



## **Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017  
and Auditor's Report

(Expressed in Canadian dollars)

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Northisle Copper and Gold Inc.

### Opinion

We have audited the consolidated financial statements of Northisle Copper and Gold Inc. and its subsidiary (collectively, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the Company's Management Discussion & Analysis for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

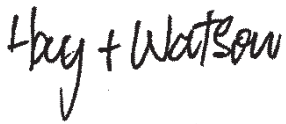
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jan Veiel.

A handwritten signature in black ink that reads "Hay + Watson". The signature is written in a cursive, slightly slanted style.

Chartered Professional Accountants  
Vancouver, BC, Canada  
April 29, 2019

**NORTHISLE COPPER AND GOLD INC.**  
**Consolidated Statements of Financial Position**  
As at December 31, 2018 and 2017  
(Expressed in Canadian Dollars)

	2018	2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 806,724	\$ 527,532
Accounts receivable	60,105	51,347
Exploration advances (Note 5)	75,688	-
Prepaid expenses and deposits	23,119	21,521
	965,636	600,400
<b>Reclamation deposits</b>	32,000	32,000
<b>Mineral property interests (Note 5)</b>	10,016,000	10,066,000
	\$ 11,013,636	\$ 10,698,400
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 465,802	\$ 158,161
Exploration commitments (Note 5)	75,688	-
Payable to related parties (Note 6)	154,283	166,783
	695,773	324,944
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 7)</b>	22,036,203	21,842,321
<b>Reserves (Note 8)</b>	1,610,949	1,430,663
<b>Deficit</b>	(13,329,289)	(12,899,528)
	10,317,863	10,373,456
	\$ 11,013,636	\$ 10,698,400

Nature of Operations (Note 1)

**APPROVED BY THE BOARD**

David M Douglas Director

John McClintock Director

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

**NORTHISLE COPPER AND GOLD INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

	2018	2017
<b>Revenues</b>		
Operator fee (Note 5)	99,659	-
<b>Expenses</b>		
Insurance	\$ 15,562	\$ 18,242
Bank and service charges	937	977
Investor relations	38,015	55,409
Legal and audit	40,181	69,398
Mineral property expenditures (Note 5)	86,384	1,137,955
Office	11,964	11,901
Regulatory fees	31,249	25,879
Share-based compensation (Note 7)	228,168	223,573
Travel	4,377	10,771
Wages	75,105	137,094
	531,942	1,691,199
	432,283	1,691,199
<b>Other (Income) Expenses</b>		
Interest income	(2,522)	(2,490)
Recovery of fair value of tax deductions sold to investors (Note 7)	-	(180,000)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ 429,761</b>	<b>\$ 1,508,709</b>
<b>BASIC AND DILUTED LOSS PER SHARE (Note 12)</b>	<b>\$ 0.004</b>	<b>\$ 0.014</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted</b>	<b>116,001,351</b>	<b>111,323,883</b>

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

# NORTHISLE COPPER AND GOLD INC.

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	2018	2017
<b>DEFICIT, BEGINNING OF YEAR</b>	\$ 12,899,528	\$ 11,390,819
Net loss	429,761	1,508,709
<b>DEFICIT, END OF YEAR</b>	\$ 13,329,289	\$ 12,899,528
<b>RESERVES, BEGINNING OF YEAR</b> (Note 8)	\$ 1,430,663	\$ 1,034,582
Fair value of warrants issued during private placements	-	173,708
Transferred to share capital on exercise of options	(16,400)	(1,200)
Transferred to share capital on exercise of warrants	(31,482)	-
Share-based compensation	228,168	223,573
<b>RESERVES, END OF YEAR</b>	\$ 1,610,949	\$ 1,430,663
<b>SHARE CAPITAL, BEGINNING OF YEAR</b> (Note 7)	\$ 21,842,321	\$ 20,699,427
Private placement financings	-	1,522,247
Fair value of warrants issued during private placements	-	(173,708)
Issued pursuant to the exercise of options	21,000	3,000
Issued pursuant to the exercise of warrants	125,000	-
Transferred from option reserve on exercise of options	16,400	1,200
Transferred from warrant reserve on exercise of warrants	31,482	-
Fair value of tax deductions sold during private placements	-	(180,000)
Share issue costs	-	(29,845)
<b>SHARE CAPITAL, END OF YEAR</b>	\$ 22,036,203	\$ 21,842,321

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

# NORTHISLE COPPER AND GOLD INC.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	2018	2017
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$ (429,761)	\$ (1,508,709)
Items not requiring a cash outlay for operating activities		
Share-based compensation	228,168	223,573
	(201,593)	(1,465,136)
Changes in non-cash working capital components		
Accounts receivable	(8,758)	(45,415)
Prepaid expenses	(1,598)	16,800
Accounts payable and accrued liabilities	307,641	64,799
Payable to related parties	(12,500)	(65,501)
	83,192	(1,494,453)
<b>Investing activities</b>		
Mineral property option payments	50,000	(45,000)
<b>Financing activities</b>		
Cash received for share issues, net of share issue costs	-	1,492,403
Exercise of options	21,000	3,000
Exercise of warrants	125,000	-
	146,000	1,495,403
<b>INCREASE (DECREASE) IN CASH</b>	279,192	(44,050)
<b>CASH, BEGINNING OF YEAR</b>	527,532	571,582
<b>CASH, END OF YEAR</b>	\$ 806,724	\$ 527,532
<b>Supplementary Information</b>		
Interest received	\$ 2,522	\$ 2,490

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



# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

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## **1. NATURE OF OPERATIONS**

Northisle Copper and Gold Inc. (the “Company”) is a mineral exploration company that was incorporated on August 3, 2011 in the Province of British Columbia. The Company’s principal business activity is the exploration and development of its North Island Project on Vancouver Island. Its head office is located on the 15<sup>th</sup> floor – 1040 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 IFRS Interpretations Committee.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 29, 2019.

### **Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss 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.

## **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.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting estimates and judgments

The preparation of these consolidated financial statements required management to make estimates, judgments and assumptions that affect the reported amounts and other disclosures in these consolidated 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 consolidated 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

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value, plus transaction costs if the financial instrument is not subsequently measured at fair value through profit and loss.

Financial assets are measured subsequently at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL") based on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Financial assets which are investments in equity instruments are measured subsequently at FVTPL unless they are not held for trading and are designated as FVOCI. Financial liabilities are measured subsequently at amortized cost, except for derivatives and certain other specified exceptions measured FVTPL

The Company classifies its financial instruments as follows:

<b>Financial instrument</b>	<b>Previous classification under IAS 39</b>	<b>Current classification under IFRS 9</b>
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Reclamation deposit	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Payable to related parties	Other financial liabilities	Amortized cost

Financial instruments classified as amortized cost are measured at amortized cost using the effective interest method, adjusted as required for credit-impaired financial assets. Financial assets measured at amortized cost are subject to a loss allowance for expected credit losses resulting from default events that are possible within 12 months after the reporting date, or an allowance for lifetime expected losses where credit risk has increased significantly since initial recognition. Changes in the amount of expected credit losses are recognized as an impairment gain or loss in profit and loss.

Financial assets are derecognized when the contractual rights to the cash flows expire, for certain transfers, or when there is no reasonable expectation of recovering the financial asset. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

Fair value measurements are determined based on quoted prices when these are available or other appropriate valuation methods. Gains and losses on investments in equity instruments designated as FVOCI are recognized in other comprehensive income until they are derecognized. Dividends from these investments are recognized in profit and loss.

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

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

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. Cash was measured and recognized in the consolidated statements of financial position using Level 1 inputs. There were no financial assets or liabilities measured and recognized in the consolidated statements of financial position 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 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.

### Equipment

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

### Impairment of non-financial 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 (if 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 consolidated statement of loss and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

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

### **Impairment of non-financial assets (continued)**

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

### **Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position 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, 2018 and 2017, the Company had no reclamation obligations.

### **Share-based payments**

The Company grants share purchase options under the terms described in Note 8.

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.

# **NORTHISLE COPPER AND GOLD INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Mineral Exploration Tax Credit (“METC”)**

The Company recognizes METC amounts as a reduction in mineral property expenditures on the consolidated statement of loss and comprehensive loss 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.

### **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. When qualifying expenditures are incurred, the Company reverses the liability component initially recorded on the issuance of shares and recognizes it in operations as other income. Since the Company does not capitalize exploration expenditures, the transfer of 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 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. Revenue from mineral property option agreements is recognized at the amount specified in the option agreement when performance is complete and 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 statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each statement of financial position 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 FVOCI will have revaluation gains and losses included in other comprehensive income until the asset is removed from the consolidated statement of financial position. At present, the Company has no FVOCI financial assets.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

The Company adopted the following new accounting standards during the year ended December 31, 2018:

- *IFRS 9 Financial instruments*: The Company adopted IFRS 9 *Financial instruments*, which replaced the existing guidance in IAS 39 *Financial instruments: Recognition and measurement*, effective January 1, 2018. The new standard was applied retrospectively and includes revised guidance on the classification and measurement of financial instruments and a new expected credit loss model for calculating impairment on financial assets. The adoption of IFRS 9 resulted in changes in the description of the classification of financial instruments as described above under Significant Accounting Policies - Financial Instruments, but did not result in changes to the measurement of financial instruments or to the presentation of the Company's financial statements.
- *IFRS 15 Revenue from contracts with customers*: The Company adopted IFRS 15 *Revenue from contracts with customers* effective January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized and requires more informative, relevant disclosures. It replaced existing revenue recognition guidance, including IAS 18 *Revenue*. The adoption of IFRS 15 did not result in changes to the measurement of revenues or the presentation of the Company's financial statements.

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated 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.

- *IFRS 16 Leases* (effective for years beginning on or after January 1, 2019): IFRS 16 replaces IAS 17 *Leases* with a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. The Company does not expect the adoption of IFRS 16 to have a significant impact on the measurement or presentation of the consolidated financial statements.

# NORTHISLE COPPER AND GOLD INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

## 5. MINERAL PROPERTY INTERESTS

### Acquisition costs

#### North Island Copper-Gold Property, B.C. Canada

<b>Balance, December 31, 2016</b>	<b>\$ 10,021,000</b>
Property purchase payments	45,000
<b>Balance, December 31, 2017</b>	<b>\$ 10,066,000</b>
Property option payments	(50,000)
<b>Balance, December 31, 2018</b>	<b>\$ 10,016,000</b>

### Exploration expenditures

North Island Copper-Gold Property, B.C. Canada	2017	2018	Cumulative Total*
Amortization of equipment	\$ -	\$ -	\$ 34,265
Camp operations	114,238	51,232	888,340
Claims costs	-	-	41,278
Community engagement	3,812	3,967	51,220
Drilling	404,465	-	2,187,876
Engineering and geological	644,616	105,805	1,962,012
Environmental studies	-	-	255,684
Prospecting	3,774	500	490,082
Wages	-	-	316,190
Mineral property exploration tax credits	(32,950)	(75,120)	(456,510)
<b>Total</b>	<b>\$ 1,137,955</b>	<b>\$ 86,384</b>	<b>\$ 5,770,437</b>

\* Cumulative from the date of incorporation on August 3, 2011 to December 31, 2018

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 and the Apple Bay claims and include the Pemberton Hills Property described further below.

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.

### 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.

As of December 31, 2018 the exploration expenditures on the Red Dog Property have exceeded the minimum amount required to be spent by 2018 (\$375,000) and the Company has made the required cash payments to complete the acquisition of a 100% interest in the property.

# NORTHISLE COPPER AND GOLD INC.

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## 5. MINERAL PROPERTY INTERESTS (continued)

### Pemberton Hills Property Joint Venture

In February 2018, the Company signed a joint venture agreement with Freeport-McMoRan Mineral Properties Canada Inc. (“Freeport”) in relation to the Company’s Pemberton Hills Property located on Vancouver Island, in British Columbia. Under the terms of the joint venture, Freeport may earn up to a 65per-cent interest in the Pemberton Hills Property by funding a total of \$24 million in exploration expenditures.

Under the terms of the agreement, Freeport may earn an initial 49 per-cent interest in the Pemberton Hills Property by paying \$50,000 cash to the Company and funding a total of \$4.0 million in exploration expenditures over three years (the “First Option”). The agreement requires Freeport to commit to \$300,000 in expenditures in the first year, with subsequent optional additional expenditures of \$1.2 million before the second anniversary and a further optional \$2.5 million before the third anniversary of the agreement. The Company will be the operator during the First Option.

Upon completion of the First Option, a joint venture company will be formed to operate the Pemberton Hills Property under a shareholder’s agreement. Freeport shall then have a one-time right to acquire an additional 16 per-cent interest in the Pemberton Hills Property, for an aggregate 65 per-cent interest in the Pemberton Hills Property (the “Second Option”), by funding an additional \$20 million in exploration expenditures over a four year period.

If Freeport elects to proceed with the Second Option and fails to complete the expenditures required, Freeport’s interest will revert to the 49% interest as earned under the First Option.

Should either party’s interest in the joint venture be reduced below 10 per-cent through dilution, the diluted party will be granted a 2% Net Smelter Returns Royalty (“NSR”). The NSR is subject to a buy-down provision that allows for the NSR to be reduced to 1% for a cash payment of \$2 million.

During the year ended December 31, 2018, the Company received exploration funding from Freeport of \$1,554,000 of which \$75,688 was unspent at year end and recorded as exploration advances and exploration commitment on the consolidated statements of financial position. The Company recognized other income of \$99,659 as its operator fee in connection with the Pemberton Hills exploration program.

## 6. RELATED PARTY TRANSACTIONS

Remuneration of directors and key management personnel was:

	2018	2017
Management fees	\$ 67,500	\$ 132,125
Share-based compensation	186,655	187,878
<b>Total</b>	<b>\$ 254,155</b>	<b>\$ 320,003</b>

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

At December 31, 2018, the Company owed \$154,283 (December 31, 201 - \$166,783) to officers and directors of the Company for unpaid management fees. These amounts are non-interest bearing and have no specific terms of repayment.



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## 7. SHARE CAPITAL

<b>Authorized</b> - unlimited number of common shares without par value <b>Issued and fully paid</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Balance, December 31, 2016</b>	<b>105,108,200</b>	<b>\$ 20,699,427</b>
Issued pursuant to exercise of options	60,000	3,000
Issued pursuant to private placement	9,348,316	1,522,247
Fair value of warrants issued	-	(173,708)
Share issue costs	-	(29,845)
Fair value of tax deductions sold to investors	-	(180,000)
Transferred from share option reserve on exercise of option	-	1,200
<b>Balance, December 31, 2017</b>	<b>114,516,516</b>	<b>\$ 21,842,321</b>
Issued pursuant to exercise of options	220,000	21,000
Transferred from share option reserve on exercise of options	-	16,400
Issued pursuant to the exercise of warrants	2,500,000	125,000
Transferred from share option reserve on exercise of warrants	-	31,482
<b>Balance, December 31, 2018</b>	<b>117,236,516</b>	<b>\$ 22,036,203</b>

### Private Placement

On May 5, 2017 the Company completed a \$1,522,247 non-brokered private placement consisting of:

- \$1,042,247 from a unit private placement at a price of \$0.15 per unit, with each unit consisting of one common share and one-half (1/2) share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.20 for a period of 2 years from closing; and
- \$480,000 from a flow-through share private placement at a price of \$0.20 per flow-through share.

### 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 year ended December 31, 2018, \$228,168 (2017 - \$223,573) in share-based compensation was recognized in the consolidated statement of loss and comprehensive loss on the vesting of share purchase options.

A summary of changes in common share purchase options for the years ended December 31, 2018 and 2017 is:

	<b>Number of Share Options</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, December 31, 2016</b>	<b>5,240,000</b>	<b>\$ 0.06</b>
Options granted	2,550,000	0.17
Options expired	(420,000)	0.19
Options exercised	(60,000)	0.05
<b>Balance, December 31, 2017</b>	<b>7,310,000</b>	<b>\$ 0.09</b>
Granted	2,400,000	0.15
Options exercised	(220,000)	0.10
<b>Balance, December 31, 2018</b>	<b>9,490,000</b>	<b>\$ 0.11</b>

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## 7. SHARE CAPITAL (continued)

The weighted average share price on the date options were exercised during the year was \$0.15. At December 31, 2018, the following common share purchase options were outstanding:

Expiry date	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Number Exercisable
February 11, 2019	1,375,000	0.05	0.12	1,375,000
June 24, 2020	1,535,000	0.05	1.48	1,535,000
May 4, 2021	1,555,000	0.05	2.34	1,555,000
June 28, 2021	75,000	0.10	2.49	75,000
January 9, 2022	2,550,000	0.17	3.03	1,699,988
February 26, 2023	2,400,000	0.15	4.16	799,992
	<b>9,490,000</b>	<b>\$ 0.11</b>	<b>2.53</b>	<b>7,039,980</b>

### Fair value assumptions

The weighted average grant date fair value of share purchase options granted during the year ended December 31, 2018 was \$0.10 (2017 – \$0.10). The Company determined the fair value of common share purchase options granted using the Black-Scholes option pricing model and the following weighted average inputs:

	2018	2017
Share price	\$0.15	\$0.17
Exercise price	\$0.15	\$0.17
Risk-free interest rate	2.04%	1.25%
Expected life (years)	5.00	5.00
Expected volatility	80%	80%
Expected dividend yield	Nil	Nil

The estimates of expected life incorporate an estimate of the potential early exercise of these options. The estimates of expected volatility are based on the historically observed volatility of the Company for a period generally commensurate with the expected lives of the instruments and are adjusted for management's evaluation of future expected volatility.

### Share purchase warrants

A summary of changes in common share purchase warrants for the years ended December 31, 2018 and 2017 is:

	Number of Warrants	Weighted Average Exercise Price
<b>Balance, December 31, 2016</b>	<b>2,500,000</b>	<b>\$ 0.05</b>
Issued during private placement	3,474,158	0.25
<b>Balance, December 31, 2017</b>	<b>5,974,158</b>	<b>\$ 0.17</b>
Exercised	(2,500,000)	0.05
<b>Balance, December 31, 2018</b>	<b>3,474,158</b>	<b>\$ 0.25</b>

At December 31, 2018, the following common share purchase warrants were outstanding:

Expiry	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
May 4, 2019	3,474,158	0.25	0.34

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## 8. RESERVES

	Share Option Reserves	Share Warrant Reserves	Total
<b>Balance, December 31, 2016</b>	<b>\$ 765,932</b>	<b>\$ 268,650</b>	<b>\$ 1,034,582</b>
Fair value of warrants issued during private placement	-	173,708	173,708
Fair value of options transferred to share capital on exercise	(1,200)	-	(1,200)
Share-based compensation expense	223,573	-	223,573
<b>Balance, December 31, 2017</b>	<b>\$ 988,305</b>	<b>\$ 442,358</b>	<b>\$ 1,430,663</b>
Fair value of options transferred to share capital on exercise	(16,400)	(31,482)	(47,882)
Share-based compensation expense	228,168	-	228,168
<b>Balance, December 31, 2018</b>	<b>\$ 1,200,073</b>	<b>\$ 410,876</b>	<b>\$ 1,610,949</b>

## 9. INCOME TAXES

The reconciliation for the provision of income taxes for the years ended December 31, 2018 and 2017 is:

	2018	2017
Net loss	\$ 429,761	\$ 1,508,709
Combined federal and provincial statutory tax rate	27.0%	26.0%
Recovery of income taxes based on statutory tax rate	116,035	392,264
Net effect of items included in net loss that are not taxable or deductible	(85,243)	(321,002)
Other taxable or deductible items	3,243	3,123
Effect of current period tax losses not recognized	(34,035)	(74,385)
<b>Provision for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

The tax rate for the year ended December 31, 2018 in the table above changed due to a 1% increase in the British Columbia provincial corporate tax rate, effective January 1, 2018.

The Company's net deferred tax assets are:

	2018	2017
Deductible temporary differences	\$ 738,680	\$ 677,729
Non-capital loss carried forward	883,208	662,287
Unused income tax credits and other deductible amounts	123,490	126,396
Total deferred tax assets	1,745,378	1,466,412
Valuation allowance	(1,745,378)	(1,466,412)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax assets have not been recognized as it is uncertain that the Company will have future taxable income against which they could be utilized.

As at December 31, 2018, the expiry dates of the Company's unrecognized income tax losses and income tax credits are:

	Amount	Expiry Date
Non-capital losses for income tax purposes	\$ 3,271,139	2031-2038
Non-refundable income tax credits	117,620	N/A

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## **10. 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 its 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.

## **11. 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.

### **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 December 31, 2018, none of the Company's financial instruments subject to credit risk were past due or impaired and the Company has not recognized an allowance for expected credit losses on these financial instruments.

### **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, 2018, 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 10. Accounts payable and accrued liabilities and the amounts payable to related parties are due within the current operating period.

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## **12. 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 years ended December 31, 2018 and 2017.

## **13. SUBSEQUENT EVENTS**

### **Exercise of Share Options**

On February 11, 2019, the Company issued 1,375,000 common shares upon the exercise of share purchase options for total consideration of \$68,750.