NORTHISLE
COPPER AND GOLD INC.

# Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2014 and 2013

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.

# NORTHISLE COPPER AND GOLD INC.
## Condensed Interim Consolidated Balance Sheets
(Unaudited - Expressed in Canadian dollars)

| | | June 30, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | 494,960 | $ | 28,693 |
| Subscriptions receivable (note 6) | | 241,000 | | - |
| Accounts receivable | | 3,628 | | 1,648 |
| Prepaid expenses and deposits | | 33,900 | | 40,950 |
| | | 773,488 | | 71,291 |
| **Equipment** | | 12,747 | | 17,197 |
| **Mineral property interests** (Note 3) | | 10,000,000 | | 10,000,000 |
| | $ | 10,786,235 | $ | 10,088,488 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 172,766 | $ | 124,789 |
| Payable to related parties (Note 4) | | 195,799 | | 123,299 |
| Other liabilities (Note 5) | | 41,310 | | - |
| | | 409,875 | | 248,088 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share capital** (Note 6) | | 19,184,664 | | 18,681,454 |
| **Reserves** (Note 7) | | 1,141,081 | | 880,412 |
| **Deficit** | | (9,949,385) | | (9,721,466) |
| | | 10,376,360 | | 9,840,400 |
| | $ | 10,786,235 | $ | 10,088,488 |

*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, 2014 and 2013**
(Unaudited - Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2013** | **June 30, 2014** | **June 30, 2013** |
| **Expenses** | | | | |
| Insurance | $ 4,479 | $ 5,422 | $ 8,004 | $ 14,012 |
| Interest and bank charges | 359 | 313 | 612 | 965 |
| Investor relations | 1,721 | 13,584 | 3,040 | 37,383 |
| Legal and audit | 14,300 | - | 17,766 | 890 |
| Mineral property expenditures | 27,080 | 22,472 | 49,641 | 197,774 |
| Office | 9,291 | 17,053 | 17,524 | 52,183 |
| Regulatory fees | 14,176 | 14,553 | 21,577 | 21,294 |
| Share-based compensation | 5,976 | 9,875 | 24,869 | 15,175 |
| Travel | 336 | 1,270 | 336 | 2,781 |
| Wages | 39,090 | 41,164 | 75,960 | 144,891 |
| | 116,808 | 125,706 | 219,329 | 487,348 |
| **Other (Income) Expenses** | | | | |
| Other Income | - | - | - | (13,924) |
| Interest income | (58) | (124) | (817) | (466) |
| Interest Expense | 1,407 | - | 9,407 | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | **$ 118,157** | **$ 125,582** | **$ 227,919** | **$ 472,958** |
| **BASIC AND DILUTED LOSS PER SHARE** | **$ 0.002** | **$ 0.003** | **$ 0.004** | **$ 0.009** |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted** | **57,931,299** | **57,137,983** | **57,589,643** | **57,137,983** |

*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, 2014 and 2013**
(Unaudited - Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 2014** | **June 2013** | **June 2014** | **June 2013** |
| **DEFICIT, BEGINNING OF PERIOD** | $ 9,831,228 | $ 9,333,439 | $ 9,721,466 | $ 8,986,063 |
| Net loss | 118,157 | 125,582 | 227,919 | 472,958 |
| **DEFICIT, END OF PERIOD** | **$ 9,949,385** | **$ 9,459,021** | **$ 9,949,385** | **$ 9,459,021** |
| **RESERVES, BEGINNING OF PERIOD** (Note 7) | $ 899,305 | $ 840,975 | $ 880,412 | $ 835,675 |
| Share warrants reserve | 235,800 | - | 235,800 | |
| Share option reserves | 5,976 | 9,875 | 24,869 | 15,175 |
| **RESERVES, END OF PERIOD** | **$ 1,141,081** | **$ 850,850** | **$ 1,141,081** | **$ 850,850** |
| **SHARE CAPITAL, BEGINNING OF PERIOD** (Note 6) | $ 18,689,454 | $ 18,681,454 | $ 18,681,454 | $ 18,681,454 |
| Issued pursuant to private placement | 786,000 | - | 786,000 | - |
| Fair value of tax deductions sold to investors | (41,310) | - | (41,310) | - |
| Fair value of warrants issued during private placement | (235,800) | - | (235,800) | - |
| Share issue costs | (13,680) | - | (13,680) | - |
| Issue of bonus shares | - | - | 8,000 | - |
| **SHARE CAPITAL, END OF PERIOD** | **$ 19,184,664** | **$ 18,681,454** | **$ 19,184,664** | **$ 18,681,454** |

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

# NORTHISLE COPPER AND GOLD INC.
## Condensed Interim Consolidated Statement of Cash Flows
**For the six months ended June 30, 2014 and 2013**
(Unaudited - Expressed in Canadian dollars)

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss | $ (227,919) | $ (472,958) |
| Items not requiring a cash outlay | | |
| Amortization | 4,450 | 4,449 |
| Share-based compensation | 24,869 | 15,175 |
| | (198,600) | (453,334) |
| Changes in non-cash working capital components | | |
| Accounts receivable | (1,980) | 157,514 |
| Prepaid expenses | 7,050 | 22,996 |
| Accounts payable and accrued liabilities | 47,977 | (236,448) |
| Payable to related parties | 72,500 | 36,250 |
| | (73,053) | (473,022) |
| **Investing activities – mineral property interests** | - | (643) |
| **Financing activities** | | |
| Private placement | 786,000 | - |
| Subscriptions receivable | (241,000) | - |
| Share Issue costs | (13,680) | - |
| Issue of bonus shares | 8,000 | - |
| | | - |
| **INCREASE (DECREASE) IN CASH** | 466,267 | (473,665) |
| **CASH, BEGINNING OF PERIOD** | 28,6936 | 588,152 |
| **CASH, END OF PERIOD** | **$ 494,960** | **$ 114,487** |
| **Supplementary Information** | | |
| Interest received | $ 817 | $ 466 |

*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, 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 1800 – 570 Granville Street, Vancouver, B.C.

The Company currently has working capital of $363,613 and will therefore need funding to continue its operations, through equity or debt financing, sale of assets, joint venture arrangements or a combination thereof. There is no assurance that additional funding, proceeds from a sale of assets or suitable joint venture arrangements will be available on a timely basis or on terms acceptable to the Company. If the Company is unable to obtain sufficient funding in this fashion, the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern will be in significant doubt.

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

### 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, 2013.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2014, as issued and outstanding on August 27, 2013, the date the Board of Directors approved these financial statements.

### 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.

(Unaudited - Expressed in Canadian dollars)

## 2. BASIS OF PREPARATION (continued)

### 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.

## 3. MINERAL PROPERTY INTERESTS

### Acquisition costs

| North Island Copper Gold Property, B.C. Canada | | |
|---|---|---|
| Balance, December 31, 2011 | $ | 14,553,117 |
| Mineral property impairment loss | | (4,553,117) |
| **Balance, December 31, 2012** | | 10,000,000 |
| Changes during the period | | - |
| **December 31, 2013 and June 30, 2014** | **$** | **10,000,000** |

### Exploration expenditures

| North Island Copper Gold Property B.C. Canada | | Six months ending June 30, 2014 | | Six months ending June 30, 2013 | | Cumulative Property Expenditures* |
|---|---|---|---|---|---|---|
| Amortization of equipment | $ | 4,450 | $ | 4,449 | $ | 21,517 |
| Camp operations | | 36,653 | | 49,197 | | 439,127 |
| Claims costs | | | | - | | 39,460 |
| Community engagement | | | | 482 | | 43,241 |
| Drilling | | | | - | | 1,132,482 |
| Engineering and geological | | 8,538 | | 96,710 | | 996,824 |
| Environmental studies | | | | 203 | | 255,184 |
| Prospecting | | | | - | | 448,701 |
| Wages | | | | 47,526 | | 308,190 |
| Mineral property exploration tax credit | | - | | (793) | | (76,770) |
| **Total** | **$** | **49,641** | **$** | **197,774** | **$** | **3,607,956** |

*Cumulative from the effective date of the Plan of Arrangement on October 17, 2011

(Unaudited - Expressed in Canadian dollars)

## 3. MINERAL PROPERTY INTERESTS (continued)

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.

The Company’s mineral exploration expenditures in 2012 are expected to generate a refundable mineral exploration tax credit of approximately $180,000. This amount has not been recorded in these financial statements as 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.

## 4. RELATED PARTY TRANSACTIONS

Some of Northisle’s administrative and geological operations were carried out indirectly through Ravenwolf Management Inc., a private company in which Northisle had a 33.3% interest. This arrangement was terminated on April 1, 2013. Ravenwolf provided the following services for the period ended June 30, 2014 and 2013:

| | | **2014** | | **2013** |
|---|---|---|---|---|
| Mineral property services | $ | - | $ | 47,526 |
| Office | | - | | 13,208 |
| Rent | | - | | 21,546 |
| Salaries | | - | | 92,006 |
| **Total** | $ | - | **$** | **174,286** |

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

Remuneration for Directors and key management personnel for the period ending June 30, 2014 and 2013 was:

| | | **2014** | | **2013** |
|---|---|---|---|---|
| Salaries | $ | 72,500 | $ | 108,750 |
| Share-based compensation | | 20,254 | | 5,280 |
| **Total** | **$** | **92,754** | **$** | **114,030** |

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

At June 30, 2014, the Company owed $195,799 (December 31, 2013 - $123,299) to officers and directors of the Company for unpaid wages. Amounts due are non-interest bearing with no specific terms of repayment.

In March 2014 the Company borrowed $40,000 from certain directors at a rate of 12% per annum, payable semi-annually. The loan was secured by the Company’s refundable mineral exploration tax credit claim. The Company also issued 160,000 bonus shares as additional consideration to the lenders. This principal, plus interest of $1,407, was repaid during the three months ended June 30, 2014.

(Unaudited - Expressed in Canadian dollars)

## 5. OTHER LIABILITIES

| Other liabilities consist of the liability related to the Company's flow-through shares issues: | | **Issued on June 27, 2014** |
|---|---|---|
| **Balance, December 31, 2013** | $ | - |
| Fair value of tax deductions sold to investors | | 41,310 |
| **Balance, June 30, 2014** | **$** | **41,310** |

## 6. SHARE CAPITAL

| **Authorized** - unlimited number of common shares without par value<br>**Issued and fully paid** | **Number of Shares** | | **Amount** |
|---|---|---|---|
| **Balance, December 31, 2012** | **57,137,983** | **$** | **18,681,454** |
| Cancellation of shares | (57,783) | | - |
| **Balance, December 31, 2013** | 57,080,200 | | 18,681,454 |
| Issued pursuant to private placement | 15,720,000 | | 786,000 |
| Fair value of tax deductions sold to investors | - | | (41,310) |
| Fair value of warrants issued during private placement | - | | (235,800) |
| Share issue costs | - | | (13,680) |
| Issue of bonus shares | 160,000 | | 8,000 |
| **Balance, June 30, 2014** | **72,960,200** | **$** | **19,184,664** |

On June 27, 2014 the Company completed a non-brokered private placement consisting of:

1. 4,860,000 flow-through shares at a price of $0.05 per share, for aggregate subscription proceeds of $243,000; and
2. 10,860,000 units at a price of $0.05 each, for aggregate subscription proceeds of $543,000, with each unit consisting of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of $0.07 until June 27, 2016.

As some of the shares were delivered against payment subsequent to June 30, 2014, subscriptions receivable of $241,000 was recorded at June 30, 2014.

### 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 six months ended June 30, 2014, the Company granted options to purchase 1,375,000 common shares with a weighted average grant date fair value of $0.03. As some of the options vested during this period, share-based compensation of $24,869 (2013 - $5,976) was recorded.

A summary of changes in share purchase options for the six months ended June 30, 2014 is:

| | **Number of Share Options** | | **Weighted Average Exercise Price** |
|---|---|---|---|
| **Balance, December 31, 2013** | **2,811,834** | **$** | **0.21** |
| Options granted | 1,375,000 | | 0.05 |
| Options forfeited | (18,500) | | 0.23 |
| Options expired | (167,500) | | 0.04 |
| **Balance, June 30, 2014** | **4,000,834** | **$** | **0.17** |

(Unaudited - Expressed in Canadian dollars)

## 6. SHARE CAPITAL (continued)

At June 30, 2014 the following 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 | 765,834 | $ 0.13 | 1.91 | 765,834 |
| $0.30 | 1,290,000 | 0.30 | 2.64 | 1,290,000 |
| $0.17 | 370,000 | 0.15 | 3.42 | 246,666 |
| $0.10 | 200,000 | 0.10 | 4.00 | 132,000 |
| $0.05 | 1,375,000 | 0.05 | 4.62 | 453,750 |
| | **4,000,834** | **$ 0.17** | **3.32** | **2,888,250** |

### Share purchase warrants

A summary of changes in common share purchase warrants for the six months ended June 30, 2014 is:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| **Balance, December 31, 2012** | **2,694,321** | **$ 0.26** |
| Expired | (278,571) | 0.35 |
| **Balance, December 31, 2013** | **2,415,750** | **0.25** |
| Issued during private placement | **10,860,000** | **0.07** |
| **Balance, June 30, 2014** | **13,275,750** | **$ 0.10** |

At June 30, 2014, the following common share purchase warrants were outstanding:

| Expiry | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (in years) |
|---|---|---|---|
| September 11, 2014 | 2,415,750 | $ 0.25 | 0.20 |
| June 27, 2016 | 10,860,000 | 0.07 | 2.00 |
| | **13,275,750** | **$ 0.10** | **1.67** |

### Fair value assumptions

The Company determined the fair value of common share purchase options issued during the six months ended June 30, 2014 using the Black-Scholes option pricing model and the following weighted average assumptions:

| | **2014** |
|---|---|
| Share price | $0.04 |
| Exercise price | $0.05 |
| Risk-free interest rate | 1.25% |
| Expected life (years) | 5 |
| Expected volatility | 125% |
| Expected dividend yield | 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.

(Unaudited - Expressed in Canadian dollars)

## 7. RESERVES

| | Share Option Reserves | Share Warrant Reserves | Total |
|---|---|---|---|
| **Balance, December 31, 2012** | **$ 598,507** | **$ 237,168** | **$ 835,675** |
| Share-based compensation expense | 44,737 | - | 44,737 |
| **Balance, December 31, 2013** | $ 643,244 | $ 237,168 | $ 880,412 |
| Fair value of warrants issued during private placement | - | 235,800 | 235,800 |
| Share-based compensation expense | 24,869 | - | 24,869 |
| **Balance, June 30, 2014** | **$ 668,113** | **$ 472,968** | **$ 1,141,081** |

## 8. 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.

## 9. 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 Goods and Services Tax due from the federal government of Canada. As such, the Company considers this risk to be minimal. As at June 30, 2014, none of the Company's financial instruments subject to credit risk were past due or impaired.

## 9. MANAGEMENT OF FINANCIAL RISK (continued)

### 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 June 30, 2014, the Company considers its exposure to interest rate risk to be minimal.

### 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 8.

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

## 10. LOSS PER SHARE

The Company's diluted loss per share is equal to its basic loss per share. Outstanding share purchase options and warrants could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are antidilutive for the three months ended June 30, 2014 and 2013.