



CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 2019 and 2018

In US dollars



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Highland Copper Company Inc.

Opinion

We have audited the consolidated financial statements of Highland Copper Company Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at June 30, 2019 and 2018
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at June 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 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 been yet generated and it has incurred net losses for the last two years, and has an accumulated deficit and a working capital deficiency as at June 30, 2019. In addition, Highland Copper Company Inc. was in breach of the terms of a promissory note agreement arising from the non-payment of \$3,000,000 which was to be made on May 30, 2019.



As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on Highland Copper Company Inc.'s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

*KPMG LLP**

The engagement partner on the audit resulting in this auditors' report is Nathalie Labelle.

Montréal, Canada

October 28, 2019

Highland Copper Company Inc.

Consolidated Statements of Financial Position

<i>(in US dollars)</i>	June 30, 2019	June 30, 2018
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 5)	605,046	3,487,847
Sales taxes receivable	12,767	132,093
Prepaid expenses and other	36,899	123,663
	654,712	3,743,603
Non-current		
Capital assets (Note 6)	81,768	140,006
Exploration and evaluation assets (Note 7)	20,385,814	31,795,832
TOTAL ASSETS	21,122,294	35,679,441
LIABILITIES		
Current		
Accounts payable and accrued liabilities	913,359	1,356,742
Credit facility, including accrued interest (Note 8)	2,495,484	-
Note payable (Note 9)	110,000	110,000
Balance of purchase price payable (Note 10)	-	1,004,333
Promissory note, including accrued interest (Note 11)	15,128,068	2,501,248
	18,646,911	4,972,323
Non-current		
Note payable (Note 9)	55,000	165,000
Promissory note (Note 11)	-	6,244,239
Environmental liability (Note 12)	257,004	252,678
TOTAL LIABILITIES	18,958,915	11,634,240
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	66,137,274	66,137,274
Contributed surplus	11,681,150	11,349,577
Deficit	(77,278,822)	(55,123,241)
Cumulative translation adjustment	1,623,777	1,681,591
TOTAL EQUITY	2,163,379	24,045,201
TOTAL LIABILITIES AND EQUITY	21,122,294	35,679,441

Going Concern (Note 2); Commitments and Contingencies (Note 7 and 24); Events after the Reporting Date (Note 26).

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 Net Loss and Comprehensive Loss

<i>(in US dollars)</i>	Years ended June 30,	
	2019	2018
	\$	\$
Expenses and other items		
Exploration and evaluation (Note 15)	2,410,219	8,766,614
Management and administration (Note 16)	1,359,322	1,698,615
Share-based compensation	168,612	503,512
Depreciation and amortization (Note 6)	48,252	44,609
Write-down of exploration and evaluation assets (Note 7)	18,010,770	654,405
Accretion on environmental liability (Note 12)	4,326	6,363
Finance expense (Note 17)	219,908	31,833
Finance income	(19,005)	(112,343)
Gain on foreign exchange	(46,823)	(21,915)
Net loss for the year	(22,155,581)	(11,571,693)
Other comprehensive income		
Item that will not be subsequently reclassified to income		
Foreign currency translation adjustment	(248,958)	651,987
Item that may be subsequently reclassified to income		
Foreign currency translation adjustment	191,144	(450,553)
Comprehensive loss for the year	(22,213,395)	(11,370,259)
Basic and diluted loss per common share (Note 19)	(0.05)	(0.02)
Weighted average number of common shares - basic and diluted	472,933,689	464,575,595

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, 2018	472,933,689	66,137,274	11,349,577	(55,123,241)	1,681,591	24,045,201
Share-based compensation	-	-	168,612	-	-	168,612
Below market element of credit facility (Note 8)	-	-	162,961	-	-	162,961
Net loss for the year	-	-	-	(22,155,581)	-	(22,155,581)
Foreign currency translation adjustment	-	-	-	-	(57,814)	(57,814)
Balance at June 30, 2019	472,933,689	66,137,274	11,681,150	(77,278,822)	1,623,777	2,163,379
Balance at June 30, 2017	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 13)	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
Balance at June 30, 2018	472,933,689	66,137,274	11,349,577	(55,123,241)	1,681,591	24,045,201

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>	Years ended June 30,	
	2019	2018
	\$	\$
Operating activities		
Net loss for the year	(22,155,581)	(11,571,693)
Adjustments		
Share-based compensation	168,612	503,512
Depreciation and amortization	48,252	44,609
Write-down of exploration and evaluation assets	18,010,770	654,405
Accretion on environmental liability	4,326	6,363
Gain on sale of capital assets	(19,776)	-
Unrealized gain on foreign exchange	(46,823)	(21,915)
Finance expense	199,596	-
Finance income accrued	(19,005)	(112,343)
Finance income received	21,884	117,200
Changes in other working capital items		
Sales taxes receivable	118,777	(93,614)
Prepaid expenses and other	86,795	(60,073)
Accounts payable and accrued liabilities	(447,462)	(143,554)
	(4,029,635)	(10,668,437)
Investing activities		
Acquisition of capital assets (Note 6)	-	(126,777)
Proceeds on sale of capital assets (Note 6)	29,379	-
Additions to exploration and evaluation assets (Note 7)	(352,752)	(239,995)
	(323,373)	(366,772)
Financing activities		
Issue of share capital (Note 13)	-	1,609,628
Credit facility, net of transaction costs (Note 8)	2,586,917	-
Reimbursement of note payable (Note 9)	(110,000)	(110,000)
Reimbursement of balance of purchase price payable (Note 10)	(1,000,000)	(250,000)
Reimbursement of promissory note (Note 11)	-	(1,000,000)
	1,476,917	249,628
Effect of exchange rate changes on cash held in foreign currency	(6,710)	211,723
Net change in cash and cash equivalents	(2,882,801)	(10,573,858)
Cash and cash equivalents, beginning of year	3,487,847	14,061,705
Cash and cash equivalents, end of year	605,046	3,487,847
<i>Supplemental cash flow information</i>		
Accretion of promissory note included in exploration and evaluation assets (Note 7)	6,254,513	1,849,960
Below market element of credit facility in contributed surplus (Note 8)	162,961	-

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

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

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 and on the OTCQB Venture Marketplace (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 referred to as the UPX Property, which was acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX"), subsidiaries of the Rio Tinto Group.

1. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved these consolidated financial statements on October 28, 2019.

Basis of measurement

These consolidated financial statements were prepared on a going concern and historical cost basis. Financial assets and liabilities are measured at fair value at inception pursuant to IFRS 9, *Financial Instruments*, and equity-classified share-based payment arrangements are measured at fair value at grant date pursuant to IFRS 2, *Share-based payment*.

The methods used to measure fair value are discussed further in Note 4.

Functional and reporting currency

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. The exchange difference resulting from the conversion of the consolidated financial statements from its functional currency to its reporting currency is included in other comprehensive income presented in equity.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

2. GOING CONCERN

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

The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities. The recovery of amounts recorded for exploration and evaluation assets depend on the ability of the Company to complete the acquisition of the White Pine Project, the ability of the Company to obtain the necessary financing to complete the development of the projects, and future profitable production from the projects or proceeds from their disposition thereof.

To date, the Company has not earned revenues and is in the exploration and development stage. The Company has incurred a net loss of \$22,155,581 during the year ended June 30, 2019 (\$11,571,693 in 2018) and has a deficit of \$77,278,822 at June 30, 2019 (a deficit of \$55,123,241 at June 30, 2018). The Company also has a working capital deficiency of \$17,992,199 at June 30, 2019 (a working capital deficiency of \$1,228,729 at June 30, 2018), including an amount due of \$15,128,068 related to the promissory note described in Note 11, which amount is payable on demand, following default by the Company of the payment of \$3,000,000 which was to be made on May 30, 2019.

The Company requires additional funds to settle its working capital deficiency, to meet all existing commitments, to complete the acquisition of the White Pine Project and to provide for management and administration expenses for the next 12 months. The Company has engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available, including the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, there is no assurance that the Company will be successful in completing any such transactions. Should the Company not be successful in completing any such transactions, this will 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

Years ended June 30, 2019 and 2018 (in US dollars)

3. CHANGE IN ACCOUNTING POLICY

Adoption of IFRS 9, Financial instruments ("IFRS 9")

On July 1, 2018, the Company adopted IFRS 9 on a retrospective basis with restatement of comparative periods in accordance with the transitional provision of IFRS 9. IFRS 9 sets out the requirements for recognizing financial assets and liabilities and replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The adoption of IFRS 9 resulted in a change in classification of the financial assets to the financial assets at amortized cost category while they were classified as loans and receivables under the classification prescribed by IAS 39. There was no change in the classification of financial liabilities. There was no impact on carrying values as a result of the adoption on IFRS 9; therefore, comparative amounts have not been restated.

4. SUMMARY OF ACCOUNTING POLICIES

a) 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") 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.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

b) *Foreign currency translation*

Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency in effect at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the reporting year, adjusted for effective interest and payments during the reporting year, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate in effect at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate in effect at the date of the transaction. Foreign currency differences arising on translation are recognized in net loss.

The assets and liabilities in foreign operations whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the balance sheet rate. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized exchange gains and losses resulting from translation are presented in other comprehensive income.

c) *Financial instruments*

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes party to the contracts that give rise to them and are classified as amortized cost, FVPL or fair value through other comprehensive income ("FVOCI"), as appropriate. The Company considers whether a contract (other than a financial asset) contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The Company has no financial assets at FVPL and at FVOCI.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

c) *Financial instruments* (continued)

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Cash and cash equivalents, including accrued interest, are classified as and measured at amortized cost.

Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Accounts payable and accrued liabilities, credit facility, including accrued interest, note payable, balance of purchase price payable and promissory note are classified as and measured at amortized cost.

Fair values

Financial instruments that are measured at fair value subsequent to initial recognition, if any, are grouped into a hierarchy based on the degree to which the fair value is observable as follows: Level 1: Quoted prices in active markets for identical items (unadjusted); Level 2: Observable direct or indirect inputs other than Level 1 inputs; or Level 3: Unobservable inputs (not derived from market data).

Impairment of financial assets

A loss allowance for expected credit losses is recognized in net loss for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and, if any, FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has deteriorated significantly since initial recognition and whose credit risk is low.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

c) *Financial instruments* (continued)

Derecognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset, then derecognition is appropriate.

A financial liability is derecognised when the associated obligation is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

d) *Cash and cash equivalents*

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

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

e) *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

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

f) *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.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

g) *Impairment of non-financial assets*

At the end of each reporting date, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Factors which could trigger an impairment review include, but are not limited to, the expiration of the right to explore in the specific area during the period or said right will expire in the near future and is not expected to be renewed; substantive expenditures in a specific area are neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale due to significant negative industry or economic trends and a significant drop in commodity prices.

The recoverable amount of the asset is estimated 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.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

h) 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

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

i) 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.

j) 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's 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

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

k) *Transactions with shareholders*

Transactions entered into with shareholders, where the Company is receiving a benefit when compared to a similar transaction entered into with an arm's length party, are divided between a capital transaction and a deemed arm's length transaction. The portion of the deemed arm's length transaction, measured at fair value, is recognised in profit or loss and the remaining portion of the transaction is recognised in equity as contributed surplus.

l) *Share-based payment transactions*

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

m) *Loss per share*

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

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

n) Significant accounting judgments and estimates

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

Title to mineral property interests

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

The final closing of the acquisition of the White Pine Project can only be completed once the Company has i) released Copper Range Company ("CRC") of a \$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, 2019, and on that date was further extended to January 31, 2020 (Note 26). The Company will also need to post the required financial assurance bond with the MDEQ, estimated at \$1.7 million. 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

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

n) 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 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. The Company's financial condition at June 30, 2019 and the related engagement of BMO as financial advisor to the Company to review all funding options available to the Company are factors which have triggered an impairment review of all of the Company's exploration and evaluation assets.

Fair value of liabilities

The Company determined the fair value of the credit facility, the non-interest-bearing promissory note and the balance of purchase price payable at inception using the discounted cash flow method. The discount rate used is 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

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

o) Accounting standards issued but not yet applied

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

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, *Leases*, and related interpretations. Accordingly, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 effective July 1, 2019.

During the year ended June 30, 2019, the Company progressed in its assessment and implementation of IFRS 16. This work consisted in reviewing contracts, aggregating data to support the evaluation of the financial impact and performing a preliminary calculation of the impact of the adoption of IFRS 16 on the Company's consolidated financial statements.

The Company is using the modified retrospective approach for transition. As a result, comparative information will not be restated. Accordingly, the Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease and the definition of a lease in accordance with IAS 17, and IFRIC 4 will continue to apply to those leases entered or modified before April 1, 2019. Also, the Company will apply recognition exemptions across its portfolio of leased assets for short-term leases and leases of low value items.

The Company is still evaluating the impact of the adoption of this standard and does not expect IFRS 16 to have a material impact on its consolidated financial statements.

On implementation of IFRS 16, the Company expects i) an increase in right-of-use assets and liabilities as some leases currently classified as operating leases will be recognized on the consolidated statement of financial position; ii) a reduction in exploration or administration expenses and an increase in amortization expense of the right-of-use asset and an increase in finance expense on the related lease liabilities; and iii) an increase in cash flows from investing activities and a decrease in cash flows from operating activities as operating lease payments will be reclassified to financing cash flows as components of interest and lease liabilities.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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.

5. CASH AND CASH EQUIVALENTS

	June 30, 2019	June 30, 2018
	\$	\$
Cash	605,046	734,984
Cash equivalents	-	2,752,863
	605,046	3,487,847

At June 30, 2019, the cash position of \$605,046 is restricted to be disbursed pursuant to an approved budget by the lenders of the Credit Facility (Note 8).

At June 30, 2018, cash equivalents were comprised of a term deposit amounting to \$2,750,000, which bore interest at a rate of 1.9% and matured on July 11, 2018.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

6. CAPITAL ASSETS

Capital assets subject to depreciation and amortization are presented below.

	Intangible assets	Vehicles	Computer equipment and furniture	Exploration equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
Cost						
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)
Balance at June 30, 2018	45,141	108,822	98,252	186,250	35,000	473,465
Disposals	-	(83,284)	-	(5,380)	-	(88,664)
Write-down	(45,141)	-	-	-	-	(45,141)
Effect of foreign exchange	-	-	(932)	-	-	(932)
Balance at June 30, 2019	-	25,538	97,320	180,870	35,000	338,728
Accumulated depreciation and amortization						
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)
Balance at June 30, 2018	45,141	79,117	45,696	153,783	9,722	333,459
Disposals	-	(73,681)	-	(5,380)	-	(79,061)
Depreciation and amortization	-	10,903	19,520	6,162	11,667	48,252
Write-down	(45,141)	-	-	-	-	(45,141)
Effect of foreign exchange	-	-	(549)	-	-	(549)
Balance at June 30, 2019	-	16,339	64,667	154,565	21,389	256,960
Carrying amounts						
Balance at June 30, 2018	-	29,705	52,556	32,467	25,278	140,006
Balance at June 30, 2019	-	9,199	32,653	26,305	13,611	81,768

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

7. 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, 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
Property payments in cash	168,600	25,000	-	26,652	220,252
Finance expense (a)	132,500	-	6,254,513	-	6,387,013
Write-down (b)	-	-	(18,010,770)	-	(18,010,770)
Effect of foreign exchange	-	-	-	(6,513)	(6,513)
	301,100	25,000	(11,756,257)	20,139	(11,410,018)
Balance, June 30, 2019	17,102,484	3,132,246	-	151,084	20,385,814

(a) The amount of \$6,254,513 under the UPX Property represents the amount of accretion related to the Note issued to RTX in May 2017 following the event of default described in Note 11 and the reclassification of the full amount of the Note as a current liability.

(b) At June 30, 2019, the Company has written off the amount of \$18,010,770 in exploration and evaluation assets related to the UPX Property as it does not plan to conduct any work on this property in the near future.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

7. 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 the outstanding shares of CRI. The Company paid in May 2019, as additional consideration, the final amount due of \$1,000,000 (Note 10).

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 20th 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

Years ended June 30, 2019 and 2018 (in US dollars)

7. 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 ongoing environmental obligations. Final closing, which initially was to occur by December 31, 2015, was extended on a number of occasions until August 31, 2019, and was further extended on that date to January 31, 2020 (Note 26). 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, 2019, 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

Years ended June 30, 2019 and 2018 (in US dollars)

7. 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 9. 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

In accordance with an agreement entered into in December 2014 (and subsequently amended in June 2016), Osisko holds a 3.0% net smelter return ("NSR") royalty on all metals produced from the mineral rights and leases associated with the Copperwood Project. The June 2016 amendment also provided 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%. To secure the payment of future NSR royalty, Osisko has a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co

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. 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.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

7. 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, mineral properties 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") payable over a period of 6 years (Note 11). The Note is secured by a first priority security interest over the UPX 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 is exercisable at any time prior to May 30, 2028.

At June 30, 2019, the Company has written off the amount of \$18,010,770 in exploration and evaluation assets related to the UPX Property as it does not plan to conduct any work on this property in the near future.

Other properties

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.

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 has no plans to conduct any work on this property in the near term.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

8. CREDIT FACILITY

On May 20, 2019, the Company entered into a related party loan agreement with two of its shareholders, Greenstone and Osisko (collectively, the "Lenders"), which are deemed to have significant influence over the Company. Under the terms of the loan agreement, the Lenders have agreed to provide the Company with a loan of up to \$4,500,000 (the "Principal Amount"). The loan bears interest at a rate of 12% per annum, has a maturity date of February 28, 2020 (the "Maturity Date") and is to be disbursed in a number of tranches pursuant to an approved budget, including the settlement of certain outstanding liabilities, expenses to conduct a scoping study on the White Pine Project and expenses to conduct a strategic review process. The Principal Amount of the loan as well as accrued interest are payable at the latest on the Maturity Date of the loan. The loan is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co.

On May 24, 2019, the Company made an initial drawdown for \$2,750,000. The Company accounted for the estimated fair value of the loan using a discount rate of 20%. The fair value adjustment of \$162,961 representing the below market element of the loan was recorded in contributed surplus. Transaction costs of \$163,083, consisting of an arrangement fee and legal fees, were presented as a reduction of the loan. These expenses are amortized over the loan period of nine months using the effective interest rate method. The effective interest rate of the loan is 23.6%.

The balance of the loan is determined as follows:

	Years ended June 30,	
	2019	2018
	\$	\$
Balance, beginning of year	-	-
Loan, discounted at the rate of 20%	2,587,039	
Transaction costs	(163,083)	
Interest payable	32,823	
Accretion of loan and amortization of transactions costs	38,705	-
Balance, end of year	2,495,484	-

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

9. 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 7 - *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 is determined as follows:

	Years ended June 30,	
	2019	2018
	\$	\$
Balance, beginning of year	275,000	385,000
Reimbursements	(110,000)	(110,000)
Balance, end of year	165,000	275,000
Current liability	110,000	110,000
Non-current liability	55,000	165,000
	165,000	275,000

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

10. 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 of \$1,250,000 and, as such, a payment of \$250,000 was made on June 17, 2018. The remaining amount of \$1,000,000, which was due by November 30, 2018, bore interest on a monthly basis at a rate of 12% per annum until November 30, 2018 and 15% per annum subsequently. The Company also agreed that in the event it was not able to repay the remaining amount of \$1,000,000 by November 30, 2018, it would pay a 2% penalty amount to Orvana. On May 28, 2019, the Company made a final payment of \$1,000,000 plus the 2% penalty amount of \$20,000. The interest paid of \$112,500 in 2019 and the penalty amount of \$20,000 were added to the cost of the Copperwood Project in accordance with its accounting policy on borrowing costs.

The balance of purchase price payable is as follows:

	Years ended June 30,	
	2019	2018
	\$	\$
Balance, beginning of year	1,004,333	1,139,767
Accretion included in exploration and evaluation assets	-	110,233
Reimbursement	(1,004,333)	(250,000)
Accrued interest	-	4,333
Balance, end of year	-	1,004,333

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

11. PROMISSORY NOTE

On May 30, 2017, the Company issued a \$16 million secured non-interest-bearing promissory note (the "Note") to RTX, as part of the consideration for the acquisition of the UPX Property described in Note 7. The Note provided 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 anniversaries of the acquisition. The Note has an effective interest rate of 20%. The Company did not make the payment of \$3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019 constitutes an event of default, and upon such occurrence and continuance, the amount of the Note then outstanding bears interest at an annual rate of Libor plus 8% (a rate of 10.39% at June 30, 2019) and becomes payable on demand. The Note is secured by a mortgage over the acquired property and a general security agreement over all the assets of UPX Minerals Inc.

The balance of the Note is determined as follows:

	Years ended June 30,	
	2019	2018
	\$	\$
Balance, beginning of year	8,745,487	8,005,760
Accretion until May 30, 2019, included in exploration and evaluation assets	1,743,859	1,739,727
Accretion on revised estimated cash flows at May 30, 2019, included in exploration and evaluation assets	4,510,654	-
Interest payable since May 30, 2019	128,068	-
Reimbursement	-	(1,000,000)
Balance, end of year	15,128,068	8,745,487
Current liability	15,128,068	2,501,248
Non-current liability	-	6,244,239
	15,128,068	8,745,487

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

12. ENVIRONMENTAL LIABILITY

The environmental liability consists of a provision for reclamation costs related to the acquisition of the White Pine Project (Note 7). The undiscounted cash flow amount of the liability is estimated at \$316,000. The present value of the liability was calculated using a discount rate of 8.0% and is reflecting payments to be made until 2029, inclusively.

	Years ended June 30,	
	2019	2018
	\$	\$
Balance, beginning of year	252,678	246,315
Accretion expense	4,326	6,363
Balance, end of year	257,004	252,678

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

13. 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 ended June 30, 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). A total of 138,804,226 unexercised share purchase warrants expired in 2018.

Share purchase warrants

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

	Years ended June 30,	
	2019	2018
Number of warrants		
Balance, beginning of year	1,000,000	153,589,762
Exercised	-	(13,785,536)
Expired	-	(138,804,226)
Balance, end of year	1,000,000	1,000,000

The issued and outstanding share purchase warrants at June 30, 2019 are exercisable at a price of C\$0.15 per share until March 17, 2020.

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.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

14. STOCK OPTIONS

The following table sets out the activity in stock options:

	2019		Years ended June 30, 2018	
	Number	Average exercise price (C\$)	Number	Average exercise price (C\$)
Number of options				
Balance, beginning of year	15,200,000	0.17	7,455,000	0.48
Granted	-	-	12,045,000	0.12
Expired	(1,515,000)	(0.14)	(4,300,000)	(0.58)
Balance, end of year	13,685,000	0.17	15,200,000	0.17

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.

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.

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.

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

	Years ended June 30,	
	2019	2018
	\$	\$
Number of stock options granted during the year	-	12,045,000
Weighted-average exercise price (C\$)	-	0.12
Weighted average grant date market price (C\$)	-	0.12
Expected stock option life (years)	-	5
Expected volatility (%)	-	84.0%
Risk-free interest rate (%)	-	1.60%
Weighted-average grant date fair value (Black-Scholes value) (C\$)	-	0.07

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

14. STOCK OPTIONS (continued)

The following table reflects the stock options issued and outstanding at June 30, 2019:

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	0.1	1,400,000	0.50
April 21, 2015	1,240,000	0.25	0.8	662,500	0.25
August 28, 2017	8,175,000	0.11	3.2	5,450,000	0.11
October 26, 2017	2,070,000	0.17	3.3	1,380,000	0.17
May 15, 2018	800,000	0.10	3.9	533,333	0.10
	13,685,000	0.17	2.7	9,425,833	0.19

15. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

	Years ended June 30,	
	2019	2018
	\$	\$
Drilling and assaying	40,973	1,386,707
Labour	1,474,815	2,450,433
Studies	338,828	3,836,509
Office, overhead and other administrative costs	575,379	1,092,965
Gain on sale of capital assets	(19,776)	-
	2,410,219	8,766,614

16. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Years ended June 30,	
	2019	2018
	\$	\$
Administrative and general	946,300	1,032,772
Office	107,345	119,500
Professional fees	191,879	271,862
Investor relations and travel	85,161	209,881
Reporting issuer costs	28,637	64,600
	1,359,322	1,698,615

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

17. FINANCE EXPENSE

The Company incurred the following finance expense:

	Years ended June 30,	
	2019	2018
	\$	\$
Effective interest on credit facility from shareholders with significant influence (Note 8)	71,528	-
Interest on note payable (Note 9)	18,700	27,500
Interest on promissory note (Note 11)	128,068	-
Other	1,612	4,333
	219,908	31,833

18. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

	Years ended June 30,			
	2019		2018	
		\$		\$
				(Note 1 - restated)
Loss before income tax		(22,155,581)		(11,571,693)
Tax using the Company's domestic tax rate	26.65%	(5,904,462)	26.75%	(3,095,428)
Share-based compensation	(0.2%)	44,790	(1.16%)	134,384
Non-deductible expenses and non-taxable revenues	(0.02%)	3,361	(0.04%)	4,553
Effect of tax rate in foreign jurisdictions	(0.85%)	188,855	3.92%	(453,352)
Unrecognized tax assets	(24.58%)	5,444,944	0.94%	(109,280)
Impact of newly-enacted tax rates	-	-	(29.00%)	3,356,060
Other	(1.00%)	222,512	(1.41%)	163,063
Deferred income tax	-	-	-	-

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

18. INCOME TAXES (continued)

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

	June 30, 2019		
	Assets	Liabilities	Net
	\$	\$	\$
Advances in foreign currency	-	(376,623)	(376,623)
Non-capital loss carry-forwards	376,623	-	376,623
	376,623	(376,623)	-
Offsetting of tax assets and liabilities	(376,623)	376,623	-
	-	-	-
	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	-
	-	-	-

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

	June 30, 2019		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	9,751,521	27,646,369	37,397,890
Capital assets	87,347	107,153	194,500
Exploration and evaluation assets	2,088,309	23,787,100	25,875,409
Share issue expenses	330,280	-	330,280
Financing expenses	238,313	-	238,313
	12,495,770	51,540,622	64,036,392
	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
	11,297,713	31,753,611	43,051,324

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

18. INCOME TAXES (continued)

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.

Non-capital losses expire as follows:

	USA	Canada
	\$	\$
2026	-	78,875
2027	-	91,947
2028	-	231,955
2029	-	411,318
2030	-	568,805
2031	-	726,594
2032	-	1,047,059
2033	-	73,494
2034	1,256,944	868,112
2035	7,599,667	1,883,991
2036	1,101,253	790,140
2037	4,408,457	1,641,897
2038	8,638,707	1,798,233
2039	4,641,341	960,318
	27,646,369	11,172,738

The deferred income tax on non-capital losses has been partially recognized for an amount of \$1,421,217 (\$1,557,765 in 2018).

19. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended June 30, 2019 was based on the loss attributable to common shareholders of \$22,155,581 (\$11,571,693 in 2018) and the weighted average number of common shares outstanding of 472,933,689 (464,575,595 in 2018). Excluded from the calculation of the diluted loss per share for the year ended June 30, 2019 are 1,000,000 share purchase warrants and 13,685,000 stock options (1,000,000 share purchase warrants and 15,200,000 stock options in 2018) 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

Years ended June 30, 2019 and 2018 (in US dollars)

20. RELATED PARTY TRANSACTIONS

In addition to the loan agreement with two of the Company's shareholders described in Note 8, the detail of transactions between the Company and its related parties is as follows:

During the year ended June 30, 2019, the Company incurred administration expenses of \$101,833 from Reunion Gold Corporation, a related party by virtue of common management and directors (\$67,151 in 2018).

During the year ended June 30, 2019, the Company recovered amounts of \$223,698 for management services to other TSXV-listed companies, related by virtue of common key management, including Odyssey Resources Limited and Reunion Gold Corporation (\$186,010 in 2018). The services are provided at cost.

At June 30, 2019, the Company had an amount payable of \$33,610 to Reunion Gold Corporation, included in accounts payable and accrued liabilities on the consolidated statements of financial position (nil at June 30, 2018) and had an amount receivable from Odyssey Resources Limited of \$1,920, included in prepaid expenses and other on the consolidated statements of financial position (\$3,935 at June 30, 2018).

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

Remuneration of directors and key management of the Company

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

	Years ended June 30,	
	2019	2018
	\$	\$
Wages and consulting fees, included in management and administration expenses	576,918	664,346
Share-based compensation	91,383	282,537
	668,301	946,883

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

21. CAPITAL MANAGEMENT

The Company defines capital that it manages as loans (including credit facility, 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, 2019, managed capital was \$19,951,931 (\$34,070,021 at June 30, 2018).

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 (Note 2). The only sources of future funds presently available to the Company are through shareholder loans, the sale of equity capital of the Company 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, 2019. The Company is not subject to any externally imposed capital requirements as at June 30, 2019.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

22. 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, 2019.

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, which may involve the completion of a strategic transaction as described in Note 2. The Company generates cash flow only from its financing activities.

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2019:

	Carrying amount	Settlement amount	Within 1 year	2 years	Over 2 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	913,357	913,357	913,357	-	-
Credit facility	2,495,484	3,002,823	3,002,823	-	-
Note payable	165,000	176,540	119,900	56,640	-
Promissory note	15,128,068	15,128,068	15,128,068	-	-
	18,701,909	19,220,788	19,164,148	56,640	-

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 \$6,000.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

22. 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, 2019, financial assets and liabilities denominated in a foreign currency consisted of cash and cash equivalents of \$426,471, accounts payable and accrued liabilities of \$30,819 and credit facility of \$2,495,484. The impact on profit or loss of a 10% increase or decrease in the US dollar against the Canadian dollar would be approximately \$210,000.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, credit facility, note payable, balance of purchase price payable and promissory note 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 also approximates its carrying value as the effective interest rate of the note is similar to market conditions at year-end.

24. OTHER COMMITMENTS

In addition to the commitments described in Note 7, the Company has entered into long-term lease agreements expiring in September 2020 which call for minimum lease payments of \$74,100 for the rental of office space. Minimum lease payments amount to \$61,600 in 2020 and \$12,500 in 2021.

Highland Copper Company Inc.

Notes to Consolidated Financial Statements

Years ended June 30, 2019 and 2018 (in US dollars)

25. 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, 2019		
	Canada	USA	Total
	\$	\$	\$
Current assets	586,867	67,845	654,712
Capital assets	9,156	72,612	81,768
Exploration and evaluation assets	-	20,385,814	20,385,814
Total assets	596,023	20,526,271	21,122,294

	June 30, 2018		
	Canada	USA	Total
	\$	\$	\$
Current assets	3,450,383	293,220	3,743,603
Capital assets	17,459	122,547	140,006
Exploration and evaluation assets	-	31,795,832	31,795,832
Total assets	3,467,842	32,211,599	35,679,441

26. EVENTS AFTER THE REPORTING DATE

On August 30, 2019, the Company and CRC agreed to further extend the period to complete the acquisition of the White Pine Project to January 31, 2020 (Note 7).

The Company made additional drawdowns totalling \$850,000 since June 30, 2019 under the terms of the Credit Facility described in Note 8.

27. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.



MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2019

HIGHLAND COPPER COMPANY INC.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2019

The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Highland Copper Company Inc. ("Highland" or the "Company"), dated October 28, 2019, covers the years ended June 30, 2019 and 2018 and should be read in conjunction with the audited consolidated financial statements and related notes at June 30, 2019 and 2018 (the "June 30, 2019 and 2018 consolidated financial statements"). The June 30, 2019 and 2018 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.

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 projects located in Michigan's Upper Peninsula region, including **Copperwood**, a feasibility stage copper project, acquired in June 2014 from Orvana Minerals Corp. ("**Orvana**"), **White Pine**, a copper project on which a PEA was completed in September 2019 (subject to final closing of the acquisition from Copper Range Company ("**CRC**"), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and a mineral exploration property covering approximately 448,000 acres referred to as the **UPX Property**, which was acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company ("**RTX**").

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 and on the OTCQB Venture Marketplace (the "**OTCQB**") under the symbol "HDRSF". At October 28, 2019, the Company has 472,933,689 common shares issued and outstanding.

In June 2019, as part of a series of transactions, Osisko Gold Royalties Ltd ("**Osisko**") transferred to an entity managed by Orion Resource Partners ("**Orion**"), all of the shares that Osisko held in the Company (74,420,434 shares). Following this transfer of shares, Orion now owns 141,670,434 shares of the Company (or 30.0% of its issued and outstanding shares) and Greenstone Resources II LP ("**Greenstone**") owns 80,700,000 shares of the Company (or 17.1% of its issued and outstanding shares).

Financial Condition and Strategic Review Process

At June 30, 2019, the Company had a working capital deficiency of \$17,995,199, including an amount due of \$2,495,484 under a credit facility provided by two of the Company's shareholders and an amount due of \$15,128,068 to RTX as consideration for the acquisition of the UPX Property in May 2017.

On May 20, 2019, the Company entered into a secured loan agreement (the "**Loan**") with two of its significant shareholders, Greenstone and Osisko (collectively, the "**Lenders**"). Under the terms of the Loan, the Lenders have agreed to provide the Company with a loan of up to \$4,500,000 to be disbursed in a number of tranches pursuant to an approved budget. The Loan,

which is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company, bears interest at a rate of 12% per annum and matures on February 28, 2020. The principal amount of the Loan as well as accrued interest will be payable at the latest on the maturity date. A first drawdown of \$2,750,000 occurred on May 24, 2019 and subsequent drawdowns to this date totaled \$850,000.

On May 30, 2017, the Company acquired the UPX Property for a total consideration of \$18.0 million of which \$2.0 million was paid in cash at closing. The Company also issued a 6-year \$16 million non-interest bearing promissory note (the "**Note**") to RTX, as part of the consideration for the acquisition of the UPX Property. The Note provided 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 anniversaries of the acquisition. The Company did not make the payment of \$3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019, constitutes an event of default and upon such occurrence and continuance, the amount of the Note then outstanding (\$15.0 million) bears interest at an annual rate of Libor plus 8% and becomes payable on demand. The Note is secured by a mortgage over the acquired property and a general security agreement over all the assets of UPX Minerals Inc., a wholly-owned subsidiary of the Company. The Company has initiated discussions with RTX to restructure the schedule of payments provided under the secured promissory note or find another suitable resolution. There can be no assurance that RTX will agree to reschedule the payments or to another resolution; given the Company's inability to pay there is a risk that RTX initiates legal proceedings to demand the full payment of the Note and enforce its securities over the UPX Property.

The Company needs additional funds to reimburse the Loan, to meet all existing commitments (including the Note of \$15.1 million due to RTX), to complete the acquisition of White Pine (including an amount of approximately \$1.7 million to replace the current environmental financial assurance bond) and to provide for management and administration expenses for the next 12 months.

The Company has engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available, including the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, given the state of the capital markets for a company such as Highland and current copper prices, there is no assurance that additional funds will be available or available on terms acceptable to the Company or that the Company will be able to complete a strategic transaction. These conditions and uncertainties indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

All exploration and development activities were suspended in early 2019, including field work, studies and efforts to finance the development of the Copperwood Project, to minimize cash requirements. Also, the number of employees has been reduced to its minimum level.

Copperwood Project

Copperwood is a development stage copper project. A feasibility study, 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, was completed in June 2018. 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").

Permitting

The Company has received all major permits required to build and operate the Copperwood Project.

In December 2018, the Michigan Department of Environmental Quality ("MDEQ") approved the Company's request to amend the Mining Permit originally granted in 2012 to Copperwood Resources Inc. ("CRI"), the Company's 100%-owned subsidiary, under the provisions of Part 632, Nonferrous Metallic Mineral Mining, of the Natural Resources and Environmental Protection Act. The amendment was required to allow the Company to begin construction at Copperwood in accordance with the changes to the mine plan and facilities described in the updated feasibility study released on June 15, 2018. The amendment was approved under certain conditions that the Company will have to meet, namely: i) provide a revised subsidence monitoring plan for the life of mine and post closure period; ii) provide a plan to conduct confirmation baseline environmental sampling and review prior to the start of mining operations; iii) reclaim the ore stockpile area and dispose of the geomembrane liner according to regulations; and iv) reclaim or remove water intake and power supply infrastructure according to approved plans unless beneficial use agreements are established with another party.

In November 2018, the Company received three permits from the MDEQ, those being the Part 301/303/325 Wetland Permit, the Part 55 Air Discharge Permit, and the Part 315 Dam Safety Permit-Tailing Dam. The grant of the Part 301/303/325 Wetland Permit included the following mitigation requirements: i) the preservation of 717 acres of high-quality wetlands and 93 acres of forested upland in the headwaters area of the wild and scenic Black River and the creation of 18.3 acres of forested and emergent wetlands on-site at the Copperwood project; and ii) stream mitigation by creating 13,700 feet of natural stream channel on-site at the Copperwood Project and replacing a culvert that is blocking brook trout passage in a tributary to the wild and scenic Cisco Branch to the Ontonagon River.

The application to obtain a Lake Superior water intake permit from the US Army Corps of Engineers (COE) is outstanding and a final decision is expected shortly.

June 2018 Feasibility Study Summary

The assumptions used in the preparation of the June 2018 feasibility study 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%.

Economics for the Copperwood Project

Summary Economics for the Copperwood Project	Total
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
Annual Payable Metal Production	
Copper million pounds	61.7
Silver thousand ounces	100
LOM Average Process Recovery	
Copper %	86.0
Silver %	73.4

The total estimated Measured and Indicated Mineral Resources of the Copperwood deposit, as prepared by GMSI, 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	-	-	-	-	-
Satellite LCBS	Inferred	34.4	1.17	2.29	888	2.5
Satellite UCBS	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.

The Proven and Probable Reserves stated below were estimated based on the unconstrained Measured and Indicated Resources and the work carried out for the Feasibility Study. 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 presented above are inclusive of Proven and Probable Reserves.

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
Proven & Probable	25.4	1.43	3.83	801.8	3.1

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.

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
Total OPEX (incl. royalties)	996	39.84	1.53
Operating Cash Flow	826	33.03	1.27

Sensitivity Analysis

Variance	After-Tax Results			
	NPV 0% (\$M)	NPV 8% (\$M)	IRR (%)	Payback (yrs)
Metal Price Sensitivities				
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
Initial Capital Cost Sensitivities				
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
Operating Cost Sensitivities				
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

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.

Contingencies related to the Copperwood Project

As part of the consideration for the acquisition of the Copperwood Project, the Company will have to pay to Orvana an amount of \$1.25 million 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 future NSR royalty, Osisko has a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co..

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. 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. The Company has delivered the June 2018 feasibility study on Copperwood to Osisko.

White Pine North Project

In May 2014, Highland completed the interim closing of the acquisition of the White Pine North Project from CRC. 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 is subject to several conditions including releasing CRC from certain environmental obligations associated with the remediation and closure plan of the historical White Pine mine site and replacing the related environmental bond for an amount expected to be approximately \$1.7 million. The deadline to complete the acquisition of the White Pine North Project from CRC has been extended to January 31, 2020.

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 White Pine North Project is located in the historical copper range district of the Upper Peninsula of Michigan, U.S.A.

In June 2019, in connection with the Company's ongoing strategic review process, the Company undertook to prepare a preliminary economic assessment ("**PEA**") and a mineral resource estimate for the White Pine North Project (the "**Project**"). The PEA and mineral resource estimate were prepared by GMSI. The results of the PEA, which considers White Pine North as a stand-alone project and utilizes existing infrastructure to minimize initial capital expenditures, were released on September 23, 2019. The highlights are presented below.

PEA Highlights

- Base case using a copper price of \$3.00/lb and a silver price of \$16.00/oz
- After-tax internal rate of return ("**IRR**") of 16.8%
- After-tax net present value ("**NPV**") at 8% of \$416 million
- Initial capital expenditures of \$457 million, net of pre-production revenue of \$56 million
- Life-of-mine ("**LOM**") cash costs of \$1.40/pound, including royalties
- Indicated mineral resource of 133.4 M tonnes at 1.07% Cu and 14.9 g/t Ag, containing 3.2 billion pounds of copper and 63.8 million ounces of silver.
- Inferred mineral resources of 97.2 M tonnes at 1.03% Cu and 8.7 g/t Ag, containing 2.2 billion pounds of copper and 27.2 million ounces of silver
- Mineral resources included in the mine plan of 121.4 M tonnes @ 0.98% Cu and 11.80 g/t Ag, containing 2.6 billion pounds of copper and 46.1 million ounces of silver
- Mine life of 25 years, including one year of ramp-up, with average annual LOM payable copper production of 89 million pounds and 1.3 million ounces of silver

The reader is advised that a PEA is preliminary in nature and is intended to provide only an initial, high-level review of the project potential and design options. The PEA mine plan and economic model include numerous assumptions and the use of Inferred resources. Inferred resources are too speculative geologically to have the economic considerations applied to them that would

enable them to be categorized as mineral reserves and to be used in an economic analysis except as allowed for in PEA studies. There is no guarantee that Inferred resources can be converted to Indicated or Measured resources, and as such, there is no guarantee the Project economics described herein will be achieved.

Mineral Resources

GMSI prepared a Mineral Resource estimate for the White Pine North Project based on data provided up to and including March 2015. The resource estimate was reported in accordance with NI 43-101. The Mineral Resource estimate was prepared under the supervision of Réjean Sirois, P. Eng. of GMSI, an independent "qualified person" as defined in NI 43-101.

The modelling of the copper mineralization horizons was based on the footwall and hanging wall of the three selected "columns" (sedimentary sequences), namely the Parting Shale, the Full Column and the Upper Shale. These columns were modelled with a minimum true thickness of 2 m. In instances where the columns were less than 2 m, dilution was applied in the footwall to ensure that the 2 m thickness was honored. Only the Parting Shale column was reported as a Mineral Resource. A 300 m buffer zone around existing workings was excised from the Mineral Resource.

Total Indicated Mineral Resources of the White Pine North deposit are reported at 133.4 M tonnes grading an average of 1.07% Cu and 14.9 g/t Ag, containing 3.2 billion pounds of copper and 63.8 million ounces of silver using a cut-off grade of 0.9% Cu for the Parting Shale column only. Inferred Mineral Resources are reported at 97.2 M tonnes grading an average of 1.03% Cu and 8.7 g/t Ag, containing 2.2 billion pounds of copper and 27.2 million ounces of silver using a cut-off grade of 0.9% Cu.

Mineral Resource for the Parting Shale Column – White Pine North Deposit 0.9% Cu Cut-off Grade – August 30, 2019

Resource Category	Tonnage (M tonnes)	Copper Grade (%)	Silver Grade (g/t)	Copper Contained (M lbs)	Silver Contained (M oz)
Indicated	133.4	1.07	14.9	3,154	63.8
Inferred	97.2	1.03	8.7	2,210	27.2

Notes on Mineral Resources:

- 1) Mineral Resources are reported using a copper price of US\$ 3.00/lb and a silver price of US\$ 16/oz
- 2) A payable rate of 96.5% for copper and 89.3% for silver was assumed.
- 3) Metallurgical recoveries of 88% for copper and 76% of silver were assumed.
- 4) A cut-off grade of 0.9% Cu was used based on an underground "room and pillar" mining scenario
- 5) Operating costs are based on a processing plant located at the White Pine site.
- 6) A flat NSR royalty rate of \$0.05/lb Cu payable was applied, which incorporates two royalties on the project (Osisko Gold Royalty and Great Lakes Royalty)
- 7) The Parting Shale Column was modelled using a minimum true thickness of 2 m
- 8) No mining dilution or mining loss was considered for the Mineral Resources
- 9) Mineralized rock bulk density is assumed at 2.7 g/cc
- 10) Classification of Mineral Resources conforms to CIM definitions
- 11) The qualified person for the estimate is Mr. Réjean Sirois, P.Eng., Vice President - Geology and Resource for GMSI. The estimate has an effective date of August 30, 2019
- 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) Parting Shale: Interval defined from the base of the Lower Transition to the top of the Tiger units
- 14) 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.

Life-of-Mine (LOM) Metal Production

The production schedule is based on mining a fixed target of 5.4 M tonnes/year. The PEA LOM production estimate for the White Pine North Project is shown below. Payable copper production is estimated at 1 Mt (2.2 billion pounds) with an annual average of 40,000 tonnes (89 million pounds) over the 25-year mine life which includes a 1-year commissioning and ramp-up period. The average payable rate is 96.5% which includes a 0.2% concentrate loss. Payable silver production over the LOM is 31.3 million ounces with an annual average of 1.3 million ounces of silver.

Production Physicals		Total
Concentrate	k of dmt	3,421
Cu con. Grade	% Cu	30.5
Cu metal production	M lbs	2,305
Ag metal production	k oz	35,012
Cu payable metal	M lbs	2,224
Ag payable metal	k oz	31,257

Capital Costs

The initial capital costs, including all direct and indirect costs, are estimated at \$512.5 million, including a contingency of \$90.8 million. It is anticipated that pre-production revenue of \$55.7 million will reduce the capital expenditures to \$456.7 million. The total LOM sustaining capital is estimated at \$459.3 million.

Operating Cash Flow

Operating Cash Flow	LOM (\$M)	\$/t ore	\$/lb Cu Payable
Cu Revenue	6,615	55.07	3.00
Ag Credits	496	4.13	0.23
Revenue	7,111	59.20	3.23
Concentrate Transportation Costs	(260)	(2.17)	(0.12)
Treatment & Refining Charges	(407)	(3.39)	(0.18)
Net Smelter Return	6,444	53.65	2.92
Royalties	(113)	(0.94)	(0.05)
Mining Costs	(2,038)	(16.96)	(0.92)
Processing Costs	(740)	(6.16)	(0.34)
G&A Costs	(193)	(1.60)	(0.09)
Total OPEX (incl. royalties)	(3,084)	(25.67)	(1.40)
Operating Cash Flow	3,359	27.97	1.52

Sensitivity Analysis

Variance	After-Tax Results			
	NPV 0% (\$M)	NPV 8% (\$M)	IRR (%)	Payback (years)
Metal Price Sensitivities				
20%	3,126	832	23.8%	3.6
10%	2,520	626	20.5%	4.2
0%	1,907	416	16.8%	5.2
-10%	1,292	205	12.7%	7.0
-20%	676	-6	7.8%	9.7
Initial Capital Cost Sensitivities				
20%	1,845	361	15.0%	5.9
10%	1,876	389	15.8%	5.6
0%	1,907	416	16.8%	5.2
-10%	1,938	443	17.8%	4.9
-20%	1,969	470	19.0%	4.6
Operating Cost Sensitivities				
20%	1,772	369	15.9%	5.6
10%	1,839	392	16.3%	5.4
0%	1,907	416	16.8%	5.2
-10%	1,974	439	17.2%	5.0
-20%	2,042	462	17.6%	4.9

Estimated Timeline

Upon receipt of required permits and necessary approvals a 48-month mine development, construction and commissioning period is foreseen followed by 24 years of commercial production.

Preliminary Economic Assessment

Summary	Total
Pre-tax NPV @ 8% (\$M)	557.2
Pre-tax IRR	19.2%
After-tax NPV@ 8% (\$M)	416
After-tax IRR	16.8%
Undiscounted After-Tax Cashflow (LOM) (\$M)	1,907
Payback Period from start of processing (years)	5.2
Initial Capital expenditures (\$M)	456.8
LOM Sustaining Capital Expenditures (\$M)	459.3
LOM C-1 Cash Costs \$/lb (net of bi-product)	1.43
Nominal Process capacity t/d	15,500
Mine Life-years	24.0
Annual Payable Metal Production	
Copper (M lbs)	89.0
Silver (M ozs)	1.25
LOM Average Process Recovery Rate	
Copper %	88.0
Silver %	76.0

Environmental liabilities

The former White Pine mine ceased operation in 1995 and has been the subject of an extensive remediation program outlined in judicial Consent Decree and Remedial Action Plan agreements between CRC, Michigan's Attorney General and the Michigan Department of Environment Quality. The entire surface area overlying the underground mine along with the associated surface component area and tailings impoundments are listed as a "facility" under Part 201, Environmental Remediation, of Michigan's Public Act 451 of 1994 as Amended, the Natural Resource and Environmental Protection Act.

Pending final closing of the acquisition, the Company began mineral exploration and baseline environmental surveys under an access agreement with CRC. Historical environmental data for the former White Pine mine site operated by CRC was reviewed and compared with the Company's initial project plans and Michigan's Part 632 regulatory requirements. CRC had compiled extensive information on surface water, ground water and near-surface soils at the project site. Biological monitoring data in the project area was mostly limited to very brief descriptions, e.g. the Remedial Investigation Report of 1999, or the more thorough description of the 1978 Baker report that is now over 40 years old. Data from limited nearby stream monitoring completed by the State of Michigan in 1999 and earlier is also available.

Upon completion of the final closing of the acquisition of the mineral and surface rights from CRC, the Company will assume all environmental liabilities related to the Consent Decree and on-going environmental obligations.

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.

UPX Property

In May 2017, UPX Minerals Inc., a wholly owned subsidiary of Highland, acquired from RTX, a mineral property located in central Upper Peninsula of Michigan. See *Financial Condition and Strategic Review Process* section for additional information.

The UPX Property is comprised of non-contiguous mineral rights covering approximately 1,800 square kilometers (448,000 acres). The 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 has carried 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 has 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.

Keweenaw Project

Under a Mining Venture Agreement with BRP dated July 2011 and subsequently amended, the Company had an option to acquire a 65% interest in the Keweenaw Project (which included the 543S deposit) by providing a feasibility study by December 31, 2018. This condition to exercise the option was not met and the option agreement expired, unexercised.

Qualified Persons

The technical information included in this MD&A has been reviewed and approved by Mr. Denis Miville-Deschênes, P. Eng., President and CEO of the Company and a qualified person under NI 43-101.

Corporate activities

Board changes

On February 21, 2019, Mr. Luc Lessard resigned from the Company's board of directors, for personal reasons. Mr. Allen Winters did not stand for re-election at the 2018 annual general meeting held on December 6, 2018. The board of directors is now composed of five directors, three of whom are independent.

Rights of Certain Shareholders

Following their participation in the Company's non-brokered private placement of units completed in early 2017, Greenstone received nomination rights for the sale of Highland's production pro-rata to its shareholding in the Company 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. So long as they hold not less than 10% of the issued and outstanding number of shares of the Company, Greenstone and Orion each have participation rights to maintain their equity ownership level in future equity financings. Osisko has a right of first refusal on any royalty, streaming and project financing by the Company and is entitled to nominate one director to the board of directors of the Company.

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
	\$	\$	\$	\$	\$
Year ended June 30, 2019					
Property payments in cash	168,600	25,000	-	26,652	220,252
Finance expense	132,500	-	6,254,513	-	6,387,013
Write-down	-	-	(18,010,770)	-	(18,010,770)
Effect of foreign exchange	-	-	-	(6,513)	(6,513)
	201,100	25,000	(11,756,257)	20,139	(11,410,018)
Year ended June 30, 2018					
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, 2019 included lease payments of \$168,600 related to the Copperwood Project, \$25,000 related to the White Pine North Project and \$26,652 related to other properties. Capitalized finance expense included interest payments of \$112,500 and a 2% penalty fee of \$20,000 related to the final amount of \$1,000,000 which was due to Orvana for payment on June 17, 2018, but was paid on May 8, 2019. The capitalized accretion expense of \$6,254,513 relates to the increase of the non-interest-bearing promissory note in favor of RTX to its face value of \$15.0 million following the non-payment of the amount of \$3.0 million which was due on May 30, 2019. Following such occurrence and continuance, the full amount of the promissory note in favor of RTX became payable on demand. At June 30, 2019, the Company wrote-down the full amount capitalized on the UPX Property, as the Company does not plan to conduct any work on this property in the near future.

The amounts capitalized during the year ended June 30, 2018 included lease payments of \$186,100 related to the Copperwood Project, \$25,000 related to the White Pine North 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 remaining amount capitalized on the Keweenaw Project of \$654,405, as the Company was not planning to conduct any significant work on this property in the near term.

Exploration and evaluation expenses charged to the statements of comprehensive loss during the years ended June 30, 2019 and 2018 are as follows:

	Copperwood Project	White Pine Project	UPX Project	Year ended June 30, 2019 Total	Year ended June 30, 2018 Total
	\$	\$	\$	\$	\$
Site preparation, drilling and assaying	1,865	-	39,108	40,973	1,386,707
Labour	934,226	100,987	439,602	1,474,815	2,450,433
Studies	127,733	211,095	-	338,828	3,836,509
Office, overhead and other administrative costs	208,451	124,086	223,066	555,603	1,092,965
	1,272,275	436,168	701,776	2,410,219	8,766,614

Selected Consolidated Financial Information ⁽¹⁾⁽²⁾

The following selected financial information should be read in conjunction with the Company's June 30, 2019 and 2018 consolidated financial statements.

Financial Position	June 30, 2019	June 30, 2018
	\$	\$
Cash	605,046	3,487,847
Exploration and evaluation assets	20,385,814	31,795,832
Total assets	21,122,294	35,679,441
Credit Facility, due on February 28, 2020	2,495,484	-
Note payable, due until December 31, 2020	165,000	275,000
Promissory note, including accrued interest, on demand	15,128,068	2,501,248
Non-current portion of promissory note	-	6,244,239
Balance of purchase price payable	-	1,004,333
Shareholders' equity	2,163,379	24,045,201

Comprehensive Loss	Year ended June 30, 2019	Year ended June 30, 2018 ⁽³⁾	Year ended June 30, 2017 ⁽³⁾
	\$	\$	\$
Net loss for the year	(22,155,581)	(11,571,693)	(4,482,540)
Basic and diluted loss per share	(0.05)	(0.02)	(0.02)

Cash Flows	Year ended June 30, 2019	Year ended June 30, 2018	Year ended June 30, 2017
Operating activities	(4,029,635)	(10,668,437)	(4,643,810)
Investing activities	(323,373)	(366,772)	(2,306,701)
Financing activities	1,476,917	249,628	20,769,215

- 1) *The Selected Consolidated Financial Information was derived from the Company's June 30, 2019 and 2018 consolidated financial statements, prepared in accordance with IFRS.*
- 2) *The Company's June 30, 2019 and 2018 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. The recovery of amounts recorded for exploration and evaluation assets depends on the ability of the Company to complete the acquisition of the White Pine Project, the ability of the Company to obtain the necessary financing to complete the development of the projects, and future profitable production from the projects or proceeds from their disposition thereof. The Company requires additional funds to settle its working capital deficiency, to meet all existing commitments, to complete the acquisition of the White Pine Project and to provide for management and administration expenses for the next 12 months. To that end, the Company engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available to it, which process can result in the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, there is no assurance that the Company will be successful in completing any such transactions. Should the Company not be successful in completing any such transactions, this will 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, 2019 and 2018 consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.

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

Financial Review

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

Year ended June 30, 2019 compared to year ended June 30, 2018

The Company incurred a net loss of \$22,155,581 (\$0.05 per share) during the year ended June 30, 2019 ("FY 2019") compared to a net loss of \$11,571,693 (\$0.02 per share) during the year ended June 30, 2018 ("FY 2018").

In FY 2019, the Company recorded an impairment of the UPX Property in the amount of \$18,010,770. Given the Company's financial condition as more fully described in the *Financial Condition and Strategic Review Process* section, the Company does not plan to conduct any work on this property in the near future and as result has written-down to nil at June 30, 2019 the value of the UPX Property. The amount of \$18,010,770 represents the cost of the property acquired in 2017 from RTX. At June 30, 2018, the Company had written down to nil the costs related to the Keweenaw Project (\$654,405) as it did not plan to conduct any further work on this project in the near term.

The Company incurred exploration and evaluation expenses of \$2,410,219 in FY 2019 compared to \$8,766,614 in FY 2018. A total amount of \$1,272,275 was spent at Copperwood in FY 2019 (\$6,077,029 in FY 2018) with efforts during the early part of the financial year focused on ensuring that all amendment requests, renewals and new applications concerning the grant of permits were complete and filed in a timely manner. In FY 2018, the Company completed an 8-hole (2,550 meters) drilling program on and around Section 5 located at the Copperwood Project and focused all of its efforts towards completing the Copperwood feasibility study which results were released on June 15, 2018. An amount of \$436,168 was spent at the White Pine Project in FY 2019 (\$503,845 in 2018), mostly related to maintaining the tailings facilities at the former White Pine site. At the UPX Property, the Company incurred expenses of \$701,776 in FY 2019 (\$1,966,518 in 2018) as it continued its systematic review and compilation of significant historical data obtained with the acquisition of the UPX Property in 2017 to better understand the potential of the property.

Management and administration expenses of \$1,359,322 in FY 2019 compared to \$1,698,615 in FY 2018 reflect lower wages and fees to consultants following the reduction in wages of certain officers and the reduction of personnel at the corporate office (wages and fees of \$946,300 in FY 2019 compared to \$1,032,772 in FY 2018), lower professional fees due mostly to reduced legal fees (\$191,879 in FY 2019 compared to \$271,862 in FY 2018), reduced investor relations and travel expenses mostly due

to negative market conditions for copper projects and taking into account the Company's financial condition (\$85,161 in FY 2019 compared to \$209,881 in FY 2018) and lower reporting issuer costs, as FY 2018 expenses included a one-time listing fee on the OTCQB (\$28,637 in FY 2019 compared to \$64,600 in FY 2018).

Share-based compensation totaled \$168,612 in FY 2019 (\$503,512 in FY 2018) following the grant of options to employees, directors, officers and consultants of the Company in August 2017, October 2017 and May 2018.

The Company incurred a finance expense of \$219,908 in FY 2019 (\$31,833 in FY 2018) related mostly to i) the credit facility of up to \$4,500,000 provided by two of the Company's shareholders (Greenstone and Osisko) (finance expense of \$71,528 in FY 2019 consisting of interest at the effective rate of 23.6% compared to nil in FY 2018); ii) the interest-bearing note payable to the lessor of certain mineral rights located in White Pine (finance expense of \$18,700 in FY 2019 compared to \$27,500 in FY 2018); and iii) the promissory note in favour of RTX, which on default of the amount due of \$3.0 million on May 30, 2019, the full amount of the outstanding amount due to RTX now bears interest at an annual rate of Libor plus 8% (a rate of 10.39% at June 30, 2019) for a finance expense of \$128,068 in FY 2019 compared to nil in FY 2018.

During the financial year, the Company realized \$19,005 (\$112,343 in 2018) in finance income on liquidities held.

4th quarter ended June 30, 2019 compared to the 4th quarter ended June 30, 2018

During the 4th quarter ended June 30, 2019, the Company incurred a net loss of \$18,581,306 (\$0.04 per share) compared to a net loss of \$2,700,885 (\$0.01 per share) during the 4th quarter ended June 30, 2018. The increased loss during the 4th quarter ended June 30, 2019 compared to 2018 is mainly due the impairment of the UPX Property in the amount of \$18,010,770, partially offset by lower exploration and evaluation expenses of \$1,235,198 due to the suspension in early 2019 of all exploration and evaluation activities in Michigan, lower management and administration expenses of \$277,677 following the reduction in wages of certain officers and the reduction of personnel at the corporate office, and the reduction in investor relations and travel expenses and the write-off in the amount of \$654,405 of the Keweenaw Project in FY 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, 2019 (a)	1,697	18,581,306	(0.04)
March 31, 2019	625	877,703	(0.00)
December 31, 2018	3,929	1,037,350	(0.00)
September 30, 2018	12,754	1,659,222	(0.00)
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)

(a) Includes an impairment of \$18,010,770 of the UPX Property.

Liquidity and Capital Resources

At June 30, 2019, the Company had a working capital deficiency of \$17,995,199 compared to a working capital deficiency of \$1,228,720 at June 30, 2018. The increase in the working capital deficiency during the year ended June 30, 2019 is mainly attributable to i) the reclassification of the promissory note in favour of RTX as a demand note and the recording of interest payable on the full amount of the note due of \$15.0 million for the period from May 30, 2019 to June 30, 2019 of \$128,068 (total impact of \$12,626,820 on the working capital deficiency for the year); ii) exploration and evaluation expenses of \$2,410,219 ; iii) management and administration expenses of \$1,359,322; iv) lease payments of \$352,752 related to the Copperwood Project and other mineral leases held; v) the reimbursement of an amount of \$110,000 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan; vi) the reimbursement of the balance of purchase price payable of \$1,000,000 to Orvana plus finance expenses of \$132,500; with all such items partially offset with the net proceeds of the credit facility of \$2,495,484 described below.

On May 20, 2019, the Company entered into a loan agreement with two of its then shareholders, Greenstone and Osisko (collectively, the "**Lenders**"), which are deemed to have significant influence over the Company. Under the terms of the loan agreement, the Lenders have agreed to provide the Company with a loan of up to \$4,500,000 (the "**Principal Amount**"). The loan bears interest at a rate of 12% per annum, has a maturity date of February 28, 2020 (the "**Maturity Date**") and is to be disbursed in a number of tranches pursuant to an approved budget, including the settlement of certain outstanding liabilities, expenses to conduct a scoping study on the White Pine North Project and expenses to conduct a strategic review process. The Principal Amount of the loan as well as accrued interest are payable at the latest on the Maturity Date of the loan. The loan is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co.

On May 24, 2019, the Company made an initial drawdown on the loan facility of \$2,750,000. The Company accounted for the estimated fair value of the loan using a discount rate of 20%. The fair value adjustment of \$162,961 representing the below market element of the loan was presented in equity. Transaction costs of \$163,083, consisting of an arrangement fee and legal fees, were presented as a reduction of the loan. These expenses are amortized over the loan period of nine months using the effective interest rate method. The effective interest rate of the loan is 23.6%. Subsequent to the FY 2019, the Company made additional drawdowns totaling \$850,000.

On May 28, 2018, the Company and Orvana amended the repayment terms of the final amount due of \$1,250,000 and as such, a payment of \$250,000 was made on June 17, 2018. The remaining amount of \$1,000,000, which was due by November 30, 2018, bore interest on a monthly basis at a rate of 12% per annum until November 30, 2018 and 15% per annum subsequently. The Company also agreed that in the event it was not able to repay the remaining amount of \$1,000,000 by November 30, 2018, it would pay a 2% penalty amount to Orvana. On May 28, 2019, the Company made a final payment of \$1,000,000 plus the 2% penalty amount of \$20,000. The interest paid of \$112,500 in 2019 and the penalty amount of \$20,000 were added to the cost of the Copperwood Project in accordance with the Company's accounting policy on borrowing costs.

The Company requires additional funds to reimburse the loan to the Lenders, to meet all existing commitments (including the Note of \$15.1 million due to RTX), to complete the acquisition of White Pine (including an amount of approximately \$1.7 million to replace the current environmental financial assurance bond) and to provide for management and administration expenses for the next 12 months.

To that end, the Company engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available to it, including the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, given the state of the capital markets for a company such as Highland and current copper prices, there is no assurance that additional funds will be available or available on terms acceptable to the Company or that the Company will be able to complete a strategic transaction. These conditions and uncertainties indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

Capital Management

The Company defines capital that it manages as loans (including credit facility, note 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. At June 30, 2019, managed capital was \$19,951,931 (\$34,070,021 at June 30, 2018). There were no changes in the Company's approach to capital management during the year ended June 30, 2019. The Company is not subject to any externally imposed capital requirements as at June 30, 2019.

Off-Balance Sheet Arrangements

At June 30, 2019, the Company has no off-balance sheet arrangements.

Transactions with Related Parties

In addition to the loan agreement with two of the Company's shareholders described in the *Liquidity and Capital Resources* section, during the year ended June 30, 2019, the Company incurred administration expenses of \$101,833 from Reunion Gold Corporation ("**Reunion**"), a related party by virtue of common key management and director (\$67,151 in 2018).

During the year ended June 30, 2019, the Company recovered amounts of \$223,698 for management services provided to other TSXV-listed companies, related by virtue of common key management, including Odyssey Resources Limited and Reunion (\$186,010 in 2018). The services are provided at cost.

At June 30, 2019, the Company had an amount payable of \$33,610 to Reunion (nil at June 30, 2018) and had an amount receivable from Odyssey Resources Limited of \$1,920 (nil at June 30, 2018).

Remuneration to directors and key management of the Company, including the Executive Chairman, the President and CEO and the CFO, totaled \$668,301 during the year ended June 30, 2019 (\$946,883 in 2018), as more fully detailed in Note 20 to the June 30, 2019 and 2018 consolidated financial statements filed on SEDAR.

Outstanding Share Data

At October 28, 2019, 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 9,915,000 stock options outstanding with an average exercise price of \$0.13, expiring at various dates until October 2022.

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, except for the adoption of IFRS 9, Financial Instruments, described below. The significant accounting policies of Highland are presented in Note 4 to the June 30, 2019 and 2018 consolidated financial statements filed on SEDAR.

Change in accounting policy – adoption of IFRS 9, Financial instruments

On July 1, 2018, the Company adopted IFRS 9 on a retrospective basis with restatement of comparative periods in accordance with the transitional provision of IFRS 9. IFRS 9 sets out the requirements for recognizing financial assets and liabilities and replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The adoption of IFRS 9 resulted in a change in classification of the financial assets to the financial assets at amortized cost category while they were classified as loans and receivables under the classification prescribed by IAS 39. There was no change in the classification of financial liabilities. There was no impact on carrying values as a result of the adoption on IFRS 9, therefore, comparative amounts presented in the Company's consolidated financial statements were not restated.

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 4 to the June 30, 2019 and 2018 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 4 to the June 30, 2019 and 2018 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 or sale of assets.

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2019:

	Carrying amount	Settlement amount	Within 1 year	2 years	Over 2 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	913,357	913,357	913,357	-	-
Credit facility	2,495,484	3,002,823	3,002,823	-	-
Note payable	165,000	176,540	119,900	56,640	-
Promissory note	15,128,068	15,128,068	15,128,068	-	-
	18,701,909	19,220,788	19,164,148	56,640	-

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 \$6,000.

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, 2019, financial assets and liabilities denominated in a foreign currency consisted of cash and cash equivalents of \$426,471, accounts payable and accrued liabilities of \$30,819 and credit facility of \$2,495,484. The impact on profit or loss of a 10% increase or decrease in the US dollar against the Canadian dollar would be approximately \$210,000.

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 venture, 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 repay the outstanding secured promissory note and to conduct exploration programs on its UPX Property; if adequate financing is not available, RTX may demand payment of the \$15.0 million plus interest due under the Note and given the Company's inability to pay such amount, RTX may initiate legal proceedings to demand the full payment of the Note and enforce its securities over the UPX 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 and the results of the White Pine PEA, the price of and demand for copper and other metals, the state of the capital 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/or mineral reserves of the Copperwood and White Pine North 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 and silver 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 those projects. 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 in the White Pine PEA, and Highland's ability to complete a financing may be significantly and adversely affected by various factors including a decline 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 the past.
- 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.
- The Company is subject to environmental risks and most particularly as it relates to the White Pine property which is subject to a consent decree; 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 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 result of the strategic review process and the funding requirement; 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, the result of the discussion with RTX with respect to the Note; and the Company’s plans and objectives. 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, 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. 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 October 28, 2019. Additional information on the Company is available through regular filings of press releases, financial statements and MD&A on SEDAR (www.sedar.com) and on the Company's website (www.highlandcopper.com).