NORTHISLE
COPPER AND GOLD INC.

Consolidated Financial Statements

For the year ended December 31, 2012 and the period from incorporation on August 3, 2011 to December 31, 2011
and Auditor's Report

(Expressed in Canadian dollars)

HAY & WATSON | Chartered Accountants

900 – 1450 Creekside Drive, Vancouver BC V6J 5B3
P 604 734 1690 F 604 336 8959 E creekinfo@hay-watson.bc.ca

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 sheets as at December 31, 2012 and 2011 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2012 and the period from incorporation on August 3, 2011to 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 Northisle Copper and Gold Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the year ended December 31, 2012 and the period from incorporation on August 3, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes certain material uncertainties regarding the entity's ability to continue as a going concern.

Hay + Watson

Chartered Accountants
Vancouver, British Columbia
April 29, 2013

NORTHISLE COPPER AND GOLD INC.
Consolidated Balance Sheet
As at December 31, 2012 and 2011
(Expressed in Canadian Dollars)

		2012		2011 (Note 2)
ASSETS				
Current				
Cash	$	588,152	$	1,908,108
Accounts receivable		169,932		57,049
Prepaid expenses and deposits		59,329		124,647
		817,413		2,089,804
Equipment (Note 6)		26,096		21,270
Mineral property interests (Note 7)		10,000,000		14,553,117
	$	10,843,509	$	16,664,191
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	298,519	$	250,272
Other liabilities (Note 9)		13,924		-
		312,443		250,272
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		18,681,454		16,778,892
Reserves (Note 11)		835,675		424,330
Deficit		(8,986,063)		(789,303)
		10,531,067		16,413,919
	$	10,843,509	$	16,664,191

Nature of Operations (Note 1)

APPROVED BY THE BOARD

Jack McClintock **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 year ended December 31, 2012 and the period from incorporation on August 3, 2011 to December 31, 2011
(Expressed in Canadian dollars)

	2012	2011 (Note 2)
Expenses		
Insurance	$ 33,774	$ 5,921
Interest and bank charges	2,128	309
Investor relations	111,673	39,525
Legal and audit	80,054	21,695
Mineral property expenditures (Note 7)	2,910,102	389,150
Office	172,876	30,561
Regulatory fees	46,803	33,912
Share-based compensation (Note 10)	210,117	150,105
Travel	12,164	1,877
Wages	332,726	118,968
	3,912,417	792,023
Other (Income) Expenses		
Interest income	(4,656)	(3,196)
Other income (Note 9)	(277,076)	-
Mineral property impairment (Note 7)	4,553,117	-
Currency exchange loss	12,958	476
NET LOSS AND COMPREHENSIVE LOSS	$ 8,196,760	$ 789,303
BASIC AND DILUTED LOSS PER SHARE	$ 0.157	$ 0.034
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	52,106,181	23,250,642

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 year ended December 31, 2012 and the period from incorporation on August 3, 2011 to December 31, 2011
(Expressed in Canadian dollars)

		2012		2011 (Note 2)
DEFICIT, BEGINNING OF PERIOD	$	789,303	$	-
Net loss and comprehensive loss, as previously reported		-		400,153
Impact of change in accounting policy (Note 2)		-		389,150
Net loss and comprehensive loss		8,196,760		789,303
DEFICIT, END OF PERIOD	$	8,986,063	$	789,303
RESERVES, BEGINNING OF PERIOD (Note 11)	$	424,330	$	-
Share warrant reserves		237,168		-
Share option reserves		174,177		424,330
RESERVES, END OF PERIOD	$	835,675	$	424,330
SHARE CAPITAL, BEGINNING OF PERIOD (Note 10)	$	16,778,892	$	-
Exercise of options		26,925		-
Transferred from reserves on the exercise of options		35,940		-
Fair value of warrants issued during private placements		(237,168)		-
Private placement financings		2,521,865		-
Fair value of tax deductions sold during private placements		(291,000)		-
Share issue costs		(154,000)		-
Issued pursuant to plan of arrangement (Note 5)		-		16,778,892
SHARE CAPITAL, END OF PERIOD	$	18,681,454	$	16,778,892

The accompanying notes are an integral part of these financial statements

NORTHISLE COPPER AND GOLD INC.
Consolidated Statement of Cash Flows
For the year ended December 31, 2012 and the period from incorporation on August 3, 2011 to December 31, 2011
(Expressed in Canadian dollars)

	2012	2011 (Note 2)
Cash provided by (used in)		
Operating activities		
Net loss	$ (8,196,760)	$ (789,303)
Items not requiring a cash outlay		
Amortization	8,169	1,495
Share-based compensation	210,117	150,105
Sale of tax deductions	(277,076)	-
Impairment of mineral property interests	4,553,117	-
	(3,702,433)	(637,703)
Changes in non-cash working capital components		
Accounts receivable	(112,883)	(57,049)
Prepaid expenses	65,318	(124,647)
Accounts payable and accrued liabilities	48,247	250,272
	(3,701,751)	(569,127)
Investing activities		
Purchase of equipment	(12,995)	(22,765)
	(12,995)	(22,765)
Financing activities		
Cash received pursuant to plan of arrangement (Note 5)	-	2,500,000
Cash received for share issues, net of share issue costs	2,394,790	-
	2,394,790	2,500,000
DECREASE IN CASH	(1,319,956)	1,908,108
CASH, BEGINNING OF PERIOD	1,908,108	-
CASH, END OF PERIOD	$ 588,152	$ 1,908,108
Supplementary Information		
Interest received	$ 4,656	$ 3,196

The accompanying notes are an integral part of these financial statements

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. 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 ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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 29, 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.

Consolidation

These consolidated financial statements include the accounts of the Company and its 100% controlled subsidiary, North Island Mining Corp. (collectively, the "Company") 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.

Change in accounting policy

In 2012, the Company voluntarily changed its accounting policy for mineral property exploration expenditures to recognize these expenditures in net loss in the period incurred, as permitted under IFRS 6 *Exploration for and evaluation of mineral resources*. Previously, these expenditures were capitalized as part of the Company's mineral property interests.

This accounting policy change has been applied retrospectively and resulted in an increase in the previously reported net loss and comprehensive loss for the period ended December 31, 2011 of $389,150 ($0.017 per share) and a corresponding decrease in capitalized mineral property interests as at December 31, 2011. The accounting policy change also increased the Company's deferred tax liability as at December 31, 2011 by $97,288 which was decreased by recognizing previously unrecognized deferred tax assets of $97,288 resulting in no net change in deferred tax amounts.

3. SIGNIFICANT ACCOUNTING POLICIES

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, 2012 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, 2012 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At December 31, 2012, 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.

Mineral property interests and exploration expenditures

Mineral property interests owned are recorded at cost less accumulated depreciation and accumulated impairment losses. All direct costs related to the acquisition 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. All direct costs related to the exploration of mineral properties are recognized in net loss in the period incurred. 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 non-compliance with regulatory requirements.

The amounts shown for mineral property interests represent acquisition 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.

Refundable Mineral Exploration Tax Credit ("METC")

The Company recognizes METC amounts when the Company's METC application is approved by the relevant jurisdiction or when the amount to be received can be reasonably estimated and collection is reasonably assured.

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%.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2012 the Company had no reclamation obligations.

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.

Flow-through shares

The Company may from time to time issue flow-through common shares to finance a portion of its exploration activities. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates gross proceeds received between a) the estimated fair value of the tax deductions sold to investors, which is recognized as a liability, and b) the estimated fair value of the common shares, which is recognized as share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares (continued)

When qualifying expenditures are incurred, the Company reverses the liability component initially recorded on the issuance of shares and recognizes it in net loss as other income. Since the Company does not capitalize exploration expenditures, the transfer or tax deductions to investors does not give rise to a taxable temporary difference and therefore does not affect the Company's deferred tax amounts. The Company's outstanding flow-through commitment is disclosed in Note 9.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

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.

Comprehensive income (loss)

Comprehensive income (loss) 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.

Income (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:

- IFRS 7 *Financial Instruments: Disclosures* (effective for years beginning on or after January 1, 2013): In December 2011, the IASB issued new disclosure requirements for financial assets and liabilities that (1) are offset in the statement of financial position; or (2) subject to master netting agreements or similar arrangements.

- IAS 27 *Separate Financial Statements* (effective for years beginning on or after January 1, 2013): IAS 27 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements.

- IAS 28 *Investments in Associates and Joint Ventures* (effective for years beginning on or after January 1, 2013): IAS 28 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee.

- IAS 32 *Financial Instruments: Presentation* (effective for years beginning on or after January 1, 2014): In December 2011, the IASB issued amendments to IAS 32. The amendments clarify that an entity currently has a legally enforceable right to set-off financial assets and liabilities if that right is (1) not contingent on a future event; and (2) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

(Expressed in Canadian dollars)

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
Total	**$**	**17,053,117**

6. EQUIPMENT

Vehicles, at cost		
Balance, August 3, 2011 (incorporation)	$	-
Additions		22,765
Balance, December 31, 2011		22,765
Additions		12,995
Balance, December 31, 2012	$	35,760
Accumulated amortization		
Balance, August 3, 2011 (incorporation)	$	-
Additions		1,495
Balance, December 31, 2011		1,495
Amortization		8,169
Balance, December 31, 2012	$	9,664
Carrying amount		
Balance, December 31, 2011	**$**	**21,270**
Balance, December 31, 2012	**$**	**26,096**

(Expressed in Canadian dollars)

7. MINERAL PROPERTY INTERESTS

Acquisition costs

North Island Copper Gold Property, B.C. Canada		
Balance, August 3, 2011 (incorporation)		-
Acquisition cost (Note 5)	$	14,553,117
Balance, December 31, 2011	$	14,553,117
Mineral property impairment loss		(4,553,117)
Balance, December 31, 2012	$	10,000,000

Exploration expenditures

North Island Copper Gold Property, B.C. Canada	2011	2012	Cumulative Total
Amortization of equipment	$ -	$ 8,169	$ 8,169
Camp operations	45,813	274,059	319,872
Claims costs	9,268	28,026	37,294
Community engagement	12,341	30,418	42,759
Drilling	-	1,132,482	1,132,482
Engineering and geological	184,540	685,766	870,306
Environmental studies	53,694	201,287	254,981
Prospecting	53,233	395,468	448,701
Wages	30,261	230,403	260,664
Mineral property exploration tax credit	-	(75,976)	(75,976)
Total	**$ 389,150**	**$ 2,910,102**	**$ 3,299,252**

The North Island Project consists of three blocks of mineral claims located on northern Vancouver Island in British Columbia, Canada. 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 Sirit Inc. within 60 days of the production decision. These mineral claims are also subject to a 10% net profits interest held by International Royalty Corporation.

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.

For the year ended December 31, 2012, the Company recorded a property impairment loss of $4,553,117 on its North Island Project which reduced the carrying value to $10,000,000 as at December 31, 2012. The Company determined that a reduction of the carrying value of the mineral property was required because of the current weaknesses in the mineral exploration sector and decreased market evaluations of mineral properties. The Company estimated the reduction in the carrying value on the basis of the estimated fair value less costs to sell of the North Island Project, through review of recent comparable market transactions involving entities with similar characteristics and mineral projects as the Company.

The Company's mineral exploration expenditures during the year ended December 31, 2012 are expected to generate a refundable mineral exploration tax credit of $266,298. This amount has not been recorded in these financial statements as its receipt is dependent upon acceptance of the eligibility of the Company's exploration expenditures for this refundable tax credit by the Government of British Columbia.

(Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

Some of the Company's administrative and geological operations are carried out indirectly through Ravenwolf Management Inc, a private company in which the Company has a 33.3% interest. At December 31, 2012, the Company owed Ravenwolf $59,890 (2011 - $47,409). Ravenwolf provided the following services for the period ended December 31, 2012:

		2012		2011
Mineral property services	$	230,402	$	30,261
Office		84,659		8,813
Rent		88,444		17,060
Salaries		336,725		83,524
Total	**$**	**740,230**	**$**	**139,658**

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

Remuneration for directors and key management personnel was:

		2012		2011
Directors fees	$	3,000	$	-
Salaries		290,000		95,747
Share-based compensation		109,705		86,766
Total	**$**	**402,705**	**$**	**182,513**

Share-based compensation is the fair value of options granted to directors and key management personnel which was recognized during the period. The Company also contributed to the Canada Pension Plan (the "CPP"), a national multi-employer contribution based pension plan in Canada on behalf of its employees. During the year ended December 31, 2012, the Company made contributions of $12,944 (2011 - $3,715) on behalf of its employees of which $4,613 (2011 - $3,715) was for key management personnel.

9. OTHER LIABILITIES

Other liabilities consist of the liability related to the Company's flow-through shares issues:

		Issued on March 2, 2012		Issued on October 16, 2012		Total
Balance, December 31, 2011	**$**	-	**$**	-	**$**	-
Liability incurred from flow-through share issues		257,000		34,000		291,000
Recognized as other income on incurring eligible expenditures		(257,000)		(20,076)		(277,076)
Balance, December 31, 2012	**$**	**-**	**$**	**13,924**	**$**	**13,924**

10. SHARE CAPITAL

Authorized - unlimited number of common shares without par value	Number of Shares		Amount
Issued and fully paid			
Issued pursuant to plan of arrangement (Note 3)	46,501,283	$	16,778,892
Balance, December 31, 2011	**46,501,283**		**16,778,892**
Exercise of options	340,000		26,925
Fair value of tax deductions sold to investors	-		(291,000)
Transferred from reserves on exercise of options	-		35,940
Fair value of warrants issued during private placements	-		(237,168)
Private placement financing	10,296,700		2,521,865
Share issue costs	-		(154,000)
Balance, December 31, 2012	**57,137,983**	**$**	**18,681,454**

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

On March 2, 2012, the Company completed a brokered private placement of 4,285,700 flow-through common 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 common share broker warrants exercisable at $0.35 until September 2, 2013.

On September 11, 2012, the Company completed a non-brokered private placement of 4,831,500 units at $0.17 per share for gross proceeds of $821,355. Each unit consisted of one common share and one-half (1/2) of a common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $0.25 until September 11, 2014.

On October 16, 2012, the Company completed a non-brokered private placement of 1,179,500 flow-through common shares at $0.17 per share for gross proceeds of $200,515.

Share purchase options

The Company grants common 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, 2012, the Company granted 805,000 share purchase options with a weighted average grant date fair value of $0.09 under its share purchase option plan. During the year ended December 31, 2012, $210,117 (2011 - $150,015) in share-based compensation was recognized in the consolidated statement of loss and comprehensive loss for vesting of share purchase options.

A summary of changes in common share purchase options for the year ended December 31, 2012 is:

	Number of Share Options	Weighted Average Exercise Price
Balance, August 3, 2011 (incorporation)	-	$ -
Options granted	3,886,834	0.21
Balance December 31, 2011	**3,886,834**	**0.21**
Options granted	805,000	0.18
Options expired	(572,500)	0.18
Options exercised	(340,000)	0.08
Balance, December 31, 2012	**3,779,334**	**$ 0.22**

The weighted average share price on the date of exercise for options exercised during the period was $0.08.

At December 31, 2012, the following common share purchase options were outstanding:

Share purchase options outstanding, by exercise price range	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Number Exercisable (Vested)
$0.04 - $0.22	1,244,334	$ 0.13	2.50	1,244,334
$0.30	1,805,000	0.30	3.91	1,178,335
$0.17	730,000	0.17	4.92	243,333
	3,779,334	**$ 0.22**	**3.64**	**2,666,002**

Subsequent to the year end, the Company granted 200,000 common share purchase options to an external advisor. These options vest over 2 years and are exercisable at $0.15 per common share until February 20, 2018.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

Share purchase warrants

A summary of changes in common share purchase warrants for the year ended December 31, 2012 is:

	Number of Warrants	Weighted Average Exercise Price
Balance, August 3, 2011 (incorporation)	-	$ -
Warrants issued pursuant to Plan of Arrangement (Note 5)	6,847,750	3.18
Balance December 31, 2011	**6,847,750**	**3.18**
Issued	2,694,321	0.26
Expired	(6,847,750)	3.18
Balance, December 31, 2012	**2,694,321**	**$ 0.26**

At December 31, 2012, the following common share purchase warrants were outstanding:

Share purchase warrants outstanding, by exercise price range	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
$0.25	2,415,750	$ 0.25	0.67
$0.35	278,571	0.35	1.70
	2,694,321	**$ 0.22**	**1.59**

Fair value assumptions

The Company determined the fair value of common share purchase options and warrants granted or issued during the year using the Black-Scholes option pricing model and the following weighted average assumptions:

	2012	2011
Share price	$0.14	$0.21
Exercise price	$0.24	$0.21
Risk-free interest rate	1.19%	1.26%
Expected life (years)	2.65	3.61
Expected volatility	144%	133%
Expected dividend yield	Nil	Nil

The estimates of expected life incorporate an estimate of the potential early exercise of these options and warrants. 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 lives of the instruments.

11. 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	210,117	-	210,117
Fair value of warrants issued	-	237,168	237,168
Transferred to share capital upon exercise of options	(35,940)		(35,940)
Balance, December 31, 2012	**$ 598,507**	**$ 237,168**	**$ 835,675**

(Expressed in Canadian dollars)

12. INCOME TAXES

The Company's net deferred tax assets (liabilities) are:

		2012		2011
Equipment	$	2,513	$	374
Mineral properties		454,654		97,288
Other liabilities		6,156		-
Unused income tax credits		171,137		37,988
Deductible share issue costs		32,032		-
Non-capital loss carried forward		259,324		64,345
Total deferred tax assets		925,816		199,995
Valuation allowance		(925,816)		(199,995)
Net deferred tax assets	**$**	**-**	**$**	**-**

The reconciliation for the provision of income taxes for the periods is:

		2012		2011
Net loss	$	8,196,760	$	789,303
Combined federal and provincial statutory tax rate		25.0%		26.5%
Recovery of income taxes based on statutory tax rate		2,049,190		209,165
Net effect of items included in net loss that are not taxable or deductible		(1,869,418)		(143,583)
Other taxable or deductible items		(7,700)		-
Effect of current period tax losses not recognized		(187,472)		(65,583)
Provision for income taxes	**$**	**-**	**$**	**-**

As at December 31, 2012, the Company's unrecognized income tax losses and tax deductible expenditures are:

		Amount	Expiry Date
Non-capital losses for income tax purposes	$	997,399	2031/2032
Non-refundable income tax credits		171,137	2031/2032
Tax deductible mineral property exploration expenditures		4,496,722	Indefinite

13. 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.

14. 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. The Company does not have financial instruments subject to other price 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.

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. As at December 31, 2012, none of the Company's financial instruments subject to credit risk were past due or impaired.

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. As at December 31, 2012, the Company considers its exposure to interest rate risk to be negligible.

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 13.

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