



**CONSOLIDATED FINANCIAL STATEMENTS**

**As at June 30, 2018 and 2017**

In US 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, 2018, June 30, 2017, and July 1, 2016, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended June 30, 2018, and June 30, 2017, 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, 2018, June 30, 2017, and July 1, 2016, and its consolidated financial performance and its consolidated cash flows for the years ended June 30, 2018, and June 30, 2017, 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 in the consolidated financial statements, 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.

*Comparative information*

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the comparative information presented as at and for the year ended June 30, 2017, has been restated and that the comparative information presented as at July 1, 2016, has been derived from the consolidated financial statements as at and for the year ended June 30, 2016.

*KPMG LLP\**

September 11, 2018

Montréal, Canada

# Highland Copper Company Inc.

## Consolidated Statements of Financial Position

<i>(in US dollars)</i>	June 30, 2018	June 30, 2017	July 1, 2016
	\$	\$	\$
<b>ASSETS</b>		(Note 1- restated)	(Note 1- restated)
Current			
Cash and cash equivalents (Note 4)	3,487,847	14,061,705	156,382
Sales taxes receivable	132,093	42,423	-
Prepaid expenses and other	123,663	64,283	4,825
	<b>3,743,603</b>	14,168,411	161,207
Non-current			
Capital assets (Note 5)	140,006	58,453	89,022
Exploration and evaluation assets (Note 6)	31,795,832	30,351,733	19,773,626
<b>TOTAL ASSETS</b>	<b>35,679,441</b>	44,578,597	20,023,855
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	1,356,742	1,499,435	2,337,613
Current portion of note payable (Note 7)	110,000	110,000	-
Current portion of balance of purchase price payable (Note 8)	1,004,333	1,139,767	1,118,748
Current portion of promissory note (Note 9)	2,501,248	835,074	-
Due to a related party (Note 16)	-	-	19,775
	<b>4,972,323</b>	3,584,276	3,476,136
Non-current			
Note payable (Note 7)	165,000	275,000	-
Balance of purchase price payable (Note 8)	-	-	998,185
Promissory note (Note 9)	6,244,239	7,170,686	-
Environmental liability (Note 10)	252,678	246,315	237,366
<b>TOTAL LIABILITIES</b>	<b>11,634,240</b>	11,276,277	4,711,687
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 11)	66,137,274	64,197,630	47,531,970
Contributed surplus	11,349,577	11,176,081	5,756,400
Deficit	(55,123,241)	(43,551,548)	(39,069,008)
Cumulative translation adjustment	1,681,591	1,480,157	1,092,806
<b>TOTAL EQUITY</b>	<b>24,045,201</b>	33,302,320	15,312,168
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>35,679,441</b>	44,578,597	20,023,855

Going Concern (Note 2); Commitments and Contingencies (Note 6 and 21); Event after the Reporting Date (Note 24).

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

On behalf of the Board,

/s/ Denis Miville-Deschenes  
Denis Miville-Deschenes, Director

/s/ Jo Mark Zurel  
Jo Mark Zurel, Director

# Highland Copper Company Inc.

## Consolidated Statements of Comprehensive Loss

<i>(in US dollars)</i>	Year ended June 30,	
	2018	2017
	\$	\$
		(Note 1 - restated)
<b>Expenses and other items</b>		
Exploration and evaluation (Note 13)	8,584,241	2,874,270
Management and administration (Note 14)	1,698,615	1,048,024
Business development	182,373	199,638
Share-based compensation	503,512	20,318
Depreciation and amortization (Note 5)	44,609	51,581
Write-down of exploration and evaluation assets (Note 6)	654,405	-
Accretion on environmental liability (Note 10)	6,363	8,949
Finance expense on loan from a director (Note 16)	-	8,664
Finance expense	31,833	17,050
Finance income	(112,343)	(39,270)
(Gain) loss on foreign exchange	(21,915)	293,316
<b>Net loss for the year</b>	<b>(11,571,693)</b>	<b>(4,482,540)</b>
Other comprehensive income		
Item that will not be subsequently reclassified to income		
Foreign currency translation adjustment	201,434	387,351
<b>Total comprehensive loss for the year</b>	<b>(11,370,259)</b>	<b>(4,095,189)</b>
Basic and diluted loss per common share (Note 15)	(0.02)	(0.02)
Weighted average number of common shares - basic and diluted	464,575,595	251,264,795

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

## Highland Copper Company Inc.

### Consolidated Statements of Changes in Shareholders' Equity

<i>(in US dollars)</i>	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance at June 30, 2017 (Note 1 - restated)	459,148,153	64,197,630	11,176,081	(43,551,548)	1,480,157	33,302,320
Shares issued on exercise of warrants (Note 11)	13,785,536	1,939,644	(330,016)	-	-	1,609,628
Share-based compensation	-	-	503,512	-	-	503,512
Net loss for the year	-	-	-	(11,571,693)	-	(11,571,693)
Foreign currency translation adjustment	-	-	-	-	201,434	201,434
<b>Balance at June 30, 2018</b>	<b>472,933,689</b>	<b>66,137,274</b>	<b>11,349,577</b>	<b>(55,123,241)</b>	<b>1,681,591</b>	<b>24,045,201</b>
Balance at June 30, 2016 (Note 1 - restated)	153,968,626	47,531,970	5,756,400	(39,069,008)	1,092,806	15,312,168
Private placement (Note 11)	300,229,670	17,215,885	5,276,902	-	-	22,492,787
Share issue expenses (Note 11)	-	(885,138)	85,148	-	-	(799,990)
Debt settlement (Note 11)	4,949,857	334,913	37,313	-	-	372,226
Share-based compensation	-	-	20,318	-	-	20,318
Net loss for the year	-	-	-	(4,482,540)	-	(4,482,540)
Foreign currency translation adjustment	-	-	-	-	387,351	387,351
Balance at June 30, 2017	459,148,153	64,197,630	11,176,081	(43,551,548)	1,480,157	33,302,320

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

# Highland Copper Company Inc.

## Consolidated Statements of Cash Flows

<i>(in US dollars)</i>	Year ended June 30,	
	2018	2017
	\$	\$
		(Note 1 - restated)
<b>Operating activities</b>		
Net loss for the year	(11,571,693)	(4,482,540)
Adjustments		
Share-based compensation	503,512	20,318
Depreciation and amortization	44,609	51,581
Write-down of exploration and evaluation assets	654,405	-
Unrealized (gain) loss on foreign exchange	(21,915)	293,316
Accretion on environmental liability	6,363	8,949
Finance expense on loan from a director	-	8,664
Finance income accrued	(112,343)	(39,270)
Finance income received	117,200	30,006
Changes in other working capital items		
Sales taxes receivable	(93,614)	(42,423)
Prepaid expenses and other	(60,073)	(59,458)
Accounts payable and accrued liabilities	(139,221)	(413,178)
Due to a related party	-	(19,775)
	(10,668,437)	(4,643,810)
<b>Investing activities</b>		
Acquisition of capital assets	(126,777)	(21,779)
Additions to exploration and evaluation assets	(239,995)	(2,284,922)
	(366,772)	(2,306,701)
<b>Financing activities</b>		
Issue of share capital (Note 11)	1,609,628	22,492,787
Share capital issue expenses (Note 11)	-	(799,990)
Loan from a director (Note 11)	-	363,562
Reimbursement of note payable (Note 7)	(110,000)	(40,000)
Reimbursement of balance of purchase price payable (Note 8)	(250,000)	(1,250,000)
Reimbursement of promissory note (Note 9)	(1,000,000)	-
	249,628	20,766,359
Effect of exchange rate changes on cash held in foreign currency	211,723	89,475
Net change in Cash and cash equivalents	(10,573,858)	13,905,323
Cash and cash equivalents, beginning of the year	14,061,705	156,382
Cash and cash equivalents, end of the year	3,487,847	14,061,705

Supplemental cash flow information (Note 22)

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 1. GENERAL INFORMATION AND CHANGE IN PRESENTATION CURRENCY

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 address of the Company’s registered office is 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7. Highland’s common shares are listed on the TSX Venture Exchange (the “TSXV”) under the symbol HI. On October 23, 2017, the Company’s common shares started trading on the OTCQB Venture Marketplace (the “OTCQB”), a U.S. trading platform that is operated by the OTC Markets Group in New York. The Company trades on the OTCQB under the symbol “HDRSF”.

The Company’s principal assets, located in Michigan’s Upper Peninsula region, include the 100%-owned Copperwood copper project (the “Copperwood Project”), the White Pine copper project (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 a mineral exploration property covering approximately 448,000 acres in the Upper Peninsula region, referred to as the UPX property.

The Board of Directors approved these consolidated financial statements on September 11, 2018.

### *Change in presentation currency*

Prior to July 1, 2017, the Company reported its annual and quarterly consolidated statements of financial position, comprehensive loss, shareholder’s equity and cash flows in Canadian dollars. Effective July 1, 2017, the Company changed its reporting currency to the United States dollar to facilitate the comparability of the Company’s financial information with similar mining companies. In accordance with International Accounting Standard 21, *The Effects of Changes in Foreign Exchange Rates*, the Company’s consolidated financial statements for all periods presented have been translated into US dollars. The consolidated statements of comprehensive loss and the consolidated statements of cash flows for each year have been translated into the presentation currency using the average exchange rate prevailing during each year. All assets and liabilities have been translated using the exchange rate prevailing at the statements of financial position dates. Equity transactions have been translated at the exchange rate in effect on the date of the specific transaction. All resulting exchange differences arising from the translation are included in other comprehensive income or loss as foreign currency translation adjustments. All comparative financial information has been restated to reflect the Company’s results as if they had been historically reported in US dollars.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 2. GOING CONCERN

To date, the Company has not earned revenues and is in the exploration and development stage. 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 and completing the acquisition of the White Pine Project.

The Company has incurred a net loss of \$11,571,693 during the year ended June 30, 2018 (\$4,482,540 in 2017) and has a deficit of \$55,123,241 at June 30, 2018 (a deficit of \$43,551,548 at June 30, 2017). The Company has a working capital deficiency of \$1,228,720 at June 30, 2018 (a working capital of \$10,584,135 at June 30, 2017).

The Company will require additional funds to settle its working capital deficiency, to meet all existing commitments, to complete the acquisition of the White Pine Project, to provide for management and administration expenses for the next 12 months and to carry-out its planned exploration and development work, including the development of the Copperwood Project. The Company's primary objective is to raise sufficient funds to ensure that working capital requirements are met for at least the next 12 months. The Company is also working to put in place a project financing package as soon as possible for the development of the Copperwood Project. Although such funding requirements may be met 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 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, 2018 and 2017 (in US 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, except for the promissory note and balance of purchase price payable which are recognized at fair value.

### 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. Highland and its subsidiaries have an annual reporting date of June 30. Details of the Company’s Subsidiaries are as follows:

- Upper Peninsula Holding Company Inc. (“UPHC”); UPHC is the Company’s US-based holding company, incorporated in February 2014 in the state of Delaware, USA), which in turn wholly owns the following four (4) companies;
  - 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;
  - Copperwood Resources Inc. (“CRI”), previously known as Orvana Resources US Corp., acquired in June 2014 and incorporated in the state of Michigan, USA; and;
  - UPX Minerals Inc, incorporated in March 2017 in the state of Michigan, USA.

### d) *Foreign currency translation*

These consolidated financial statements are presented in US 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.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### d) *Foreign currency translation (continued)*

On consolidation, assets and liabilities of Highland are translated into US 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 US 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.

### e) *Financial assets and liabilities*

#### *Financial assets*

Financial assets held by the Company consist of cash and cash equivalents which include deposits held with banks. These financial assets are 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, note payable, promissory note, balance of purchase price payable and due to a related party 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, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### f) *Cash and cash equivalents*

Cash and cash equivalents include cash balances and highly liquid investments with original maturities of three months or less.

### g) *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, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *h) Exploration and evaluation assets*

Costs related to exploration and evaluation of mineral properties are recognized in profit or loss as incurred. All option and lease payments and costs of acquiring mineral rights are capitalized as exploration and evaluation assets. Exploration and evaluation assets are assessed for impairment indicators at the end of each reporting period.

Any option payments or proceeds from the sale of royalty interests received by the Company are credited to the capitalized cost of the related exploration and evaluation asset. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received.

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 and a mine development decision has been made by the Company, 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.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, including a) the extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 have been identified through a feasibility study or similar document; b) the results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study; c) the status of environmental permits; and d) the status of mining leases or permits.

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.

### *i) 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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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 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 considers 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.

### *j) 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  
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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### k) *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.

### l) *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 Highland's expenses into US 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, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### m) *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.

### n) *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, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *o) 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 \$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, was extended on a number of occasions until August 31, 2018, and on that date was further extended to November 30, 2018 (Note 24). The Company will also need 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, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### *o) Significant accounting judgments and estimates (continued)*

#### *Exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation activities have been conducted, 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.

#### *Fair value of liabilities*

The Company estimated the fair value of the non-interest-bearing promissory note and the balance of purchase price payable at inception using a discounted rate of 20%, based on management's judgment of its cost of capital given that it is considered to be in the exploration and development stage.

#### *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.

#### *Going concern*

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (Note 2).

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

### p) *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.

#### *IFRS 9, Financial Instruments*

The 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"). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces limited changes relating to financial liabilities and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The accounting for the instruments held by the Company and the line item in which they are included in the consolidated statements of financial position will not be affected on the adoption of IFRS 9 (effective July 1, 2018), and no measurement adjustments will be required to the Company's financial assets and liabilities.

#### *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. 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. The new standard and its clarifications become mandatory for financial years beginning on or after January 1, 2018. The Company intends to adopt IFRS 15 and the clarifications in its consolidated financial statements for the annual period beginning on July 1, 2018. The adoption of this standard is not expected to have a material impact in future periods until the Company commences generating revenues from its mineral properties.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 3. SUMMARY OF ACCOUNTING POLICIES (continued)

p) *Accounting standards issued but not yet applied* (continued)

### *IFRS 16, Leases*

In January 2016, the IASB published IFRS 16, *Leases* ("IFRS 16") which will replace IAS 17, *Leases* ("IAS 17"). IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted. 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. Leases become an on-balance-sheet liability that attract interest, together with a new asset. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

### *IFRIC 23, Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on July 1, 2019. The Company does not expect the Interpretation to have a material impact on its consolidated financial statements.

## 4. CASH AND CASH EQUIVALENTS

	June 30, 2018	June 30, 2017
	\$	\$
Cash	734,984	14,061,705
Cash equivalents	2,752,863	-
	<b>3,487,847</b>	14,061,705

Cash equivalents is comprised of a term deposit amounting to \$2,750,000, which bears interest at a rate of 1.9% and matures on July 11, 2018.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 5. 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, 2016	106,767	71,319	152,329	372,169	65,744	768,328
Additions	-	-	1,329	-	20,450	21,779
Disposals	(61,421)	-	(83,412)	(163,378)	(65,744)	(373,955)
Effect of foreign exchange	(205)	119	(1,032)	188	(450)	(1,380)
Balance at June 30, 2017	45,141	71,438	69,214	208,979	20,000	414,772
Additions	-	37,384	62,943	11,450	15,000	126,777
Write-down	-	-	(32,650)	(34,179)	-	(66,829)
Effect of foreign exchange	-	-	(1,255)	-	-	(1,255)
<b>Balance at June 30, 2018</b>	<b>45,141</b>	<b>108,822</b>	<b>98,252</b>	<b>186,250</b>	<b>35,000</b>	<b>473,465</b>
<b>Accumulated depreciation and amortization</b>						
Balance at June 30, 2016	106,462	47,028	137,370	322,702	65,744	679,306
Disposals	(61,421)	-	(83,412)	(163,378)	(65,744)	(373,955)
Depreciation and amortization	296	19,164	13,259	18,862	-	51,581
Effect of foreign exchange	(196)	34	(638)	187	-	(613)
Balance at June 30, 2017	45,141	66,226	66,579	178,373	-	356,319
Depreciation and amortization	-	12,891	12,407	9,589	9,722	44,609
Write-down	-	-	(32,650)	(34,179)	-	(66,829)
Effect of foreign exchange	-	-	(640)	-	-	(640)
<b>Balance at June 30, 2018</b>	<b>45,141</b>	<b>79,117</b>	<b>45,696</b>	<b>153,783</b>	<b>9,722</b>	<b>333,459</b>
<b>Carrying amounts</b>						
Balance at June 30, 2016	305	24,291	14,959	49,467	-	89,022
Balance at June 30, 2017	-	5,212	2,635	30,606	20,000	58,453
<b>Balance at June 30, 2018</b>	<b>-</b>	<b>29,705</b>	<b>52,556</b>	<b>32,467</b>	<b>25,278</b>	<b>140,006</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 6. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine Project	UPX Property	Other properties	Total
	\$	\$	\$	\$	\$
Balance, June 30, 2016	16,121,707	2,932,246	-	719,673	19,773,626
Property payments in cash	110,510	150,000	9,885,288	24,412	10,170,210
Finance expense	272,834	-	131,242	-	404,076
Effect of foreign exchange	-	-	-	3,821	3,821
	383,344	150,000	10,016,530	28,233	10,578,107
Balance, June 30, 2017	16,505,051	3,082,246	10,016,530	747,906	30,351,733
Property payments in cash	186,100	25,000	-	28,895	239,995
Finance expense	110,233	-	1,739,727	-	1,849,960
Write-down	-	-	-	(654,405)	(654,405)
Effect of foreign exchange	-	-	-	8,549	8,549
	296,333	25,000	1,739,727	(616,961)	1,444,099
Balance, June 30, 2018	16,801,384	3,107,246	11,756,257	130,945	31,795,832

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 6. 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 CRI. As part of the acquisition of the Copperwood Project, the Company paid in cash as additional consideration an amount of \$1,250,000 on June 17, 2017 and was required to pay in cash or shares of Highland, at Orvana's option, an additional amount of \$1,250,000 on June 17, 2018. On May 28, 2018, the Company and Orvana agreed to amend the terms of the payment due on June 17, 2018, as described in Note 8.

An additional amount of \$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 \$4.25/lb; and an additional amount of \$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 \$4.50/lb (for a total of \$2,500,000 accounted for as a "Contingent Consideration"). 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, the Company will have mineral rights until the later of the 20<sup>th</sup> anniversary of the date of the lease or the date the Company ceases to be actively engaged in development, mining, or related operations on the property. The mineral leases may be terminated by the Company on 60 days' notice.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 6. 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. The final closing of the acquisition will be completed once Highland has (i) released CRC of a \$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation; 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, was extended on a number of occasions until August 31, 2018, and was further extended on that date to November 30, 2018 (Note 24). 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 \$2 million.

Upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, the Company will pay to CRC as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to \$0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and \$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper (the "Contingent Consideration"). At June 30, 2018, 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.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 6. 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. In accordance with the terms of the agreement with the holder of the mineral rights (the "Lessor"), an additional cash payment of \$575,000 was to be made to the Lessor by the Company. On December 30, 2016, the Company entered into an amended agreement with the Lessor providing a revised schedule of payments for the amount of \$575,000 owed to the Lessor, as described in Note 7. The lease agreement also calls for annual lease payments of \$25,000 for the first five years, \$30,000 for the sixth and seventh years and \$1,000,000 thereafter.

Upon commencement of production, Highland will have to pay to the Lessor 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.

### *Osisko royalty and option to purchase silver production*

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 to convert the C\$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 final 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.

In December 2014, the Company also granted to Osisko an option to purchase for \$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 \$26 million to the Company within 60 days following the delivery to Osisko of a feasibility study on the Michigan Projects.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

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## 6. EXPLORATION AND EVALUATION ASSETS (continued)

### *UPX Property*

On May 30, 2017, the Company acquired from Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX"), subsidiaries of the Rio Tinto Group, a mineral property covering approximately 448,000 acres in the Upper Peninsula of the State of Michigan, USA (the "UPX Property").

The UPX Property was acquired for a total consideration of \$18.0 million. A cash payment of \$2.0 million was made at the acquisition date and the Company issued a \$16 million secured non-interest-bearing promissory note (the "Note") that provides for the payment of \$1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018), and \$3.0 million on each of the second, third, fourth, fifth and sixth anniversary of the acquisition. The payments under the Note will be accelerated if Highland publicly releases a feasibility study covering any portion of the UPX Property. The Note is secured by a 1<sup>st</sup> priority security interest over the acquired property.

RTX has retained a 2% net smelter return royalty (the "NSR") on all mineral interests. Highland has an option to buy-down half of the 2% NSR by paying \$8 million to RTX. The option will be exercisable at any time prior to May 30, 2028.

The Company determined that the UPX Property was not a business in accordance with the definition in *IFRS 3, Business Combinations*, and therefore accounted for the acquisition as an asset acquisition rather than a business combination.

### *Other properties*

Under a Mining Venture Agreement with BRP dated July 2011 and subsequently amended, the Company has an option to acquire a 65 percent interest in the Keweenaw Project by spending \$11,500,000 in exploration work, providing a feasibility study by December 31, 2018 and securing some of the historical shafts located on the Keweenaw region. At June 30, 2018, the Company has written-off the amount of \$654,405 in exploration and evaluation assets related to the Keweenaw Project as it does not plan to conduct any significant work on this property in the near term.

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.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 7. NOTE PAYABLE

On December 30, 2016, the Company entered into an amended agreement with the Lessor of certain mineral rights located in White Pine, Michigan (Note 6 - *Lease Agreement, White Pine, Michigan, USA*) for the remaining amount of \$575,000 owed to the Lessor. Under the terms of the amended agreement, the Company paid an amount of \$135,000 on December 30, 2016 and agreed to pay the balance of \$440,000 in sixteen equal quarterly principal amounts of \$27,500, plus interest accruing at the rate of 8% per annum, until December 31, 2020.

The balance of the Note Payable was determined as follows:

	Year ended June 30,	
	2018	2017
	\$	\$
Balance, beginning of year	385,000	-
Conversion of accounts payable to note payable	-	425,000
Addition	-	150,000
Reimbursements	(110,000)	(190,000)
Balance, end of year	275,000	385,000
Current liability	110,000	110,000
Non-current liability	165,000	275,000
	275,000	385,000

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 8. BALANCE OF PURCHASE PRICE PAYABLE

In connection with the acquisition of the Copperwood Project, the Company accounted for the estimated fair value of the balance of purchase price payable using a discount rate of 20%. On May 28, 2018, the Company and Orvana amended the repayment terms of the final amount due and as such, a payment of \$250,000 was made on June 17, 2018 and the remaining amount of \$1,000,000 bears interest at a rate of 12% per annum and is repayable in cash at the earlier of (a) 10 days after the closing of an equity financing by the Company of at least \$4,000,000 and (b) November 30, 2018. If the amount due of \$1,000,000 is not repaid by November 30, 2018, the unpaid amount will bear interest at the rate of 15% per annum from then on and the Company will be required to pay a 2% penalty amount to Orvana.

The balance of purchase price payable is as follows:

	Year ended June 30,	
	2018	2017
	\$	\$
Balance, beginning of year	1,139,767	2,116,933
Accretion included in exploration and evaluation assets	110,233	272,834
Reimbursement	(250,000)	(1,250,000)
Accrued interest at the rate of 12% per annum	4,333	-
Balance, end of year	1,004,333	1,139,767

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
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## 9. PROMISSORY NOTE

The Company issued a \$16 million secured non-interest-bearing promissory note (the "Note") to RTX, as remaining consideration for the acquisition of the UPX Property described in Note 6, that provides for the payment of \$1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018) and \$3.0 million on each of the second, third, fourth, fifth and sixth anniversary of the acquisition. The payments under the Note will be accelerated if Highland publicly releases a feasibility study covering any portion of the UPX Property. Given that the Note is non-interest bearing, the Company accounted for its estimated fair value using a discount rate of 20%. The balance of the Note was determined as follows:

	Year ended June 30,	
	2018	2017
	\$	\$
Balance, beginning of year	8,005,760	-
Promissory Note from RTX, discounted at the rate of 20%	-	7,874,518
Accretion included in exploration and evaluation assets	1,739,727	131,242
Reimbursement	(1,000,000)	-
Balance, end of year	8,745,487	8,005,760
Current liability	2,501,248	835,074
Non-current liability	6,244,239	7,170,686
	8,745,487	8,005,760

## 10. ENVIRONMENTAL LIABILITY

The environmental liability consists of a provision for reclamation costs related to the acquisition of the White Pine Project (Note 6). The undiscounted cash flow amount of the liability is estimated at \$270,000. The present value of the liability was calculated using a discount rate of 8.0% and is reflecting payments to be made until 2028, inclusively.

	Year ended June 30,	
	2018	2017
	\$	\$
Balance, beginning of year	246,315	237,366
Accretion expense	6,363	8,949
Balance, end of year	252,678	246,315

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 11. SHARE CAPITAL

### *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*

During the year, the Company issued a total of 13,785,536 common shares following the exercise of an equivalent number of share purchase warrants at a price of C\$0.15 per share for total proceeds of \$1,609,628 (C\$2,067,830). A total of 138,804,226 unexercised share purchase warrants expired during the year.

Between November 30, 2016 and March 24, 2017, the Company completed in four tranches a non-brokered private placement for gross proceeds of \$22,492,787 (C\$30,022,967) (the "Financing"). A total of 300,229,670 units, each unit comprised of one common share of the Company and one half of one share purchase warrant ("Warrant"), were sold at C\$0.10 per unit. Each Warrant was exercisable for a period of 12 months from its respective closing date at an exercise price of C\$0.15 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 weighted-average risk-free interest rate of 0.74%, an expected life of the Warrants of one year, an annualized weighted-average volatility of 96% and a dividend rate of 0%. An amount of \$5,276,902 was allocated to such Warrants and was presented as part of contributed surplus.

As part of the Financing, Greenstone Resources II LP ("Greenstone") and OMF Fund II (H) LP, a subsidiary of Orion Mine Finance ("Orion"), acquired such number of units resulting in Greenstone and Orion holding respectively 17.5% and 14.6% of the issued and outstanding common shares of the Company at that time. Greenstone and Orion each received participation rights to maintain their equity ownership level in future equity financings. Greenstone also received nomination rights for the sale of Highland's production pro-rata to its shareholding, and Orion entered into an offtake agreement with the Company entitling Orion to purchase 15% of all concentrates to be produced at the Copperwood Project. Orion also received a right of first refusal on any debt financing for the Copperwood project until September 17, 2018, excluding any royalty or stream financings. Osisko continues to have the right of first refusal on any other debt financing entered into by the Company.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 11. SHARE CAPITAL (continued)

### *Issuance of common shares (continued)*

As part of the Financing, the Company paid finders' fees totaling \$710,120 and granted 1,000,000 compensation warrants exercisable into 1,000,000 common shares at an exercise price of C\$0.15 per share expiring on March 17, 2020. The fair value of the compensation warrants, estimated at \$85,148 and presented as share issue expenses, was measured based on the Black-Scholes option pricing model, using a risk-free interest rate of 0.75%, an expected life of three years, an annualized volatility of 100% and a dividend rate of 0%. The Company also incurred other share issue expenses of \$89,870.

On December 12, 2016, the Company settled an outstanding indebtedness in the amount of \$372,226 (C\$494,986) owing to Laurentian Mountains Investments Limited, a company owned by David Fennell, the Company's chairman, by issuing 4,949,857 common shares and 2,474,928 Warrants (the "Debt Settlement"). Each Warrant entitled the holder to purchase one common share of the Company for a period of 12 months from the closing date at an exercise price of C\$0.15 to acquire one common share. The amount of the Debt Settlement was 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 Debt Settlement and the value of the Warrants was measured based on the Black-Scholes option pricing model, using a risk-free interest rate of 0.69%, an expected life of the Warrants of one year, an annualized volatility of 89% and a dividend rate of 0%. An amount of \$37,313 was allocated to such Warrants and was presented as part of contributed surplus.

The underlying expected volatility described above was determined by reference to historical data of the Company's share price over the expected life of the warrants.

### *Share purchase warrants*

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

	Year ended June 30,	
	2018	2017
<b>Number of warrants</b>		
Balance, beginning of year	153,589,762	56,455,373
Granted	-	153,589,762
Exercised	(13,785,536)	-
Expired	(138,804,226)	(56,455,373)
Balance, end of year	1,000,000	153,589,762

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
**June 30, 2018 and 2017** (in US dollars)

## 11. SHARE CAPITAL (continued)

The following table reflects the number of issued and outstanding share purchase warrants at June 30, 2018:

Grant date	Number of warrants			Number of warrants June 30, 2018	Price per share (C\$)	Expiry date
	June 30, 2017	Exercised	Expired			
November 30, 2016	15,140,000	(8,391,250)	(6,748,750)	-	-	-
December 12, 2016	2,474,928	-	(2,474,928)	-	-	-
February 22, 2017	9,574,545	(4,185,986)	(5,388,559)	-	-	-
March 17, 2017	76,730,714	(1,000,000)	(75,730,714)	-	-	-
March 17, 2017	1,000,000	-	-	<b>1,000,000</b>	0.15	Mar 17, 2020
March 24, 2017	48,669,575	(208,300)	(48,461,275)	-	-	-
	153,589,762	(13,785,536)	(138,804,226)	<b>1,000,000</b>	0.15	
Average price (C\$)	0.15	0.15	(0.15)	<b>0.15</b>		

The closing market price of the Company's shares when the share purchase warrants were exercised between November 30, 2017 and March 24, 2018 varied between C\$0.12 and C\$0.14 per share.

## 12. STOCK OPTIONS

The following table sets out the activity in stock options:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Number	Average exercise price (C\$)	Number	Average exercise price (C\$)
<b>Number of options</b>				
Balance, beginning of year	<b>7,455,000</b>	<b>0.48</b>	7,522,000	0.48
Granted	<b>12,045,000</b>	<b>0.12</b>	-	-
Expired	<b>(4,300,000)</b>	<b>(0.58)</b>	(67,000)	(0.43)
Balance, end of year	<b>15,200,000</b>	<b>0.17</b>	7,455,000	0.48

On August 28, 2017, the Company granted a total of 9,025,000 stock options to its directors, officers, employees and consultants. The stock options granted will vest over 2 years.

On October 26, 2017, the Company granted a total of 2,070,000 incentive stock options to a director, an officer and employees. The stock options granted will vest over 2 years.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
**June 30, 2018 and 2017** (in US dollars)

## 12. STOCK OPTIONS (continued)

On May 15, 2018, the Company granted a total of 950,000 stock options to employees. The stock options granted will vest over 2 years.

The following table provides a summary of stock options granted and related Black-Scholes option pricing model input factors used:

	Year ended June 30,	
	2018	2017
	\$	\$
Number of stock options granted during the year	<b>12,045,000</b>	-
Weighted-average exercise price (C\$)	<b>0.12</b>	-
Weighted average grant date market price (C\$)	<b>0.12</b>	-
Expected stock option life (years)	<b>5</b>	-
Expected volatility (%)	<b>84.0%</b>	-
Risk-free interest rate (%)	<b>1.60%</b>	-
Weighted-average grant date fair value (Black-Scholes value) (C\$)	<b>0.07</b>	-

The following table reflects the stock options issued and outstanding at June 30, 2018:

Issue date	Number of options	Exercise price C\$	Remaining contractual life (years)	Number of exercisable options	Exercise price of exercisable options
					C\$
August 1, 2014	1,400,000	0.50	1.1	1,400,000	0.50
April 21, 2015	1,555,000	0.25	1.8	880,000	0.25
November 20, 2015	200,000	0.13	2.4	200,000	0.13
August 28, 2017	9,025,000	0.11	4.2	3,008,333	0.11
October 26, 2017	2,070,000	0.17	4.3	690,000	0.17
May 15, 2018	950,000	0.10	4.9	316,667	0.10
	<b>15,200,000</b>	<b>0.17</b>	<b>3.7</b>	<b>6,495,000</b>	<b>0.22</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 13. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

	Year ended June 30,	
	2018	2017
	\$	\$
Drilling and assaying	1,386,707	1,152,522
Labour	2,450,433	857,770
Studies	3,836,509	412,543
Office, overhead and other administrative costs	910,592	451,535
	<b>8,584,241</b>	<b>2,874,270</b>

## 14. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Year ended June 30,	
	2018	2017
	\$	\$
Administrative and general	1,032,772	700,716
Office	119,500	114,152
Professional fees	271,862	139,339
Investor relations and travel	209,881	72,073
Reporting issuer costs	64,600	21,744
	<b>1,698,615</b>	<b>1,048,024</b>

## 15. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended June 30, 2018 was based on the loss attributable to common shareholders of \$11,571,693 (\$4,482,540 in 2017) and the weighted average number of common shares outstanding of 464,575,595 (251,264,795 in 2017). Excluded from the calculation of the diluted loss per share for the year ended June 30, 2018 are 1,000,000 share purchase warrants and 15,200,000 stock options (153,589,762 share purchase warrants and 7,455,000 stock options in 2017) 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, 2018 and 2017 (in US dollars)

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## 16. RELATED PARTY TRANSACTIONS

The detail of transactions between the Company and its related parties, in addition to the loan settlement transaction described in Note 11, are as follows:

During the year ended June 30, 2018, the Company incurred administration expenses of \$67,151 from Reunion Gold Corporation, a related party by virtue of common management and directors (administration expenses of \$76,474 from Reunion Gold Corporation in 2017).

During the year ended June 30, 2018, the Company recovered amounts of \$186,010 for management services to other TSXV-listed companies, related by virtue of common key management, including Odyssey Resources Limited and Reunion Gold Corporation (an amount of \$114,696 was recovered during the year ended June 30, 2017). The services are provided at cost. At June 30, 2018, the Company had an amount receivable from Odyssey Resources Limited of \$3,935, included in prepaid expenses and other on the consolidated statements of financial position (nil at June 30, 2017).

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

### *Settlement payment to the Company's former president and CEO*

In March 2017, the Company paid to its former president and CEO an amount of \$150,000 as full and final settlement of all unpaid amounts related to his employment with the Company due at the date of his resignation in February 2016, in accordance with a settlement agreement entered into at that time.

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

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

	Year ended June 30,	
	2018	2017
	\$	\$
Management and administration expenses	664,346	504,311
Exploration and evaluation expenses	-	187,719
Share-based compensation included in management and administration expenses	282,537	11,414
Share-based compensation included in exploration and evaluation expenses	-	2,148
	<b>946,883</b>	<b>705,592</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 17. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

	Year ended June 30,			
	2018		2017	
		\$		\$
				(Note 1 - restated)
Loss before income tax		(11,571,693)		(4,482,540)
Tax using the Company's domestic tax rate	26.75%	(3,095,428)	26.90%	(1,205,779)
Share-based compensation	(1.16%)	134,384	(0.08%)	3,462
Non-deductible expenses and non-taxable revenues	(0.04%)	4,553	0.00%	83
Effect of tax rate in foreign jurisdictions	3.92%	(453,352)	7.92%	(354,873)
Unrecognized tax assets	0.94%	(109,280)	(34.54%)	1,548,418
Impact of newly-enacted tax rates	(29.00%)	3,356,060	(0.88%)	39,042
Other	(1.41%)	163,063	0.68%	(30,353)
Deferred income tax	-	-	-	-

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

	June 30, 2018		
	Assets	Liabilities	Net
	\$	\$	\$
Advances in foreign currency	-	(412,808)	(412,808)
Non-capital loss carry-forwards	412,808	-	412,808
	421,808	(412,808)	-
Offsetting of tax assets and liabilities	(412,808)	412,808	-
	-	-	-
	June 30, 2017		
	Assets	Liabilities	Net
	\$	\$	\$
Advances in foreign currency	-	(335,990)	(335,990)
Non-capital loss carry-forwards	335,990	-	335,990
	335,990	(335,990)	-
Offsetting of tax assets and liabilities	(335,990)	335,990	-
	-	-	-

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

## 17. INCOME TAXES (continued)

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

	June 30, 2018		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	8,591,819	25,595,301	34,187,120
Capital assets	78,448	298,313	376,761
Exploration and evaluation assets	2,081,172	5,859,997	7,941,169
Share issue expenses	528,218	-	528,218
Financing expenses	18,056	-	18,056
	<u>11,297,713</u>	<u>31,753,611</u>	<u>43,051,324</u>

  

	June 30, 2017		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	7,211,931	14,038,898	21,250,829
Capital assets	73,661	316,159	389,820
Exploration and evaluation assets	1,546,177	8,756,973	10,303,150
Share issue expenses	851,131	-	851,131
Financing expenses	36,644	-	36,644
	<u>9,719,544</u>	<u>23,112,030</u>	<u>32,831,574</u>

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, 2018 and 2017 (in US dollars)

## 17. INCOME TAXES (continued)

Non-capital losses expire as follows:

	USA	Canada
	\$	\$
2026	-	78,391
2027	-	91,381
2028	-	230,527
2029	-	408,787
2030	-	565,305
2031	-	722,123
2032	-	1,040,617
2033	-	73,041
2034	1,256,944	862,771
2035	7,589,259	1,872,399
2036	1,101,253	785,278
2037	4,408,457	1,631,795
2038	11,239,388	1,787,169
	<b>25,595,301</b>	<b>10,149,584</b>

The deferred income tax on non-capital losses have been partially recognized for an amount of \$1,557,765 (\$1,267,889 in 2017).

## 18. CAPITAL MANAGEMENT

The Company defines capital that it manages as loans (including note payable, balance of purchase price payable and promissory note) 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, 2018, managed capital was \$34,320,021 (\$42,832,847 at June 30, 2017).

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, 2018. The Company is not subject to any externally imposed capital requirements as at June 30, 2018.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 19. 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, 2018.

### *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, 2018:

	Carrying amount	Settlement amount	Within 6 months	Within 1 year	2-3 years	Over 3 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,356,742	1,356,742	855,617	501,125	-	-
Note payable	275,000	275,000	55,000	55,000	165,000	-
Balance of purchase price payable	1,004,333	1,004,333	1,004,333	-	-	-
Promissory note	8,745,487	15,000,000	-	3,000,000	6,000,000	6,000,000
	<b>11,381,562</b>	<b>17,636,075</b>	<b>1,914,950</b>	<b>3,556,125</b>	<b>6,165,000</b>	<b>6,000,000</b>

### *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 and cash equivalents which are mainly held in accounts with a major Canadian-based chartered bank.

### *Interest rate risk*

The Company's interest rate risk relates to cash and cash equivalents. 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 and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately \$35,000

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017 (in US dollars)

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## 19. 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 does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are recorded at spot rates. The Board considers this policy appropriate, considering the consolidated entity's size, current stage of operations, financial position and the Board's approach to risk management.

At June 30, 2018, financial assets and liabilities denominated in a foreign currency consisted of cash and cash equivalents of \$3,155,805 and accounts payable and accrued liabilities of \$37,639. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately \$312,000.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, 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 note payable and the balance of purchase price payable (at June 30, 2018) is considered to be a reasonable approximation of fair value as it bears interest at a rate negotiated between the parties. The fair value of the promissory note and the balance of purchase price payable was determined, at inception, based on discounted cash flows using a rate of 20%, a rate similar to other debt instruments at the date of the consolidated statements of financial position.

## 21. OTHER COMMITMENTS

In addition to the commitments described in Note 6, the Company has entered into long-term lease agreements expiring in June 2021 which calls for minimum lease payments of \$193,300 for the rental of office space. Minimum lease payments are \$82,900 in 2019, \$68,600 in 2020 and \$41,800 in 2021.



# Highland Copper Company Inc.

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017 (in US dollars)

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended June 30,	
	2018	2017
	\$	\$
<b>Non-cash items</b>		
Reclassification of accounts payable to note payable	-	425,000
Note payable related to exploration and evaluation assets	-	150,000
Promissory note related to exploration and evaluation assets	-	7,885,288
Accretion included in exploration and evaluation assets (Note 6)	<b>1,849,960</b>	404,076
Loan from a director settled by the issue of shares and warrants	-	372,226

## 23. 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, 2018		
	Canada	USA	Total
	\$	\$	\$
Current assets	<b>3,450,383</b>	<b>293,220</b>	<b>3,743,603</b>
Capital assets	<b>17,459</b>	<b>122,547</b>	<b>140,006</b>
Exploration and evaluation assets	<b>368,955</b>	<b>31,426,877</b>	<b>31,795,832</b>
<b>Total assets</b>	<b>3,836,797</b>	<b>31,842,644</b>	<b>35,679,441</b>

  

	June 30, 2017		
	Canada	USA	Total
	\$	\$	\$
Current assets	14,077,348	91,063	14,168,411
Capital assets	1,318	57,135	58,453
Exploration and evaluation assets	-	30,351,733	30,351,733
<b>Total assets</b>	<b>14,078,666</b>	<b>30,499,931</b>	<b>44,578,597</b>

## 24. EVENT AFTER THE REPORTING DATE

On August 31, 2018, the Company and CRC agreed to further extend the period to complete the acquisition of the White Pine Project to November 30, 2018.



**MANAGEMENT'S DISCUSSION & ANALYSIS**

**Year ended June 30, 2018**

**HIGHLAND COPPER COMPANY INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS FOR THE  
YEAR ENDED JUNE 30, 2018**

*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 September 11, 2018, covers the years ended June 30, 2018 and 2017 and should be read in conjunction with the audited consolidated financial statements and related notes at June 30, 2018 and 2017 (the "June 30, 2018 and 2017 consolidated financial statements"). The June 30, 2018 and 2017 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 US dollars unless otherwise indicated. Effective July 1, 2017, the Company changed its reporting currency to the United States dollar to facilitate the comparability of the Company's financial information with those of similar mining companies. All comparative financial information included in this MD&A have been restated as if they had been historically reported in US dollars.*

**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 the State of 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, 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 deposit (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC). Also, in May 2017, the Company acquired from subsidiaries of the Rio Tinto Group a mineral property covering approximately 448,000 acres in the Upper Peninsula region, referred to as **UPX Property**.

Highland was incorporated under the *Business Corporations Act (British Columbia)* in 2006. Highland's common shares are listed on the TSX Venture Exchange ("**TSXV**") under the symbol HI. On October 23, 2017, the Company's common shares started trading on the OTCQB Venture Marketplace (the "**OTCQB**"), a U.S. trading platform that is operated by the OTC Markets Group in New York. The Company trades on the OTCQB under the symbol "HDRSF".

At September 11, 2018, the Company has 472,933,689 common shares and 1,000,000 share purchase warrants issued and outstanding.

**Financial Condition**

At June 30, 2018, the Company had a working capital deficiency of \$1,228,720. The Company requires additional funds to settle its working capital deficiency, to meet all existing commitments, to complete the acquisition of the White Pine property (including an amount to replace the current environmental financial assurance bond), to provide for management and administration expenses for at least the next 12 months and to carry-out its planned exploration and development work, including the development of the Copperwood Project. The Company's primary objective is to raise sufficient funds to ensure that working

capital requirements are met for at least the next 12 months. The Company is also working to put in place a project financing package as soon as possible for the development of the Copperwood Project. 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 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 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.

### ***Copperwood Project Feasibility Study***

In May 2017, the Company had initiated the work required to update the 2012 feasibility study prepared by Orvana on the Copperwood Project. On June 15, 2018, the Company announced the results of the feasibility study (the "**Feasibility Study**") for its Copperwood Project and on July 31, 2018, the Company filed on SEDAR a technical report supporting the results of the Feasibility Study in accordance with Canadian Securities National Instrument 43-101 *Standards of Disclosure for Mineral Properties* ("**NI 43-101**").

The Feasibility Study was conducted by, and under the supervision of, G Mining Services Inc. ("**GMSI**") in collaboration with SGS Canada Inc. (Lakefield), Lycopodium Minerals Canada Ltd, Golder Associates Ltd. and Foth Infrastructure and Environment. The study provides a comprehensive overview of the Copperwood Project and defines an economically feasible, technically and environmentally sound project. The effective date of the Feasibility Study is June 14, 2018.

The Copperwood Project is located, by road, approximately 22.5 km to the north of Wakefield and 40 km from the town of Ironwood, both in Gogebic County, western Upper Peninsula, Michigan.

The Copperwood and its "satellite" deposits are hosted by the limbs of the northwest dipping Presque Isle Syncline within the Nonesuch Formation. The Nonesuch Formation contains two mineralized sequences, one located at the base, the Lower Copper Bearing Sequence ("**LCBS**"), and a stratigraphically higher one, the Upper Copper Bearing Sequence ("**UCBS**"), separated by poorly mineralized sediments with a variable thickness of 0.5 m to 6.0 m.

Feasibility Study assumptions used include an average copper price of \$3.15 / lb, an average silver price of \$16 per oz, treatment charges of \$70 / tonne and refining charges of \$0.07 / lb, an average copper payable rate of 95.8% and an average silver payable rate of 46.9%.

*Summary Economics for the Copperwood Project*

<b>Summary Economics for the Copperwood Project</b>	<b>Total</b>
Pre-tax NPV @8% (\$M)	\$ 162.1
Pre-tax IRR	21%
After-tax NPV@ 8% (\$M)	\$ 116.8
After-tax IRR	18%
Undiscounted After-Tax Cashflow (LOM) (\$M)	\$ 316.0
Payback Period from start of processing-years	3.2
Initial Capital expenditures (\$M)	\$ 275.0
LOM Sustaining Capital Expenditures (\$M)	\$ 156.5
LOM C-1 Cash Costs \$/lb (net of bi-product)	\$ 1.75
Nominal Process capacity mt/d	6,600
Mine Life-years	10.7
<b>Annual Payable Metal Production</b>	
Copper million pounds	61.7
Silver thousand ounces	100
<b>LOM Average Process Recovery</b>	
Copper %	86.0
Silver %	73.4

*Copperwood Mineral Resources*

GMSI prepared a Mineral Resource estimate for the Copperwood Project based on data provided up to and including April 12, 2018. The mineral estimate was prepared under the supervision of Réjean Sirois, P. Eng. of GMSI, an independent "qualified person" as defined in NI 43-101. Geovia GEMS™ and Leapfrog Geo™ software were used to facilitate the resource estimation process.

An 8-hole (2,550 meters) drilling program on and around Section 5, which aimed at completing the drill program initiated in 2017, was completed in March 2018 with results handed over to GMSI in early April 2018 for integration into the mineral resource model and subsequently incorporated in the updated mine plan included in the Feasibility Study.

Total estimated Measured and Indicated Mineral Resources of the Copperwood deposit are as follows:

**1.0% Cu Cut-off Grade – April 30, 2018**

Deposits	Resource Category	Tonnage (M t)	Copper Grade (%)	Silver Grade (g/t)	Copper Contained (M lbs)	Silver Contained (M oz)
LCBS	Measured	27.3	1.68	4.58	1,009	4.0
	Indicated	14.9	1.46	2.47	479	1.2
	M + I	42.2	1.60	3.84	1,488	5.2
	Inferred	1.6	1.18	1.55	43	0.1
UCBS	Measured	-	-	-	-	-
	Indicated	7.1	1.21	3.26	189	0.7
	M + I	7.1	1.21	3.26	189	0.7
	Inferred	-	-	-	-	-
<b>Satellite LCBS</b>	Inferred	34.4	1.17	2.29	888	2.5
<b>Satellite UCBS</b>	Inferred	15.5	1.12	5.92	384	3.0

Notes on Mineral Resources:

- 1) Mineral Resources are reported using a copper price of \$3.00/lb and a silver price of \$18/oz.
- 2) A payable rate of 96.5% for copper and 90% for silver was assumed.
- 3) The Copperwood Feasibility Study reported metallurgical testing with recovery of 86% for copper and 73.5% for silver.
- 4) Cut-off grade of 1.0% copper was used, based on an underground "room and pillar" mining scenario.
- 5) Operating costs are based on a processing plant located at the Copperwood site.
- 6) Assuming a \$3.00/lb Cu price, a sliding scale 3.0% NSR royalty on the Copperwood Project is payable to leaseholders. Assuming closing of the acquisition of the White Pine Project, a 3% NSR royalty on the Copperwood Project payable to Osisko Gold Royalties Ltd. is reduced to a 1.5% NSR royalty.
- 7) Measured, Indicated and Inferred Mineral Resources have a drill hole spacing of 175 m, 250 m and 350 m, respectively.
- 8) No mining dilution and mining loss were considered for the Mineral Resources.
- 9) Rock bulk densities are based on rock types.
- 10) Classification of Mineral Resources conforms to CIM definitions.
- 11) The qualified person for the estimate is Réjean Sirois, P.Eng., Vice President Geology and Resources for GMSI. The estimate has an effective date of April 30, 2018.
- 12) Mineral Resources that are not mineral reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.
- 13) LCBS: Lower Copper Bearing Sequence.
- 14) UCBS: Upper Copper Bearing Sequence.
- 15) The quantity and grade of reported Inferred Resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as Indicated or Measured Mineral Resources.

*Copperwood Mineral Reserves*

The Mineral Reserves estimate was prepared by Carl Michaud, P. Eng. of GMSI, in accordance with the CIM Standards on Mineral Resources and Mineral Reserves. Mineral Reserves are based on Measured and Indicated Mineral Resources dated April 30, 2018 and do not include Inferred Mineral Resources. Measured and Indicated Mineral Resources are inclusive of Proven and Probable Reserves.

The Proven and Probable Reserves stated below were estimated based on these unconstrained Measured and Indicated Resources and the work carried out for the Feasibility Study.

Reserve by Category	Tonnes (M t)	Cu Grade (%)	Ag Grade (g/t)	Cu contained (M lbs)	Ag contained (M oz)
Proven	17.5	1.50	4.43	579.6	2.5
Probable	7.9	1.28	2.50	222.2	0.6
<b>Proven &amp; Probable</b>	<b>25.4</b>	<b>1.43</b>	<b>3.83</b>	<b>801.8</b>	<b>3.1</b>

Notes:

- 1) The Mineral Reserves were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Standards for Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council May 10th, 2014.
- 2) Mineral Reserves are estimated at a cut-off grade of 1% Cu. The cut-off will vary depending on the economic context and the operating parameters.
- 3) Mineral Reserves are estimated using a long-term copper price of \$3.00/lb and a silver price of \$16.00/oz.
- 4) Assuming a \$3.00/lb Cu price, a sliding scale 3.0% NSR royalty on the Copperwood Project is payable to leaseholders. Assuming closing of the acquisition of the White Pine Project, a 3% NSR royalty on the Copperwood Project payable to Osisko Gold Royalties Ltd. is reduced to a 1.5% NSR royalty.
- 5) Mineral Reserves are estimated using an ore loss of 3%, a dilution of 0.1 m for the floor and a 0.25 m for the back of the stope and the development.
- 6) The economic viability of the mineral reserve has been demonstrated.
- 7) A minimum mining height of 2.1 m was used.
- 8) The copper recovery was estimated at 86%.
- 9) The qualified person for the estimate is Carl Michaud, P. Eng., Underground Engineering Manager for GMSI. The estimate has an effective date of May 25, 2018
- 10) The number of metric tonnes was rounded to the nearest thousand. Any discrepancies in the totals are due to rounding effects; rounding followed the recommendations in NI 43-101.

*Mine Operations*

In the Feasibility Study, it is proposed to mine the deposit with a conventional highly mechanized, drill and blast room-and-pillar mining method. The method consists of the extraction of a series of entries and cross-cuts in the ore, leaving pillars in place to support the back. The mine will be accessed via covered box-cut to establish a portal at the mine entrance from the surface, located at the central-west part of the deposit. The mine consists of two mining sectors: West and East. The western part, being higher grade with a thicker mineralized zone, will be mined in priority.

The LOM concentrate production for the Copperwood Project is estimated at 1.264 million dmt at a grade of 24.7% Cu. Payable copper production is estimated at 300,000 tonnes (660 million pounds) with an annual average of 28,000 tonnes (61.7 million pounds) over the 10.7-year mine life which includes a 3-month commissioning and ramp-up period. The average payable rate is 95.8% which includes a 0.2% concentrate loss. Payable silver production over the LOM is 1.1 million ounces with an annual average of 101,000 ounces of silver.

### Environment and Permitting

Environmental baseline studies were done for the Copperwood Project from late 2008 through the spring of 2011. These studies were used to identify existing and historical conditions in the project area and select potential siting of infrastructures based on an environmental management and permit approvals perspective.

An Environmental Impact Assessment was prepared to comply with the State of Michigan requirements of Part 632 of Act No. 451 of the Public Acts of 1994 as amended. This document outlines the baseline monitoring and studies conducted for the Copperwood Project including the natural, social, economic, cultural, and historical aspects of the environment that may be potentially impacted by the project design.

In order to construct and operate the Copperwood Project, a number of permits must be obtained and agreed upon between Highland and environmental regulatory agencies on both the state and federal levels. Highland maintains an open and proactive approach with both state and federal regulators. The major environmental permits required to develop the Copperwood Project include: Part 632 Non-Ferrous Metallic Mining Permit; Part 31 National Pollutant Discharge Elimination System Permit; Part 55 Air Permit to Install; Part 301 Inland Lakes and Streams Permit; Part 303 Wetland Permit; Part 315 Dam Safety Permit; Part 325 Great Lakes Submerged Lands Permit; and Section 10 US Army Corps of Engineers Water Intake Permit. Highland has filed amendment requests, renewals or new applications (as applicable) for these permits and expects to have all required permits by the end of 2018.

### Operating Cash Flow

Operating Cash Flow	LOM (\$M)	\$/t ore	\$/lb Cu Payable
Cu Revenue	2,047	81.92	3.15
Ag Revenue	17	0.67	0.03
Total revenues	2,064	82.59	3.17
Concentrate Transportation Costs	94	3.75	0.14
Treatment & Refining Charges	149	5.96	0.23
Net Smelter Return	1,821	72.88	2.80
Royalties	85	3.39	0.13
Mining Costs	531	21.26	0.82
Processing Costs	308	12.31	0.47
G&A Costs	72	2.88	0.11
<b>Total OPEX (incl. royalties)</b>	<b>996</b>	<b>39.84</b>	<b>1.53</b>
<b>Operating Cash Flow</b>	<b>826</b>	<b>33.03</b>	<b>1.27</b>



*Sensitivity Analysis*

Variance	After-Tax Results			
	NPV 0% (\$M)	NPV 8% (\$M)	IRR (%)	Payback (yrs)
<b>Metal Price Sensitivities</b>				
20%	655.1	318.8	31.9%	2.1
10%	486.1	218.1	25.3%	2.5
0%	316.0	116.8	18.0%	3.2
-10%	145.6	15.4	9.5%	5.2
-20%	-31.8	-89.2	0.0%	10.5
<b>Initial Capital Cost Sensitivities</b>				
20%	266.1	70.2	13.2%	3.9
10%	290.8	93.3	15.4%	3.5
0%	316.0	116.8	18.0%	3.2
-10%	341.4	140.4	21.1%	2.8
-20%	366.8	164.0	24.7%	2.5
<b>Operating Cost Sensitivities</b>				
20%	150.7	22.8	10.3%	4.2
10%	233.5	69.8	14.4%	3.6
0%	316.0	116.8	18.0%	3.2
-10%	398.6	163.9	21.3%	2.9
-20%	481.2	210.9	24.3%	2.6

*Project Timeline*

Subject to receipt of all necessary permits and the Company completing the required financing, construction could begin in January 2019. A 24-month construction period would see commissioning in the first quarter of 2021, with commercial production beginning in the second quarter of 2021.

Project Timeline	Total
Construction and commissioning (months)	27
Mine development (months)	20
Commercial production (yrs)	10.7
Closure (months)	27

*Opportunities to Increase the Value of the Copperwood Project*

Highland and its consultants have identified a number of opportunities to increase the value of the Copperwood Project. These include upgrading inferred mineral resources, increasing mine productivity utilizing innovative continuous mining technologies, conducting further geotechnical studies to optimize ore recovery and minimize mining dilution, reviewing tailings disposal alternatives, and conducting additional testing to maximize metallurgical recoveries.

*Remaining commitments and contingencies related to the Copperwood Project*

In June 2014, the Company had acquired 100% of the Copperwood Project from Orvana for a cash consideration of \$20 million. As part of the acquisition of the Copperwood Project, the Company paid in cash as additional consideration an amount of \$1.25 million on June 17, 2017 and was required to pay in cash or shares of Highland, at Orvana's option, an additional amount of \$1.25 million on June 17, 2018. On May 28, 2018, the Company and Orvana amended the repayment terms of the final amount due and as such, a payment of \$250,000 was made on June 17, 2018. The remaining amount of \$1,000,000 bears interest at a rate of 12% per annum and is repayable in cash at the earlier of (a) 10 days after the closing of an equity financing by the Company of at least \$4,000,000 and (b) November 30, 2018. If the amount due of \$1,000,000 is not repaid by November 30, 2018, the unpaid amount will bear interest at the rate of 15% per annum from then on and the Company will be required to pay a 2% penalty amount to Orvana.

An amount of \$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 \$4.25/lb; and an additional payment of \$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 \$4.50/lb.

*Osisko royalty and option to purchase silver production*

On June 30, 2016, the Company and Osisko Gold Royalties Ltd. ("**Osisko**") amended the terms of their agreement entered into in December 2014 and converted a C\$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 provided that upon final closing of the acquisition of the White Pine Project, the Company will grant to Osisko a 1.5% NSR royalty on all metals from the White Pine North Project, and Osisko's 3.0% NSR royalty on the Copperwood Project will be reduced to 1.5%. To secure the payment of the NSR royalty, Osisko has a general security over all of the Company's assets except the UPX Property.

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

### ***White Pine North Project***

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 Project. 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 \$0.005 (one half of one cent) per pound for the first one billion pounds of proven and probable reserves of copper and \$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 \$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. On August 31, 2018, Highland and CRC agreed to further extend the period to complete the acquisition of the White Pine Project to November 30, 2018.

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 of ore 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 mineral resource was completed in October 1995 by the former White Pine chief geologist based on 526 diamond drill holes. The total historical estimate at that time was 118.7 million short tons averaging 20.7 pounds of copper per ton, for approximately 2.5 billion pounds of contained copper.

***The resources reported for the White Pine North are provided as historical data only. A qualified person has not completed the work necessary to verify the quality of the historic exploration data or to classify the historical estimate as current mineral resources or mineral reserves. The Company is not treating the historical estimate as current mineral resources or mineral reserves and the historical data should not be relied upon until they have been verified.***

Highland intends to develop a conceptual approach to mine development at the White Pine North Project in the near future. Based on the historical resource estimate already identified at the White Pine North deposit, this Project represents a significant medium-term copper production growth opportunity for the Company.

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

In April 2015, the Company entered into an agreement to lease certain mineral rights located in White Pine from a private Michigan limited liability corporation under which the Company was required to make payments of \$225,000 on closing, and \$425,000 and \$150,000 on the first and second anniversary of closing. On December 30, 2016, the Company entered into an amended agreement with the lessor to revise the payment schedule of the remaining amount of \$575,000 owed by the Company to the Lessor. Under the terms of the amended agreement, the Company paid an amount of \$135,000 on December 30, 2016

and agreed to pay the balance of \$440,000 in sixteen equal quarterly principal amounts of \$27,500, plus interest accruing at the rate of 8% per annum until December 2020. The mineral lease is for 20 years, with an option for an additional five years. Annual lease payments are \$25,000 for the first five years, \$30,000 for the sixth and seventh years and \$1,000,000 thereafter.

### ***Keweenaw Project***

The Keweenaw Project, which covers an area of approximately 9,000 acres, includes the 543S deposit. Under a Mining Venture Agreement with BRP dated July 2011 and subsequently amended, the Company has an option to acquire a 65% interest in the Keweenaw Project by spending \$11,500,000 in exploration work (which amount has been spent), providing a feasibility study by December 31, 2018 and securing historical shafts. At June 30, 2018, the Company has written-down to nil the costs related to the Keweenaw Project (an amount of \$654,405 was charged to the consolidated statement of comprehensive loss during the year ended June 30, 2018) as the Company does not plan to conduct any significant work on this property in the near term.

### ***UPX Property***

In May 2017, UPX Minerals Inc. ("**UPX**"), a wholly owned subsidiary of Highland, acquired from Kennecott Exploration Company and Rio Tinto Nickel Company ("**RTX**"), subsidiaries of the Rio Tinto Group, a mineral property located in central Upper Peninsula of Michigan. The UPX Property is comprised of non-contiguous mineral rights covering approximately 1,800 square kilometers (448,000 acres).

The consideration for the acquisition of the UPX Property was \$18.0 million of which \$2.0 million was paid at closing and UPX issued a \$16 million secured non-interest bearing promissory note (the "**Note**") that provides for the payment of \$1.0 million on the first anniversary of the acquisition (paid on May 30, 2018) and \$3.0 million on each of the second, third, fourth, fifth and sixth anniversary dates of the acquisition. The payments under the Note will be accelerated if Highland publicly releases a feasibility study covering any portion of the UPX Property. The Note is secured by a first priority security interest over the acquired property. RTX has retained a 2% NSR on all mineral interests. Highland has an option to buy-down half of the 2% NSR by paying \$8 million to RTX. The option will be exercisable at any time prior to May 30, 2028.

The UPX Property covers several Precambrian geological domains with known potential for nickel-copper massive sulphide deposits, gold deposits, and sediment-hosted base metal deposits. For each of these geological domains, the Company's exploration team is carrying out a systematic compilation of significant historical data obtained with the acquisition of the UPX Property to better understand the potential of the property and is identifying exploration targets using ongoing geological mapping, rock and soil sampling programs, and interpretation of high-resolution magnetic data covering the full extent of the UPX Property. More detail on these activities has been provided by the Company in a press release dated November 21, 2017.

The Company is currently evaluating various options to finance exploration work programs on the UPX Property.

### ***Qualified Persons***

The technical information related to the Copperwood Project Feasibility Study has been reviewed and approved by Sylvain Collard, P. Eng., General Manager, Michigan Operations and a qualified person under NI 43-101.

### **Corporate activities**

#### *Board Appointment*

On October 26, 2017, the Board of Directors appointed Mr. Jean Desrosiers as a director of the Company. Mr. Desrosiers is a retired mining engineer with over 40 years of experience in the mining industry. During his career, Mr. Desrosiers has held senior management positions with Noranda, Falconbridge, Xstrata and Glencore Xstrata.

#### *Exercise of Warrants*

During the year, the Company issued a total of 13,785,536 common shares following the exercise of an equivalent number of share purchase warrants at a price of C\$0.15 per share for total proceeds of \$1,609,628 (C\$2,067,830). A total of 138,804,226 unexercised share purchase warrants expired during the year. At June 30, 2018, there are 1,000,000 warrants outstanding exercisable at a price of Can \$0.15 per share, expiring in March 2020.

#### *Grant of Stock Options*

During the year ended June 30, 2018, the Company granted a total of 12,045,000 incentive stock options to directors, officers, employees and consultants of the Company at an average exercise price of C\$0.12 per share. These stock options will vest over two years and, if not exercised, will expire five years from their grant date. At June 30, 2018, there are 15,200,000 stock options outstanding exercisable at an average price of C\$0.17 per share, expiring at various dates until May 2023.

#### *Rights of Certain Shareholders*

Between November 30, 2016 and March 24, 2017, the Company completed in four tranches a non-brokered private placement of units (common shares and warrants) for gross proceeds of \$22,492,787 (C\$30,022,967). As part of this financing, Greenstone Resources II LP ("**Greenstone**"), Osisko and OMF Fund II (H) LP, a subsidiary of Orion Mine Finance, ("**Orion**") acquired such number of units resulting in Greenstone, Osisko and Orion holding respectively 17.5%, 16.0% and 14.6% of the issued and outstanding common shares of the Company at that time. Greenstone also received nomination rights for the sale of Highland's production pro-rata to its shareholding, and Orion entered into an offtake agreement with the Company entitling Orion to purchase 15% of all concentrates to be produced at the Copperwood Project. Orion also received a right of first refusal on any debt financing for the Copperwood project until September 17, 2018, excluding any royalty or stream financings. Osisko has the right of first refusal on any other debt financing by the Company. So long as they hold not less than 10% of the issued and outstanding number of shares of the Company, Greenstone, Osisko and Orion each have participation rights to maintain their equity ownership level in future equity financings.

### Exploration and Evaluation Assets

Amounts invested in exploration and evaluation assets and capitalized in accordance with the Company's accounting policy on exploration and evaluation expenses, are as follows:

	Copperwood Project	White Pine Project	UPX Property	Other properties	Total
	\$	\$	\$	\$	\$
<b>Year ended June 30, 2017</b>					
Property payments in cash	110,510	150,000	9,885,288	24,412	10,170,210
Finance expense	272,834	-	131,242	-	404,076
Effect of foreign exchange	-	-	-	3,821	3,821
	383,344	150,000	10,016,530	28,233	10,578,107
<b>Year ended June 30, 2018</b>					
Property payments in cash	186,100	25,000	-	28,895	239,995
Finance expense	110,233	-	1,739,727	-	1,849,960
Write-down	-	-	-	(654,405)	(654,405)
Effect of foreign exchange	-	-	-	8,549	8,549
	296,333	25,000	1,739,727	(616,961)	1,444,099

The amounts capitalized during the year ended June 30, 2018 included lease payments of \$186,100 related to the Copperwood Project and \$28,895 related to other properties, a total accretion expense of \$1,849,960 related to the non-interest-bearing promissory note in favor of RTX and the balance of purchase price payable in favor of Orvana until June 17, 2018 and an unrealized loss on foreign of exchange of \$8,549. At June 30, 2018, the Company wrote-down its amount capitalized on the Keweenaw Project, as the Company does not plan to conduct any significant work on this property in the near term. In 2017, the amounts capitalized included the acquisition cost of the UPX property for an amount of \$9,885,288 (which consist of the amount of \$2,000,000 paid at closing and the fair value of the non-interest bearing note of \$16,000,000 payable over a period of 6 years in favor of the vendor, using a discount rate of 20%), lease payments of \$110,510 related to the Copperwood Project and \$24,412 related to other properties, the balance of the additional payment of \$150,000 owing to the lessor of mineral rights in White Pine, a total accretion amount of \$404,076 related to the non-interest bearing promissory note in favor of RTX and the non-interest bearing balance of purchase price payable in favor of Orvana and an unrealized loss on foreign of exchange of \$3,821.

Exploration and evaluation expenses charged to the statements of comprehensive loss during the years ended June 30, 2018 and 2017 are as follows:

	Copperwood Project	White Pine Project	UPX Project	Other projects	Year ended June 30, 2018 Total	Year ended June 30, 2017 Total
	\$	\$	\$	\$	\$	\$
Site preparation, drilling and assaying	1,181,703	-	205,004	-	1,386,707	1,152,422
Labour	999,444	118,511	1,327,165	5,313	2,450,433	857,770
Studies and consultants	3,587,107	249,402	-	-	3,836,509	412,543
Office, overhead and other administrative costs	308,775	135,932	434,349	31,536	910,592	451,535
	6,077,029	503,845	1,966,518	36,849	8,584,241	2,874,270

**Selected Consolidated Financial Information** <sup>(1)(2)</sup>

The following selected financial information should be read in conjunction with the Company's June 30, 2018 and 2017 consolidated financial statements.

Financial Position	June 30, 2018	June 30, 2017
	\$	\$
Cash	3,487,847	14,061,705
Working capital (deficiency)	(1,228,720)	10,584,135
Exploration and evaluation assets	31,795,832	30,351,733
Total assets	35,679,441	44,578,597
Non-current portion of promissory note	6,244,239	7,710,686
Non-current portion of note payable	165,000	275,000
Shareholders' equity	24,045,201	33,302,320

  

Comprehensive Loss	Year ended June 30, 2018	Year ended June 30, 2017 <sup>(3)</sup>	Year ended June 30, 2016 <sup>(3)</sup>
	\$	\$	\$
Net loss for the year	(11,571,693)	(4,482,540)	(3,006,281)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)

  

Cash Flows	Year ended June 30, 2018	Year ended June 30, 2017	Year ended June 30, 2016
Operating activities	(10,668,437)	(4,643,810)	(3,233,927)
Investing activities	(366,772)	(2,306,701)	(171,175)
Financing activities	249,628	20,769,215	2,743,109

- 1) *The Selected Consolidated Financial Information was derived from the Company's June 30, 2018 and 2017 consolidated financial statements, prepared in accordance with IFRS.*
- 2) *The Company's June 30, 2018 and 2017 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 and completing the acquisition of the White Pine Project. 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. These conditions and uncertainties 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, 2018 and 2017 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.

#### *Change in presentation currency*

Prior to July 1, 2017, the Company reported its annual and quarterly consolidated statements of financial position, comprehensive loss, shareholder's equity and cash flows in Canadian dollars. Effective July 1, 2017, the Company changed its reporting currency to the United States dollar to facilitate the comparability of the Company's financial information with those of similar mining companies. In accordance with International Accounting Standard 21, *The Effects of Changes in Foreign Exchange Rates*, the Company's consolidated financial statements for all periods presented have been translated into US dollars and all comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

#### *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.

#### *Year ended June 30, 2018 compared to year ended June 30, 2017*

The Company incurred a net loss of \$11,571,693 (\$0.02 per share) during the year ended June 30, 2018 compared to a net loss of \$4,482,540 (\$0.02 per share) in 2017.

The increased loss in 2018 is mostly due to the increased exploration and evaluation expenses incurred (\$8,584,241 in 2018 compared to \$2,874,270 in 2017). In 2018, the Company incurred higher studies expenses related to the preparation of the Copperwood Feasibility Study (\$3,836,509 in 2018 compared to \$412,543 in 2017) and additional labor costs due to the hiring of additional staff to support the completion of the Copperwood Feasibility Study and to conduct exploration activities on the UPX Property (\$2,450,433 in 2018 vs \$857,770 in 2017).

Management and administration expenses of \$1,698,615 in 2018 compared to \$1,048,024 in 2017 reflect higher wages and fees following the hiring of additional corporate staff (wages and fees of \$1,032,772 in 2018 compared to \$700,716 in 2017), higher professional fees due mostly to increased legal fees (\$271,862 in 2018 compared to \$139,339 in 2017), and higher investor relations and travel expenses related to attending key mining conferences and other investor relations events and listing fees on the OTCQB (\$209,881 in 2018 compared to \$72,073 in 2017).

Share-based compensation totaled \$503,512 in 2018 (\$20,318 in 2017) following the grant of 12,045,000 options to employees, directors, officers and consultants of the Company in August 2017, October 2017 and May 2018.

At June 30, 2018, the Company has written-down to nil the costs related to the Keweenaw Project (\$654,405) as it does not plan to conduct any significant work on this project in the near term.



The Company incurred a finance expense of \$31,833 in 2018 (\$17,050 in 2017) related to the interest-bearing note payable owed to the lessor of certain mineral rights located in White Pine and the balance of the purchase price payable to Orvana.

During the year, the Company realized \$112,343 (\$39,270 in 2017) in finance income on liquidities held following the completion of private placements during the year ended June 30, 2017.

*4<sup>th</sup> quarter ended June 30, 2018 compared to the 4<sup>th</sup> quarter ended June 30, 2017*

During the 4<sup>th</sup> quarter ended June 30, 2018, the Company incurred a net loss of \$2,700,885 (\$0.01 per share), compared to a net loss of \$1,447,412 (nil per share) during the 4<sup>th</sup> quarter ended June 30, 2017. The increased loss during the 4<sup>th</sup> quarter ended June 30, 2018 compared to 2017 is mainly due to increased exploration and evaluation expenses of \$575,389 related to the Copperwood Project Feasibility Study, increased management expenses of \$162,499 due to the hiring of additional corporate staff, the write-down in the amount of \$654,405 related to the Keweenaw Project, share-based remuneration of \$98,831 following the grant of stock options in 2017 and 2018, partially offset by an unrealized gain on foreign exchange of \$73,479, compared to a loss of \$110,069 in 2017, on the conversion of the cash and cash equivalents held in US dollars by Highland at June 30, 2018.

*Selected Quarterly Financial Information*

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

Period ended	Revenues	Net loss	Basic and diluted loss per share
	\$	\$	\$
June 30, 2018	26,127	2,700,885	(0.01)
March 31, 2018	25,545	2,934,837	(0.01)
December 31, 2017	31,933	3,236,605	(0.01)
September 30, 2017	28,738	2,699,366	(0.00)
June 30, 2017	31,376	1,447,412	(0.00)
March 31, 2017	6,724	2,035,614	(0.01)
December 31, 2016	1,143	456,901	(0.00)
September 30, 2016	27	542,613	(0.00)

*Liquidity and Capital Resources*

At June 30, 2018, the Company had a working capital deficiency of \$1,228,720 compared to a working capital of \$10,584,135 at June 30, 2017. The decrease in the working capital during the year ended June 30, 2018 is mainly attributable to exploration and evaluation expenses of \$8,584,241, management and administration expenses of \$1,698,615, business development expenses of \$182,373, the acquisition of capital assets of \$126,777 (consisting mostly of leasehold improvements and the acquisition of vehicles and computer-related equipment), lease payments of \$239,995 related to the Copperwood Project and other mineral leases held, the reimbursement of an amount of \$110,000 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan, the reimbursement of an amount of \$250,000 under the balance of purchase price payable

to Orvana, the reimbursement of an amount of \$1,000,000 under the promissory note due to RTX, with all such expenditures partially offset with the proceeds of \$1,609,628 received following the exercise of 13,785,536 share purchase warrants.

In November 2017, February 2018 and March 2018, the Company issued a total of 13,785,536 common shares following the exercise of an equivalent number of share purchase warrants at a price of C\$0.15 per share for total proceeds of \$1,609,628 (C\$2,067,830).

During the year ended June 30, 2017, the Company had completed a private placement, which resulted in the issuance of 300,229,670 units (each unit comprising one common share and one half of one common share purchase warrant) at a price of C\$0.10 per unit for total gross proceeds of \$22,492,787 (\$30,022,967), partially offset by share issue expenses of \$799,990.

The Company will require additional funds to settle its working capital deficiency, to meet all existing commitments, to provide for management and administration expenses for the next 12 months and to further pursue exploration and development activities on its mineral properties, including the development of the Copperwood Project. The Company's primary objective is to raise sufficient funds to ensure that working capital requirements are met for at least the next 12 months. The Company is also working to put in place a project financing package as soon as possible for the development of the Copperwood Project. 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 delay, reduce the scope of, or eliminate its future exploration and development activities, and / or it may have to sell some or all of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

#### *Capital Management*

The Company defines capital that it manages as loans (including note payable, promissory note 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, 2018, managed capital was \$34,320,021 (\$42,832,847 at June 30, 2017). There were no changes in the Company's approach to capital management during the year ended June 30, 2018. The Company is not subject to any externally imposed capital requirements as at June 30, 2018.

#### *Off-Balance Sheet Arrangements*

At June 30, 2018, the Company has no off-balance sheet arrangements.

#### *Transactions with Related Parties*

During the year ended June 30, 2018, the Company incurred administration expenses of \$67,151 for office-related services provided by Reunion Gold Corporation ("**Reunion**"), a related party by virtue of common key management and director (administration expenses of \$76,474 from Reunion in 2017).

During the year ended June 30, 2018, the Company recovered amounts of \$186,010 for management services provided to other TSXV-listed companies, related by virtue of common key management, including Odyssey Resources Limited and Reunion (an amount of \$114,696 was recovered during the year ended June 30, 2017). The services are provided at cost. At June 30, 2018, the Company had an amount receivable from Odyssey Resources Limited of \$3,935 included in prepaid expenses and other on the consolidated statements of financial position (nil at June 30, 2017).

Remuneration to directors and key management of the Company, including the Executive Chairman, the President and CEO and the CFO, totaled \$946,883 during the year ended June 30, 2018 (\$705,592 in 2017), as more fully detailed in Note 16 to the June 30, 2018 and 2017 consolidated financial statements filed on SEDAR.

#### *Outstanding Share Data*

At September 11, 2018, the Company has 472,933,689 common shares issued and outstanding, 1,000,000 share purchase warrants exercisable at a price of \$0.15 per share until March 17, 2020, and 15,200,000 stock options outstanding with an average exercise price of \$0.17, expiring at various dates until May 2023.

#### ***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 Note 3 to the June 30, 2018 and 2017 consolidated financial statements filed on SEDAR.

#### ***Significant accounting judgments 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. 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, include title to mineral property interests, exploration and evaluation assets, fair value of liabilities, environmental liability and going concern. Details of the significant accounting judgments and estimates are presented in Note 3 to the June 30, 2018 and 2017 consolidated financial statements filed on SEDAR.

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

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of the Company's consolidated financial statements that are expected to be relevant to the Company are presented in Note 3 to the June 30, 2018 and 2017 consolidated financial statements filed on SEDAR.

### **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 has no history of earnings and has limited financial resources. The Company does not expect to receive revenues from operations in the foreseeable future, if at all. 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.

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2018:

	Carrying amount	Settlement amount	Within 6 months	Within 1 year	2-3 years	Over 3 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,356,742	1,356,742	855,617	501,125	-	-
Note payable	275,000	275,000	55,000	55,000	165,000	-
Balance of purchase price payable	1,004,333	1,004,333	1,004,333	-	-	-
Promissory note	8,745,487	15,000,000	-	3,000,000	6,000,000	6,000,000
	<b>11,381,562</b>	<b>17,636,075</b>	<b>1,914,950</b>	<b>3,556,125</b>	<b>6,165,000</b>	<b>6,000,000</b>

#### *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 and cash equivalents which are mainly held in accounts with a major Canadian-based chartered bank.

#### *Interest Rate Risk*

The Company's interest rate risk relates to cash and cash equivalents. 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 and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately \$35,000.

### *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 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, 2018, financial assets and liabilities denominated in a foreign currency consisted of cash and cash equivalents of \$3,155,805 and accounts payable and accrued liabilities of \$37,639. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately \$312,000.

### ***Other Risks and Uncertainties***

Highland is subject to a number of significant risks and uncertainties due to the nature of its business which includes the acquisition, exploration and development of mineral projects. Failure to successfully address such risks and uncertainties could have a significant negative impact on Highland's overall operations and financial condition and could materially affect the value of Highland's assets and impact its future operating results and business plans. Therefore, an investment in the securities of Highland involves significant risks and should be considered speculative. The risks and uncertainties described below are not necessarily the only ones that Highland could be facing. Additional risks or uncertainties not presently known to Highland or that Highland currently considers immaterial may also impair its business operations. Highland cannot give assurance that it will successfully address these risks. Readers should carefully consider these risks and uncertainties.

### *Requirement for additional capital*

The ability of Highland to achieve its plans and objectives is dependent on its ability to raise sufficient amounts of capital through equity financings, debt financings, joint venturing of projects, sale of projects and / or other means.

Highland requires substantial amount of funds to continue its planned activities including: a) for the development of its Copperwood Project and to place it into commercial production; if adequate financing is not available, the construction of the Copperwood mine and the commencement of production may be delayed indefinitely; b) to complete the acquisition of the White Pine Project, Highland requires funds to replace an environmental bond posted by CRC in relation with the remediation and closure plan of the historical White Pine mine site; if adequate financing is not available, the acquisition of the White Pine Project may be delayed or not be completed; c) to conduct exploration programs on its UPX Property and to repay the outstanding principal of a secured promissory note under which annual payments of \$3.0 million will be due in May of each of the years 2019 to 2023; if adequate financing is not available, exploration programs may be delayed and RTX could enforce its rights under the secured promissory note and repossess the RTX Property; and d) for general and administrative expenses.

Highland's ability to raise the necessary funds depends in part upon the market's perception of its mineral projects including the results of the Copperwood Feasibility Study, the price of and demand for copper and other metals, the results of exploration programs, the state of the market to finance resource projects and global market conditions in general. No assurance can be given that additional capital will be available at all or available on terms acceptable to Highland.

#### *Other Company Specific Risks*

- The mineral resources and mineral reserves of the Copperwood deposits are estimates and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be inaccurate. Actual recoveries of copper from a deposit may be lower than those indicated by test work. Any material change in the quantity of mineralization, grade or stripping ratio may affect the economic viability of the Copperwood Project. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Mineral resources that are not mineral reserves do not have demonstrated economic viability.
- The market price of Highland's common shares, the Copperwood resource and reserve estimates, the assumptions used in the Copperwood feasibility study, and Highland's ability to complete a financing may be significantly and adversely affected by declines in the price of copper. Copper prices are volatile and can be affected by many factors beyond the control of Highland, including, amongst others: changes in supply and demand, speculative activities, international economic conditions, political conflicts and wars. The price of copper has fluctuated widely in recent years.
- Putting a mining project into production requires substantial planning and expenditures and, while several members of the Company's management have mine construction and operating experience, as a corporation, Highland does not have any experience in taking a mining project to production; as a result, Highland's future success is more uncertain than if it had a proven history of mine construction and operation.
- In Michigan, mineral rights are property rights that can be sold, transferred or leased. Highland has taken steps to verify title with respect to its most material mineral properties. Although Highland 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.
- Highland's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, occupational health, waste disposal, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining operations which would result in environmental pollution. A breach of such legislation by Highland may result in the imposition of fines and penalties which can be substantial.
- Highland has applied to renew, amend or obtain certain permits required to begin construction of the Copperwood mine and commence production. Although the Company is confident that it can obtain the required permits, there is no assurance it will obtain all necessary permits within the anticipated timeline or at all. Failure to obtain such permits could delay or prevent the beginning of construction and production.
- 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 which Highland may be unable or choose not to insure.

- The executive officers, directors, and several shareholders of the Company (including Osisko, Orion and Greenstone) and their affiliated entities together beneficially own a majority of the Company's outstanding common shares. As a result, these shareholders, if they act together or in a block, could have significant influence over most matters that require approval by our shareholders, including the election of directors and approval of significant corporate transactions, even if other shareholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of Highland that other shareholders may view as beneficial.
- It may be difficult for Highland to find and hire qualified people in the mining industry currently residing in Michigan or to obtain all of the necessary services or expertise to conduct operations in Michigan. If qualified people and services or expertise cannot be obtained in Michigan, Highland may need to seek and obtain those services from people located outside of these areas, which will require work permits and compliance with applicable laws and could result in delays and higher costs.
- The Company faces substantial competition within the mining industry from other mineral companies with much greater financial and technical resources.
- Future issuance of common shares into the public market may result in dilution to the existing shareholders.
- 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.
- Development projects are uncertain and actual capital and operating costs and economic returns may differ significantly from those estimated for a project prior to production. The economic feasibility of development projects is based on many factors such as: estimation of mineral reserves, anticipated metallurgical recoveries, environmental considerations and permitting, future metals prices, and anticipated capital and operating costs of these projects. Any of the following events, among others, could affect the profitability or economic feasibility of a project: unanticipated changes in grade and tonnes of ore to be mined and processed, unanticipated adverse geological conditions, unanticipated metallurgical recovery problems, incorrect data on which engineering assumptions are made, availability and costs of labour, costs of processing and refining facilities, availability of economic sources of power, adequacy of water supply, availability of surface on which to locate processing and refining facilities, adequate access to the site, unanticipated transportation costs, government regulations (including regulations with respect to royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, and the environment), fluctuations in metals prices, and accidents, labour actions and force-majeure events. It is not unusual in new mining operations to experience unexpected problems during the start-up phase, and delays can often occur at the start of production. It is likely that actual results for a project will differ from estimates and assumptions, and these differences may be material. In addition, experience from actual mining or processing operations may identify new or unexpected conditions that could reduce production below, or increase capital or operating costs above, estimates.
- Title to mineral rights and surface rights may be disputed.

- Environmental legislation is evolving in the direction of stricter standards and enforcement, higher fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including obtaining additional permits, and may cause material changes or delays in, or the cancellation of, operations.
- 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 in the mining sector.
- Social and environmental groups may be opposed to the development of mining projects.

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

This MD&A contains “forward-looking information” within the meaning of Canadian securities legislation and “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, “forward-looking statements”). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect our expectations or beliefs regarding future events. Forward-looking statements include, but are not limited to: statements with respect to the completion of a financing to fund the Company’s plans and objectives; statements with respect to the Copperwood Project including the estimation of mineral resources and mineral reserves, the timing and cost of the construction of the mine, the timing and amount of estimated future production, costs of production and capital expenditures; and statements with respect to the acquisition of the White Pine Project. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, “believes” or variations of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. In this document certain forward-looking statements are identified by words including “anticipation”, “plan” and “expected”.

By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the Company’s ability to raise capital, risks inherent to future prices of copper and other metals, the accuracy of mineral resource and mineral reserve estimates, increased operating and capital costs, changes to governmental regulations, compliance with governmental regulations and environmental laws and regulations, reliance on approvals and permits from governmental authorities, uncertainties and risks related to the acquisition of the White Pine Project, uncertainties and risks related to the potential development of the UPX Property, challenges to title to the Company’s mineral properties, maintaining social license to operate, dependence on key management personnel, competition in the mining industry, and other risks of the mining industry as well as those factors detailed from time to time in the Company’s interim and annual financial statements and MD&A, all of which are filed and available for review under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause our actual results, performance or achievements to differ materially from those described in our forward-looking statements, there may be other factors that cause our results, performance or achievements not to be as anticipated, estimated or intended.



There can be no assurance that our forward-looking statements will prove to be accurate, as our actual results, performance or achievements could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on our forward-looking statements.

#### **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 September 11, 2018. 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)).