



## **CONSOLIDATED FINANCIAL STATEMENTS**

**As at June 30, 2016 and 2015**

In Canadian dollars



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Highland Copper Company Inc.

We have audited the accompanying consolidated financial statements of Highland Copper Company Inc., which comprise the consolidated statements of financial position as at June 30, 2016 and June 30, 2015, the consolidated statements of comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Highland Copper Company Inc. as at June 30, 2016 and June 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Highland Copper Company Inc. is still in the exploration stage and, as such, no revenue has yet been generated from its operating activities. Accordingly, Highland Copper Company Inc. depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Highland Copper Company Inc.'s ability to continue as a going concern.

*KPMG LLP*

October 25, 2016

Montréal, Canada

# Highland Copper Company Inc.

## Consolidated Statements of Financial Position

<i>(audited, in Canadian dollars)</i>	June 30, 2016	June 30, 2015
	\$	\$
<b>ASSETS</b>		
Current		
Cash	201,998	1,042,341
Sales taxes receivable	-	54,496
Prepaid expenses and other	6,233	52,441
	<b>208,231</b>	<b>1,149,278</b>
Non-current		
Capital assets (Note 4)	114,990	233,615
Exploration and evaluation assets (Note 5)	53,827,188	61,568,034
<b>TOTAL ASSETS</b>	<b>54,150,409</b>	<b>62,950,927</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	3,019,495	3,146,097
Due to a related party (Note 14)	25,543	8,022
Current portion of balance of purchase price payable (Note 8)	1,445,087	-
Deposit on sale of royalty (Note 6)	-	10,000,000
	<b>4,490,125</b>	<b>13,154,119</b>
Non-current		
Balance of purchase price payable (Note 8)	1,289,355	2,207,430
Environmental liability (Note 9)	306,606	281,749
<b>TOTAL LIABILITIES</b>	<b>6,086,086</b>	<b>15,643,298</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	51,754,469	48,115,461
Contributed surplus	6,253,329	6,173,571
Deficit	(17,809,014)	(13,592,922)
Cumulative translation adjustment	7,865,539	6,611,519
<b>TOTAL EQUITY</b>	<b>48,064,323</b>	<b>47,307,629</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>54,150,409</b>	<b>62,950,927</b>

Going Concern (Note 2); Commitments and Contingencies (Note 5); Event after the Reporting Date (Note 21).

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

On behalf of the Board,

/s/ David Fennell  
David Fennell, Director

/s/ Jo Mark Zurel  
Jo Mark Zurel, Director

# Highland Copper Company Inc.

## Consolidated Statements of Comprehensive (Loss) Income

<i>(audited, in Canadian dollars)</i>	Year ended June 30,	
	2016	2015
	\$	\$
<b>Expenses and other items</b>		
Management and administration (Note 13)	1,486,118	3,087,579
Pre-exploration	79,783	81,765
Write-down of exploration and evaluation assets (Note 5)	2,655,495	-
Accretion on environmental liability (Note 9)	15,637	17,403
Finance income	(3,930)	(10,358)
Gain on foreign exchange	(17,011)	(33,595)
<b>Net loss for the year</b>	<b>(4,216,092)</b>	<b>(3,142,794)</b>
Other comprehensive income		
Item that will not be subsequently reclassified to income		
Foreign currency translation adjustment	1,254,020	6,363,495
<b>Total comprehensive (loss) income for the year</b>	<b>(2,962,072)</b>	<b>3,220,701</b>
Basic and diluted loss per common share (Note 12)	(0.03)	(0.03)
Weighted average number of common shares - basic and diluted	147,428,215	106,419,831

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

## Highland Copper Company Inc.

### Consolidated Statements of Changes in Shareholders' Equity

<i>(audited, in Canadian dollars)</i>	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance at June 30, 2015	129,542,192	48,115,461	6,173,571	(13,592,922)	6,611,519	47,307,629
Shares issued pursuant to a private placement (Note 10)	<b>24,426,434</b>	<b>3,663,965</b>	-	-	-	<b>3,663,965</b>
Share issue expenses (Note 10)	-	<b>(24,957)</b>	-	-	-	<b>(24,957)</b>
Share-based compensation	-	-	<b>79,758</b>	-	-	<b>79,758</b>
	<b>24,426,434</b>	<b>3,639,008</b>	<b>79,758</b>	-	-	<b>3,718,766</b>
Net loss for the year	-	-	-	<b>(4,216,092)</b>	-	<b>(4,216,092)</b>
Other comprehensive income						
Foreign currency translation adjustment	-	-	-	-	<b>1,254,020</b>	<b>1,254,020</b>
<b>Balance at June 30, 2016</b>	<b>153,968,626</b>	<b>51,754,469</b>	<b>6,253,329</b>	<b>(17,809,014)</b>	<b>7,865,539</b>	<b>48,064,323</b>
Balance at June 30, 2014	96,966,745	41,394,661	4,221,734	(10,450,128)	248,024	35,414,291
Shares issued pursuant to a mineral lease agreement (Note 10)	2,164,701	485,840	-	-	-	485,840
Shares issued pursuant to a private placement (Note 10)	30,410,746	6,458,496	1,144,191	-	-	7,602,687
Share issue expenses (Note 10)	-	(223,536)	-	-	-	(223,536)
Share-based compensation	-	-	807,646	-	-	807,646
	<b>32,575,447</b>	<b>6,720,800</b>	<b>1,951,837</b>	-	-	<b>8,672,637</b>
Net loss for the year	-	-	-	<b>(3,142,794)</b>	-	<b>(3,142,794)</b>
Other comprehensive income						
Foreign currency translation adjustment	-	-	-	-	6,363,495	6,363,495
Balance at June 30, 2015	129,542,192	48,115,461	6,173,571	(13,592,922)	6,611,519	47,307,629

The accompanying notes form an integral part of these consolidated financial statements.

# Highland Copper Company Inc.

## Consolidated Statements of Cash Flows

<i>(audited, in Canadian dollars)</i>	Year ended June 30,	
	2016	2015
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(4,216,092)	(3,142,794)
Adjustments		
Share-based compensation	48,206	667,777
Depreciation and amortization	40,202	24,237
Write-down of exploration and evaluation assets	2,655,495	-
Unrealized gain on foreign exchange	(17,011)	(33,595)
Accretion on environmental liability	15,637	17,403
Finance income accrued	(3,930)	(10,358)
Finance income received	4,551	11,151
Changes in working capital items		
Sales taxes receivable	54,496	104,937
Prepaid expenses and other	46,208	7,215
Accounts payable and accrued liabilities	181,627	(426,925)
Due to a related party	17,521	8,022
	<b>(1,173,090)</b>	<b>(2,772,930)</b>
<b>Investing activities</b>		
Acquisition of capital assets	(34,947)	(68,072)
Disposal of capital assets	83,577	27,837
Additions to exploration and evaluation assets	(3,392,160)	(8,418,953)
	<b>(3,343,530)</b>	<b>(8,459,188)</b>
<b>Financing activities</b>		
Issue of shares	3,663,965	7,602,687
Share issue expenses	(24,957)	(223,536)
Deposit on sale of royalty	-	10,000,000
Reimbursement of promissory note	-	(8,141,000)
	<b>3,639,008</b>	<b>9,238,151</b>
Effect of exchange rate changes on cash held in foreign currency	37,269	(206,402)
Net change in cash	(840,343)	(2,200,369)
Cash, beginning of the year	1,042,341	3,242,710
Cash, end of the year	201,998	1,042,341

Supplemental cash flow information (Note 19)

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 1. GENERAL INFORMATION

Highland Copper Company Inc. is a Canadian-based company. Highland and its subsidiaries (together “Highland” or the “Company”) are primarily engaged in the acquisition, exploration and development of mineral properties in Michigan, USA.

The Company has assembled a number of advanced-stage copper projects located in Michigan’s Upper Peninsula region, including Copperwood, a feasibility stage project (the “Copperwood Project”), White Pine (subject to final closing pursuant to the May 2014 agreement with Copper Range Company (“CRC”), a wholly-owned subsidiary of First Quantum Minerals Ltd.) (the “White Pine Project”), and Keweenaw which hosts the 543S deposit, the G-2 project and other target areas (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC) (the “Keweenaw Project”).

To date, the Company has not earned significant revenues and is considered to be in the exploration and development stage. The address of the Company’s registered office is 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7. All financial results in these consolidated financial statements are expressed in Canadian dollars unless otherwise indicated. Highland’s common shares are listed on the TSX Venture Exchange (the “TSXV”) under the symbol HI. The Board of Directors approved these consolidated financial statements on October 25, 2016.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of a going concern, which assumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities, including raising additional funds, completing the acquisition of the White Pine Project, acquiring a 65% interest in the Keweenaw Project and retaining its rights under the White Pine lease agreement.

As is common with many exploration and development companies, the Company has relied on equity financing to fund its operations, including its investments in exploration and evaluation assets. The Company has incurred a net loss of \$4,216,092 during the year ended June 30, 2016 (\$3,142,794 in 2015) and has a deficit of \$17,809,014 at June 30, 2016 (a deficit of \$13,592,922 at June 30, 2015). The Company has a working capital deficiency of \$4,281,894 at June 30, 2016.

The Company requires additional funds to settle its working capital deficiency, to complete the acquisition of the White Pine Project, to pursue exploration and development work on its mineral projects, and to provide for management and administration expenses for at least the next 12 months. Although such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements, there is no assurance that the Company will be successful in raising such funds. Should the Company not be successful in raising additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, and / or sell some of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

The conditions and uncertainties described above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for these consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES

### a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The significant accounting policies that have been applied in the preparation of the consolidated financial statements are summarized below.

### b) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis.

### c) *Basis of consolidation*

These consolidated financial statements include the accounts of Highland and its subsidiaries. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. The Company wholly owns Upper Peninsula Holding Company Inc. (“UPHC”) (the Company’s US-based holding company, incorporated in February 2014 in the state of Delaware, USA), which in turn wholly owns: Keweenaw Copper Co. (“Keweenaw”), incorporated in July 2011 in the state of Michigan, USA; White Pine LLC (“WP LLC”), formed in February 2014 in the state of Delaware, USA; and Orvana Resources US Corp. (“Orvana US”), acquired in June 2014 and incorporated in the state of Michigan, USA. Highland and its subsidiaries have an annual reporting date of June 30.

### d) *Foreign currency translation*

These consolidated financial statements are presented in Canadian dollars. The functional currency of Highland is the Canadian dollar and the functional currency of the Company’s US-based subsidiaries is the US dollar. The functional currencies of Highland and its subsidiaries have remained unchanged during the reporting years.

Monetary assets and liabilities denominated in a foreign currency other than the functional currency of each entity are translated at the exchange rate in effect at the reporting date, whereas non-monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Revenues and expenses denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Gains and losses on exchange arising from the translation of foreign operations are recorded in profit or loss under gain or loss on foreign exchange.

On consolidation, assets and liabilities of the Company’s US-based subsidiaries are translated into Canadian dollars at the closing rate in effect at the reporting date and components of equity are translated using the historical rate. Income and expenses are translated into Canadian dollars at the average rate over the reporting year. Exchange differences are presented as other comprehensive income and recognised in the currency translation adjustment reserve in equity.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### e) *Financial assets and liabilities*

#### *Financial assets*

Financial assets held by the Company consist of cash which includes deposits held with banks. This financial asset is classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Income relating to financial assets that are recognized in profit or loss are presented as finance income.

All financial assets are assessed for indicators of impairment at the end of each reporting year. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. The carrying amount of financial assets is reduced by any impairment loss. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is reversed through profit or loss.

#### *Financial liabilities*

The Company's financial liabilities which consist of accounts payable and accrued liabilities, due to a related party, royalty-based obligation (deposit on sale of royalty) and balance of purchase price payable are initially recognized at fair value plus any directly attributable transaction costs. Contractual contingent payments arising from exploration and evaluation assets purchase agreements, for which the realization of the event that triggers the additional payment is within the control of the Company, are recorded as financial liabilities when the event occurs. Subsequent to initial recognition, the financial liabilities are accounted for at amortized cost, using the effective interest rate method. Financial liabilities are derecognized when the obligations are extinguished, discharged, cancelled or expired.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### f) *Capital assets*

#### *Intangibles*

Intangible assets, which consist of software licenses, are carried at cost (which includes the purchase price and any costs directly attributable to bringing the asset to the condition necessary for its intended use), less accumulated amortization and accumulated impairment losses. Amortization of software licenses begins when the asset is ready for use and is recognized based on the cost of the item on a straight-line basis, over its useful life estimated to be two years. Each intangible's residual value, useful life and depreciation method are reassessed, and adjusted if appropriate, at each annual reporting date. The carrying amount of an item of intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition is included in profit or loss when the item is derecognized.

#### *Property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price and all other costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Where parts of an item of property, plant and equipment have a different useful life, they are accounted for as separate items of property, plant and equipment. Depreciation is recognized on a straight-line basis using the cost of the item less its estimated residual value, over its estimated useful life. Each asset's residual value, useful life and depreciation method are reassessed, and adjusted if appropriate, at each annual reporting date. Vehicles are depreciated over three years, computer equipment is depreciated over two years, office equipment and furniture is depreciated over five years, exploration equipment is depreciated over three years and leasehold improvements are depreciated over the lease period. The carrying amount of an item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition is included in profit or loss when the item is derecognized.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### g) *Exploration and evaluation assets*

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred. Once the legal right to undertake exploration and evaluation activities has been obtained, all option and lease payments, costs of acquiring mineral rights and expenses related to the exploration and evaluation of mining properties are capitalized as exploration and evaluation assets. Expenses related to exploration and evaluation which are capitalized include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are carried at cost less any accumulated impairment losses. No depreciation expense is recognized for these assets during the exploration and evaluation phase. Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts with the difference recognized in profit or loss. When the technical feasibility and the commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred as tangible assets and related development expenditures are capitalized. Before the reclassification, the related exploration and evaluation assets are tested for impairment and any impairment loss is then recognized in profit or loss.

Borrowing costs directly attributable to the acquisition of exploration and evaluation assets are added to the cost of the project until such time as the assets are substantially ready for their intended use or sale, which in the case of mining properties is when they are capable of commercial production.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *h) Impairment of non-financial assets*

At the end of each reporting date, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Factors which could trigger an impairment review include, but are not limited to, the expiration of the right to explore in the specific area during the period or said right will expire in the near future and is not expected to be renewed; substantive expenditures in a specific area are neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale due to significant negative industry or economic trends and a significant drop in commodity prices. The recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Value in use takes into account estimated future cash flows associated with the asset, such value being discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In the case of exploration and evaluation assets, impairment reviews are carried out on a property-by-property basis, with each property representing a potential cash-generating unit. A previous impairment is reversed if the asset's recoverable amount subsequently exceeds its carrying amount.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *i) Provisions and contingent liabilities*

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the related asset, as soon as the obligation to incur such costs arises and to the extent that such cost can be reasonably estimated.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### j) *Income taxes*

When applicable, income tax on the profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable profit for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination which affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right and intention to set-off current tax assets and liabilities from the same taxation authority.

### k) *Equity*

Share capital represents the amount received on the issue of shares, less issuance costs. Contributed surplus includes changes related to stock options and warrants until such equity instruments are exercised. Deficit includes all current and prior year losses. Cumulative translation adjustment includes the impact of converting the accounts of the Company's foreign subsidiary into Canadian dollars. All transactions with owners of the parent company are recorded separately within equity.

The Company allocates the proceeds from an equity financing between common shares and share purchase warrants based on the relative fair values of each instrument. The fair value of the common shares is calculated by using the TSXV share price on the date of the issuance and is accounted for in share capital and the fair value of the share purchase warrants is determined using the Black-Scholes valuation model and is accounted for in contributed surplus. In the event of a modification of the original terms of warrants, the Company elects to not recognize the fair value adjustment.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *l) Share-based payment transactions*

Equity-settled share-based payments are made in exchange for services received and transactions related to mineral properties and are measured at their fair value. The fair value of the services rendered or the mineral property transaction is determined indirectly by reference to the fair value of the equity instruments granted when the fair value of services rendered or the mineral property transaction cannot be reliably estimated. The fair value of share-based payments to directors, officers, employees and consultants with employee-related functions is recognized as an expense over the vesting period (the vesting being conditional in certain instances on the achievement of defined performance conditions) with a corresponding increase to contributed surplus. Financing warrants and warrants to brokers, in respect of an equity financing, are recognized as a share issue expense with a corresponding increase to contributed surplus. The fair value of stock options granted is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model and taking into account an estimated forfeiture rate and the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. Upon the exercise of share-based payments, the proceeds received, net of any direct expenses, as well as the related compensation expense previously recorded as contributed surplus are credited to share capital.

### *m) Loss per share*

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Dilutive potential common shares are deemed to have been converted into common shares at the beginning of the period or, if later, at the date of issue of the potential common shares. For the purpose of calculating diluted loss per share, the Company assumes the exercise of its dilutive options and warrants. The assumed proceeds from these instruments are regarded as having been received from the issue of common shares at the average market price of its shares during the period.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### n) *Significant accounting judgments and estimates*

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain and may require accounting adjustments based on future occurrences. Revisions to accounting estimates, judgments and assumptions are recognized in the period in which the estimate is revised and future period if the revision affects both current and future period. These estimates, judgments and assumptions are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

#### *Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures are subject to certain assumptions and do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

The final closing of the acquisition of the White Pine Project can only be completed once the Company has i) released Copper Range Company ("CRC") of a US\$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality ("MDEQ"). Final closing, which initially was to occur by December 31, 2015 has been extended to December 2, 2016. The Company also requires additional funds to post the required financial assurance bond with the MDEQ. The Company believes that it will be able to meet these conditions. However, meeting these conditions is dependent on a number of factors, not all of which are under the Company's control, and there is no assurance that they will be met. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project which would trigger an impairment evaluation of the related exploration and evaluation assets.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### n) Significant accounting judgments and estimates (continued)

#### *Lease Agreement, White Pine*

The Company was required to make cash payments of US\$450,000 in April 2016 to the Lessor of certain mineral rights located in White Pine. Given its current financial position, the Company has not yet made these cash payments. The Company is continuing discussions with the Lessor and believes that this matter will be resolved once it has successfully raised the funds necessary to continue its activities. However, there is no assurance that the Company will be successful in raising such funds. Should the Company not be able to resolve this situation, an impairment evaluation of the related exploration and evaluation assets would be required.

#### *Exploration and evaluation expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test in the year the new information becomes available.

#### *Environmental liability*

The Company's accounting policy for the recognition of an environmental liability requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance, the timing, extent, and costs of rehabilitation activities and the determination of an appropriate discount factor. Changes to these estimates and assumptions may result in future actual expenditures differing from the amounts currently provided for. The environmental liability is periodically reviewed and updated based on the available facts and circumstances.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *o) Accounting standards issued but not yet applied*

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of these consolidated financial statements that are expected to be relevant to the Company are listed below. Certain other standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

#### *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### *IFRS 9, Financial Instruments*

The International Accounting Standards Board ("IASB") released *IFRS 9, Financial Instruments (2014)* ("*IFRS 9*"), representing the completion of its project to replace *IAS 39, Financial Instruments: Recognition and Measurement* ("*IAS 39*"). The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Company's management has yet to assess the impact of IFRS 9 on its consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *o) Accounting standards issued but not yet applied (continued)*

#### *IFRS 15, Revenue from Contracts with Customers*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### *IFRS 16, Leases*

In January 2016, the IASB published *IFRS 16, Leases* (“*IFRS 16*”) which will replace *IAS 17, Leases* (“*IAS 17*”). IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17’s approach to lessor accounting; and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 4. CAPITAL ASSETS

Capital assets subject to depreciation and amortization are presented below.

	Intangible assets	Vehicles	Computer equipment and furniture	Exploration equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at June 30, 2014	122,712	232,315	133,310	425,797	70,196	984,330
Additions	1,406	49,229	1,280	16,157	-	68,072
Disposals	-	(21,399)	-	-	-	(21,399)
Effect of foreign exchange	11,138	40,450	22,015	73,414	11,918	158,935
Balance at June 30, 2015	135,256	300,595	156,605	515,368	82,114	1,189,938
Additions	-	-	34,947	-	-	34,947
Disposals	-	(218,567)	-	(52,256)	-	(270,823)
Effect of foreign exchange	2,655	10,095	5,211	17,619	2,807	38,387
<b>Balance at June 30, 2016</b>	<b>137,911</b>	<b>92,123</b>	<b>196,763</b>	<b>480,731</b>	<b>84,921</b>	<b>992,449</b>
<b>Accumulated depreciation and amortization</b>						
Balance at June 30, 2014	53,152	122,627	110,036	204,639	65,419	555,873
Disposals	-	(1,336)	-	-	-	(1,336)
Depreciation and amortization	45,687	86,197	15,619	140,378	5,251	293,132
Effect of foreign exchange	8,163	26,217	18,970	43,860	11,444	108,654
Balance at June 30, 2015	107,002	233,705	144,625	388,877	82,114	956,323
Disposals	-	(218,567)	-	(52,256)	-	(270,823)
Depreciation and amortization	28,131	38,775	28,279	68,686	-	163,871
Effect of foreign exchange	2,384	6,833	4,537	11,527	2,807	28,088
<b>Balance at June 30, 2016</b>	<b>137,517</b>	<b>60,746</b>	<b>177,441</b>	<b>416,834</b>	<b>84,921</b>	<b>877,459</b>
<b>Carrying amounts</b>						
Balance at June 30, 2015	28,254	66,890	11,980	126,491	-	233,615
<b>Balance at June 30, 2016</b>	<b>394</b>	<b>31,377</b>	<b>19,322</b>	<b>63,897</b>	<b>-</b>	<b>114,990</b>

Included in capital assets are assets with a carrying amount of \$15,469 at June 30, 2016 (\$20,725 at June 30, 2015) for use at the Company's corporate office. All other capital assets relate to the Company's exploration activities.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 5. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	White Pine Project	Copperwood Project	Keweenaw Project	Leased Properties	Total
	\$	\$	\$	\$	\$
Balance, June 30, 2014	5,028,094	23,898,745	13,203,414	515,681	42,645,934
Property payments in cash	275,701	127,313	-	49,304	452,318
Property payments in shares	485,840	-	-	-	485,840
Site preparation, drilling and assaying	4,027,384	35,217	1,884	-	4,064,485
Labour	1,780,645	220,683	141,431	-	2,142,759
Studies	1,459,535	171,758	16,815	-	1,648,108
Other exploration expenses	806,237	100,357	50,011	-	956,605
Depreciation and amortization	200,619	6,089	62,187	-	268,895
Gain on disposal of capital assets	-	(7,774)	-	-	(7,774)
Share-based compensation	-	-	139,869	-	139,869
Finance expense	-	1,083,301	-	-	1,083,301
Effect of foreign exchange	1,383,146	4,168,972	2,027,221	108,355	7,687,694
	10,419,107	5,905,916	2,439,418	157,659	18,922,100
Balance, June 30, 2015	15,447,201	29,804,661	15,642,832	673,340	61,568,034
Property payments in cash	596,981	146,605	-	29,815	773,401
Labour	1,014,986	97,867	104,757	-	1,217,610
Studies	554,824	(2,960)	2,574	-	554,438
Other exploration expenses	474,219	(54,381)	40,113	-	459,951
Depreciation and amortization	40,176	5,802	77,691	-	123,669
Write-down	-	-	(2,381,614)	(273,881)	(2,655,495)
Gain on disposal of capital assets	-	-	(83,577)	-	(83,577)
Share-based compensation	-	-	31,552	-	31,552
Finance expense	-	463,755	-	-	463,755
Conversion of loan into NSR royalty (Note 6)	-	(10,000,000)	-	-	(10,000,000)
Effect of foreign exchange	459,143	1,001,419	(97,033)	10,321	1,373,850
	3,140,329	(8,341,893)	(2,305,537)	(233,745)	(7,740,846)
<b>Balance, June 30, 2016</b>	<b>18,587,530</b>	<b>21,462,768</b>	<b>13,337,295</b>	<b>439,595</b>	<b>53,827,188</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *White Pine Project, Michigan, USA*

On May 13, 2014 (the interim closing date), the Company acquired from CRC all of CRC's rights, title and interest in the White Pine Project and issued to CRC 3,000,000 of its common shares valued at \$1,500,000. Highland further agreed that, upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, it will pay as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to US\$0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and US\$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper (the "Contingent Consideration"). At June 30, 2016, the Company has not yet estimated any proven and probable reserves at the White Pine Project and has not yet completed a feasibility study or initiated the activities required to obtain the necessary permits. Consequently, the Company has not yet accounted for this contractual contingent liability.

The final closing of the acquisition will be completed once Highland has (i) released CRC for a US\$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and (ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality. At that time, Highland will assume all of CRC's environmental liabilities related to White Pine and will also be responsible for all on-going environmental obligations. Final closing, which initially was to occur by December 31, 2015, has been extended to December 2, 2016. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project.

Until final closing, Highland has access to White Pine under an access agreement entered into on March 5, 2014, which entitles it to perform exploration, engineering and environmental studies and other activities associated with the potential development of a new copper mine at White Pine, and CRC continues to be responsible for environmental obligations and for remediation work up to a maximum of US\$2 million.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *Lease Agreement, White Pine, Michigan, USA*

In April 2015, the Company entered into a 20-year lease agreement, with an option for an additional 5 years, for certain mineral rights located in White Pine, Michigan. Payment at closing consisted of US\$225,000 in cash and the issuance of 2,164,701 common shares of Highland valued at an amount of \$485,840 (the number of shares being the equivalent of US\$400,000 divided by the 20-day volume weighted average trading price of Highland as of the day prior to closing). In accordance with the terms of the agreement with the holder of the mineral rights (the "Lessor"), additional cash payments of US\$425,000 and US\$150,000 were payable in April 2016 and April 2017, respectively and an annual rent was also payable on each anniversary of the lease. Given its current financial position, the Company did not make the cash payment of US\$425,000 or the initial rent payment of US\$25,000 on the due date. These amounts were accounted for at June 30, 2016 and included in accounts payable and accrued liabilities. The Company is continuing discussions with the Lessor and believes that this matter will be resolved once it has successfully raised the funds necessary to continue its activities. However, there is no assurance that the Company will be successful in raising such funds.

Upon commencement of production, Highland will have to pay a sliding scale royalty on copper and silver production from the leased mineral rights with a base royalty of 2% for copper and 2.5% for silver. The Company has an option to repurchase 50% of the royalties. Highland may terminate the lease at any time upon a 30 day notice. Expenses related to this agreement are presented as part of the White Pine Project as the related mineral rights are located within the White Pine Project.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *Copperwood Project, Michigan, USA*

In June 2014, the Company acquired the Copperwood Project through the acquisition from Orvana Minerals Corp., a TSX-listed company ("Orvana"), of all of the outstanding shares of Orvana Resources US Corp. ("Orvana US"). Highland paid US\$13 million in cash at closing and issued a US\$7 million secured promissory note (the "Note") as described in Note 7. The Note was fully reimbursed on December 15, 2014. An additional consideration of up to US\$5,000,000 may be paid by Highland in cash or shares of Highland, at Orvana's option, of which US\$2,500,000 was accounted for as "Future Consideration" and described in Note 8; an amount of US\$1,250,000 may also be payable if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than US\$4.25/lb; and an additional amount of US\$1,250,000 may be payable if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than US\$4.50/lb (for a total of US\$2,500,000 accounted for as the "Contingent Consideration").

The fair value of the Future Consideration has been included in the purchase consideration, using a discount rate of 20%, as these payments have a set maturity date. The contractual Contingent Consideration will only be recognized if and when the contingency is satisfied.

The Copperwood Project consists of a number of mineral leases, which call for annual rental payments until 2036. The mineral leases are also subject to quarterly Net Smelter Return ("NSR") royalty payments that will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. Under the mineral leases, Orvana US will have mineral rights until the later of the 20<sup>th</sup> anniversary of the date of the lease or the date Orvana US ceases to be actively engaged in development, mining, or related operations on the property. The mineral leases may be terminated by Orvana US, the Company's wholly owned subsidiary, on 60 days' notice.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *Keweenaw Project, Michigan, USA*

Under a Mining Venture Agreement (the "Venture Agreement") with BRP dated July 2011 and subsequently amended on May 30, 2012, on April 29, 2013 and on November 20, 2015, the Company has an option to acquire a 65 percent interest in the Keweenaw Project by spending US\$11,500,000 in exploration work, providing a feasibility study by December 31, 2017 (amended from October 26, 2015 as part of the November 20, 2015 amendment) and securing some of the historical shafts located on the Keweenaw region. At June 30, 2016, a cumulative amount of US\$13,096,000 had been spent on the Keweenaw Project. Upon providing a feasibility study and exercising the option, the Company will have a 65% interest and BRP will have a 35% interest in the property. In addition, BRP will be entitled to a sliding scale NSR royalty from production on those properties contributed by BRP based on the price per pound of copper with a minimum of 2% up to a maximum of 5%. For other properties, BRP will be entitled to a 1% NSR.

The Company recorded a write-down of exploration and evaluation assets of \$2,381,614 during the year ended June 30, 2016 related to the G-2 project. The amount capitalized on the G-2 project was written-down to nil given that the exploration work conducted in the past has not led to the discovery of commercially viable quantities of mineral resources and the Company does not intend to conduct further activities on the G-2 project in the near term.

### *Leased Properties, Michigan, USA*

In December 2012, the Company entered into a lease agreement with a Michigan corporation for the exploration and development of mineral properties in the Upper Peninsula of the State of Michigan, which lease agreement was subsequently amended in September 2016 following the non renewal of a portion of the leased area. The lease has a primary term of 10 years and may be extended for an additional 10 years under certain conditions. The Company paid an amount of US\$21,000 as rent during the year ended June 30, 2016 (US\$40,000 in 2015). Annual payments will increase by US\$2,500 per year until year 10. For years 11 to 20, the annual rental payments will be US\$50,000 and will be treated as advance royalty payments. If the Company completes a feasibility study and constructs and operates a mine on any part of the leased premises, it has agreed to make certain fixed-amount payments and to pay a sliding scale NSR from production based on the price per pound of copper.

The Company recorded a write-down of exploration and evaluation assets of \$273,881 during the year ended June 30, 2016 related to the leased properties. The Company wrote-down to nil the portion of the leased properties which was not renewed.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 6. DEPOSIT ON SALE OF ROYALTY

On June 30, 2016, the Company and Osisko Gold Royalties Ltd. ("Osisko") agreed to amend the terms of their agreement entered into in December 2014 and to convert the \$10 million deposit on sale of royalty into a 3.0% net smelter return ("NSR") royalty on all metals produced from the mineral rights and leases associated with the Copperwood Project. The amendment also provides that upon closing of the acquisition of the White Pine Project, the Company will grant Osisko a 1.5% NSR royalty on all metals from the White Pine North Project, and Osisko's royalty on the Copperwood Project will be reduced to 1.5%. Osisko retains security over all of the Company's assets. On June 30, 2016, the amount of \$10 million was recorded as a reduction of the carrying amount of the related exploration and evaluation assets (Note 5).

In December 2014, Osisko had made a \$10 million refundable deposit on a 3% sliding-scale NSR royalty on all metals from the White Pine North Project (the "White Pine North Royalty"). The Osisko deposit was secured against all of the Company's assets. Upon completion of the acquisition of the White Pine Project, the Osisko deposit was to be exchanged for the White Pine North Royalty.

### *Option to purchase future silver production*

In December 2014, the Company also granted to Osisko an option to purchase for US\$26 million a 100% NSR on any future silver production from the Company's projects, including White Pine, Copperwood and Keweenaw (the "Michigan Projects"). Osisko may elect to exercise the option to purchase the silver production by paying US\$26 million to the Company within 60 days following the delivery to Osisko of a feasibility study on the Michigan Projects.

## 7. PROMISSORY NOTE

In June 2014, in connection with the acquisition of the Copperwood Project (Note 5), the Company had issued a Note in the amount of US\$7,000,000 to Orvana, bearing interest at an effective rate of 15.2%. On December 15, 2014, the Company reimbursed the Note in full and paid to Orvana an amount of \$8,761,412, including accrued interest of \$620,412.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 8. BALANCE OF PURCHASE PRICE PAYABLE

In connection with the acquisition of the Copperwood Project (Note 5), the Company has accounted for the estimated fair value of the Future Consideration using a discount rate of 20%. The Future Consideration in the amount of US\$2,500,000 may be paid by Highland to Orvana in cash or shares of Highland, at Orvana's option, with US\$1,250,000 payable upon the earliest of (i) commencement of commercial production of Copperwood and (ii) the date that is 36 months after closing of the acquisition, being June 17, 2017; and an additional US\$1,250,000 on the first anniversary of this payment. The balance of purchase price payable was determined as follows:

	Year ended June 30,	
	2016	2015
	\$	\$
Balance, beginning of year	2,207,430	1,434,850
Accretion included in exploration and evaluation assets	463,755	499,325
Effect of foreign exchange	63,257	273,255
Balance, end of year	2,734,442	2,207,430

  

	June 30,	June 30,
	2016	2015
	\$	\$
Current portion	1,445,087	-
Non-current portion	1,289,355	2,207,430
	2,734,442	2,207,430

## 9. ENVIRONMENTAL LIABILITY

The environmental liability consists of a provision for reclamation costs related to the acquisition of the White Pine Project (Note 5). The undiscounted cash flow amount of the liability was estimated at \$344,074. The present value of the liability was calculated using a discount rate of 8.0% and reflecting payments to be made from 2017 to 2025, inclusively.

	Year ended June 30,	
	2016	2015
	\$	\$
Balance, beginning of year	281,749	225,022
Accretion expense	15,637	17,403
Effect of foreign exchange	9,220	39,324
Balance, end of year	306,606	281,749

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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## 10. SHARE CAPITAL AND WARRANTS

### *Authorized*

An unlimited number of common shares, issuable in series. The holders of common shares are entitled to one vote per share at meetings of the Company and to receive dividends, which are declared from time-to-time. No dividends have been declared by the Company since its inception. All shares are ranked equally with regard to the Company's residual assets.

### *Issuance of common shares*

On October 6, 2015, the Company completed a non brokered private placement of 24,426,434 common shares with Osisko at a price of \$0.15 per share for gross proceeds of \$3,663,965. Following completion of the private placement, Osisko owns 29,420,434 shares, representing approximately 19.1% of the issued and outstanding shares of Highland on a non-diluted basis. The Company incurred share issue expenses of \$24,957 in connection with the private placement.

On April 24, 2015, the Company issued to a private Michigan limited liability corporation 2,164,701 of its common shares at a value of \$485,840 as partial consideration to enter into an agreement to lease certain mineral rights located in White Pine, Michigan, as further described in Note 5.

In March 2015, the Company completed in three (3) tranches a non brokered private placement for gross proceeds of \$7,602,687 (the "Financing"). A total of 30,410,746 units, each unit comprised of one common share of the Company and one half of one share purchase warrant ("Warrant"), were sold at \$0.25 per unit. Each Warrant is exercisable for a period of 18 months from the closing at an exercise price of \$0.50 to acquire one common share. Proceeds of the Financing were allocated between common shares and Warrants based on their relative fair values. The fair value of the common shares was calculated by using the subscription price of the Financing and the value of the Warrants was measured based on the Black-Scholes option pricing model, using a risk-free interest rate of 0.56%, an expected life of the Warrants of 1.5 years, an annualized volatility of 104% (determined by reference to historical data) and a dividend rate of 0%. An amount of \$1,144,191 was allocated to such Warrants and was presented as part of contributed surplus. The Company paid finders' fees totaling \$181,250 and incurred other share issue expenses of \$42,286.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 10. SHARE CAPITAL AND WARRANTS (continued)

### Share purchase warrants

The following table sets out the activity in share purchase warrants:

	Year ended June 30,	
	2016	2015
<b>Number of warrants</b>		
Balance, beginning of year	56,455,373	41,250,000
Issued	-	15,205,373
Balance, end of year	56,455,373	56,455,373

The following table reflects the number of issued and outstanding share purchase warrants at June 30, 2015:

	Number of warrants June 30, 2015	Issued	Exercised	Number of warrants June 30, 2016	Price per share \$	Expiry date
Private placement – May 2012 (1)	41,250,000	-	-	41,250,000	0.75	Mar 31, 2017
Private placement – March 11, 2015	12,275,020	-	-	12,275,020	0.50	Sep 11, 2016
Private placement – March 20, 2015	1,680,000	-	-	1,680,000	0.50	Sep 20, 2016
Private placement – March 27, 2015	1,250,353	-	-	1,250,353	0.50	Sep 27, 2016
	56,455,373	-	-	56,455,373	0.68	
Average price	0.68	-	-	0.68		

- (1) In March 2016, the Company further extended the expiry date of the 41,250,000 share purchase warrants originally issued in three tranches in May 2012 as part of a non brokered private placement of the Company's securities. The original expiry dates of May 2014 were previously extended to March 31, 2015 and to March 31, 2016. The new expiry date is March 31, 2017 and the exercise price of \$0.75 remains unchanged.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 11. STOCK OPTIONS

The following table sets out the activity in stock options:

	Year ended June 30, 2016		Year ended June 30, 2015	
	Number	Average exercise price (\$)	Number	Average exercise price (\$)
<b>Number of options</b>				
Balance, beginning of year	7,597,000	0.49	4,442,000	0.59
Granted	200,000	0.13	3,305,000	0.36
Expired	(275,000)	(0.40)	(150,000)	(0.65)
Balance, end of year	7,522,000	0.48	7,597,000	0.49

On November 20, 2015, the Company granted 200,000 stock options to a director of the Company. The stock options have a five year term and are exercisable at a price of \$0.13 per share. The stock options granted will vest over a two-year period. The fair value of the stock options was estimated at \$0.11 per option by applying the Black-Sholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 0.93%, a volatility rate of 136% and a 0% dividend factor.

On April 22, 2015, the Company granted 1,905,000 stock options to directors, officers, employees and consultants of the Company. Of this total, 830,000 options will vest subject to the achievement of certain defined performance objectives. The balance of 1,075,000 options will vest over a two-year period. The options have a five-year term and are exercisable at a price of \$0.25 per share. The fair value of the stock options was estimated at \$0.14 per option by applying the Black-Sholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.00%, a volatility rate of 137% and a 0% dividend factor.

On August 1, 2014, the Company granted 1,400,000 stock options to officers of the Company. The stock options have a five year term and are exercisable at a price of \$0.50 per share. A total of 700,000 of the stock options granted vested on the date of grant and 700,000 vested on December 1, 2014. The fair value of the stock options was estimated at \$0.44 per option by applying the Black-Sholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.46%, a volatility rate of 145% and a 0% dividend factor.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 11. STOCK OPTIONS (continued)

The following table reflects the stock options issued and outstanding at June 30, 2016:

Issue date	Number of options	Exercise price	Remaining contractual life	Number of exercisable options	Exercise price of exercisable options
		\$	(years)		\$
September 22, 2006	2,000	1.00	0.2	2,000	1.00
July 6, 2012	400,000	0.50	1.0	400,000	0.50
November 5, 2012	3,770,000	0.60	1.3	3,770,000	0.60
August 1, 2014	1,400,000	0.50	3.1	1,400,000	0.50
April 21, 2015	1,750,000	0.25	3.8	651,666	0.25
November 20, 2015	200,000	0.13	4.4	66,666	0.13
	7,522,000	0.48	2.3	6,290,332	0.53

## 12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended June 30, 2016 was based on the loss attributable to common shareholders of \$4,216,092 (\$3,142,794 in 2015) and the weighted average number of common shares outstanding of 147,428,215 (106,419,831 in 2015). Excluded from the calculation of the diluted loss per share for the year ended June 30, 2016 are 56,455,373 share purchase warrants and 7,522,000 stock options (56,455,373 share purchase warrants and 7,597,000 stock options in 2015) because to include them would be anti-dilutive as they would have the effect of decreasing the loss per share.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 13. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Year ended June 30,	
	2016	2015
	\$	\$
Administrative and general (1)	858,049	1,348,384
Office	237,159	257,624
Professional fees	260,796	459,894
Investor relations and travel	24,128	298,152
Reporting issuer costs	17,578	31,511
Share-based compensation	48,206	667,777
Depreciation and amortization	40,202	24,237
	<b>1,486,118</b>	<b>3,087,579</b>

(1) includes an amount of US\$150,000 payable to the Company's former president and CEO following his resignation in February 2016. As full and final settlement of all unpaid amounts related to his employment with the Company due at that time, the Company agreed to pay to its former president and CEO a lump sum amount of US\$150,000 in cash on the earliest of (a) five business days following the completion by the Company of an equity or debt financing or an asset sale of at least \$10 million, and (b) five business days following the completion of a corporate transaction such as a business combination.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 14. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, the Company incurred administration expenses of \$270,658 and purchased office furniture and computer equipment for an amount of \$31,681 from Reunion Gold Corporation, a related party by virtue of common management and directors (administration expenses of \$495,633 in 2015). At June 30, 2016, the Company had an amount due to Reunion Gold Corporation of \$25,543 (\$8,022 at June 30, 2015).

On January 1, 2016, the Company entered into separate agreements to provide management and administration services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation. The services are provided at cost. Amounts recovered for management and administration services during the year ended June 30, 2016 amounted to \$120,810 (nil in 2015).

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

### Remuneration of directors and key management of the Company

The remuneration awarded to directors and to senior key management, including the Executive Chairman and interim President and CEO, the Executive Vice-President and the CFO, is as follows:

	Year ended June 30,	
	2016	2015
	\$	\$
Administrative and general	627,004	865,304
Labour included in exploration and evaluation assets	234,710	218,607
Share-based compensation	41,773	555,908
Share-based compensation included in exploration and evaluation assets	9,190	12,953
	<b>912,677</b>	<b>1,652,772</b>

**Highland Copper Company Inc.**  
Notes to Consolidated Financial Statements  
**June 30, 2016 and 2015** (audited, in Canadian dollars)

**15. INCOME TAXES**

The reconciliation of the effective tax rate is as follows:

	Year ended June 30,			
	2016		2015	
	\$		\$	
Loss before income tax	<b>(4,216,092)</b>		(3,142,794)	
Tax using the Company's domestic tax rate	<b>26.90%</b>	<b>(1,134,129)</b>	26.90%	(845,412)
Share-based compensation	<b>(0.31%)</b>	<b>12,967</b>	(5.72%)	179,632
Non-deductible expenses and non-taxable revenues	<b>(0.01%)</b>	<b>263</b>	(0.05%)	1,603
Effect of tax rate in foreign jurisdictions	<b>6.41%</b>	<b>(270,246)</b>	0.58%	(18,347)
Unrecognized tax assets	<b>(46.69%)</b>	<b>1,968,562</b>	(29.94%)	941,013
Other	<b>13.70%</b>	<b>(577,417)</b>	8.23%	(258,489)
Deferred income tax	-	-	-	-

Recognized deferred tax assets and liabilities are attributable to the following:

	June 30, 2016		
	Assets	Liabilities	Net
	\$	\$	\$
Exploration and evaluation assets	-	<b>(988,426)</b>	<b>(988,426)</b>
Advances in foreign currency	-	<b>(641,005)</b>	<b>(641,005)</b>
Non-capital loss carry-forwards	<b>1,629,431</b>	-	<b>1,629,431</b>
	<b>1,629,431</b>	<b>(1,629,431)</b>	-
Offsetting of tax assets and liabilities	<b>(1,629,431)</b>	<b>1,629,431</b>	-
	-	-	-
	June 30, 2015		
	Assets	Liabilities	Net
	\$	\$	\$
Exploration and evaluation assets	-	(2,270,440)	(2,270,440)
Advances in foreign currency	-	(472,975)	(472,975)
Non-capital loss carry-forwards	2,743,415	-	2,743,415
	2,743,415	(2,743,415)	-
Offsetting of tax assets and liabilities	(2,743,415)	2,743,415	-
	-	-	-

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 15. INCOME TAXES (continued)

Unrecognized deductible temporary differences for which no deferred tax assets have been recognized are as follows:

	June 30, 2016		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	9,548,000	6,288,000	15,836,000
Advances in foreign currency	(2,382,000)	-	(2,382,000)
Capital assets	80,106	514,726	594,832
Exploration and evaluation assets	1,547,773	-	1,547,773
Share issue expenses	451,895	-	451,895
Financing expenses	71,329	-	71,329
	<b>9,317,103</b>	<b>6,802,726</b>	<b>16,119,829</b>

	June 30, 2015		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	7,778,259	2,393,403	10,171,662
Advances in foreign currency	(3,516,544)	-	(3,516,544)
Capital assets	39,904	528,035	567,939
Exploration and evaluation assets	1,294,069	-	1,294,069
Share issue expenses	675,483	-	675,483
Financing expenses	148,651	-	148,651
	<b>6,419,822</b>	<b>2,921,438</b>	<b>9,341,260</b>

Deferred tax assets have not been recognised in respect of these items because of the uncertainties that future taxable profit will be available against which the Company can utilise these benefits.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 15. INCOME TAXES (continued)

Non-capital losses expire as follows:

	Canada	USA
	\$	\$
2026	103,000	-
2027	120,000	-
2028	304,000	-
2029	538,000	-
2030	744,000	-
2031	951,000	-
2032	1,370,000	-
2033	96,000	-
2034	1,136,000	-
2035	2,466,000	4,109,000
2036	1,720,000	2,179,000
	<b>9,548,000</b>	<b>6,288,000</b>

## 16. CAPITAL MANAGEMENT

The Company defines capital that it manages as loans (including deposit on sale of royalty and balance of purchase price payable) and shareholders' equity. When managing capital, the Company's objectives are a) to ensure the entity continues as a going concern; b) to increase the value of the entity's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. As at June 30, 2016, managed capital was \$50,798,765 (\$59,515,059 at June 30, 2015).

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flows. The Company intends to raise such funds as and when required to complete the exploration and development of its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through the sale of equity capital of the Company, the exercise of outstanding warrants or stock options, or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. There were no changes in the Company's approach to capital management during the year ended June 30, 2016. The Company is not subject to any externally imposed capital requirements as at June 30, 2016.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

## 17. FINANCIAL RISK MANAGEMENT

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors. There were no changes to the financial objectives, policies and processes during the year ended June 30, 2016.

### *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's ability to continue as a going concern is dependent on management's ability to raise the funds required for its continued operations as the Company generates cash flow from its financing activities (Note 2).

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2016:

	Carrying amount	Settlement amount	Within 6 months	Within 1 year	2-3 years	Over 3 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,019,495	3,019,495	3,019,495	-	-	-
Due to a related party	25,543	25,543	25,543	-	-	-
Balance of purchase price payable	2,734,442	3,229,250	-	1,614,625	1,614,625	-
	5,779,480	6,274,288	3,045,038	1,614,625	1,614,625	-

### *Credit risk*

Credit risk is the risk that the Company will incur losses due to the non-payment of contractual obligations by third parties. The Company is exposed to credit risk with respect to cash.

### *Interest rate risk*

The Company's interest risk relates to cash. The Company's current policy on its cash balances is to invest excess cash in guaranteed investment certificates or interest bearing accounts with a major Canadian-based chartered bank. The Company regularly monitors compliance to its cash management policy. Cash is subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately \$2,000.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 17. FINANCIAL RISK MANAGEMENT (continued)

### *Currency risk*

In the normal course of operations, the Company is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of each of the entities within the consolidated group. The currencies in which these transactions are denominated are primarily the Canadian and the US dollar. The consolidated entity seeks to minimise its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximize the consolidated entity's position. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are entered into at spot rates. The Board considers this policy appropriate, taking into account the consolidated entity's size, current stage of operations, financial position and the Board's approach to risk management. At June 30, 2016, financial assets and liabilities denominated in a foreign currency consisted of cash of \$7,782 and accounts payable and accrued liabilities of \$1,274,644. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately \$127,000.

## 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts payable and accrued liabilities and due to a related party are considered to be a reasonable approximation of fair value due to their immediate or short-term maturity. The fair value of the balance of purchase price payable of \$2,734,442 at June 30, 2016 was determined based on discounted cash flows using a rate of 20% (20% at June 30, 2015), a rate similar to other debt instruments at the date of the consolidated statement of financial position.



**Highland Copper Company Inc.**  
Notes to Consolidated Financial Statements  
**June 30, 2016 and 2015** (audited, in Canadian dollars)

**19. SUPPLEMENTAL CASH FLOW INFORMATION**

	Year ended June 30,	
	2016	2015
	\$	\$
<b>Non-cash items</b>		
Change in payables and accruals related to exploration and evaluation assets	(386,760)	717,242
Depreciation and amortization included in exploration and evaluation assets	123,669	268,895
Gain on disposal included in exploration and evaluation assets	(83,577)	(7,774)
Accretion on balance of purchase price payable included in exploration and evaluation assets	463,755	499,325
Share-based compensation included in exploration and evaluation assets	31,552	139,869
Conversion of Osisko deposit on sale of royalty, as a reduction of exploration and evaluation assets	10,000,000	-
Payment in shares included in exploration and evaluation assets	-	485,840

**20. SEGMENTED INFORMATION**

The Company has one reportable operating segment being the acquisition and exploration of mineral properties in Michigan, USA. Assets are located as follows:

	June 30, 2016		
	Canada	USA	Total
	\$	\$	\$
Current assets	182,915	25,316	208,231
Capital assets	15,469	99,521	114,990
Exploration and evaluation assets	-	53,827,188	53,827,188
<b>Total assets</b>	<b>198,384</b>	<b>53,952,025</b>	<b>54,150,409</b>

	June 30, 2015		
	Canada	USA	Total
	\$	\$	\$
Current assets	1,107,655	41,623	1,149,278
Capital assets	20,725	212,890	233,615
Exploration and evaluation assets	-	61,568,034	61,568,034
<b>Total assets</b>	<b>1,128,380</b>	<b>61,822,547</b>	<b>62,950,927</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015 (audited, in Canadian dollars)

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## 21. EVENT AFTER THE REPORTING DATE

David Fennell, the Company's chairman and interim president and CEO has advanced funds of \$400,000 since the end of the reporting date, to ensure that critical payments to maintain the Company in good standing are being made. These advances bear interest at the rate of 1% per month and the principal and accrued interest will be repayable by the Company on the earlier of the completion of a financing for a minimum amount of \$10 million or upon demand at any time after June 30, 2017.



**MANAGEMENT'S DISCUSSION & ANALYSIS**

Year ended June 30, 2016

**HIGHLAND COPPER COMPANY INC.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS FOR THE  
YEAR ENDED JUNE 30, 2016**

*The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Highland Copper Company Inc. ("Highland" or the "Company"), dated October 25, 2016, covers the years ended June 30, 2016 and 2015 and should be read in conjunction with the audited consolidated financial statements and related notes at June 30, 2016 and 2015 (the "June 30, 2016 and 2015 consolidated financial statements"). The June 30, 2016 and 2015 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial results presented in this MD&A are expressed in Canadian dollars unless otherwise indicated.*

**DESCRIPTION OF BUSINESS**

Highland is a Canadian-based company engaged in the acquisition, exploration and development of mineral properties. The Company's mineral projects are located in Michigan, USA. Highland's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol HI. At October 25, 2016, the Company had 153,968,626 common shares issued and outstanding.

The Company has assembled a number of advanced-stage copper projects located in Michigan's Upper Peninsula region, including **Copperwood**, a feasibility stage project, acquired in June 2014 from Orvana Minerals Corp. ("Orvana"), **White Pine** subject to final closing of the acquisition from Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and **Keweenaw**, which includes the 543S and the G-2 deposits (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC). The Company has also entered into lease agreements entitling the Company to explore and develop certain other projects located in the same area.

**FINANCIAL CONDITION**

At June 30, 2016, the Company had a working capital deficiency of \$4,281,894. The Company requires additional funds to settle its working capital deficit, to meet its exploration and development objectives, to complete the acquisition of the White Pine property (including an amount to replace the current environmental financial assurance bond), to maintain its mineral leases in good standing, and to provide for management and administration expenses for at least the next 12 months. Such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements. Since August 1, 2016, critical payments required to maintain the Company in good standing are being made through advances received from the Company's chairman. At October 25, 2016, such advances made to the Company total \$400,000 (terms of the advances are described in the *Transactions with Related Parties* section).

There can be no assurance that the Company will be able to raise the funds required. If the Company is not successful in raising additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

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**ACTIVITIES DURING THE FINANCIAL YEAR ENDED JUNE 30, 2016**

Given the Company's limited financial resources and the current copper price environment, the Company has suspended all of its exploration and development activities, including field work and feasibility and environmental baseline studies, to minimize cash requirements. Additional drilling on the Company's projects, studies and metallurgical tests will recommence as soon as the Company has raised the required funds.

During the year, the Company focused its efforts on advancing discussions with CRC and the Michigan Department of Environmental Quality ("MDEQ") with the aim of completing the acquisition of the White Pine property, assessing various options to finance the Company's exploration and development plans and continuing some of the baseline studies undertaken in prior years.

The Company's priorities for the current financial year is to complete a financing to settle its current liabilities and fund ongoing obligations, including the payment of general and administration expenses for at least the next 12 months, to complete the acquisition of the White Pine property and to recommence activities required to update the feasibility study for its Copperwood Project.

**SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED JUNE 30, 2016**

- On October 6, 2015, the Company completed a non-brokered private placement of 24,426,434 common shares with Osisko Gold Royalties Ltd. ("Osisko") at a price of \$0.15 per share for gross proceeds of \$3,663,965. Osisko currently owns 29,420,434 shares, representing approximately 19.1% of the issued and outstanding shares of Highland on a non-diluted basis;
- In November 2015, BRP LLC ("BRP") and the Company agreed to amend the Venture Agreement to provide the Company more time to exercise its option to acquire a 65% interest in the Keweenaw project from BRP. Under the amended Venture Agreement, the period to provide a feasibility study on at least one deposit covered by the Venture Agreement was extended from October 26, 2015 to December 31, 2017. As consideration for this extension, the Company agreed to secure some of the shafts located on the Keweenaw property and submitted a budget for environmental work to be completed as part of the feasibility study;
- On November 20, 2015, Luc Lessard of Osisko Gold Royalties Ltd. joined the board of directors;
- On February 9, 2016, the then Company's interim president and CEO tendered his resignation. David Fennell, the Company's Executive Chairman, was appointed as interim president and CEO of the Company;
- In March 2016, the Company further extended the expiry date of the share purchase warrants originally issued in May 2012 to March 2017 with the exercise price of \$0.75 remaining unchanged;
- In April 2015, the Company entered into a 20-year lease, with an option for an additional 5 years, for certain mineral rights located in White Pine, Michigan (the "White Pine Lease"); the leased mineral rights cover an area of approximately 1,816 acres and are located within the White Pine North Project area, but do not belong to the owner of the former White Pine mine. In accordance with the terms of the White Pine Lease, an additional cash payment of US\$425,000 was payable by Highland in April 2016 and a cash payment of US\$150,000 is due in April 2017; an annual rent of US\$25,000 is also payable on each anniversary of the lease, starting in April 2016; given the Company's financial position, the Company did not make the cash payment of US\$425,000 or the initial rent payment

of US\$25,000 on the due date; the Company is continuing discussions with the lease holder and believes that this matter will be resolved once it has successfully raised the funds necessary to continue its activities;

- During the year, the Company and CRC entered into a number of extension agreements to complete the acquisition of the White Pine property from the original maturity date of December 31, 2015 to December 2, 2016; discussions have been held throughout the year with representatives from CRC, the MDEQ and Highland, supported by various experts in the fields of environmental assessments and water management, with the aim of determining the amount of the environmental financial assurance and completing the final acquisition of the White Pine property; such discussions have been suspended until the Company has successfully raised the funds necessary to continue its activities as described in the *Financial Condition* section, including the posting of the required financial assurance bond with the MDEQ; the Company may need to seek additional extensions from CRC to complete the final acquisition of the White Pine property but there is no assurance that such extensions will be granted;
- As a result of the delay in completing the acquisition of the White Pine property, the Company and Osisko periodically agreed to extend the maturity date of the \$10 million secured loan from December 31, 2015 to June 15, 2016; on June 30, 2016, the Company and Osisko agreed to amend the terms of their agreement entered into in December 2014 and to convert the \$10 million deposit on sale of royalty into a 3.0% net smelter return ("NSR") royalty on all metals produced from the mineral rights and leases associated with the Copperwood Project; upon closing of the acquisition of the White Pine property, the Company will grant Osisko a 1.5% NSR royalty on all metals from the White Pine North Project, and Osisko's royalty on the Copperwood Project will be reduced to 1.5%; Osisko retains security over all of the Company's assets;
- In June 2016, the Company recorded a write-down of the capitalized expenses related to the G-2 deposit (\$2,381,614), part of the Keweenaw Project, and the non-renewal of certain leased properties (\$273,881) for a total amount of \$2,655,495; the exploration work conducted at G-2, mostly during the 2013 financial year, has not resulted in the discovery of commercially viable quantities of mineral resources and given that the Company does not intend to conduct further activities on the G-2 project in the near future has led to the write-down;
- The Company incurred a net loss of \$4,216,092 during the year ended June 30, 2016 compared to a net loss of \$3,142,794 in 2015.

## **COPPERWOOD PROJECT**

In June 2014, the Company acquired the Copperwood Project through the acquisition from Orvana of all of the outstanding shares of Orvana Resources US Corp. ("Orvana US") for a cash consideration of US\$20 million. An additional consideration of up to US\$5,000,000 may be paid by Highland in cash or shares of Highland, at Orvana's option, of which US\$1.25 million will become due on June 17, 2017 and US\$1.25 million on June 17, 2018. An amount of US\$1.25 million may also be payable if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than US\$4.25/lb; and an additional payment of US\$1.25 million if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than US\$4.50/lb.

The Copperwood deposit is located in Gogebic County in the Upper Peninsula of Michigan, USA within the Porcupine Mountains copper district and about 35 kilometers west of the White Pine property. Copperwood is comprised of long-term mineral leases covering an aggregate of 936 contiguous hectares held by Orvana US. Copperwood is a project at the final feasibility stage. All major permits required for mining the Copperwood Project were obtained or approved in 2012 and 2013,

subject to certain conditions, including providing financial assurance.

### **WHITE PINE PROPERTY**

In May 2014 (the interim closing date), the Company entered into an agreement to acquire from CRC, all of CRC's rights, title and interest in mineral and surface rights forming the White Pine property. The Company issued to CRC at that time 3,000,000 of its common shares. Highland further agreed that, upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, it will pay as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to US\$0.005 (one half of one cent) per pound for the first one billion pounds of proven and probable reserves of copper and US\$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper.

The final closing of the acquisition will be completed once Highland has (i) released CRC for a US\$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine mine site in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and (ii) released CRC from its environmental obligations with the MDEQ. At that time, Highland will assume all of CRC's environmental liabilities related to the former White Pine mine site and will also be responsible for all on-going environmental obligations.

CRC acquired the original White Pine mine in 1937. Subsequent drilling revealed the widespread nature of the mineralization and underground mining by room and pillar methods began in 1952. Production from 1952 to 1995 was 198,070,985 short tons averaging 1.14% copper for approximately 4.5 billion pounds of copper. In 1995, as a result of depressed copper prices, CRC, then a subsidiary of Inmet Mining Corporation, closed the White Pine mine, although significant amounts of mineralization remained, particularly to the northeast of the mine, referred to as the White Pine North Project. An historical estimate of the White Pine North Project was completed in October 1995 by the then White Pine chief geologist based on 526 diamond drill holes, a portion of which is located within the White Pine Lease area. The Company has initiated the work required to verify the historical data with the objective of completing a resource estimate.

### **KEWEENAW PROJECT**

The Keweenaw Project, which covers an area of approximately 9,000 acres, includes the 543S and G-2 deposits. Under a Mining Venture Agreement (the "Venture Agreement") with BRP, the Company has an option to acquire a 65 percent interest in the Keweenaw Project, by spending US\$11,500,000 in exploration and development work, providing a feasibility study by December 31, 2017 (amended from October 2015 as part of the November 2015 amendment) and securing some of the historical shafts located in the Keweenaw region. At June 30, 2016, a cumulative amount of US\$13,096,000 has been spent on the Keweenaw Project. Upon providing a feasibility study and exercising the option, the Company will have a 65% interest and BRP will have a 35% interest in the property. In addition, BRP will be entitled to a sliding scale NSR royalty from production on those properties contributed by BRP based on the price per pound of copper with a minimum of 2% up to a maximum of 5%.

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**ROYALTY AGREEMENTS WITH OSISKO**

On June 30, 2016, the Company and Osisko agreed to amend the terms of their agreement entered into in December 2014 and to convert the \$10 million refundable deposit into a 3.0% net smelter return ("NSR") royalty on all metals produced from the mineral rights and leases associated with the Copperwood Project. Upon closing of the acquisition of the White Pine property, the Company will grant Osisko a 1.5% NSR royalty on all metals from the White Pine North Project, and Osisko's royalty on the Copperwood Project will be reduced to 1.5%. Osisko retains security over all of the Company's assets.

In December 2014, Osisko had made a \$10 million refundable deposit on a 3% sliding-scale NSR royalty on all metals from the White Pine North Project (the "White Pine North Royalty"). The Osisko deposit was secured against all of the Company's assets. Upon completion of the acquisition of the White Pine property, the Osisko deposit was to be exchanged for the White Pine North Royalty.

In December 2014, the Company had also granted to Osisko an option to purchase for US\$26 million any future silver production from the Company's Michigan projects, including White Pine and Copperwood (the "Silver Royalty"). Osisko may elect to exercise the option to purchase the silver production by paying US\$26 million to the Company within 60 days following the delivery to Osisko of a feasibility study on the Michigan projects. The option is for a period of 35 years.

As part of the White Pine North Royalty transaction, Osisko has the right to nominate one director to the Board of Highland. To that effect, Luc Lessard was appointed in November 2015. Osisko will also be entitled to nominate one additional director to the Board of Highland if it exercises the Silver Royalty option.

**QUALIFIED PERSON**

Carlos H. Bertoni, P. Geo., a Qualified Person under NI 43-101, has reviewed and approved all of the technical information in this MD&A. Mr. Bertoni is the Company's executive vice president, project development.



**EXPLORATION EXPENSES**

Amounts invested in exploration and evaluation assets and capitalized in accordance with the Company's accounting policy, during the years ended June 30, 2016 and 2015 are as follows:

	Year ended June 30,	
	2016	2015
	\$	\$
<b>Additions</b>		
Property payments	773,401	452,318
Site preparation, drilling and assaying	-	4,064,485
Labour	1,217,610	2,142,759
Studies	554,438	1,648,108
Finance expense on promissory note	-	583,976
Other expenses	459,951	956,605
	<b>3,005,400</b>	<b>9,848,251</b>
<b>Non-cash items</b>		
Property payments in shares	-	485,840
Depreciation and amortization	123,669	268,895
Gain on disposal of capital assets	(83,577)	(7,774)
Share-based compensation	31,552	139,869
Accretion on purchase price payable	463,755	499,325
Effect of foreign exchange	1,373,850	7,687,694
	<b>1,909,249</b>	<b>9,073,849</b>
<b>Sub-total – net additions</b>	<b>4,914,649</b>	<b>18,922,100</b>
<b>Other items</b>		
Write-down	(2,655,495)	-
Conversion of Osisko loan into NSR royalty	(10,000,000)	-
<b>Net change to exploration and evaluation assets during the year</b>	<b>(7,740,846)</b>	<b>18,922,100</b>

Cumulative amounts invested by projects are as follows:

	June 30,	June 30,
	2016	2015
	\$	\$
Copperwood	21,462,768	29,804,661
White Pine	18,587,530	15,447,201
Keweenaw	13,337,295	15,642,832
Others	439,595	673,340
	<b>53,827,188</b>	<b>61,568,034</b>

**SELECTED CONSOLIDATED FINANCIAL INFORMATION** <sup>(1)(2)</sup>

The following selected financial information should be read in conjunction with the Company's June 30, 2016 and 2015 consolidated financial statements.

	June 30, 2016	June 30, 2015	
	\$	\$	
<b>Financial Position</b>			
Cash	201,998	1,042,341	
Working capital deficit	(4,281,894)	(12,004,841)	
Exploration and evaluation assets	53,827,188	61,568,034	
Total assets	54,150,409	62,950,927	
Non-current portion of balance of purchase price payable	1,289,355	2,207,430	
Shareholders' equity	48,064,323	47,307,629	
<b>Comprehensive Loss</b>			
	Year ended June 30, 2016	Year ended June 30, 2015	Year ended June 30, 2014
	\$	\$	\$
Net loss for the year	(4,216,092)	(3,142,794)	(3,423,219)
Basic and diluted loss per share	(0.03)	(0.03)	(0.06)
<b>Cash Flows</b>			
Operating activities	(1,173,090)	(2,772,930)	(2,166,128)
Investing activities	(3,343,530)	(8,459,188)	(21,026,360)
Financing activities	3,639,008	9,238,151	20,082,935

- 1) *The Selected Consolidated Financial Information was derived from the Company's June 30, 2016 and 2015 consolidated financial statements, prepared in accordance with IFRS.*
- 2) *The Company's June 30, 2016 and 2015 consolidated financial statements have been prepared on the basis of a going concern, which assumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities, including raising additional fund, completing the acquisition of the White Pine property, acquiring a 65% interest in the Keweenaw Project and retaining its rights under the White Pine lease agreement. There can be no assurance that the Company will be able to raise the funds required. If the Company is not successful in raising additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, and/or sell some of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company. The conditions and uncertainties described above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for the Company's June 30, 2016 and 2015 consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.*

Since its incorporation, the Company has not paid any cash dividend on its outstanding common shares. Any future dividend payments will depend on the Company's financial needs to fund its exploration and development programs and any other factor that the board of directors may deem necessary to consider. It is highly unlikely that any dividends will be paid in the near future.

#### *Financial Review*

The Company is in the exploration and development phase and does not yet have revenue-generating activities. Accordingly, the Company's financial performance is largely a function of the level of exploration and development activities undertaken on its projects and the management and administrative expenses required to operate and carry out its activities as well as other items such as foreign exchange gains or losses.

In accordance with its accounting policy, an amount of \$4,914,649 in exploration and evaluation expenses was capitalized during the year ended June 30, 2016. These include cash expenses of \$3,005,400 (consisting mostly of labor, environmental and tailings related studies and property payments) and non-cash expenses of \$1,909,249, including the impact of the weakening of the Canadian dollar during the reporting period in the amount of \$1,373,850. In 2016, the capitalized amounts were reduced by an amount of \$2,655,495 related mostly to the write-down of the G-2 project expenditures and an amount of \$10,000,000 following the conversion of the Osisko deposit on sale of royalty into a 3% NSR royalty on the Copperwood Project.

During the comparative period in 2015, the Company capitalized an amount of \$18,922,100 as exploration and evaluation assets, including cash expenses of \$9,848,251 (consisting mostly of direct costs related to the completion of 27 drill holes for 19,152 meters at the White Pine North Project, labor, pre-feasibility level studies which had begun in September 2004 on the development of the Company's Michigan projects, property payments and finance expense on the Orvana promissory note which was fully reimbursed in December 2014) and non-cash expenses of \$9,073,849, including the impact of the weakening of the Canadian dollar during the 2015 reporting period in the amount of \$7,687,694.

The detail of the capitalized exploration and evaluation expenses and the exploration and evaluation assets by project is presented in the *Exploration expenses* section.

#### *Year ended June 30, 2016 compared to year ended June 30, 2015*

The Company incurred a net loss of \$4,216,092 during the year ended June 30, 2016 compared to a net loss of \$3,142,794 in 2015. The increased loss in 2016 is mostly due to the write-down of the capitalized expenses related to the G-2 project and the non-renewal of certain leased properties for a total amount of \$2,655,495, partially offset by lower management and administration expenses which totaled \$1,486,118 in 2016 compared to \$3,087,579 in 2015.

The Company wrote-down to nil the amount capitalized for the G-2 project of \$2,381,614 as the exploration conducted at G-2 has not led to the discovery of commercially viable quantities of mineral resources and the Company does not intend to conduct further work at G-2 in the near term. A write-down of \$273,881 related to certain leased properties was also recorded

in 2016 following the non renewal of these leases.

Management and administration expenses in 2016 reflect lower wages and fees due to reduced activities and the reversal of \$263,000 in accrued wages related to the Company's former president and CEO following his resignation in February 2016, lower professional fees (2015 professional fees included legal, audit and tax fees related to the acquisition of the Copperwood project and legal fees related to the \$10 million deposit from Osisko), a reduction in investor relations and travel expenses, due to the non-renewal of the investor relations program in the last quarter of 2015, and lower share-based compensation expense (an amount of \$48,206 in 2016 compared to \$667,777 in 2015, mostly due to the grant in August 2014 of 1,400,000 stock options at a fair value of \$0.44 per share compared to 200,000 stock options at a fair value of \$0.11 per share during the current reporting period).

At June 30, 2016, unpaid compensation to the Company's directors and officers total \$651,000. The payment of these amounts will only be settled once the Company has raised sufficient funds to recommence its activities.

*Year ended June 30, 2015 compared to year ended June 30, 2014*

The Company incurred a net loss of \$3,142,794 during the year ended June 30, 2015 compared to a net loss of \$3,423,219 in 2014. Pre-exploration expenses of \$1,745,437 incurred at White Pine North in 2014 before the legal right to undertake exploration and evaluation activities had been obtained were partially offset in 2015 by higher administrative and general expenses of \$1,363,354 as a result of the increased activities following the acquisition of the White Pine North Project and the Copperwood Project in May and June 2014 and professional fees incurred in relation to the Royalty Agreements with Osisko. Higher share-based remuneration expense was charged to income in 2015 compared to 2014 due to the grant of 1,905,000 stock options in April 2015 and 1,400,000 stock options in August 2014.

*4<sup>th</sup> quarter ended June 30, 2016 compared to the 4<sup>th</sup> quarter ended June 30, 2015*

During the 4<sup>th</sup> quarter ended June 30, 2016, the Company incurred a net loss of \$2,865,206 (\$0.02 per share), compared to a net loss of \$529,381 (\$0.01 per share) during the 4<sup>th</sup> quarter ended June 30, 2015. Results for the 4<sup>th</sup> quarter ended June 30, 2016 include a write-down of the amount capitalized at the G-2 deposit of \$2,381,614 compared to nil in 2015. Management and administration expenses totaled \$491,461 during the period ended June 30, 2016 compared to \$528,340 in 2015.

*Selected Quarterly Financial Information*

The following is a summary of the Company's financial results for the past eight quarters:

	<b>Revenues</b>	<b>Net loss</b>	<b>Basic and diluted loss per share</b>
<b>Period ended</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
June 30, 2016	302	(2,865,206)	(0.02)
March 31, 2016	700	(373,666)	(0.00)
December 31, 2015	2,340	(493,768)	(0.00)
September 30, 2015	588	(483,452)	(0.00)
June 30, 2015	3,359	(529,381)	(0.01)
March 31, 2015	2,325	(436,823)	(0.00)
December 31, 2014	582	(1,011,470)	(0.01)
September 30, 2014	4,092	(1,165,120)	(0.01)

*Liquidity and Capital Resources*

The Company's working capital deficiency at June 30, 2016 totaled \$4,281,894 compared to a working capital deficiency of \$12,004,841 at June 30, 2015. The reduction in the working capital deficiency during the year ended June 30, 2016 is mainly attributable to a) the conversion on June 30, 2016 of the \$10,000,000 deposit from Osisko into a 3% NSR royalty on metals produced at the Copperwood Project; b) the net proceeds of \$3,639,008 received on October 6, 2015 from a non brokered private placement with Osisko of 24,426,434 common shares at \$0.15 per share; partially offset by c) the reclassification to current liabilities of a portion of the balance of purchase price payable in the amount of \$1,445,087 related to the Copperwood Project, due in June 2017; and d) investments made on the Company's exploration and evaluation assets (\$3,005,400, excluding non-cash items) and management and administration expenses (\$1,397,710, excluding non-cash items).

The Company needs to raise additional funds to meet all of its obligations, to pursue exploration and development work on its mineral projects and to provide for management and administration expenses. The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The potential sources of future funds presently available to the Company are through the sale of equity capital of the Company, debt financing, joint venture or other arrangements. The ability of the Company to arrange the required financing depends in part upon the price of copper, global economic and capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required for continued operations.

### *Capital Management*

The Company defines capital that it manages as loans (including deposit on sale of royalty and balance of purchase price payable) and shareholders' equity. When managing capital, the Company's objectives are a) to ensure the entity continues as a going concern; b) to increase the value of the entity's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. At June 30, 2016, managed capital was \$50,798,765 (\$59,515,059 at June 30, 2015). There were no changes in the Company's approach to capital management during the year ended June 30, 2016. The Company is not subject to any externally imposed capital requirements as at June 30, 2016.

### *Off-Balance Sheet Arrangements*

At June 30, 2016, the Company has no off-balance sheet arrangements.

### *Transactions with Related Parties*

During the year ended June 30, 2016, the Company incurred administration expenses of \$270,658 and purchased office furniture and computer equipment for an amount of \$31,681 from Reunion Gold Corporation ("Reunion"), a related party by virtue of common management and directors (administration expenses of \$495,633 in 2015). At June 30, 2016, the Company had an amount due to Reunion of \$25,543 (\$8,022 at June 30, 2015).

On January 1, 2016, the Company entered into separate agreements to provide management and administration services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation. The services are provided at cost. Amounts recovered for management and administration services during the year ended June 30, 2016 amounted to \$120,810 (nil in 2015).

David Fennell, the Company's chairman and interim president and CEO has advanced funds of \$400,000 since August 1, 2016, to ensure that critical payments to maintain the Company in good standing are being made. These advances bear interest at the rate of 1% per month and the principal and accrued interest will be repayable by the Company on the earlier of the completion of a financing for a minimum amount of \$10 million or upon demand at any time after June 30, 2017.

These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties. The services provided by Reunion under the service agreement include administrative support, corporate and regulatory services, office space, and office equipment and supplies.

Remuneration to directors and key management of the Company totaled \$912,677 during the year ended June 30, 2016 (\$1,652,772 in 2015).

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*Outstanding Share Data*

At October 25, 2016, the Company has 153,968,626 common shares issued and outstanding, 41,250,000 share purchase warrants exercisable at a price of \$0.75 per share until March 31, 2017, and 7,520,000 stock options outstanding with an average exercise price of \$0.48, expiring at various dates until November 2020.

***Basis of Presentation of Financial Statements***

The Company's consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The accounting policies, methods of computation and presentation applied in the Company's consolidated financial statements are consistent with those of the previous year. The significant accounting policies of Highland are detailed in the notes to the June 30, 2016 and 2015 consolidated financial statements filed on SEDAR.

***Significant accounting judgements and estimates***

The preparation of the Company's consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The Company's consolidated financial statements include estimates which, by their nature, are uncertain and may require accounting adjustments based on future occurrences. Revisions to accounting estimates, judgments and assumptions are recognized in the period in which the estimate is revised and future period if the revision affects both current and future period. These estimates, judgments and assumptions are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

*Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures are subject to certain assumptions and do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

The final closing of the acquisition of the White Pine Project can only be completed once the Company has i) released Copper Range Company ("CRC") of a US\$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality ("MDEQ"). Final closing, which initially was to occur by December 31, 2015 has been extended to December 2, 2016. The Company also requires additional funds to post the required financial assurance bond with the MDEQ. The Company believes that it will be able to meet these conditions. However, meeting these conditions is dependent on a

number of factors, not all of which are under the Company's control, and there is no assurance that they will be met. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project which would trigger an impairment evaluation of the related exploration and evaluation assets.

*Lease Agreement, White Pine*

The Company was required to make cash payments of US\$450,000 in April 2016 to the Lessor of certain mineral rights located in White Pine. Given its current financial position, the Company has not yet made these cash payments. The Company is continuing discussions with the Lessor and believes that this matter will be resolved once it has successfully raised the funds necessary to continue its activities. However, there is no assurance that the Company will be successful in raising such funds. Should the Company not be able to resolve this situation, an impairment evaluation of the related exploration and evaluation assets would be required.

*Exploration and evaluation expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test in the year the new information becomes available.

*Environmental liability*

The Company's accounting policy for the recognition of an environmental liability requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance, the timing, extent, and costs of rehabilitation activities and the determination of an appropriate discount factor. Changes to these estimates and assumptions may result in future actual expenditures differing from the amounts currently provided for. The environmental liability is periodically reviewed and updated based on the available facts and circumstances.

***Accounting Standards Issued but not yet Applied***

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of these consolidated financial statements that are expected to be relevant to the Company are listed below. Certain other standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

*Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a



practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### *IFRS 9, Financial Instruments*

The International Accounting Standards Board ("IASB") released *IFRS 9, Financial Instruments (2014)* ("*IFRS 9*"), representing the completion of its project to replace *IAS 39, Financial Instruments: Recognition and Measurement* ("*IAS 39*"). The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Company's management has yet to assess the impact of IFRS 9 on its consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

#### *IFRS 15, Revenue from Contracts with Customers*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### *IFRS 16, Leases*

In January 2016, the IASB published *IFRS 16, Leases* ("*IFRS 16*") which will replace *IAS 17, Leases* ("*IAS 17*"). IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value

assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting; and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

## FINANCIAL RISK FACTORS

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include liquidity risk, currency risk, credit risk and interest rate risk. Where material, these risks are reviewed by the board of directors.

### *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's ability to continue as a going concern is dependent on management's ability to raise the funds required for continued operations through future financings (see '*Financial Condition*' section).

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2016:

	Carrying amount	Settlement amount	Within 6 months	Within 1 year	2-3 years	Over 3 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,019,495	3,019,495	3,019,495	-	-	-
Due to a related party	25,543	25,543	25,543	-	-	-
Balance of purchase price payable	2,734,442	3,229,250	-	1,614,625	1,614,625	-
	5,779,480	6,274,288	3,045,038	1,614,625	1,614,625	-

### *Credit Risk*

Credit risk is the risk that the Company will incur losses due to the non-payment of contractual obligations by third parties. The Company is exposed to credit risk with respect to cash.

### *Interest Rate Risk*

The Company's interest rate risk relates to cash. The Company's current policy on its cash balances is to invest excess cash in guaranteed investment certificates or interest bearing accounts with major Canadian-based chartered banks. The Company

regularly monitors compliance to its cash management policy. Cash is subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately \$2,000.

#### *Currency Risk*

In the normal course of operations, the Company is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of each of the entities within the consolidated group. The currency in which these transactions are denominated are primarily the Canadian and the US dollar. The consolidated entity seeks to minimize its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximize the consolidated entity's position. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are entered into at spot rates. The board of directors considers this policy appropriate, taking into account the consolidated entity's size, current stage of operations, financial position and the board's approach to risk management. At June 30, 2016, financial assets and liabilities denominated in a foreign currency consisted of cash of \$7,782 and accounts payable and accrued liabilities of \$1,274,644. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately \$127,000.

#### **OTHER RISKS AND UNCERTAINTIES**

The Company is subject to a number of significant risks and uncertainties which include but are not limited to the nature of its business and the present stage of exploration and development of its mineral projects, the requirement for additional funds to settle its obligations and commitments, and to pursue its planned exploration and development activities on all of its projects. Failure to successfully address such risks and uncertainties could have a significant negative impact on the Company's overall operations and financial condition and could materially affect the value of the Company's assets and future operating results. Therefore, an investment in the securities of the Company involves significant risks and should be considered speculative. The risks and uncertainties described herein are not necessarily the only ones that the Company could be facing. The Company cannot give assurance that it will successfully address these risks or other unknown risks that may affect its business. Readers should carefully consider the risks and uncertainties described below.

#### *Company Specific Risks*

- The Company may be unable to continue funding the exploration and development of its projects and achieve its business objectives and milestones.
- The Company may be unable to complete the acquisition of the White Pine property if it cannot meet the final closing conditions. This would negatively impact the Company's business plan.
- The Company's plans and objectives as well as its ability to raise funds are affected by low copper prices.
- The Company is subject to environmental risks related to the fact that the White Pine property is subject to a consent decree and, as part of the acquisition of White Pine, the Company will have to assume certain environmental responsibilities and risks related to the closure of the former White Pine Mine.
- In Michigan, mineral rights are property rights that can be sold, transferred or leased. The Company is taking steps to verify title with respect to its most material mineral properties. Although the Company believes that title to its

mineral properties are in good standing there is no guarantee that title to such properties will not be challenged or impugned.

- The Company's mineral resource estimates are not mineral reserves. There is no assurance that minerals will be discovered in sufficient quantities to justify commercial operations and that the Company will be able to demonstrate the economic viability of its deposits.
- The Company may not obtain all necessary permits to conduct its activities and operate a mine.
- Future issuance of common shares into the public market may result in dilution to the existing shareholders.
- The Company faces substantial competition within the mining industry from other mineral companies with much greater financial and technical resources.
- The Company has no history of earnings and does not expect to receive revenues from operations in the foreseeable future.
- Certain directors and senior officers of the Company also serve as officers and/or directors of other mineral resource companies, which may give rise to conflicts.

#### *Industry Risks*

- Mineral exploration and development is a high risk, speculative business. Few properties that are explored are ultimately developed into producing mines.
- Mineral exploration is subject to geological uncertainties and interpretation.
- Mineral exploration is subject to numerous industry operating and environmental hazards and risks, many of which are beyond the Company's control.
- Substantial expenditures are required to explore mineral projects, define mineral resources, and complete all metallurgical, engineering, environmental, financial and other studies required to complete a feasibility study.
- Changes in mining and environmental laws.
- Necessary permits to operate may not be granted or may be granted later than anticipated.
- Current economic uncertainties globally have created market volatility and risk aversion among investors, limiting capital raising options.
- Commodity prices including the price of copper have fluctuated widely in the past and are expected to continue to do so in the future.
- Mining operations including exploration and development activities are subject to numerous laws and regulations.
- Title to mineral rights and surface rights may be disputed.
- Social and environmental groups may be opposed to the development of mining projects.

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### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains “forward-looking information” within the meaning of applicable Canadian securities laws. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made. Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking information.

Specifically, this MD&A contains forward-looking information regarding the Company’s plans going forward including plans to raise additional funds to pursue the Company’s activities and to meet its current obligations, plans to complete the acquisition of the White Pine property and of a 65% interest in the Keweenaw Project, and plans to complete technical studies, additional drilling programs and resource estimates. Other forward looking information in this MD&A includes, but is not limited to, forward-looking information with respect to the requirement for additional capital and other statements relating to the financial and business prospects of the Company.

There can be no assurance that the Company will be successful in its efforts to complete its plans and achieve its objectives and that such forward-looking information will prove to be accurate. Actual results could differ materially from those currently anticipated due to any number of factors, including the inability of the Company to secure the funds necessary to meet its plans and obligations, the inability to complete a resource estimate and technical studies, the conclusions of such studies, and other variables such as lower than expected grades and quantities of resources, changes in demand for and prices of copper, mining rates and recovery rates, legislative, environmental and other regulatory approval or political changes, delays in obtaining or failures to obtain required governmental, environmental or other approvals and sufficient financing, changes in exchange rates, and other factors.

Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, except as may be required by law.

### **Cautionary Note to U.S. Investors Concerning Resource Estimates**

The resource estimates in this MD&A were prepared in accordance with NI 43-101 adopted by the Canadian Securities Administrators and it contains the terms “measured”, “indicated” and “inferred” resources. Although these terms are recognized and required in Canada, the U.S. Securities and Exchange Commission (“SEC”) does not recognize them. The SEC permits US mining companies, in their filings with the SEC, to disclose only those mineral deposits that constitute “reserves”. Under United States standards, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally extracted at the time the determination is made. United States investors should not assume that all or any portion of a measured or indicated resource will ever be converted into

"reserves". Further, "inferred resources" have a great amount of uncertainty as to their existence and whether they can be mined economically or legally, and United States investors should not assume that "inferred resources" exist or can be legally or economically mined, or that they will ever be upgraded to a higher category.

**Additional Information and Continuous Disclosure**

This MD&A has been prepared as at October 25, 2016. Additional information on the Company is available through regular filings of press releases, financial statements and MD&A on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.highlandcopper.com](http://www.highlandcopper.com)).