be focused on testing chargeability on the East Promontory target, as well as IP and mapping on the Northwest Promontory. Results from continuing drilling at all these sections will be released in Q4/18 or Q1/19. Key exploration milestones of the 2018 program comprise assessing potential for bulk mineable copper resources at Waste Piles and continuing to expand the mineralized halo zone at Craigmont Central.



Recommencing Merritt Mill operations should begin to generate cash flow in Q4/18-Q1/19. Management notes that the recommencing operations of the Merritt Mill, the only facility to process gold and silver in the province, was delayed by six months, due primarily to operational delays from its partners. Everything is now settled, and the Company expects the mill to commence processing ores from its partners in late Q4/18 or Q1/19. Although a temporary setback, the mill could generate significant cash flows once commissioned. A monopoly position, as well as ideal location (amidst several gold projects with over 50k oz of gold), could make the facility a mid-sized mine facilitator and milling hub in BC. Located within the New Craigmont property with direct highway access and hydro power, the Merritt Mill is a fully-permitted 200 tpd milling facility and tailing facility, expandable to 500 tpd at full capacity. Currently, the facility has profit-sharing agreements with four high-grade gold miners in BC. In fiscal 2016, the mill processed 6,000t material from Gavin Mines as part of a custom milling agreement, shipping 610 troy ounces Au and 3,702 troy ounces Ag, and receiving \$1.0M for the job. Subsequently, in April 2017, the Company inked a profit-sharing agreement with Gavin Mines, which agreed to ship up to 40,000t of mill feed per year to the mill. Gavin’s production is expected to initially fill 50% of the mill’s capacity, thus still allowing for other mill feed sources to ship to Nicola. In addition to the Merritt Mill, NIM is also working on other cash-flow generating projects, including a 30-year Merritt green energy fly ash agreement, a site reclamation industrial soil fill project, and royalties from its permitted gravel pit.

Figure 2: Craigmont Central Map and Mineralized Halo Diagram



Source: Company Presentation

Although copper grades in BC are relatively low compared to those in the Andes, the cut-off grades in the province are amongst the lowest globally due to lower power and water costs, making even low-grade copper mining feasible. Average cut-off grades in BC can be as low as 0.15% compared to 0.4% in the Andes and 0.35% in Mexico and Central America. Note that the Craigmont Mine with historical mining of 34Mt @ 1.3% Cu ranks amongst North America’s highest grade copper mines, making the project economics all the more attractive. On a related note, Imperial Metals Corporation’s (TSX: III) two copper/gold mines within BC (Red Chris and Mount Polley) have cut-off grades of 0.1%-0.3%.

Strategic takeover target. Global miners are aware of BC’s clean Cu concentrate, easy logistics to global markets, cheap mining costs, but are also aware of permitting complexities. NIM is in a compelling position because it has permits in place, which could make it an attractive takeout target. The Company also noted that it is in talks with three strategic groups.

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