NORTHISLE
COPPER AND GOLD INC.

# Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015

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 Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 1,078,805 | $ 207,055 |
| Accounts receivable | 7,543 | 7,810 |
| Prepaid expenses and deposits | 46,163 | 39,462 |
| | 1,132,511 | 254,327 |
| **Equipment** | - | 812 |
| **Mineral property interests** (Note 3) | 10,021,000 | 10,006,000 |
| | $ 11,153,511 | $ 10,261,139 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 42,512 | $ 224,796 |
| Payable to related parties (Note 4) | 252,283 | 217,284 |
| Other liabilities (Note 5) | 60,609 | - |
| | 355,404 | 442,080 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital** (Note 6) | 20,547,309 | 19,570,694 |
| **Reserves** (Note 7) | 1,186,700 | 1,073,940 |
| **Deficit** | (10,935,902) | (10,825,575) |
| | 10,798,107 | 9,819,059 |
| | $ 11,153,511 | $ 10,261,139 |

# NORTHISLE COPPER AND GOLD INC.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

**For the three and six months ended June 30, 2016 and 2015**

(Unaudited - Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2016** | **June 30, 2015** | **June 30, 2016** | **June 30, 2015** |
| **Expenses** | | | | |
| Insurance | $ 3,985 | $ 4,026 | $ 6,635 | $ 7,551 |
| Interest and bank charges | 271 | 261 | 532 | 539 |
| Investor relations | 2,418 | 1,764 | 2,598 | 3,626 |
| Legal and audit | - | - | - | 776 |
| Mineral property expenditures | 31,132 | 31,413 | 56,040 | 52,316 |
| Office | 1,480 | 8,054 | 9,400 | 15,989 |
| Regulatory fees | 9,994 | 11,411 | 16,262 | 18,388 |
| Share-based compensation | 22,332 | 10,765 | 37,760 | 31,180 |
| Travel | 722 | 532 | 722 | 532 |
| Wages | 25,888 | 18,930 | 53,756 | 44,590 |
| | 98,222 | 87,156 | 183,705 | 175,487 |
| **Other (Income) Expenses** | | | | |
| Interest income | (80) | (221) | (216) | (388) |
| Gain on settlement of debt (Note 6) | (62,500) | - | (62,500) | - |
| Other Income (Note 5) | (5,016) | - | (5,016) | - |
| Gain on settlement of payable | (5,646) | - | (5,646) | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | **$ 24,980** | **$ 86,935** | **$ 110,327** | **$ 175,099** |
| **BASIC AND DILUTED LOSS PER SHARE** | **$ 0.000** | **$ 0.001** | **$ 0.001** | **$ 0.002** |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted** | **86,528,255** | **76,495,755** | **84,422,427** | **74,761,311** |

*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, 2016 and 2015**
(Unaudited - Expressed in Canadian dollars)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2016** | **June 30, 2015** | **June 30, 2016** | **June 30, 2015** |
| **DEFICIT, BEGINNING OF PERIOD** | $ 10,910,922 | $ 10,485,049 | $ 10,825,575 | $ 10,396,885 |
| Net loss | 24,980 | 86,935 | 110,327 | 175,099 |
| **DEFICIT, END OF PERIOD** | **$ 10,935,902** | **$ 10,571,984** | **$ 10,935,902** | **$ 10,571,984** |
| | | | | |
| **RESERVES, BEGINNING OF PERIOD** (Note 7) | $ 1,089,368 | $ 1,063,175 | $ 1,073,940 | $ 1,042,760 |
| Share warrants reserve | 75,000 | - | 75,000 | - |
| Share option reserves | 22,332 | 10,765 | 37,760 | 31,180 |
| **RESERVES, END OF PERIOD** | $ 1,186,700 | **$ 1,073,940** | $ 1,186,700 | **$ 1,073,940** |
| | | | | |
| **SHARE CAPITAL, BEGINNING OF PERIOD** (Note 6) | $ 19,570,694 | $ 19,309,824 | $ 19,570,694 | $ 19,304,574 |
| Issued pursuant to private placement | 300,000 | 114,000 | 300,000 | 114,000 |
| Fair value of warrants issued | (75,000) | - | (75,000) | - |
| Share issue costs | (2,655) | (570) | (2,655) | (1,320) |
| Fair value of tax deductions sold to investors (Note 5) | (65,625) | - | (65,625) | - |
| Issued pursuant to the exercise of warrants | 757,395 | - | 757,395 | 6,000 |
| Issued for the settlement of debt (Note 6) | 62,500 | - | 62,500 | - |
| **SHARE CAPITAL, END OF PERIOD** | **$ 20,547,309** | **$ 19,423,254** | **$ 20,547,309** | **$ 19,423,254** |

*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, 2016 and 2015**
(Unaudited - Expressed in Canadian dollars)

| | 2016 | 2015 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss | $ (110,327) | $ (175,099) |
| Items not requiring a cash outlay | | |
| Amortization | 812 | 4,449 |
| Share-based compensation | 37,760 | 31,180 |
| | (71,755) | (139,470) |
| Changes in non-cash working capital components | | |
| Accounts receivable | 267 | 1,797 |
| Prepaid expenses | (6,701) | 17,050 |
| Accounts payable and accrued liabilities | (182,284) | (15,077) |
| Other liabilities | 60,609 | - |
| Payable to related parties | 34,999 | 42,000 |
| | (164,865) | (93,700) |
| **Investing activities** | | |
| Property purchase payments and claim costs | (15,000) | (6,000) |
| **Financing activities** | | |
| Private placement | 300,000 | 114,000 |
| Shares issued for mineral properties | - | 6,000 |
| Exercise of warrants | 757,395 | - |
| Shares issued for settlement of debt | 62,500 | - |
| Share Issue costs | (2,655) | (1,320) |
| Fair value of tax deductions sold to investors | (65,625) | - |
| | 1,051,615 | 118,680 |
| **INCREASE IN CASH** | 871,750 | 18,980 |
| **CASH, BEGINNING OF PERIOD** | 207,055 | 142,972 |
| **CASH, END OF PERIOD** | **$ 1,078,805** | **$ 161,952** |
| **Supplementary Information** | | |
| Interest received | $ 216 | $ 388 |

*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”). 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 15th floor – 1040 West Georgia Street, Vancouver, B.C.

These interim 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 interim 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, 2015.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2016, as issued and outstanding on August 26, 2016, the date the Board of Directors approved these financial statements.

**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.

(Unaudited - Expressed in Canadian dollars)

## 3. MINERAL PROPERTY INTERESTS

**Acquisition Costs - North Island Copper Gold Property, B.C. Canada**

| | | |
|---|---|---|
| **Balance, December 31, 2015** | **$** | **10,006,000** |
| Property purchase payments and claim costs | | 15,000 |
| **Balance, June 30, 2016** | **$** | **10,021,000** |

### Exploration expenditures

| **North Island Copper Gold Property B.C. Canada** | | **Six months ending June 30, 2016** | | **Six months ending June 30, 2015** | | **Cumulative Property Expenditures*** |
|---|---|---|---|---|---|---|
| Amortization of equipment | $ | 812 | $ | 4,449 | $ | 34,265 |
| Camp operations | | 37,832 | | 29,769 | | 635735 |
| Claims costs | | 500 | | 500 | | 41,278 |
| Community engagement | | - | | - | | 43,441 |
| Drilling | | - | | - | | 1,531,374 |
| Engineering and geological | | 16,766 | | 7,740 | | 1,148,629 |
| Environmental studies | | - | | - | | 255,184 |
| Prospecting | | 130 | | 9,858 | | 462,379 |
| Wages | | - | | - | | 316,190 |
| Mineral property exploration tax credit | | - | | - | | (282,789) |
| **Total** | **$** | **56,040** | **$** | **52,316** | **$** | **4,185,686** |

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

The North Island Copper Gold Property 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.

### 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.

In August of 2016 the Company received a mineral exploration tax credit of $65,650 from the Company's mineral exploration expenditures in 2014. This amount has not been recorded in these financial statements as acceptance of the Company's exploration expenditures for this refundable tax credit had not been received by the Government of British Columbia prior to June 30, 2016.

### Red Dog Property Acquisition

On February 11, 2015, the Company acquired an option to earn a 100% interest in the Red Dog Property, a 400 hectare property entirely enclosed within the Company's existing 100% owned North Island Copper Gold Property. The Company issued 200,000 common shares with a fair value of $6,000 to the vendor upon signing the option agreement and agreed to make payments of $60,000 between 2016 and 2018 and expend a minimum of $375,000 on the property by 2018. The vendor was also granted a net smelter return royalty of 3% of which 2% can be purchased by the Company at any time for US$2.0 million.

(Unaudited - Expressed in Canadian dollars)

## 4. RELATED PARTY TRANSACTIONS

Remuneration for Directors and key management personnel for the six months ending June 30, 2016 and 2015 was:

| | | 2016 | 2015 |
|---|---|---|---|
| Consulting fees | $ | 46,000 | 42,000 |
| Share-based compensation | | 37,760 | 24,139 |
| **Total** | **$** | **83.760** | **66,139** |

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, 2016 the Company owed $252,283 (December 31, 2015 - $217,284) to officers and directors of the Company for unpaid consulting fees. Amounts due are non-interest bearing with no specific terms of repayment.

## 5. OTHER LIABILITIES

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

| | | Total |
|---|---|---|
| **Balance, December 31, 2015** | **$** | **-** |
| Liability incurred from the issue of flow-through share | | 65,625 |
| Recognized as other income on incurring eligible expenditures | | (5,016) |
| **Balance, June 30, 2016** | **$** | **60,609** |

## 6. SHARE CAPITAL

| **Authorized** - unlimited number of common shares without par value<br>**Issued and fully paid** | Number of Shares | | Amount |
|---|---|---|---|
| **Balance, December 31, 2015** | **82,293,200** | **$** | **19,570,694** |
| Issued pursuant to private placement | 9,375,000 | | 300,000 |
| Fair value of warrants issued | - | | (75,000) |
| Share issue costs | - | | (2,655) |
| Fair value of tax deductions sold to investors | - | | (65,625) |
| Issued pursuant to the exercise of warrants | 10,820,000 | | 757,395 |
| Issued for the settlement of debt | 2,500,000 | | 62,500 |
| **Balance, June 30, 2016** | **104,988,200** | **$** | **20,547,309** |

### Debt Settlement Agreement

On April 28, 2016 the Company completed a debt settlement agreement with an arms-length creditor pursuant to which a $125,000 of indebtedness was satisfied by the issuance of 2,500,000 common shares at a deemed price of $0.05 per share. At the time of settlement, shares of the Company were trading at $0.025 resulting in a gain on the settlement of debt of $62,500.

### Private Placement

On June 8, 2016 the Company completed a $300,000 non-brokered private placement consisting of:

(a) $125,000 by way of a unit private placement at a price of $0.025 per unit, with each unit to consist of one common share and one-half (1/2) of a share purchase warrant, with each whole warrant to entitle the holder to purchase an additional common share at a price of $0.05 for a period of 2 years from closing; and

(b) $175,000 by way of a flow-through share private placement at a price of $0.04 per flow-through share.

(Unaudited - Expressed in Canadian dollars)

## 6. SHARE CAPITAL (continued)

### 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, 2016, $37,760 (2015 - $20,415) 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 share purchase options for the three months ended June 30, 2016 is:

| | Number of Share Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance, December 31, 2015** | **5,312,500** | **$ 0.14** |
| Options granted | 1,660,000 | - |
| Options expired | - | - |
| **Balance, June 30, 2016** | **6,972,500** | **$ 0.14** |

At June 30, 2016, 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) |
|---|---|---|---|---|
| $0.22 | 462,500 | $ 0.22 | 0.10 | 462,500 |
| $0.30 | 1,290,000 | 0.30 | 0.40 | 1,290,000 |
| $0.17 | 370,000 | 0.17 | 1.42 | 370,000 |
| $0.10 | 200,000 | 0.10 | 1.99 | 200,000 |
| $0.05 | 1,375,000 | 0.05 | 2.62 | 1,375,000 |
| $0.05 | 1,615,000 | 0.05 | 3.99 | 1,076,562 |
| $0.05 | 1,585,000 | 0.05 | 4.85 | 528,328 |
| $0.10 | 75,000 | 0.10 | 5.00 | 25,000 |
| | **6,972,500** | **$ 0.11** | **2.81** | **5,327,390** |

### Share purchase warrants

In June 2016 the Company received $757,400 from the exercise of 10,820,000 warrants at $0.07 per share. At June 30, 2016, the following common share purchase warrants were outstanding:

| Expiry | Number Outstanding | Exercise Price | Weighted Average Remaining Life (in years) |
|---|---|---|---|
| **June 8, 2018** | **2,500,000** | **$ 0.05** | **1.92** |

## 7. RESERVES

| | Share Option Reserves | Share Warrant Reserves | Total |
|---|---|---|---|
| **Balance, December 31, 2015** | **$ 728,172** | **$ 345,768** | **$ 1,073,940** |
| Fair value assigned to warrants | - | 75,000 | 75,000 |
| Share-based compensation expense | 37,760 | - | 37,760 |
| **Balance, June 30, 2016** | **$ 765,932** | **$ 420,768** | **$ 1,186,700** |

## 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 March 31, 2016, 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 March 31, 2016, 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 March 31, 2016 and 2015.