HIGHLAND
Copper Company Inc.

# CONSOLIDATED FINANCIAL STATEMENTS

**Years ended June 30, 2022 and 2021**

In US dollars

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Highland Copper Company Inc.

## *Opinion*

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

- the consolidated statements of financial position as at June 30, 2022 and June 30, 2021;
- the consolidated statements of (loss) income and comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- as well as the 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, 2022 and June 30, 2021 and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## *Basis of 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, the Entity has not yet generated positive cash flows from its operating activities, that no revenue has been yet been generated, that the Entity has an accumulated deficit as at June 30, 2022, and that its operations are dependent on obtaining additional funds to pursue its operations and meet its obligations related to the development of the Copperwood and White Pine North projects beyond the current fiscal year.

As stated in Note 2 in the consolidated 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 regard.

### *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 *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.

The engagement partner on the audit resulting in this auditors' report is Marc-André Fontaine.

KPMG LLP*

Montréal, Canada

October 25, 2022

*CPA auditor, public accountancy permit No. A131804

# Highland Copper Company Inc.
## Consolidated Statements of Financial Position

| *(in US dollars)* | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| Current | | |
| Cash | **12,929,815** | 2,982,600 |
| Sales taxes receivable | **51,041** | 6,822 |
| Prepaid expenses and other | **70,924** | 32,048 |
| | **13,051,780** | 3,021,470 |
| Non-current | | |
| Environmental bond (Note 5 b) | **1,676,149** | - |
| Capital assets (Note 4) | **29,672** | 29,446 |
| Exploration and evaluation assets (Note 5) | **22,856,259** | 38,740,479 |
| **TOTAL ASSETS** | **37,613,860** | 41,791,395 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | **1,257,830** | 2,236,842 |
| Credit facility (Note 6) | **-** | 6,218,415 |
| Promissory note (Note 7) | **-** | 17,754,189 |
| | **1,257,830** | 26,209,446 |
| Non-current | | |
| Environmental liability (Note 8) | **2,097,425** | 274,275 |
| **TOTAL LIABILITIES** | **3,335,255** | 26,483,721 |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 9) | **83,948,586** | 66,137,274 |
| Contributed surplus | **15,220,385** | 11,961,512 |
| Deficit | **(66,026,815)** | (63,970,379) |
| Cumulative translation adjustment | **1,116,449** | 1,179,267 |
| **TOTAL EQUITY** | **34,258,605** | 15,307,674 |
| **TOTAL LIABILITIES AND EQUITY** | **37,613,860** | 41,791,395 |

Going Concern (Note 2)

Event after the reporting date (Note 20)

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

On behalf of the Board,

| | |
|---|---|
| */s/ Denis Miville-Deschenes* | */s/ Caroline Donally* |
| Denis Miville-Deschenes, Director | Caroline Donally, Director |

# Highland Copper Company Inc.
## Consolidated Statements of (loss) Income and Comprehensive (loss) Income

| *(in US dollars)* | Years ended June 30, **2022** | 2021 |
| --- | --- | --- |
| | **$** | $ |
| **Expenses and other items** | | |
| Exploration and evaluation (Note 11) | **1,998,129** | 590,117 |
| Management and administration (Note 12) | **2,327,434** | 1,005,129 |
| Share-based compensation | **405,109** | - |
| Depreciation and amortization (Note 4) | **7,418** | 21,824 |
| Reversal of write-down of exploration and evaluation assets (Note 5 e) | **-** | (18,010,077) |
| Write-down of exploration and evaluation assets (Note 5 f) | **-** | 197,904 |
| Accretion on environmental liability (Note 8) | **10,500** | 8,124 |
| Finance expense (Note 13) | **321,147** | 2,031,082 |
| Gain on disposal of exploration and evaluation assets (Note 5 e) | **(2,946,908)** | (2,996,550) |
| Finance income | **(48,982)** | (19) |
| Gain on foreign exchange | **(17,411)** | (527,315) |
| **Net (loss) income for the year** | **(2,056,436)** | 17,679,781 |
| Other comprehensive loss | | |
| Item that may be subsequently reclassified to income | | |
| Foreign currency translation adjustment | **(62,818)** | (561,689) |
| **Comprehensive (loss) income for the year** | **(2,119,254)** | 17,118,092 |
| Basic and diluted (loss) earnings per common share (Note 15) | **(0.00)** | 0.04 |
| Weighted average number of common shares - basic and diluted | **736,363,619** | 472,933,689 |

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

# Highland Copper Company Inc.
## Consolidated Statements of Changes in Shareholders' Equity

| *(in US dollars)* | Number of issued and outstanding common shares | Share capital | Contributed surplus | Deficit | Cumulative translation adjustment | Total shareholders' equity (deficit) |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at June 30, 2021 | **472,933,689** | **66,137,274** | **11,961,512** | **(63,970,379)** | **1,179,267** | **15,307,674** |
| Private placement (note 9) | **263,429,930** | **17,971,063** | **2,853,764** | **-** | **-** | **20,824,827** |
| Share issue expenses | **-** | **(159,751)** | **-** | **-** | **-** | **(159,751)** |
| Share-based compensation | **-** | **-** | **405,109** | **-** | **-** | **405,109** |
| Net income for the year | **-** | **-** | **-** | **(2,056,436)** | **-** | **(2,056,436)** |
| Foreign currency translation adjustment | **-** | **-** | **-** | **-** | **(62,818)** | **(62,818)** |
| **Balance at June 30, 2022** | **736,363,619** | **83,948,586** | **15,220,385** | **(66,026,815)** | **1,116,449** | **34,258,605** |
| Balance at June 30, 2020 | 472,933,689 | 66,137,274 | 11,872,108 | (81,650,160) | 1,740,956 | (1,899,822) |
| Below-market element of credit facility | - | - | 89,404 | - | - | 89,404 |
| Net loss for the year | - | - | - | 17,679,781 | - | 17,679,781 |
| Foreign currency translation adjustment | - | - | - | - | (561,689) | (561,689) |
| Balance at June 30, 2021 | 472,933,689 | 66,137,274 | 11,961,512 | (63,970,379) | 1,179,267 | 15,307,674 |

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

# Highland Copper Company Inc.
## Consolidated Statements of Cash Flows

| *(in US dollars)* | Years ended June 30, **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net (loss) income for the year | **(2,056,436)** | 17,679,781 |
| Adjustments | | |
| Share-based compensation | **405,109** | - |
| Depreciation and amortization (note 4) | **7,418** | 21,824 |
| Reversal of write-down of exploration and evaluation assets (note 5 e) | **-** | (18,010,077) |
| Write-down of exploration and evaluation assets (note 5 f) | **-** | 197,904 |
| Accretion on environmental liability (note 8) | **10,500** | 8,124 |
| Unrealized gain on foreign exchange | **(92,132)** | (527,315) |
| Finance expense | **321,147** | 2,029,372 |
| Gain on disposal of exploration and evaluation assets (note 5 e) | **(2,946,908)** | (2,996,550) |
| Finance income accrued | **-** | (19) |
| Finance income received | **-** | 19 |
| Changes in other working capital items | | |
| Sales taxes receivable | **(44,571)** | 1,145 |
| Prepaid expenses and other | **(39,722)** | - |
| Accounts payable and accrued liabilities | **(939,270)** | 1,209,450 |
| | **(5,377,865)** | (386,342) |
| **Investing activities** | | |
| Environmental bond (Note 5 b) | **(1,676,149)** | - |
| Proceeds on sale of capital assets | **(5,441)** | - |
| Additions to exploration and evaluation assets (Note 5) | **(296,025)** | (257,275) |
| Proceeds on disposal of exploration and evaluation assets (Note 5) | **3,000,000** | 3,000,000 |
| | **1,022,385** | 2,742,725 |
| **Financing activities** | | |
| Issue of share capital and warrants (Note 9) | **14,487,061** | - |
| Share issue expenses (Note 9) | **(159,751)** | - |
| Repayment of lease liabilities | **-** | (12,537) |
| Proceeds from credit facility | **-** | 500,000 |
| Reimbursement of note payable | **-** | (55,000) |
| | **14,327,310** | 432,463 |
| Effect of exchange rate changes on cash held in foreign currency | **(24,615)** | 29,427 |
| Net change in cash | **9,947,215** | 2,818,273 |
| Cash, beginning of year | **2,982,600** | 164,327 |
| Cash, end of year | **12,929,815** | 2,982,600 |
| *Supplemental cash flow information* | | |
| Reimbursement of credit facility through issuance of share capital and warrants (note 6) | **(6,337,766)** | - |
| Below-market element of credit facility in contributed surplus | **-** | 89,404 |

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

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 under the symbol "HDRSF".

The Company’s principal assets, located in Michigan’s Upper Peninsula region, include the Copperwood copper project (the “Copperwood Project”) and the White Pine North copper project (the “White Pine North Project”).

## 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 25, 2022.

*Basis of measurement*

These consolidated financial statements were prepared on the historical cost basis, less any impairment, except for the following material items:

- Equity-classified share-based payment arrangements are measured at fair value at grant date pursuant to IFRS 2, *Share-based payment*.
- asset retirement obligations that are measured at the present value of the expected expenditures to settle the obligation.

*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.

## 2. GOING CONCERN

These consolidated financial statements have been prepared on the going concern basis, 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 several 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 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 yet generated positive cash flows from its operating activities and is in the exploration and development stage. The Company has a deficit of $66,026,815 at June 30, 2022 (a deficit of $63,970,379 at June 30, 2021). The Company has relied upon external financings, primarily through the issuance of equity, as well as proceeds from the disposal of exploration and evaluation assets, to fund its operations in the past. Since the Company does not generate revenues, the Company will need to obtain additional funds through the issuance of shares, the exercise of warrants and share options or from other sources to pursue its operations and meet its obligations related to the development of the Copperwood and White Pine North projects beyond the current fiscal year. Despite the fact that it has been able to raise fund in the past, there is no guarantee of success for the future. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

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 and reported expenses.

## 3. 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 three (3) companies:
- Keweenaw Copper Co. ("Keweenaw"), incorporated in July 2011 in the State of Delaware, USA;
- White Pine LLC ("WP LLC"), formed in February 2014 in the State of Delaware, USA;
- Copperwood Resources Inc. ("CRI"), acquired in June 2014 and incorporated in the State of Michigan, USA.

*b) Foreign currency translation*

The Company and its subsidiaries each determine their functional currency based on the currency of the primary economic environment in which they operate.

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. 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 Company's foreign operations are translated to the Company's presentation currency, for inclusion the consolidated financial statements. Foreign denominated assets and liabilities are translated at the exchange rate prevailing at the reporting date. 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.

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

*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.

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, including accrued interest, is classified as and measured at amortized cost.

Financial liabilities

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 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).

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

*c) Financial instruments* (continued)

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 reporting 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 change 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.

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*

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

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

*e) Capital assets*

*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, computers are depreciated over two years, office equipment and furniture are 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.

**3. 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 mining lease payments and costs of acquiring mineral rights are capitalized as exploration and evaluation assets. Exploration and evaluation assets are assessed for impairment indicators or the reversal of impairment indicators (not to exceed the amount of prior impairments) 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.

**3. 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.

**3. 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.

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

*i) Leases*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of capital assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method and is re-measured when there is a change in future lease payments. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in capital assets, and lease liabilities under lease liabilities on the consolidated statements of financial position. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months of less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

*j) Income taxes*

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

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

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

*k) Equity*

Share capital represents the amount received on the issue of shares, less issuance costs. Contributed surplus includes changes related to share options and warrants until such equity instruments are exercised. Deficit includes all current and prior year's losses. Cumulative translation adjustment includes the foreign exchange impact of converting foreign operations. 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.

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

*l) 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.

*m) Share-based payment transactions*

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

*n) Earnings (loss) per share*

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the earnings (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. 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.

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

*o) Significant accounting judgments and estimates*

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain and may require accounting adjustments based on future occurrences. Revisions to accounting estimates, judgments and assumptions are recognized in the period in which the estimate is revised and future period if the revision affects both current and future period. These estimates, judgments and assumptions are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from the assumptions made, include, 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.

*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. As at June 30, 2022, the Company has determined that there were no significant events or changes in circumstances that indicated that the carrying value of its non-current assets may not be recoverable. As such, no impairment test was performed, and no impairment loss was recognized during the year ended June 30, 2022.

*Fair value of liabilities*

The Company determined the fair value of the credit facility and the non-interest-bearing promissory note 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.

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

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

*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).

*Environmental liabilities*

Environmental liabilities are determined using management's best estimates of the probable amounts of future cash outflows, the expected timing of payments and discount rates.

*p) Accounting standards issued but not yet applied*

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than June 30, 2022. These updates are not expected to have a significant impact on the Company and are therefore not discussed herein.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 4. CAPITAL ASSETS

| | Vehicles | Computer equipment and furniture | Exploration equipment | Right-of-use assets and leasehold improvements | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| Balance at June 30, 2020 | 25,538 | 53,495 | 180,870 | 93,183 | 353,086 |
| Disposals | (25,538) | - | - | (93,183) | (118,721) |
| Effect of foreign exchange | - | 1,717 | 3,066 | - | 4,783 |
| Balance at June 30, 2021 | **-** | **55,212** | **183,936** | **-** | **239,148** |
| Additions | **11,467** | **5,430** | **-** | **-** | **16,897** |
| Disposals | **-** | **-** | **-** | **-** | **-** |
| Effect of foreign exchange | **-** | **(1,886)** | **(2,361)** | **-** | **(4,247)** |
| **Balance at June 30, 2022** | **11,467** | **58,756** | **181,575** | **-** | **251,798** |
| **Depreciation and amortization** | | | | | |
| Balance at June 30, 2020 | 22,555 | 37,969 | 159,986 | 81,362 | 301,872 |
| Depreciation and amortization | 2,983 | 6,427 | 593 | 11,821 | 21,824 |
| Disposals | (25,538) | - | - | (93,183) | (118,721) |
| Effect of foreign exchange | - | 2,800 | 1,927 | - | 4,727 |
| Balance at June 30, 2021 | - | 47,196 | 162,506 | - | 209,702 |
| Depreciation and amortization | **1,871** | **3,676** | **1,871** | **-** | **7,418** |
| Disposals | **-** | **-** | **-** | **-** | **-** |
| Effect of foreign exchange | **-** | **1,590** | **3,416** | **-** | **5,006** |
| **Balance at June 30, 2022** | **1,871** | **52,462** | **167,793** | **-** | **222,126** |
| **Carrying amounts** | | | | | |
| Balance at June 30, 2021 | - | 8,016 | 21,430 | - | 29,446 |
| **Balance at June 30, 2022** | **9,596** | **6,294** | **13,782** | **-** | **29,672** |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 5. EXPLORATION AND EVALUATION ASSETS

| | Copperwood Project | White Pine North Project | UPX Property | Other properties | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance at June 30, 2020 | 17,312,259 | 3,157,246 | - | 167,482 | 20,636,987 |
| | | | | | - |
| Acquisition | 227,275 | 30,000 | - | - | 257,275 |
| Sale of a silver royalty to Osisko (Note 5 d) | (1,500) | (1,950) | - | - | (3,450) |
| Reversal of write-down (Note 5 e) | - | - | 18,010,077 | - | 18,010,077 |
| Write-down (Note 5 f) | - | - | - | (197,904) | (197,904) |
| Effect of foreign exchange | - | 7,072 | - | 30,422 | 37,494 |
| Balance at June 30, 2021 | 17,538,034 | 3,192,368 | 18,010,077 | - | 38,740,479 |
| | | | | | **-** |
| Acquisition | **266,025** | **30,000** | **-** | **-** | **296,025** |
| Addition to environmental liability | **-** | **1,812,650** | **-** | **-** | **1,812,650** |
| Disposition (Note 5 e) | **-** | **-** | **(18,010,077)** | **-** | **(18,010,077)** |
| Effect of foreign exchange | **-** | **17,182** | **-** | **-** | **17,182** |
| **Balance at June 30, 2022** | **17,804,059** | **5,052,200** | **-** | **-** | **22,856,259** |

**5. EXPLORATION AND EVALUATION ASSETS** (continued)

*a) Copperwood Project, Michigan, USA*

The Company acquired the Copperwood Project in June 2014.

As part of the consideration for the acquisition of the Copperwood Project, an amount of $1,250,000 may 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 representing a “Contingent Consideration”). The contractual Contingent Consideration will only be recognized if and when the contingency is satisfied.

The Copperwood Project consists of a number of mineral leases, which call for annual rental payments until 2036. The mineral leases are also subject to quarterly Net Smelter Return (“NSR”) royalty payments that will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. Under the mineral leases, the Company will have mineral rights until the later of the 20$^{th}$ 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.

**5. EXPLORATION AND EVALUATION ASSETS** (continued)

*b) White Pine North Project, Michigan, USA*

On May 13, 2014, the Company acquired from CRC all rights, title and interest in the White Pine North Project. On July 27, 2021, in accordance with the acquisition agreement, Highland (i) deposited an agreed amount of $1,676,149 with the Michigan Department of Environment, Great Lakes, and Energy ("EGLE") 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. Highland assumed all of CRC's environmental liabilities related to the former White Pine mine site and will also be responsible for all ongoing environmental obligations.

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, 2022, the Company has not yet estimated any proven and probable reserves at the White Pine North 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.

*c) 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. The lease agreement includes annual lease payments of $30,000 in 2021 (payment made) and 2022, and $1,000,000 thereafter. Upon commencement of production, Highland will have to pay to the holder of the mineral rights (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. Highland may terminate the lease at any time upon a 30-day notice.

*d) Royalty agreements*

In accordance with an agreement entered into in December 2014 (and subsequently amended in June 2016), Osisko Gold Royalies Ltd. ("Osisko") held a 3.0% net smelter return royalty on all metals to be produced from the mineral rights and leases associated with the Copperwood Project (the "Copperwood NSR"). The June 2016 amendment provided that upon final closing of the acquisition of the White Pine North Project, the Company would grant Osisko a 1.5% NSR royalty on all metals to be produced from the White Pine North Project, and Osisko's royalty on the Copperwood Project would be then reduced to 1.5%. In December 2014, the Company had also granted to Osisko an option to purchase for $26 million a 100% NSR on future silver production from the Company's projects (the "Silver Option Royalty").

**5. EXPLORATION AND EVALUATION ASSETS** (continued)

*d) Royalty agreements (continued)*

On June 29, 2021, the Company entered into an agreement with Osisko (the "2021 Osisko Agreement") pursuant to which Osisko has exercised a portion of its Silver Option Royalty on future production from the Copperwood and White Pine North projects. Pursuant to the 2021 Osisko Agreement, which modified the terms and conditions of the exercise of the Silver Option Royalty (including the removal of silver from the Copperwood NSR agreement), the Company has received an initial payment of $3 million (the "Initial Payment") in consideration for which the Company has granted Osisko a 3/26$^{th}$ NSR royalty on all future silver production from the Copperwood and White Pine North projects. Osisko has the option to acquire the remaining 23/26$^{th}$ NSR royalty on all silver produced from the Copperwood and White Pine North projects by paying an additional $23 million to Highland within 60 days following the delivery of a feasibility study on the White Pine North Project.

The Initial Payment was accounted for as a sale of a portion of the Copperwood and White Pine North projects. The carrying value of the exploration and evaluation assets disposed was determined taking into account silver income relative to income from all metals to be produced at the Copperwood and White Pine North projects. The resulting amount of $3,450 reduced the carrying amount of the Copperwood and White Pine North projects with the difference accounted for as a gain on disposal.

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: Upper Peninsula Copper Holdings Inc., Copperwood Resources Inc., White Pine Copper LLC and Keweenaw Copper Co.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *e) UPX Property*

On August 27, 2021, the Company completed the sale of the UPX Property to a subsidiary of Orion Mine Finance (**"Orion"**), a significant shareholder of the Company for a total cash proceeds of $3,000,000 and the assumption of the promissory note. As a result of the transaction, the Company recorded a gain on disposal of $2,946,908 in the year ended June 30, 2022. During the year ended June 30, 2021, the Company reversed the previous write-down of exploration and evaluation assets in the amount of $18,010,077.

| | $ |
|---|---|
| Sale of the UPX Project | |
| Cash received | **3,000,000** |
| Assumption of the promissory note in favor of RTX by the acquirer (Note 7) | **17,956,985** |
| | **20,956,985** |
| Net assets sold | **(18,010,077)** |
| Gain on disposal of the UPX property | **2,946,908** |

### *f) Write-down*

In December 2012, the Company had entered into a 10-year lease agreement for the exploration and development of mineral properties located in Michigan. On April 22, 2021, the Company received a lease termination notice from the titleholder for the non-payment of the lease amount that was due in December 2020. Consequently, the Company has written off the amount of $197,904 in exploration and evaluation assets related to this lease.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 6. CREDIT FACILITY

On May 20, 2019, the Company entered into a loan agreement with Osisko and Greenstone Resources II LP (collectively, the "Lenders"), under which the Lenders agreed to provide the Company with a loan of up to $4,500,000. On September 4, 2020, pursuant to an amendment to the loan agreement, Osisko made available to the Company an additional amount of $500,000 increasing the total indebtedness under the loan agreement to $5,000,000, plus accrued interest. The loan bore interest at a rate of 12% per annum. On closing of the non-brokered private placement described in Note 9, the Company settled all amounts due to Osisko and Greenstone for a total amount of $6,337,766.

The balance of the loan is determined as follows:

| | **Years ended June 30,** | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Balance, beginning of year | **6,218,415** | 5,006,142 |
| Modification adjustment | **-** | (89,404) |
| Accrued interest | **119,351** | 1,301,677 |
| Reimbursement of loan, including accrued interest | **(6,337,766)** | - |
| Balance, end of year | **-** | 6,218,415 |

On August 27, 2021, the Company settled all amounts due under the Credit Facility.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 7. 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. Since May 30, 2019, following an event of default, the Note bore interest at an annual rate of Libor plus 8% (a rate of 8.1% at June 30, 2021). The Note was secured by a mortgage over the acquired property and a general security agreement over all the assets of UPX Minerals Inc (“UPX”).

On August 27, 2021, the Company sold UPX to Orion for cash of $3 million and the assumption by Orion of the amount owing under the above promissory note.

The balance of the Note is determined as follows:

| | Years ended June 30, | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Balance, beginning of year | **17,754,189** | 16,535,251 |
| Accrued interest | **202,796** | 1,218,938 |
| Assumption of promissory note by Sweetwater (note 5 e) | **(17,956,985)** | - |
| Balance, end of year | **-** | 17,754,189 |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 8. ENVIRONMENTAL LIABILITY

The environmental liability consists of a provision for reclamation costs related to the White Pine North Project (Note 5 b). The undiscounted cash flow amount of the liability is estimated at $2,048,600 at July 27, 2021. The present value of the liability was calculated using a discount rate of 3.12% and is reflecting payments to be made until 2030, inclusively, while taking into consideration an inflation of 2.3%.

| | Years ended June 30, | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Balance, beginning of year | **274,275** | 266,151 |
| Addition | **1,812,650** | - |
| Accretion expense | **10,500** | 8,124 |
| Balance, end of year | **2,097,425** | 274,275 |

## 9. SHARE CAPITAL

*Authorized and issued*

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.

At June 30, 2022, the Company had 736,363,619 issued and outstanding common shares (472,933,689 at June 30, 2021).

*Issuance of securities*

On August 27, 2021 and on September 9, 2021, the Company completed, in two tranches, a non-brokered private placement through the issuance of 263,429,930 units (the "**Units**") at a price of Can $0.10 per Unit for total proceeds of Can $26,342,993 ($20,824,827). Each Unit consisted of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a "**Warrant**") with each Warrant exercisable to acquire one common share of the Company at a price of Can $0.18 per share until August 27, 2023 and September 9, 2023. The fair value of the common shares was calculated by using the TSXV share price on the date of the issuance and the fair value of the warrants was estimated at Can $0.03 per warrant by applying the Black-Scholes option pricing model, using an expected time-period of 2 years, a weighted average risk-free interest rate of 0.9%, a weighted average volatility rate of 88% and a 0% dividend factor. An amount of $2,853,764 was allocated to the share purchase warrants and presented as part of contributed surplus. Share issue expenses related to this private placement amounted to $159,751, including finders' fees of $82,600.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

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

*Share purchase warrants*

The following table reflects the number of issued and outstanding share purchase warrants at June 30, 2022:

| **Grant date** | Number of warrants June 30, 2021 | **Granted** | **Number of warrants June 30, 2022** | **Price per share** | **Expiry date** |
|---|---|---|---|---|---|
| | | | | $ | |
| August 27, 2021 | - | 126,464,965 | 126,464,965 | 0.18 | Aug 27, 2023 |
| September 9, 2021 | - | 5,250,000 | 5,250,000 | 0.18 | Sep 9, 2023 |
| | - | 131,714,965 | 131,714,965 | 0.18 | |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 10. SHARE OPTIONS

The following table sets out the activity in share options:

| | | | | Years ended June 30, |
|---|---|---|---|---|
| | | **2022** | | **2021** |
| | **Number** | **Average exercise price (C$)** | **Number** | **Average exercise price (C$)** |
| Options, beginning of year | 7,525,000 | 0.12 | 8,675,000 | 0.17 |
| Granted | 10,000,000 | 0.11 | - | - |
| Expired | - | - | (1,150,000) | (0.20) |
| Options, end of year | 17,525,000 | 0.12 | 7,525,000 | 0.12 |

The following table reflects the stock options issued and outstanding at June 30, 2022:

| Issue date | Number of options | Exercise price | Remaining contractual life | Number of exercisable options | Exercise price of exercisable options |
|---|---|---|---|---|---|
| | | C$ | (years) | | C$ |
| August 28, 2017 | 6,775,000 | 0.11 | 0.2 | 6,775,000 | 0.11 |
| October 26, 2017 | 750,000 | 0.17 | 0.3 | 750,000 | 0.17 |
| December 16, 2021 | 3,500,000 | 0.11 | 4.5 | 1,166,667 | 0.11 |
| February 24, 2022 | 6,500,000 | 0.15 | 4.7 | 2,166,667 | 0.15 |
| | 17,525,000 | 0.13 | 2.7 | 10,858,334 | 0.12 |

## 11. EXPLORATION AND EVALUATION EXPENSES

| | **Years ended June 30,** | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Labour | **643,500** | 90,168 |
| Studies | **968,262** | 91,725 |
| Contractors | **-** | 207,176 |
| Office, overhead and other administrative costs | **386,367** | 201,048 |
| | **1,998,129** | 590,117 |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 12. MANAGEMENT AND ADMINISTRATION EXPENSES

| | Years ended June 30, | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Administrative and general | **1,537,116** | 687,727 |
| Professional fees | **481,350** | 184,333 |
| Office | **140,345** | 102,730 |
| Investor relations and travel | **121,351** | 2,111 |
| Reporting issuer costs | **47,272** | 28,228 |
| | **2,327,434** | 1,005,129 |

## 13. FINANCE EXPENSE

| | Years ended June 30, | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Interest on credit facility (Note 6) | **119,351** | 807,007 |
| Interest on note payable | **-** | 1,650 |
| Interest on promissory note (Note 7) | **202,796** | 1,218,938 |
| Accretion on lease liabilities | **-** | 3,091 |
| Other | **-** | 396 |
| | **321,147** | 2,031,082 |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 14. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

| | | | | Years ended June 30, |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| | | **$** | | $ |
| Net income (loss) before income tax | | **(2,056,436)** | | 17,679,781 |
| Tax using the Company's domestic tax rate | **26.50%** | **(544,956)** | 26.50% | 4,685,142 |
| Share-based compensation | **(5.24%)** | **107,742** | | - |
| Non-deductible expenses and non-taxable revenues | **(0.02%)** | **398** | | - |
| Effect of tax rate in foreign jurisdictions | **0.27%** | **(5,544)** | (0.82%) | (145,064) |
| Unrecognized tax assets | **61.45%** | **(1,263,637)** | (23.57%) | (4,167,355) |
| Recognition of previously unrecognized deferred tax assets | **(66.74%)** | **1,372,507** | | - |
| Foreign exchange and others | **(16.22%)** | **333,491** | (2.11%) | (372,723) |
| Deferred income tax | **-** | **-** | - | - |

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

| | | | **June 30, 2022** |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** |
| | **$** | **$** | **$** |
| Advances in foreign currency | **-** | **(416,635)** | **(416,635)** |
| Non-capital loss carry-forwards | **416,635** | **-** | **416,635** |
| | **416,635** | **(416,635)** | **-** |
| Offsetting of tax assets and liabilities | **(416,635)** | **416,635** | **-** |
| | **-** | **-** | **-** |

| | | | June 30, 2021 |
|---|---|---|---|
| | Assets | Liabilities | Net |
| | $ | $ | $ |
| Advances in foreign currency | - | (201,703) | (201,703) |
| Non-capital loss carry-forwards | 201,703 | - | 201,703 |
| | 201,703 | (201,703) | - |
| Offsetting of tax assets and liabilities | (201,703) | 201,703 | - |
| | - | - | - |

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 14. INCOME TAXES (continued)

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

| | | | **June 30, 2022** |
|---|---|---|---|
| | **Canada** | **USA** | **Total** |
| | **$** | **$** | **$** |
| Non-capital loss carry-forwards | **16,023,983** | **28,140,902** | **44,164,885** |
| Capital loss carry-forwards | **990,033** | | **990,033** |
| Capital assets | **247,833** | **70,696** | **318,529** |
| Exploration and evaluation assets | **1,669,887** | **1,141,796** | **2,811,683** |
| Financing expenses and others | **161,202** | **877,923** | **1,039,125** |
| | **19,092,938** | **30,231,317** | **49,324,256** |

| | | | June 30, 2021 |
|---|---|---|---|
| | Canada | USA | Total |
| | $ | $ | $ |
| Non-capital loss carry-forwards | 15,001,600 | 30,410,552 | 45,412,152 |
| Capital assets | 256,226 | 108,335 | 364,561 |
| Exploration and evaluation assets | 1,669,887 | 4,264,673 | 5,934,560 |
| Financing expenses and others | 680,362 | 1,376,170 | 2,056,532 |
| | 17,608,075 | 36,159,730 | 53,767,805 |

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.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 14. INCOME TAXES (continued)

Non-capital losses expire as follows:

| | USA | Canada |
|---|---|---|
| | $ | $ |
| 2026 | - | 80 107 |
| 2027 | - | 93 381 |
| 2028 | - | 235 573 |
| 2029 | - | 417 734 |
| 2030 | - | 577 677 |
| 2031 | 42,591 | 737 927 |
| 2032 | 841,758 | 1 063 391 |
| 2033 | - | 74 640 |
| 2034 | 2,525,524 | 881 653 |
| 2035 | - | 1 913 378 |
| 2036 | - | 802 465 |
| 2037 | 3,058,948 | 1 667 508 |
| 2038 | 8,638,707 | 1 826 283 |
| 2039 | - | 1 515 350 |
| 2040 | - | 1 701 021 |
| 2041 | - | 1 572 284 |
| 2042 | - | 2 435 818 |
| | 15,107,528 | 17,596,191 |

The Company also has non-capital losses available in the USA amounting to $13,033,374 with no expiry date. A deferred income tax on non-capital losses has been recognized for an amount of $1,572,208 ($761,143 in 2021). The Company has capital losses of $990,033 available in Canada to use against future capital gains. Capital losses have no expiry date in Canada.

## 15. LOSS (EARNINGS) PER SHARE

The calculation of basic and diluted (loss) earnings per share for the year ended June 30, 2022 was based on net loss attributable to common shareholders of $2,056,436 (a net income of $17,679,781 in 2021) and the weighted average number of common shares outstanding of 736,363,619 (472,933,689 in 2021). Excluded from the calculation of the diluted loss per share for the year ended June 30, 2022 are 131,714,965 share purchase warrants and 17,525,000 share options (7,525,000 share options in 2021) because to include them would be anti-dilutive as they would have the effect of decreasing the loss per share.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 16. RELATED PARTY TRANSACTIONS

In addition to the credit facility described in Note 6 and the sale of the UPX Property described in note 5 e) and note 7, the detail of transactions between the Company and its related parties is as follows:

During the year ended June 30, 2022, the Company incurred administration expenses of $615,312 from Reunion Gold Corporation, a related party by virtue of common management and directors ($64,287 in 2021). Reunion Gold Corporation was a related party only for the period covering July 2021 to February 2022.

At June 30, 2022, the Company had an amount payable of $3,041 to Reunion Gold Corporation, included in accounts payable and accrued liabilities on the consolidated statements of financial position ($126,051 at June 30, 2021).

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 CFO, is as follows:

| | **Years ended June 30,** | |
|---|---|---|
| | **2022** | 2021 |
| | **$** | $ |
| Wages and consulting fees, included in management and administration expenses | **615,312** | 560,233 |
| Share-based compensation | **405,109** | - |
| | **1,020,421** | 560,233 |

## 17. 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. As at June 30, 2022, managed capital was $34,258,605 ($39,280,278 at June 30, 2021).

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 the sale of equity capital of the Company, the sale by the Company of an interest in any of its properties in whole or in part, or shareholder loans. 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 on its business performance. 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, 2022. The Company is not subject to any externally imposed capital requirements as at June 30, 2022.

## 18. 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, 2022.

*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. The Company generates cash flow only from its financing activities.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

**18. FINANCIAL RISK MANAGEMENT** (continued)

*Liquidity risk* (continued)

The following table summarizes the contractual maturities of the Company's financial liabilities as at June 30, 2022:

| | Carrying amount | Settlement amount | Within 1 year | 2 years | Over 2 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 1,257,830 | 1,257,830 | 1,257,830 | - | - |
| | 1,257,830 | 1,257,830 | 1,257,830 | - | - |

*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 which is mainly held in accounts with a major Canadian-based chartered bank.

*Interest rate risk*

The Company's interest rate risk relates to cash and the promissory note. As at June 2022, the Company no longer has any loans to be paid.

**18. 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. 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, 2022, financial assets and liabilities denominated in a foreign currency consisted of cash of $2,083,256, as well as accounts payable and accrued liabilities of $121,654. The impact on profit or loss of a 10% increase or decrease in the US dollar against the Canadian dollar would be approximately $200,000.

*Fair value of financial instruments*

The carrying value of cash and accounts payable and accrued liabilities is considered to be a reasonable approximation of their fair value due to their immediate or short-term maturity.

**Years ended June 30, 2022 and 2021** *(in US dollars)*

## 19. 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, 2022** |
|---|---|---|---|
| | **Canada** | **USA** | **Total** |
| | **$** | **$** | **$** |
| Current assets | **10,494,771** | **2,557,009** | **13,051,780** |
| Environmental bond | **-** | **1,676,149** | **1,676,149** |
| Capital assets | **3,941** | **25,731** | **29,672** |
| Exploration and evaluation assets | **377,029** | **21,259,727** | **21,636,757** |
| Total assets | **10,875,741** | **25,518,616** | **36,394,358** |

| | | | June 30, 2021 |
|---|---|---|---|
| | Canada | USA | Total |
| | $ | $ | $ |
| Current assets | 1,335,930 | 1,685,540 | 3,021,470 |
| Capital assets | - | 29,446 | 29,446 |
| Exploration and evaluation assets | - | 38,740,479 | 38,740,479 |
| Total assets | 1,335,930 | 40,455,465 | 41,791,395 |

## 20. EVENT AFTER THE REPORTING DATE

On July 29, 2022, the Company granted 13,300,000 stock options to directors and executive officers of the Company. The options are exercisable at an exercise price of $0.095 per share for a period of up to seven years and will vest as to one third immediately and one third on each of the first and second anniversary of the grant.

# HIGHLAND COPPER COMPANY INC.

# MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2022

*The following management's discussion and analysis (**"MD&A"**) of the operations, results, and financial position of Highland Copper Company Inc. (**"Highland"** or the **"Company"**), dated October 25, 2022, covers the years ended June 30, 2022 and 2021 and should be read in conjunction with the audited consolidated financial statements and related notes at June 30, 2022 and 2021 (the **"June 30, 2022 and 2021 consolidated financial statements"**). The June 30, 2022 and 2021 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**).*

*In this MD&A, reference to "the Company" is to Highland and its subsidiaries. All financial results presented in this MD&A are expressed in US dollars unless otherwise indicated.*

## ***DESCRIPTION OF BUSINESS***

Highland and its subsidiaries are engaged in the acquisition, exploration and development of mineral properties. The Company's assets are **Copperwood,** a feasibility stage copper project, and **White Pine North,** an advance-stage copper project, both located in the Upper Peninsula region of the State of Michigan, USA.

Highland, a Canadian-based company, 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". As at October 25, 2022, the Company has 736,363,619 common shares issued and outstanding. Orion Resource Partners ("**Orion**"), Condire Investors LLC (**"Condire"**) and Greenstone Resources II LP ("**Greenstone**") hold respectively 27.7%, 16.2% and 15.9% of the Company's issued and outstanding common shares.

Fiscal 2022 was a transformational year for Highland Copper. The Company revamped its Board, sold its UPX exploration properties, released CRC from its environmental obligations with the Michigan Department of Environmental Quality, by transferring an agreed amount of $1,676,149 with the Michigan Department of Environment, Great Lakes, and Energy ("EGLE"), completed an equity raise and subsequently paid off all corporate debt. The Company is set up well to execute development of its two key Michigan assets, Copperwood and White Pine North.

## ***HIGHLIGHTS***

*Subsequent to the June 30, 2022 year-end*

- On July 29, 2022, Highland Copper announced that, subject to regulatory approval, it has approved the grant of 13,300,000 incentive stock options to directors and executive officers of the Company. The options are exercisable at an exercise price of $0.095 per share for a period of up to seven years and will vest as to one third immediately and one third on each of the first and second anniversary of the grant.

*During the financial year ended June 30, 2022*

*Corporate activities*

- The Company increased the size of the Board from five to eight directors during the financial year, after proposed changes on November 18, 2021. In addition to Denis Miville-Deschênes (current director, President and CEO) and Jo Mark Zurel (current director and chair of the audit committee), the Board of directors is now composed of Jonathan Cherry, Caroline Donally, Iain Farmer, Stephen J. Hicks, Melanie R. Miller and David B. Tennant. David Fennell, stepped down in his executive role at the end of August 2021, Jean Desrosiers and John Johnson did not stand for re-election.

- On August 27, 2021 and September 9, 2021, the Company completed a non-brokered private placement (the **"Offering"**) for total gross proceeds of Can $26,342,993 ($20,824,827). The Offering consisted of the issuance of 263,429,930 units ("**Units**") at a price of Can $0.10 per Unit. Each Unit consisted of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a "**Warrant**"), with each Warrant exercisable to acquire one common share of the Company at Can $0.18 per common share until August 27, 2023 and September 9, 2023. In connection with the completion of the Offering, the Company paid finder's fees in the aggregate amount of $82,600. Certain insiders of the Company acquired Units in the Offering, including Orion who acquired 62,310,000 Units and Greenstone who acquired 36,635,620 Units.

- On August 27, 2021, the Company settled an amount of $6,337,766 (including accrued interest) due to Osisko Gold Royalties Ltd (**"Osisko"**) and Greenstone pursuant to a May 2019 secured loan agreement, as amended (the "**Credit Facility**").

- On August 27, 2021, the Company completed the sale of its mineral exploration project referred to as the UPX Property, acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company (**"RTX"**), through the sale of all of the issued and outstanding shares of UPX Minerals Inc. (**"UPX Minerals"**), an indirect wholly-owned subsidiary of Highland, to Sweetwater Royalties (**"Sweetwater"**), an entity owned by Orion, in exchange for a cash consideration of $3 million and the assumption by Sweetwater of the remaining amount due of $18.0 million under a promissory note (the **"Note"**) in favor of RTX. Highland was also released from its guarantee to repay amounts owing under the Note.

- On July 27, 2021, the Company has assumed environmental liabilities and obligations related to the former White Pine mine site. To that end, the Company has provided a certificate of deposit in the amount of $1,676,149 for the benefit of the Michigan Department of Environment, Great Lakes and Energy (**"EGLE"**) as financial assurance for the performance of environmental obligations associated with the remediation and closure plan of the former White Pine mine site.

- The Company realized net loss of $2.1 million in 2022 compared to a net income of $17.7 million in 2021. Net income in 2022 includes a gain of sale of the UPX Property of $3.0 million. Net income in 2021 includes the reversal of a previous write-down of exploration and evaluation assets related to the UPX Property in the amount of $18.0 million and a gain of $3.0 million related to Osisko's partial exercise of its option to purchase a 100% NSR royalty on future silver production from the Company's projects.

- As at June 30 2022, the Company is debt free and has a working capital (total current assets less total current liabilities) of $11.8 million.

- To date, the Company has not yet generated positive cash flows from its operating activities and is in the exploration and development stage. The Company has a deficit of $66,026,815 at June 30, 2022 (a deficit of $63,970,379 at June 30, 2021). The Company has relied upon external financings, primarily through the issuance of equity, as well as proceeds from the disposal of exploration and evaluation assets, to fund its operations in the past. Since the Company does not generate revenues, the Company will need to obtain additional funds through the issuance of shares, the exercise of warrants and share options or from other sources to pursue its operations and meet its obligations related to the development of the Copperwood and White Pine North projects beyond the current fiscal year. Despite the fact that it has been able to raise fund in the past, there is no guarantee of success for the future. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

*Copperwood Project*

- The Company has initiated an update of the feasibility study on its Copperwood Project which was completed in 2018, taking into account various factors including current market prices for metals, for the purchase of equipment, supplies and consumables and for labor rates. The Company has retained the services of G Mining Services Inc. (**"GMSI"**), a Canadian mining consultancy firm, targeting to complete the updated feasibility study by December 2022.

*White Pine North Project*

- The Company plans to initiate baseline environmental studies over the coming months.

- Subsequent to year-end, the Company also announced plans to complete an infill drilling program during fiscal year 2023 with the intention of progressing to a Feasibility Study on White Pine North.

***OUTLOOK***

Following the completion of the Offering and transactions described in the *Highlights* section above, the Company is debt free and has a working capital (total current assets less total current liabilities) of approximately $11.8 million as at June 30, 2022.

The Company has initiated an update of the feasibility study on its Copperwood Project which was completed in 2018 taking into account various factors including current market prices for metals, for the purchase of equipment, supplies and consumables and for labor rates. The Company has retained the services of G Mining Services Inc. (**"GMSI"**), a Canadian mining consultancy firm, targeting to complete the updated feasibility study by December 2022. The updated feasibility study will also consider optimizations, particularly the impact of using continuous miners.

At the White Pine North Project, the Company plans to initiate baseline environmental studies over the coming months and complete an infill drilling program during fiscal year 2023 with the intention of progressing to a Feasibility Study on White Pine North.

### *PRIVATE PLACEMENT*

The Company completed the Offering in two tranches, on August 27 and September 9, 2021, resulting in total gross proceeds of Can $26,342,993. The Offering consisted of the issuance of 263,429,930 units ("**Units**") at a price of Can $0.10 per Unit. Each Unit consisted of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a "**Warrant**"), with each Warrant exercisable to acquire one common share of the Company at Can $0.18 per common share until August 27, 2023 and September 9, 2021. In connection with the completion of the Offering, the Company paid finder's fees in the aggregate amount of $82,600.

Certain insiders of the Company acquired Units in the Offering, including Orion who acquired 62,310,000 Units and Greenstone who acquired 36,635,620 Units, after which they respectively own approximately 27.7% and 15.9% of the common shares of the Company.

### *ACQUISITION OF THE WHITE PINE NORTH PROJECT*

On May 13, 2014, the Company acquired from CRC all rights, title and interest in the White Pine North Project. On July 27, 2021, in accordance with the acquisition agreement, Highland (i) deposited an agreed amount of $1,676,149 with the Michigan Department of Environment, Great Lakes, and Energy ("EGLE") 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. Highland assumed all of CRC's environmental liabilities related to the former White Pine mine site and will also be responsible for all ongoing environmental obligations.

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, 2022, the Company has not yet estimated any proven and probable reserves at the White Pine North 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.

### *SALE OF THE UPX PROPERTY*

On August 27, 2021, the Company completed the sale of the UPX Property to a subsidiary of Orion Mine Finance (**"Orion"**), a significant shareholder of the Company for a total cash proceeds of $3,000,000 and the assumption of the promissory note. As a result of the transaction, the Company recorded a gain on disposal of $2,946,908 in the year ended June 30, 2022. During the year ended June 30, 2021, the Company reversed the previous write-down of exploration and evaluation assets in the amount of $18,010,077.

### *ROYALTY AGREEMENTS WITH OSISKO*

In accordance with an agreement entered into in December 2014 (and subsequently amended in June 2016), Osisko Gold Royalies Ltd. ("Osisko") held a 3.0% net smelter return royalty on all metals to be produced from the mineral rights and leases associated with the Copperwood Project (the "Copperwood NSR"). The June 2016 amendment provided that upon final closing of the acquisition of the White Pine North Project, the Company would grant Osisko a 1.5% NSR royalty on all metals to be produced from the White Pine North Project, and Osisko's royalty on the Copperwood Project would be then reduced to 1.5%. In December 2014, the Company had also granted to Osisko an option to purchase for $26 million a 100% NSR on future silver production from the Company's projects (the "Silver Option Royalty").

On June 29, 2021, the Company entered into an agreement with Osisko (the "2021 Osisko Agreement") pursuant to which Osisko has exercised a portion of its Silver Option Royalty on future production from the Copperwood and White Pine North projects. Pursuant to the 2021 Osisko Agreement, which modified the terms and conditions of the exercise of the Silver Option Royalty (including the removal of silver from the Copperwood NSR agreement), the Company has received an initial payment of $3 million (the "Initial Payment") in consideration for which the Company has granted Osisko a 3/26$^{th}$ NSR royalty on all future silver production from the Copperwood and White Pine North projects. Osisko has the option to acquire the remaining 23/26$^{th}$ NSR royalty on all silver produced from the Copperwood and White Pine North projects by paying an additional $23 million to Highland within 60 days following the delivery of a feasibility study on the White Pine North Project.

The Initial Payment was accounted for as a sale of a portion of the Copperwood and White Pine North projects. The carrying value of the exploration and evaluation assets disposed was determined taking into account silver income relative to income from all metals to be produced at the Copperwood and White Pine North projects. The resulting amount of $3,450 reduced the carrying amount of the Copperwood and White Pine North projects with the difference accounted for as a gain on disposal.

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: Upper Peninsula Copper Holdings Inc., Copperwood Resources Inc., White Pine Copper LLC and Keweenaw Copper Co.

### *COPPERWOOD PROJECT*

Copperwood is a development stage copper project located in the Upper Peninsula of Michigan, USA within the Porcupine Mountains copper district. 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 NSR royalty payments that will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. The mineral leases are valid until the later of the 20$^{th}$ 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.

A feasibility study, under the supervision of GMSI was completed in June 2018 and on July 31, 2018, the Company filed on SEDAR and on its website 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**").

*2018 Feasibility Study Highlights*

- Base case using an average copper price of $3.15/lb and an average silver price of $16.00/oz;
- After-tax internal rate of return ("**IRR**") of 18.0%;
- After-tax net present value ("NPV") at 8% of $116.8 million;
- Initial capital expenditures of $275.0 million;
- Life-of-mine ("**LOM**") cash costs of $1.75/pound, including royalties;

- Proven and probable reserves of 25.4 million tonnes at 1.43% and 3.83 g/t Ag, containing 0.8 billion pounds of copper and 3.1 million ounces of silver; the mineral reserves were estimated using a copper price of $3.00/lb and a silver price of $16.00/oz;
- In addition, inferred mineral resources of 49.9 million tonnes at 1.15% Cu and 3.4 g/t Ag, containing 1.3 billion pounds of copper and 5.5 million ounces of silver;
- Mine life of 10.7 years, including one year of ramp-up, with average annual LOM payable copper production of 61.7 million pounds and 0.1 million ounces of silver.

*Updated Feasibility Study*

The Company has initiated an update of the feasibility study on its Copperwood Project which was completed in 2018 taking into account various factors including current market prices for metals, for the purchase of equipment, supplies and consumables and for labor rates. The Company has retained the services of G Mining Services Inc. (**"GMSI"**), a Canadian mining consultancy firm, targeting to complete the updated feasibility study by December 2022.

The updated feasibility study will also consider optimizations, particularly the impact of using continuous miners.

*Permitting*

The Company has received all major permits required to build the Copperwood Project, including an amendment to the Mining Permit originally granted in 2012, approved by EGLE in December 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 from EGLE 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) (required to operate) is outstanding and a final decision is expected shortly.

*Contingencies and royalties 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 Minerals Corp ("**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.

Quarterly NSR royalty payments ranging from 2% to 4% on a sliding scale based on inflation-adjusted copper prices will be payable under the mineral leases. In addition, a 1.5% NSR royalty on all metals produced (other than silver) and a 3/26th NSR royalty on silver production from the Copperwood Project are payable to Osisko, as described further in the *Royalty Agreements with Osisko* section.

***WHITE PINE NORTH PROJECT***

The White Pine North Project is located in the historical copper range district of the Upper Peninsula of Michigan, U.S.A. CRC had acquired the original White Pine mine in 1937. 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.

In June 2019, the Company retained the services of GMSI to prepare a preliminary economic assessment ("**PEA**") and a mineral resource estimate for the White Pine North Project. The mineral resource estimate and results of the PEA were released on September 23, 2019. The technical report supporting the results was prepared pursuant to NI 43-101 and is available on SEDAR and on the Company's website.

*2019 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 LEASE AGREEMENT, WHITE PINE, MICHIGAN*

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. The lease agreement includes annual lease payments of $30,000 in 2021 (payment made) and 2022, and $1,000,000 thereafter. Upon commencement of production, Highland will have to pay to the holder of the mineral rights (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. Highland may terminate the lease at any time upon a 30-day notice.

### *QUALIFIED PERSON*

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*

*Restructuring of the Board and Management*

On August 27, 2021, concurrently with the completion of the first tranche of the private placement and the sale of UPX, long-time director David Fennell agreed to step down as Executive Chairman. Jo Mark Zurel took over the Chair of Board position. Osisko exercised its right to nominate one individual to stand for election as director. The Company initiated a search for additional directors to strengthen and diversify the Company's Board of Directors, and successfully added Jonathan Cherry, Caroline Donally, Iain Farmer, Stephen Hicks, David Tennant and Melanie Miller.

*Rights of Certain Shareholders*

Following their participation in the Company's non-brokered private placement of units completed in 2017, Greenstone received nomination rights for the sale of the Company'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 interest in future equity financings.

## *SELECTED CONSOLIDATED FINANCIAL INFORMATION [1]*

The following selected financial information should be read in conjunction with the Company's June 30, 2022 and 2021 consolidated financial statements.

| Financial Position | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| Cash | **12,929,815** | 2,982,600 |
| Exploration and evaluation assets | **22,856,259** | 38,740,479 |
| Total assets | **37,613,860** | 41,791,395 |
| Credit Facility | **-** | 6,218,415 |
| Promissory Note | **-** | 17,754,189 |
| Shareholders' equity | **34,258,605** | 15,307,674 |

| Comprehensive Income (Loss) | Year ended June 30, 2022 | Year ended June 30, 2021 | Year ended June 30, 2020 |
|---|---|---|---|
| | $ | $ | $ |
| Net (loss) income for the year | **(2,056,436)** | 17,679,781 | (4,371,338) |
| Basic and diluted earnings (loss) per share | **0.00** | 0.04 | (0.01) |
| **Cash Flows** | | | |
| Operating activities | **(5,377,865)** | (386,342) | (1,809,294) |
| Investing activities | **1,022,385** | 2,742,725 | (172,744) |
| Financing activities | **14,327,310** | 432,463 | 1,578,448 |

1) *The Selected Consolidated Financial Information was derived from the Company's June 30, 2022 and 2021 consolidated financial statements, prepared in accordance with IFRS.*

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.

Below is a discussion of the major items impacting the Company's financial results for the years ended June 30, 2022 and 2021.

*Exploration and evaluation expenses*

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 North Project | UPX Property | Other properties | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance at June 30, 2020 | 17,312,259 | 3,157,246 | - | 167,482 | 20,636,987 |
| Acquisition | 227,275 | 30,000 | - | - | 257,275 |
| Sale of a silver royalty to Osisko | (1,500) | (1,950) | - | - | (3,450) |
| Reversal of write-down | - | - | 18,010,077 | - | 18,010,077 |
| Write-down | - | - | - | (197,904) | (197,904) |
| Effect of foreign exchange | - | 7,072 | - | 30,422 | 37,494 |
| Balance at June 30, 2021 | 17,538,034 | 3,192,368 | 18,010,077 | - | 38,740,479 |
| Acquisition | **266,025** | **30,000** | **-** | **-** | **296,025** |
| Addition to environmental liability | **-** | **1,812,650** | **-** | **-** | **1,812,650** |
| Disposition | **-** | **-** | **(18,010,077)** | **-** | **(18,010,077)** |
| Effect of foreign exchange | **-** | **17,182** | **-** | **-** | **17,182** |
| **Balance at June 30, 2022** | **17,804,059** | **5,052,200** | **-** | **-** | **22,856,259** |

The amounts capitalized during the year ended June 30, 2022 consisted of lease payments of $266,025 related to the Copperwood Project and $30,000 related to the White Pine North Project. As a result of the sale of the UPX Property (described in the *Sale of UPX Property* section), the Company reversed a previous write-down of exploration and evaluation assets related to the UPX Property, in the amount of $18,010,077. On April 22, 2021, the Company received a lease termination notice for the non-payment of the December 2020 rental fee, related to an exploration property located in the Upper Peninsula, Michigan, on which the Company had conducted minimal work in the past. Consequently, the Company has written off the amount of $197,904 in exploration and evaluation assets related to this mineral lease.

The amounts capitalized during the year ended June 30, 2021 consisted mostly of lease payments of $227,275 related to the Copperwood Project and $30,000 related to the White Pine North Project. In accordance with the 2021 Osisko Agreement described in the *Royalty Agreements with Osisko* section, the Company received on June 29, 2021 an initial payment of $3,000,000 from Osisko. This payment was accounted for as a sale of a portion of the Copperwood and White Pine North projects and as such, an amount of $3,450 reduced the carrying amounts of the Copperwood and White Pine North projects with the difference accounted for as a gain on disposal of exploration and evaluation assets.

Exploration and evaluation expenses charged to the statements of comprehensive loss during the years ended June 30, 2022 and 2021 are detailed below.

| | **Copperwood Project** | **White Pine North Project** | **Year ended June 30, 2022 Total** | Year ended June 30, 2021 Total |
|---|---|---|---|---|
| | **$** | **$** | **$** | $ |
| Labour | **554,100** | **89,400** | **643,500** | 90,168 |
| Studies | **850,070** | **118,192** | **968,262** | 91,725 |
| Contractors | **-** | **-** | **-** | 207,176 |
| Office, overhead and other administrative costs | **142,156** | **181,914** | **324,070** | 201,048 |
| | **1,546,326** | **389,506** | **1,935,832** | 590,117 |

*Results for the year ended June 30, 2022 compared to year ended June 30, 2021*

The Company realized net loss of $2,056,436 ($0.00 per share) during the year ended June 30, 2022 ("**FY 2022**") compared to a net income of $17,679,781 ($0.0 per share) during the year ended June 30, 2021 ("**FY 2021**"). Net income in FY 2022 includes a gain of $2,946,908 on the sale of UPX Minerals to Sweetwater, taking into account the cash proceeds of $3,000,000, the assumption by Sweetwater of the Note (including accrued interest) of $17,956,985 owing to RTX and the carrying value of the UPX Property of $18,010,077. As part of net income during FY 2022, the Company recorded finance expense of $321,147 ($2,031,082 in FY 2021) composed mostly of interest due on promissory note. Other significant items included exploration and evaluation expenses of $1,998,129 ($590,117 in FY 2021), management and administration expenses of $2,327,434 ($1,005,129 in FY 2021) and a gain on foreign exchange of $17,411 ($527,135 in FY 2021) mostly due to the conversion of the loan due to Osisko and Greenstone to Canadian dollars.

The Company incurred exploration and evaluation expenses of $1,998,129 in FY 2022 compared to $590,117 in FY 2021. In FY 2022, the expenses consisted mainly of labor fees and studies from various consultants for both Copperwood and White Pine projects. In FY 2021 expenses consisted mostly of fees related to the completion of an environmental site assessment relating to the final closing of the White Pine North acquisition and maintenance costs related to the former White Pine mine site.

Management and administration expenses of $2,327,434 in FY 2022 compared to $1,005,129 in FY 2021 reflect mostly additional fees to senior key management, which are the former Chairman, current CEO, previous CFO and current CFO (wages and fees of $1,537,116 in FY 2022 compared to $687,727 in FY 2021), higher professional fees due mostly to higher legal fees resulting from the completion of the 2021 Osisko Agreement, and the advancement of work required to complete the final closing of the White Pine North Project and the sale of UPX ($481,350 in FY 2022 compared to $184,333 in FY 2021), higher office costs ($140,345 during FY 2022 compared to $102,730 in 2021), higher investor relations and travel expenses ($121,351 in FY 2022 compared to $2,111 in FY 2021) and higher reporting issuer costs ($47,271 in FY 2022 compared to $28,228 in FY 2021).

Share-based compensation of $405,109 in FY 2022 ($0 in FY 2021) as the Company has granted 10,000,000 options during the year, in comparison to none in the prior year.

*4th quarter ended June 30, 2022 compared to the 4th quarter ended June 30, 2021*

During the 4th quarter ended June 30, 2022, the Company realized net loss of $1,185,937 (nil per share) compared to a net income of $20,160,998 ($0.04 per share) during the 4th quarter ended June 30, 2021. Net loss during the 4th quarter ended June 30, 2022 was strictly related to expenses incurred, while the net income during the 4th quarter of June 30, 2021, included the reversal of a previous write-down of exploration and evaluation assets related to the UPX Property in the amount of $18,010,077.

During the 4th quarter ended June 30, 2022, the Company also recorded finance expenses of nil ($375,518 during the comparative period in 2021) on the Note due to RTX and the loan due to Greenstone and Osisko. Other significant items included exploration and evaluation expenses of $521,732 ($92,130 in 2021), management and administration expenses of $785,520 ($265,585 in 2021) and a gain on foreign exchange of $207,596 ($91,582 in FY 2021) mostly due to the conversion of the Canadian entity in USD.

*Selected Quarterly Financial Information*

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

| | Revenues | Net income (loss) | Basic and diluted earnings (loss) per share |
|---|---|---|---|
| **Period ended** | $ | $ | $ |
| June 30, 2022 (a) | - | (1,185,937) | (0.00) |
| March 31, 2022 (b) | - | (1,755,228) | (0.00) |
| December 31, 2021 (c) | - | (884,001) | (0.00) |
| September 30, 2021 (d) | - | 1,768,728 | 0.00 |
| June 30, 2021 (e) | - | 20,160,998 | 0.01 |
| March 31, 2021 (f) | - | (844,542) | (0.00) |
| December 31, 2020 (g) | - | (717,757) | (0.00) |
| September 30, 2020 (h) | - | (918,918) | (0.00) |

*(a) Includes exploration expenses of $521,732*

*(b) Includes exploration expenses of $936,468*

*(c) Includes exploration expenses of $335,021*

*(d) Includes exploration expenses of $204,908*

*(e) Includes the reversal of a previous write-down of exploration and evaluation assets related to the UPX Property in the amount of $18,010,077, a gain on disposal of exploration and evaluation assets related to the Copperwood and White Pine North projects of $2,996,550, exploration expenses of $92,130 and finance expenses of $375,517.*

*(f) Includes exploration expenses of $115,376 and finance expenses of $534,094*

*(g) Includes exploration expen ses of $201,298 and finance expenses of $571,046*

*(h) Includes exploration expenses of $181,31 and finance expenses of $550,425*

*Liquidity and Capital Resources*

At June 30, 2022, the Company had a working capital (total current assets less total current liabilities) of $11,793,950 compared to a working capital deficiency of $23,187,976 at June 30, 2021. The increase in the working capital during the year ended June 30, 2022 is mainly attributable to the extinction of the Company's debts, which was translated into the reimbursement of the loan facility as well as the reimbursement of the promissory note. This was possible because of the private placement.

The Company completed a non-brokered private placement for total gross proceeds of $20.8 million, completed the sale of UPX Minerals to Sweetwater for a cash consideration of $3 million and the assumption by Sweetwater of the $15 million principal amount plus accrued interest owing to RTX, and settled the amount of $6.3 million due to Osisko and Greenstone under the Credit Facility, resulting in the Company being debt-free with a working capital of approximately $11.8 million as of June 30, 2022.

*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 mineral projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. As at June 30, 2022, managed capital was $34,258,605 ($39,280,278 at June 30, 2021). There were no changes in the Company's approach to capital management during the year ended June 30, 2022. The Company is not subject to any externally imposed capital requirements as at June 30, 2022.

*Off-Balance Sheet Arrangements*

As at June 30, 2022, the Company has no off-balance sheet arrangements.

*Transactions with Related Parties*

During the year ended June 30, 2022, the Company incurred administration expenses of $615,312 from Reunion Gold Corporation, a related party by virtue of common management and directors ($64,287 in 2021). Reunion Gold Corporation was a related party only for the period covering July 2021 to February 2022.

At June 30, 2022, the Company had an amount payable of $3,041 to Reunion Gold Corporation, included in accounts payable and accrued liabilities on the consolidated statements of financial position ($126,051 at June 30, 2021).

Remuneration to directors and key management of the Company, including the former CFO, totaled $615,312 during the year ended June 30, 2022 ($560,233 in 2021).

The sale of UPX Minerals to Sweetwater, an affiliate of Orion, as described in the *Sale of the UPX Property* section and the participation of insiders in the Offering as described in the *Private Placement* section, as well as the credit facility, are related party transactions that occurred during the year.

*Outstanding Share Data*

As at October 25, 2022, the Company has 736,363,619 common shares issued and outstanding, 131,714,965 share purchase warrants exercisable at a price of Can $0.18 per share until August 27, 2023 and September 9, 2023, the Company has 30,825,000 stock options outstanding with an average exercise price of Can $0.12, expiring at various dates until February 2027.

*Basis of Presentation of Financial Statements*

The Company's consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The accounting policies, methods of computation and presentation applied in the Company's consolidated financial statements are consistent with those of the previous year. The significant accounting policies of Highland are presented in Note 3 to the June 30, 2022 and 2021 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, going concern and environmental liabilities. Details of the significant accounting judgments and estimates are presented in Note 3 to the June 30, 2022 and 2021 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, credit risk, interest rate risk and currency 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's ability to continue as a going concern is dependent on management's ability to raise the funds required for its continued operations.

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2022:

| | Carrying amount | Settlement amount | Within 1 year | 2 years | Over 2 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 1,257,830 | 1,257,830 | 1,257,830 | - | - |
| | 1,257,830 | 1,257,830 | 1,257,830 | - | - |

*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 which is mainly held in accounts with a major Canadian-based chartered bank.

*Interest Rate Risk*

The Company's interest rate risk relates to cash and the promissory note. As at June 2022, the Company no longer has any loans to be paid.

*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 dollars. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. 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, 2022, financial assets and liabilities denominated in a foreign currency consisted of cash of $2,083,256, as well as accounts payable and accrued liabilities of $121,654. The impact on profit or loss of a 10% increase or decrease in the US dollar against the Canadian dollar would be approximately $200,000.

***OTHER RISKS AND UNCERTAINTIES***

The Company 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 the Company's overall operations and financial condition and could materially affect the value of the Company'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 the Company could be facing. Additional risks or uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair its business operations. The Company 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 the Company to achieve its plans and objectives is dependent on its ability to raise sufficient amount of capital through equity financings, debt financings, joint venture, sale of projects and / or other means. The Company will need substantial amount of funds to develop its Copperwood and White Pine North Projects and to place them into commercial production. If adequate financing is not available, the construction of a mine and the commencement of production may be delayed indefinitely.

The Company's ability to raise additional funds will depend on a number of factors including the market's perception of its mineral projects, the results of the studies and work programs on the projects, the price of and demand for copper and other metals, the state of the capital market to finance mineral resource projects and global market conditions in general, social acceptability for the development of the projects and regulatory approvals. No assurance can be given that additional capital will be available at all or available on terms acceptable to The Company.

*COVID-19*

The extent to which the COVID-19 pandemic impacts the Company's business will depend on future developments which are highly uncertain and cannot be predicted at this time. In addition to the potentially adverse impact on the Company's ability to raise additional the funds to continue its planned activities, the continued spread of the COVID-19 globally could also have an impact on employees health, the availability of personnel, the execution of field programs and other impacts beyond the Company's control, all of which may have a material and adverse effect on the Company's business, financial condition and results of operations.

*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 members of the Company's management have mine construction and operating experience, as a corporation, the Company does not have any experience in taking a mining project to production; as a result, the Company'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. The Company has taken steps to verify title with respect to its most material mineral properties. Although the Company believes that titles are in good standing there is no guarantee that title to such mineral properties will not be challenged or impugned.
- The Company'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 the Company 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 North Project which is subject to a consent decree; as part of the acquisition of the White Pine North Project, the Company has assumed environmental responsibilities and risks related to the former White Pine mine site which Highland may be unable or choose not to insure.
- Necessary permits to operate may not be granted or may be granted later than anticipated.
- The executive officers, directors, and several shareholders of Highland (including Orion, Condire and Greenstone) and their affiliated entities together beneficially own a majority of Highland'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 shareholder approval, 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 the Company 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. The Company may need to obtain the services of qualified people located outside of the USA which would 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.
- 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.
- 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 expectations or beliefs of the Company's management regarding future events. Forward-looking statements include but are not limited to statements with respect to: funding requirements to explore and develop the Copperwood and White Pine North projects; the estimation of mineral resources and mineral reserves; the timing and cost of the construction of the Copperwood Project; the timing and amount of estimated future production, costs of production and capital expenditures; 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 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, 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 actual results, performance or achievements to differ materially from those described in these forward-looking statements, there may be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended.

There can be no assurance that these forward-looking statements will prove to be accurate, as actual results, performance or achievements could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on these 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 25, 2022. 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).