



## **Consolidated Financial Statements**

From incorporation on August 3, 2011 to December 31, 2011  
and Auditor's Report

(Expressed in Canadian dollars)

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Northisle Copper and Gold Inc.

We have audited the consolidated financial statements of Northisle Copper and Gold Inc., which comprise the consolidated balance sheet as at December 31, 2011 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the period from incorporation on August 3, 2011 to December 31, 2011, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

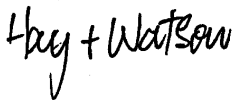
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2011, and its financial performance and its cash flows for the period from incorporation on August 3, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.



# NORTHISLE COPPER AND GOLD INC.

## Consolidated Balance Sheet

As at December 31, 2011

(Expressed in Canadian dollars)

2011

### ASSETS

#### Current

Cash	\$	1,908,108
Accounts receivable		57,049
Prepaid expenses and deposits		124,647

2,089,804

**Equipment** (Note 6)

21,270

**Mineral property interests** (Note 7)

14,942,267

\$ 17,053,341

### LIABILITIES

#### Current

Accounts payable and accrued liabilities	\$	250,272
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### SHAREHOLDERS' EQUITY

**Share capital** (Note 9)

16,778,892

**Reserves** (Note 10)

424,330

**Deficit**

(400,153)

16,803,069

\$ 17,053,341

### APPROVED BY THE BOARD

*"Robert J Gayton"*

**Director**

*"David M Douglas"*

**Director**

*The accompanying notes are an integral part of these financial statements*

**NORTHISLE COPPER AND GOLD INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
For the period from incorporation on August 3, 2011 to December 31, 2011  
(Expressed in Canadian dollars)

	<b>2011</b>
<b>Expenses</b>	
Amortization	\$ 1,495
Insurance	5,921
Interest and bank charges	309
Investor relations	39,525
Legal and audit	21,695
Office	29,066
Regulatory fees	33,912
Share-based compensation (Note 9)	150,105
Travel	1,877
Wages	118,968
	<hr/> 402,873
<b>Other (Income) Expenses</b>	
Interest income	(3,196)
Currency exchange loss	476
	<hr/>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ 400,153</b>
	<hr/>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ 0.02</b>
	<hr/>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted</b>	<b>23,250,642</b>
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*The accompanying notes are an integral part of these financial statements*

**NORTHISLE COPPER AND GOLD INC.**  
**Consolidated Statement of Changes in Shareholders' Equity**  
For the period from incorporation on August 3, 2011 to December 31, 2011  
(Expressed in Canadian dollars)

	<b>2011</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	\$ -
Net loss	400,153
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 400,153</b>
<b>RESERVES, BEGINNING OF PERIOD</b> (Note 10)	\$ -
Share option reserves	424,330
<b>RESERVES, END OF PERIOD</b>	<b>\$ 424,330</b>
<b>SHARE CAPITAL, BEGINNING OF PERIOD</b> (Note 9)	\$ -
Issued pursuant to plan of arrangement (Note 5)	16,778,892
<b>SHARE CAPITAL, END OF PERIOD</b>	<b>\$ 16,778,892</b>

*The accompanying notes are an integral part of these financial statements*

# NORTHISLE COPPER AND GOLD INC.

## Consolidated Statement of Cash Flows

For the period from incorporation to August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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	2011
<b>Cash provided by (used in)</b>	
<b>Operating activities</b>	
Net loss	\$ (400,153)
Items not requiring a cash outlay	
Amortization	1,495
Share-based compensation	150,105
	(248,553)
Changes in non-cash working capital components	
Accounts receivable	(57,049)
Prepaid expenses	(14,583)
Accounts payable and accrued liabilities	62,137
	(258,048)
<b>Investing activities</b>	
Purchase of equipment	(22,765)
Expenditures on mineral property interests	(311,079)
	(333,844)
<b>Financing activities</b>	
Cash received pursuant to plan of arrangement (Note 5)	2,500,000
<b>INCREASE IN CASH</b>	1,908,108
<b>CASH, BEGINNING OF PERIOD</b>	-
<b>CASH, END OF PERIOD</b>	\$ 1,908,108
<b>Supplementary Information</b>	
Interest received	\$ 3,196

*The accompanying notes are an integral part of these financial statements*

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## **1. NATURE OF OPERATIONS**

Northisle Copper and Gold Inc. (“Northisle” or the “Company”) is a mineral exploration company that was incorporated on August 3, 2011 in the Province of British Columbia, Canada as a wholly-owned subsidiary of Western Copper Corporation (“Western Copper”). Pursuant to a Plan of Arrangement (Note 5), the Company acquired Western Copper’s interest in the North Island Project and \$2,500,000 in cash in exchange for 46,501,283 common shares of the Company.

The Company’s principal business activity is the exploration and development of its North Island Project on Vancouver Island. Its head office is located at Suite 2050 – 1111 West Georgia Street, Vancouver, B.C.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to do so is dependent on obtaining additional financing, through the issue of treasury shares and/or from loans to complete the exploration and development of its mineral property interests and to commence profitable operations. The Company is confident it will be able raise capital as required in the long term, but recognize that there will be risks involved that may be beyond its control. These consolidated financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue its operations in the normal course of business.

## **2. BASIS OF PREPARATION**

### **Statement of compliance**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 19, 2012.

### **Basis of measurement**

These financial statements have been prepared on a historical cost basis, except for cash and other financial instruments classified as fair value through profit or loss or available-for-sale that have been measured at fair value, and are presented in Canadian dollars.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Consolidation**

These consolidated financial statements include the accounts of the Company and its 100% controlled subsidiary, North Island Mining Corp. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation.

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Foreign currency translation**

The reporting currency and functional currency of the Company and its subsidiary is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

### **Accounting estimates and judgments**

The preparation of these financial statements required management to make estimates, judgments and assumptions that affect the reported amounts and other disclosures in these financial statements. Estimates and the underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year. Critical estimates used in the preparation of these financial statements include, among others, the recoverability of accounts receivable, the impairment of carrying values of equipment and mineral property interests, the determination of realizable amounts of deferred tax assets and liabilities, and the measurement of equity instruments and share based compensation.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting judgments include the expected economic lives of and the estimated future operating results and net cash flows from equipment.

### **Financial instruments**

The Company's financial assets and financial liabilities are classified as follows:

- Cash is designated as held for trading and is measured at fair value through profit and loss ("FVTPL").
- Accounts receivable are classified as "loans and receivables" and are measured at amortized cost. At December 31, 2011 the recorded amounts approximate fair value.
- Accounts payable and accrued liabilities are classified as "other financial liabilities" and are measured at amortized cost. At December 31, 2011 the recorded amounts approximate fair value.

Transaction costs directly attributable to the acquisition or issue of a financial asset or liability are added to the carrying amount of the financial asset or financial liability, and are amortized to operations using the effective interest rate method.



# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability are not based on observable market data.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At December 31, 2011 cash was measured and recognized in the balance sheet using Level 1 inputs. There were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would have been categorized as Level 2 and 3 in the fair value hierarchy above.

### **Comprehensive (Loss) Income**

Comprehensive (loss) income is the change in net assets arising from transactions and other events and circumstances from non-owner sources. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. At present, the Company has no available for sale financial assets.

### **Mineral property interests**

Mineral property interests owned are recorded at cost less accumulated depreciation and accumulated impairment losses. All direct costs related to the acquisition and exploration of mineral properties are capitalized until the properties to which they relate are ready for their intended use, sold, abandoned or management has determined there to be impairment. On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for properties in the exploration stage, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and noncompliance with regulatory requirements.

The amounts shown for mineral property interests represent acquisition, holding, exploration and related costs and the recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the necessary financing to successfully complete their development and to meet the requirements, from time to time, of lenders who are providing this financing and upon future profitable production.

### **Equipment**

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Amortization is recorded using the declining balance method at an annual rate of 25% .

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Impairment of assets**

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and mineral property interests to determine whether there is an indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment charge (in any).

The recoverable amount used for this purpose is the higher of the fair value less costs to sell and value in use. 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 assignments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its recorded amount, the recorded amount of the asset is reduced to its recoverable amount. An impairment charge is recognized immediately in the statement of loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum amount equal to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### **Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

### **Environmental expenditures**

The operations of the Company have been, and may in the future be, affected by changes in environmental regulations, including those relating to future reclamation and site restoration. The likelihood of new regulations and their overall effect upon the Company are unknown and unpredictable. The Company plans to meet and, if possible, surpass standards set by legislation, by applying technically proven and economically feasible measures.

Environmental expenditures relating to ongoing environmental and reclamation programs are charged to operations, or are capitalized and amortized, depending on their future economic benefits, over the estimated remaining life of the related business operation, net of expected recoveries. Liabilities related to environmental protection and reclamation costs are recognized when the obligation is incurred and the fair value of the related costs can be reasonably estimated. This includes future removal and site restoration costs required by environmental law or contracts.

As at December 31, 2011 the Company had no reclamation obligations.

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Share-based payments**

The Company grants share purchase options under the terms described in Note 9.

The Company uses the fair value method of accounting for options granted under its share purchase option plan. Options granted to directors, officers, employees and others providing similar services are measured at fair value, which is charged to operations over the applicable vesting period, with an offsetting credit to share option reserves. Options granted to non-employees are measured at fair value of goods and services received, which is charged to operations at the date the options are fully vested, with an offsetting credit to share option reserves.

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No amount is recognized for equity instruments that do not ultimately vest.

Consideration received upon exercise of share purchase options, along with the related amount previously recorded in the share option reserve, is credited to share capital. Cash received on the exercise of share options is recorded in share capital and the related compensation included in share option reserves is transferred to share capital to recognize the total consideration for the shares issued.

### **Income recognition**

Interest from cash is recorded on an accrual basis when collection is reasonably assured.

### **Related parties**

Parties are considered to be 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. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### **Income taxes**

The provision for income taxes consists of current and deferred tax expense and is recorded in operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the period, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are computed using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each balance sheet date. Deferred tax assets also result from unused losses and other deductions carried forward. The valuation of deferred tax assets is reviewed on a regular basis and adjusted to the extent that it is not probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized by use of a valuation allowance to reflect the estimated realizable amount.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income or loss per Share

The basic income or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. The diluted income or loss per share reflects the potential dilution from common share equivalents, such as the outstanding share purchase options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Common share equivalents are excluded from the computation of diluted loss per share for the period presented as including them would be anti-dilutive.

## 4. RECENT ACCOUNTING PRONOUNCEMENTS

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below and include only those which the Company reasonably expects may be applicable to the Company at a future date. The Company intends to adopt these standards and interpretations when they become effective and is currently assessing their impact on the consolidated financial statements.

The new standards and interpretations issued include:

- IFRS 9 *Financial Instruments* (effective for years beginning on or after January 1, 2015): IFRS 9 introduces new requirements for classifying and measuring financial assets and provides additional guidance on the fair value option for liabilities to address the entity's own credit risk.
- IFRS 10 *Consolidated Financial Statements* (effective for years beginning on or after January 1, 2013): IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.
- IFRS 11 *Joint Arrangements* (effective for years beginning on or after January 1, 2013): IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for years beginning on or after January 1, 2013): IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.
- IFRS 13 *Fair Value Measurement* (effective for years beginning on or after January 1, 2013): IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.

An accounting standard that has been amended but is not yet effective include:

- IAS 28 *Investments in Associates and Joint Ventures* (effective for years beginning on or after January 1, 2013): IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting for investments in associates and joint ventures.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## 5. PLAN OF ARRANGEMENT

On October 17, 2011, Western Copper Corporation (“**Western Copper**”) completed a plan of arrangement (the “**Arrangement**”) involving Western Copper and two of its subsidiaries, Copper North Mining Corp. (“**Copper North**”) and the Company. Pursuant to the Arrangement, Western Copper transferred the North Island Project and \$2,500,000 in cash to the Company in consideration for common shares of the Company. Western Copper then changed its name to Western Copper and Gold Corporation (“**Western**”) and distributed the common shares of the Company to Western shareholders.

For each common share of Western Copper held as at October 17, 2011, each shareholder of Western Copper received one common share of Western, 0.5 of a common share of Copper North and 0.5 of a share of the Company. On October 17, 2011, the Company issued 46,501,283 common shares to Western Copper in exchange for the Island Copper Gold Property and \$2,500,000 in cash.

Holders of outstanding Western Copper warrants (“**Warrants**”) immediately prior to October 17, 2011 will receive, upon exercise of each such Warrant at the same original exercise price and in accordance with the terms of such Warrant, one common share of Western, 0.5 of a common share of Copper North, and 0.5 of a common share of the Company. The Company is will receive 10% of the proceeds from each Warrant exercised.

Each Western Copper share purchase option outstanding on October 17, 2011 (“**Old Option**”) was exchanged for one Western share purchase option, 0.5 of a Company share purchase option (“**New Option**”), and 0.5 of a Copper North share purchase option. The exercise price of a New Option is equal to that of an Old Option less the exercise price allocated to the Western and Copper North share purchase options. Other than the exercise price, the New Options have the same terms as the Old Options. The share purchase options granted by the Company as part of the Arrangement vested immediately. The expiry dates remained the same as the Old Options unless the share purchase option holder does not participate in the Company, in which case the stock options expire on October 17, 2012.

The Company recorded the following assets transferred pursuant to the Arrangement at Western Copper’s carrying values on the date of the transaction:

Cash	\$	2,500,000
North Island Property		14,553,117
<b>Total</b>	<b>\$</b>	<b>17,053,117</b>

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## 6. EQUIPMENT

### **Vehicles, at cost**

Balance, August 3, 2011 (incorporation)	\$	-
Additions		22,765
Balance, December 31, 2011		22,765

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### **Accumulated amortization**

Balance, August 3, 2011 (incorporation)		-
Amortization		1,495
Balance, December 31, 2011		1,495

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### **Carrying amount**

<b>Balance, December 31, 2011</b>	<b>\$</b>	<b>21,270</b>
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# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

## 7. MINERAL PROPERTY INTERESTS

	<b>2011</b>
<b>Island Copper Gold Property, B.C. Canada</b>	
Balance, August 3, 2011 (incorporation)	\$ -
Acquisition cost (Note 5)	14,553,117
Camp operations	45,813
Claims costs	9,268
Community engagement	12,341
Engineering and geological	184,540
Environmental studies	53,694
Prospecting	53,233
Wages	30,261
<b>Balance, December 31, 2011</b>	<b>\$ 14,942,267</b>

The North Island Project consists of three blocks of mineral claims located on northern Vancouver Island. The mineral claim blocks are referred to as the Hushamu claims, the Apple Bay claims, and the Rupert Block.

Should a production decision be made on the Hushamu claims, the Company is required to make a cash payment of \$1,000,000 to an unrelated third party within 60 days of the production decision. These mineral claims are also subject to a 10% net profits interest.

Should a production decision be made on the Apple Bay claims, the Company is required to pay \$800,000 in cash or in shares to Electra Gold Ltd. ("Electra"). The payment method is at the election of the Company. Electra maintains the right to explore the Apple Bay claims for non-metallic minerals subject to certain conditions.

## 8. RELATED PARTY TRANSACTIONS

Some of Northisle's administrative and geological operations are carried out indirectly through Ravenwolf Management Inc, a private company in which Northisle has a 33.3% interest. At December 31, 2011 the Company owed Ravenwolf \$47,409. Ravenwolf provided the following services for the period ended December 31, 2011:

	<b>2011</b>
Mineral property services	30,261
Office	8,813
Rent	17,060
Salaries	83,524
<b>Total</b>	<b>139,658</b>

These transactions were measured at the exchange amounts agreed to by the parties.

Remuneration for directors and key management personnel for the period ending December 31, 2011 was:

	<b>2011</b>
Salaries	95,747
Share-based compensation	86,766
<b>Total</b>	<b>182,513</b>

Share-based compensation is the fair value of options granted to directors and key management personnel which was recognized during the period.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

## 9. SHARE CAPITAL

<b>Authorized</b> - unlimited number of common shares without par value		
<b>Issued and fully paid</b>	<b>Number of Shares</b>	<b>Amount</b>
Issued on incorporation	1	\$ -
Cancellation of incorporator's share	(1)	-
Issued pursuant to plan of arrangement (Note 5)	46,501,283	16,778,892
<b>Balance, December 31, 2011</b>	<b>46,501,283</b>	<b>\$ 16,778,892</b>

On March 2, 2012, the Company completed a brokered private placement of 4,285,700 flow-through shares at \$0.35 per share for gross proceeds of \$1,500,000. The Company paid a commission of 6.5% of the gross proceeds and issued 278,570 broker warrants exercisable at \$0.35 until September 2, 2013.

### Share Purchase Options

The Company grants share purchase options to directors, officers, and employees of the Company and persons who provide ongoing services to the Company under an incentive share purchase option plan. The maximum number of options which may be granted under the Plan is 10% of the number of shares of the Company outstanding at the time the options are granted. Options generally vest at a rate of 33.3% on the date of grant and 33.3% in each of the following two years.

During the period ended December 31, 2011, the Company granted 1,730,000 share purchase options with a weighted average grant date fair value of \$0.22 under its share purchase option plan. \$150,105 in share-based compensation was recognized in the consolidated statement of loss for the period related to these options.

The Company also granted 2,156,834 options with a weighted average grant date fair value of \$0.14 pursuant to the Arrangement (Note 5).

A summary of changes in share purchase options for the period ended December 31, 2011 is:

	<b>Number of Share Options</b>	<b>Weighted Average Exercise Price</b>
Balance, August 3, 2011 (incorporation)	-	\$ -
Options granted	3,886,834	0.21
<b>Balance, December 31, 2011</b>	<b>3,886,834</b>	<b>\$ 0.21</b>

At December 31, 2011 the following share purchase options were outstanding:

<b>Share purchase options outstanding, by exercise price</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life (in years)</b>	<b>Number Exercisable (Vested)</b>
\$0.04 - \$0.22	2,156,834	\$0.14	2.3	2,156,834
\$0.30	1,730,000	\$0.30	4.9	576,666
	<b>3,886,834</b>	<b>\$0.21</b>	<b>3.5</b>	<b>2,733,500</b>

Subsequent to December 31, 2011, the Company received \$13,475 from the exercise of 150,000 share purchase options.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

## 9. SHARE CAPITAL (continued)

The Company determined the fair value of the options granted during the period using the Black-Scholes option pricing model, using the following weighted average assumptions:

	<b>2011</b>
Share price	\$0.21
Risk-free interest rate	1.26%
Expected life (years)	3.61
Expected volatility	133%
Expected dividend yield	Nil

The estimates of expected life incorporate an estimate of the potential early exercise of the options. The estimates of expected volatility are based on the historically observed volatility of entities similar to the Company for a period generally commensurate with the expected option life.

### Warrants

Pursuant to the Arrangement (Note 5), holders of outstanding Western Copper warrants (“Warrants”) immediately prior to October 17, 2011 will receive, upon exercise of each such Warrants at the same original exercise price and in accordance with the terms of such Warrants, 0.5 of a common share of the Company. The Company is entitled to receive 10% of the proceeds from each Warrant exercised. At December 31, 2011 there were 6,847,750 Warrants outstanding with a weighted average exercise price of \$3.22 and a weighted average remaining contractual life of 0.96 years.

## 10. RESERVES

	<b>Share Option Reserves</b>	<b>Share Warrant Reserves</b>	<b>Total</b>
Assumed pursuant to Arrangement (Note 5)	\$ 274,225	\$ -	\$ 274,225
Share-based compensation expense (Note 9)	150,105	-	150,105
<b>Balance, December 31, 2011</b>	<b>\$ 424,330</b>	<b>\$ -</b>	<b>\$ 424,330</b>

## 11. INCOME TAXES

The Company’s net deferred tax assets (liabilities) are as follows:

	<b>2011</b>
Equipment	\$ (480)
Non-capital loss carried forward	62,724
Total deferred tax assets	62,244
Valuation allowance	(62,244)
<b>Net deferred tax assets</b>	<b>\$ -</b>



# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements

For the period from incorporation on August 3, 2011 to December 31, 2011

(Expressed in Canadian dollars)

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## 11. INCOME TAXES (continued)

The reconciliation for the provision of income taxes is:

	<b>2011</b>
Net loss	\$ 400,153
Combined federal and provincial statutory tax rate	26.5%
Recovery of income taxes based on statutory tax rate	106,040
Net effect of items that are not taxable or deductible	(37,794)
Effect of change in future substantially enacted statutory tax rates	(6,002)
Effect of current period losses not recognized	(62,244)
<b>Provision for income taxes</b>	<b>\$ -</b>

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As at December 31, 2011, the Company had \$250,896 non-capital losses for income tax purposes which may be carried forward and used to reduce taxable income of future years. These tax losses expire in 2031.

## 12. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its mineral property interests, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company considers its capital for this purpose to be shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares or debt, acquire or dispose of assets or adjust the amount of cash and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

## 13. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain risks, including currency risk, credit risk, interest rate risk, and liquidity risk.

### Currency Risk

The Company operates within one geographic region and is not exposed to significant currency risk related to the fluctuation of foreign exchange rates. The Company has not hedged or otherwise managed its exposure to currency fluctuations.

At December 31, 2011, the Company is exposed to currency risk through US dollar cash held in the amount of \$16,613.

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(Expressed in Canadian dollars)

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## **13. MANAGEMENT OF FINANCIAL RISK (continued)**

### **Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held through large Canadian financial institutions. The Company's receivables consist mostly of Harmonized Sales Tax due from the federal government of Canada. As such, the Company considers this risk to be minimal.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk when holding fixed rate short term deposits of varying maturities. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents investments is limited because these investments are generally highly liquid securities with short-term maturities.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 12.

Accounts payable and accrued liabilities and the amounts payable to related parties are due within the current operating period.