



## Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

Unaudited

(Expressed in Canadian dollars)

**NOTICE TO READER:**

These condensed interim consolidated financial statements have not been reviewed by the Company's external auditors. These statements have been prepared by and are the responsibility of the Company's management. This notice is being provided in accordance with National Instrument 51-102 – Continuous Disclosure Obligations.

**NORTHISLE COPPER AND GOLD INC.**  
**Condensed Interim Consolidated Balance Sheets**

As at June 30, 2012

(Unaudited - Expressed in Canadian dollars)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 392,342	\$ 1,908,108
Accounts receivable	192,827	57,049
Prepaid expenses and deposits	51,333	124,647
	636,502	2,089,804
<b>Equipment</b> (Note 4)	30,546	21,270
<b>Mineral property interests</b> (Note 5)	17,318,183	14,942,267
	\$ 17,985,231	\$ 17,053,341
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 203,019	\$ 250,272
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 7)	18,167,547	16,778,892
<b>Reserves</b> (Note 8)	412,122	424,330
<b>Deficit</b>	(797,457)	(400,153)
	17,782,212	16,803,069
	\$ 17,985,231	\$ 17,053,341

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

# **NORTHISLE COPPER AND GOLD INC.**

## **Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

**For the three and six months ended June 30, 2012**

(Unaudited - Expressed in Canadian dollars)

	<b>Three months ended June 30, 2012</b>	<b>Six months ended June 30, 2012</b>
<b>Expenses</b>		
Amortization	\$ 2,224	\$ 3,719
Insurance	9,031	18,727
Interest and bank charges	509	968
Investor relations	6,345	54,876
Legal and audit	868	13,728
Office	60,773	100,083
Regulatory fees	23,927	33,260
Stock based compensation	4,615	4,615
Travel	1,154	5,947
Wages	91,269	164,974
	200,715	400,897
<b>Other (Income) Expenses</b>		
Interest income	(1,231)	(3,593)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>199,484</b>	<b>397,304</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ 0.004</b>	<b>\$ 0.008</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted</b>	<b>50,951,283</b>	<b>49,501,297</b>

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

# NORTHISLE COPPER AND GOLD INC.

## Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

For the three and six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

	Three months ended June 30, 2012	Six months ended June 30, 2012
<b>DEFICIT, BEGINNING OF PERIOD</b>	\$ 597,973	\$ 400,153
Net loss	199,484	397,304
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 797,457</b>	<b>\$ 797,457</b>
<b>RESERVES, BEGINNING OF PERIOD</b> (Note 8)	\$ 409,967	\$ 424,330
Share based compensation	4,615	4,615
Transferred to share capital upon exercise of options	(2,460)	(16,823)
<b>RESERVES, END OF PERIOD</b>	<b>\$ 412,122</b>	<b>\$ 412,122</b>
<b>SHARE CAPITAL, BEGINNING OF PERIOD</b> (Note 7)	\$ 18,160,212	\$ 16,778,892
Exercise of options	4,875	18,350
Transferred from reserves upon exercise of options	2,460	16,823
Private placement financing	-	1,499,995
Share issue costs	-	(146,513)
<b>SHARE CAPITAL, END OF PERIOD</b>	<b>\$ 18,167,547</b>	<b>\$ 18,167,547</b>

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**NORTHISLE COPPER AND GOLD INC.**  
**Condensed Interim Consolidated Statement of Cash Flows**  
For the six months ended June 30, 2012  
(Unaudited - Expressed in Canadian dollars)

	<b>2012</b>
<b>Cash provided by (used in)</b>	
<b>Operating activities</b>	
Net loss	\$ (397,304)
Items not requiring a cash outlay	
Amortization	3,719
Share based compensation	4,615
	(388,970)
Changes in non-cash working capital components	
Accounts receivable	(135,778)
Prepaid expenses	73,314
Accounts payable and accrued liabilities	(47,253)
	(498,687)
<b>Investing activities</b>	
Expenditures on Equipment	(12,995)
Expenditures on mineral property interests	(2,375,916)
	(2,388,911)
<b>Financing activities</b>	
Cash received from the exercise of options	18,350
Cash received from private placement	1,353,482
	1,371,832
<b>DECREASE IN CASH</b>	<b>1,515,766</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>1,908,108</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 392,342</b>
<b>Supplementary Information</b>	
Interest received	\$ 3,593

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# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - 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 3), 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**

### **Summary of Significant Accounting Policies**

The Company prepares its interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2011.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2012, as issued and outstanding on August 28 2012, the date the Board of Directors approved these financial statements.

### **Accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, share-based payments, the allocation of financing proceeds, and income and mining taxes. Differences may be material.

The estimated cash flows used to assess recoverability of the Company’s exploration and evaluation assets’ carrying value are developed using management’s projections for long-term average copper prices, recoverable reserves, operating costs, capital expenditures, reclamation costs, and applicable foreign currency exchange rates. Management makes estimates relating to current and future market conditions. There are inherent uncertainties related to these factors and management’s judgment when using them to assess the recoverability of exploration and evaluation assets.

The Company believes that the estimates applied in the assessment of recoverability are reasonable; however such estimates are subject to significant uncertainties and judgments. Although management has made its best estimate of these factors based on current conditions, it is possible that the underlying assumptions can change significantly and impairment charges may be required in future periods. Such charges could be material.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

## 3. 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>

## 4. EQUIPMENT

### **Vehicles, at cost**

Balance, December 31, 2011	\$	22,765
Additions		12,995
Balance, June 30, 2012		35,760

### **Accumulated amortization**

Balance, December 31, 2011		1,495
Amortization		3,719
Balance, June 30, 2012		5,214

### **Carrying amount**

<b>Balance, December 31, 2011</b>	<b>\$</b>	<b>21,270</b>
<b>Balance, June 30, 2012</b>	<b>\$</b>	<b>30,546</b>

# NORTHISLE COPPER AND GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

## 5. MINERAL PROPERTY INTERESTS

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.

Capitalized mineral property costs at June 30, 2012 are detailed in the table below.

North Island Copper Gold Property	December 31, 2011	Additions	June 30, 2012
Acquisition cost (Note 3)	\$ 14,553,117	\$ -	\$ 14,553,117
Camp operations	45,813	189,415	235,228
Claims costs	9,268	26,003	35,271
Community engagement	12,341	16,556	28,897
Drilling	-	1,132,482	1,132,482
Engineering and geological	184,540	423,077	607,617
Environmental studies	53,694	171,775	225,469
Prospecting	53,233	368,830	422,063
Wages	30,261	123,754	154,015
Mineral Exploration Tax Credit	-	(75,976)	(75,976)
<b>Total</b>	<b>\$ 14,942,267</b>	<b>\$ 2,375,916</b>	<b>\$ 17,318,183</b>

## 6. 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 June 30, 2012 the Company owed Ravenwolf \$29,892. Ravenwolf provided the following services for the period ended June 30, 2012:

	2012
Mineral property services	\$ 123,754
Office	52,862
Rent	40,798
Salaries	171,974
<b>Total</b>	<b>\$ 389,388</b>

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

Remuneration for key management personnel for the period ending June 30, 2012 was:

	2012
Salaries	\$ 142,500
<b>Total</b>	<b>\$ 142,500</b>

# NORTHISLE COPPER AND GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

## 7. SHARE CAPITAL

<b>Authorized - unlimited number of common shares without par value Issued and fully paid</b>	<b>Number of Shares</b>	<b>Amount</b>
Issued pursuant to plan of arrangement (Note 3)	46,501,283	16,778,892
<b>Balance, December 31, 2011</b>	<b>46,501,283</b>	<b>\$ 16,778,892</b>
Exercise of options	190,000	18,350
Transferred from reserves on exercise of options	-	16,823
Private placement financing	4,287,500	1,499,995
Share issue costs	-	(146,513)
<b>Balance, June 30, 2012</b>	<b>50,978,783</b>	<b>\$ 18,167,547</b>

On March 2, 2012, the Company completed a brokered private placement of 4,287,500 flow-through shares at \$0.35 per share for gross proceeds of \$1,499,995. 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.

A summary of changes in share purchase options for the period ended June 30, 2012 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>
Options granted	75,000	
Options Expired	(160,000)	0.13
Options Exercised	(190,000)	0.09
<b>Balance, June 30, 2012</b>	<b>3,611,834</b>	<b>\$ 0.22</b>

At June 30, 2012 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	1,806,834	\$0.14	1.55	1,806,834
\$0.30	1,805,000	\$0.30	4.15	601,667
	<b>3,611,834</b>	<b>\$0.22</b>	<b>3.00</b>	<b>2,408,501</b>

# NORTHISLE COPPER AND GOLD INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

## 7. SHARE CAPITAL (continued)

The Company determined the fair value of the options granted during 2011 and 2012 using the Black-Scholes option pricing model, using the following weighted average assumptions:

	2011	2012
Risk-free interest rate	1.26%	1.25
Expected life (years)	3.61	5
Expected volatility	133%	133%
Expected dividend yield	Nil	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 3), 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 June 30, 2012 there were 6,847,750 Warrants outstanding with a weighted average exercise price of \$3.22 and a weighted average remaining contractual life of 0.46 years.

## 8. RESERVES

	Share Option Reserves	Share Warrant Reserves	Total
Assumed pursuant to Arrangement (Note 3)	\$ 274,225	\$ -	\$ 274,225
Share-based compensation expense	150,105	-	150,105
Balance, December 31, 2011	424,330	-	424,330
Share based compensation expense	4,615	-	4,615
Transferred to share capital upon exercise of options	(16,823)	-	(16,823)
<b>Balance, June 30, 2012</b>	<b>\$ 412,122</b>	<b>\$ -</b>	<b>\$ 412,122</b>

## 9. 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.

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2012

(Unaudited - Expressed in Canadian dollars)

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## **10. 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 June 30, 2012, the Company is exposed to currency risk through US dollar cash held in the amount of \$14,000.

### **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 9.

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