



## **CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended June 30, 2019 and 2018**

In US dollars



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Highland Copper Company Inc.

### ***Opinion***

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

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

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

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

### ***Basis for Opinion***

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

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

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

### ***Material Uncertainty Related to Going Concern***

We draw attention to Note 2 in the consolidated financial statements, which indicates that Highland Copper Company Inc. is still in the exploration stage and, as such, no revenue has been yet generated and it has incurred net losses for the last two years, and has an accumulated deficit and a working capital deficiency as at June 30, 2019. In addition, Highland Copper Company Inc. was in breach of the terms of a promissory note agreement arising from the non-payment of \$3,000,000 which was to be made on May 30, 2019.



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

Our opinion is not modified in respect of this matter.

### ***Other Information***

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

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

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

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

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

We have nothing to report in this.

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

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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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



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

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

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

We also:

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

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

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



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

*KPMG LLP\**

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

Montréal, Canada

October 28, 2019

\*CPA auditor, CA, public accountancy permit No. A119245

# Highland Copper Company Inc.

## Consolidated Statements of Financial Position

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

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

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

On behalf of the Board,

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

/s/ Jo Mark Zurel  
Jo Mark Zurel, Director

# Highland Copper Company Inc.

## Consolidated Statements of Net Loss and Comprehensive Loss

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

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

## Highland Copper Company Inc.

### Consolidated Statements of Changes in Shareholders' Equity

<i>(in US dollars)</i>	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance at June 30, 2018	472,933,689	66,137,274	11,349,577	(55,123,241)	1,681,591	24,045,201
Share-based compensation	-	-	168,612	-	-	168,612
Below market element of credit facility (Note 8)	-	-	162,961	-	-	162,961
Net loss for the year	-	-	-	(22,155,581)	-	(22,155,581)
Foreign currency translation adjustment	-	-	-	-	(57,814)	(57,814)
<b>Balance at June 30, 2019</b>	<b>472,933,689</b>	<b>66,137,274</b>	<b>11,681,150</b>	<b>(77,278,822)</b>	<b>1,623,777</b>	<b>2,163,379</b>
Balance at June 30, 2017	459,148,153	64,197,630	11,176,081	(43,551,548)	1,480,157	33,302,320
Shares issued on exercise of warrants (Note 13)	13,785,536	1,939,644	(330,016)	-	-	1,609,628
Share-based compensation	-	-	503,512	-	-	503,512
Net loss for the year	-	-	-	(11,571,693)	-	(11,571,693)
Foreign currency translation adjustment	-	-	-	-	201,434	201,434
<b>Balance at June 30, 2018</b>	<b>472,933,689</b>	<b>66,137,274</b>	<b>11,349,577</b>	<b>(55,123,241)</b>	<b>1,681,591</b>	<b>24,045,201</b>

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

# Highland Copper Company Inc.

## Consolidated Statements of Cash Flows

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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Highland Copper Company Inc. is a Canadian-based company. Highland and its subsidiaries (together "Highland" or the "Company") are primarily engaged in the acquisition, exploration and development of mineral properties in Michigan, USA. The address of the Company's registered office is 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7. Highland's common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol HI and on the OTCQB Venture Marketplace (the "OTCQB") under the symbol "HDRSF".

The Company's principal assets, located in Michigan's Upper Peninsula region, include the 100%-owned Copperwood copper project (the "Copperwood Project"), the White Pine copper project (subject to final closing pursuant to the May 2014 agreement with Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd.) (the "White Pine Project") and a mineral exploration property referred to as the UPX Property, which was acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX"), subsidiaries of the Rio Tinto Group.

## 1. BASIS OF PRESENTATION

### *Statement of compliance*

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

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

### *Basis of measurement*

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

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

### *Functional and reporting currency*

These consolidated financial statements are presented in US dollars. The functional currency of Highland is the Canadian dollar and the functional currency of the Company's US-based subsidiaries is the US dollar. The functional currencies of Highland and its subsidiaries have remained unchanged during the reporting years. The exchange difference resulting from the conversion of the consolidated financial statements from its functional currency to its reporting currency is included in other comprehensive income presented in equity.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 2. GOING CONCERN

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

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

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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### 3. CHANGE IN ACCOUNTING POLICY

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

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

### 4. SUMMARY OF ACCOUNTING POLICIES

#### *a) Basis of consolidation*

These consolidated financial statements include the accounts of Highland and its subsidiaries. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. Highland and its subsidiaries have an annual reporting date of June 30. Details of the Company's subsidiaries are as follows:

- Upper Peninsula Holding Company Inc. ("UPHC") is the Company's US-based holding company, incorporated in February 2014 in the state of Delaware, USA, which in turn wholly owns the following four (4) companies:
  - Keweenaw Copper Co. ("Keweenaw"), incorporated in July 2011 in the state of Michigan, USA;
  - White Pine LLC ("WP LLC"), formed in February 2014 in the state of Delaware, USA;
  - Copperwood Resources Inc. ("CRI"), previously known as Orvana Resources US Corp., acquired in June 2014 and incorporated in the state of Michigan, USA; and
  - UPX Minerals Inc, incorporated in March 2017 in the state of Michigan, USA.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### b) *Foreign currency translation*

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

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

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

### c) *Financial instruments*

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### c) *Financial instruments* (continued)

#### Financial assets at amortized cost

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

#### Financial liabilities

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

#### Fair values

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

#### Impairment of financial assets

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### c) *Financial instruments* (continued)

#### Derecognition of financial assets and liabilities

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

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

### d) *Cash and cash equivalents*

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### e) *Capital assets*

#### *Intangibles*

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

#### *Property, plant and equipment*

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### f) *Exploration and evaluation assets*

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

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

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts with the difference recognized in profit or loss. When the technical feasibility and the commercial viability of extracting a mineral resource are demonstrable and a mine development decision has been made by the Company, exploration and evaluation assets related to the mining property are transferred as tangible assets and related development expenditures are capitalized. Before the reclassification, the related exploration and evaluation assets are tested for impairment and any impairment loss is then recognized in profit or loss.

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

The recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Value in use considers estimated future cash flows associated with the asset, such value being discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In the case of exploration and evaluation assets, impairment reviews are carried out on a property-by-property basis, with each property representing a potential cash-generating unit. A previous impairment is reversed if the asset's recoverable amount subsequently exceeds its carrying amount.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### *h) Provisions and contingent liabilities*

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### *i) Income taxes*

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

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

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

### *j) Equity*

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

### k) *Transactions with shareholders*

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

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

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

### m) *Loss per share*

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

#### *Title to mineral property interests*

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

The final closing of the acquisition of the White Pine Project can only be completed once the Company has i) released Copper Range Company ("CRC") of a \$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality ("MDEQ"). Final closing, which initially was to occur by December 31, 2015, was extended on a number of occasions until August 31, 2019, and on that date was further extended to January 31, 2020 (Note 26). The Company will also need to post the required financial assurance bond with the MDEQ, estimated at \$1.7 million. However, meeting these conditions is dependent on a number of factors, not all of which are under the Company's control, and there is no assurance that they will be met. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project which would trigger an impairment evaluation of the related exploration and evaluation assets.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

#### *Exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test in the year the new information becomes available. The Company's financial condition at June 30, 2019 and the related engagement of BMO as financial advisor to the Company to review all funding options available to the Company are factors which have triggered an impairment review of all of the Company's exploration and evaluation assets.

#### *Fair value of liabilities*

The Company determined the fair value of the credit facility, the non-interest-bearing promissory note and the balance of purchase price payable at inception using the discounted cash flow method. The discount rate used is based on management's judgment of its cost of capital given that it is considered to be in the exploration and development stage.

#### *Environmental liability*

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

#### *Going concern*

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

#### *IFRS 16, Leases ("IFRS 16")*

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

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

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 4. SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

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

## 5. CASH AND CASH EQUIVALENTS

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 6. CAPITAL ASSETS

Capital assets subject to depreciation and amortization are presented below.

	Intangible assets	Vehicles	Computer equipment and furniture	Exploration equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at June 30, 2017	45,141	71,438	69,214	208,979	20,000	414,772
Additions	-	37,384	62,943	11,450	15,000	126,777
Write-down	-	-	(32,650)	(34,179)	-	(66,829)
Effect of foreign exchange	-	-	(1,255)	-	-	(1,255)
Balance at June 30, 2018	45,141	108,822	98,252	186,250	35,000	473,465
Disposals	-	(83,284)	-	(5,380)	-	(88,664)
Write-down	(45,141)	-	-	-	-	(45,141)
Effect of foreign exchange	-	-	(932)	-	-	(932)
<b>Balance at June 30, 2019</b>	<b>-</b>	<b>25,538</b>	<b>97,320</b>	<b>180,870</b>	<b>35,000</b>	<b>338,728</b>
<b>Accumulated depreciation and amortization</b>						
Balance at June 30, 2017	45,141	66,226	66,579	178,373	-	356,319
Depreciation and amortization	-	12,891	12,407	9,589	9,722	44,609
Write-down	-	-	(32,650)	(34,179)	-	(66,829)
Effect of foreign exchange	-	-	(640)	-	-	(640)
Balance at June 30, 2018	45,141	79,117	45,696	153,783	9,722	333,459
Disposals	-	(73,681)	-	(5,380)	-	(79,061)
Depreciation and amortization	-	10,903	19,520	6,162	11,667	48,252
Write-down	(45,141)	-	-	-	-	(45,141)
Effect of foreign exchange	-	-	(549)	-	-	(549)
<b>Balance at June 30, 2019</b>	<b>-</b>	<b>16,339</b>	<b>64,667</b>	<b>154,565</b>	<b>21,389</b>	<b>256,960</b>
<b>Carrying amounts</b>						
Balance at June 30, 2018	-	29,705	52,556	32,467	25,278	140,006
<b>Balance at June 30, 2019</b>	<b>-</b>	<b>9,199</b>	<b>32,653</b>	<b>26,305</b>	<b>13,611</b>	<b>81,768</b>

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 7. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine Project	UPX Property	Other properties	Total
	\$	\$	\$	\$	\$
Balance, June 30, 2017	16,505,051	3,082,246	10,016,530	747,906	30,351,733
Property payments in cash	186,100	25,000	-	28,895	239,995
Finance expense	110,233	-	1,739,727	-	1,849,960
Write-down	-	-	-	(654,405)	(654,405)
Effect of foreign exchange	-	-	-	8,549	8,549
	296,333	25,000	1,739,727	(616,961)	1,444,099
Balance, June 30, 2018	16,801,384	3,107,246	11,756,257	130,945	31,795,832
Property payments in cash	168,600	25,000	-	26,652	220,252
Finance expense (a)	132,500	-	6,254,513	-	6,387,013
Write-down (b)	-	-	(18,010,770)	-	(18,010,770)
Effect of foreign exchange	-	-	-	(6,513)	(6,513)
	301,100	25,000	(11,756,257)	20,139	(11,410,018)
<b>Balance, June 30, 2019</b>	<b>17,102,484</b>	<b>3,132,246</b>	<b>-</b>	<b>151,084</b>	<b>20,385,814</b>

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 7. EXPLORATION AND EVALUATION ASSETS (continued)

### *Copperwood Project, Michigan, USA*

In June 2014, the Company acquired the Copperwood Project through the acquisition from Orvana Minerals Corp., a TSX-listed company (“Orvana”), of all the outstanding shares of CRI. The Company paid in May 2019, as additional consideration, the final amount due of \$1,000,000 (Note 10).

An additional amount of \$1,250,000 may also be payable if the average copper price for any 60 calendar-day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than \$4.25/lb; and an additional amount of \$1,250,000 may be payable if the average copper price for any 60 calendar-day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than \$4.50/lb (for a total of \$2,500,000 accounted for as a “Contingent Consideration”). The contractual Contingent Consideration will only be recognized if and when the contingency is satisfied.

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 7. EXPLORATION AND EVALUATION ASSETS (continued)

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

On May 13, 2014 (the interim closing date), the Company acquired from CRC all of CRC's rights, title and interest in the White Pine Project. The final closing of the acquisition will be completed once Highland has (i) released CRC of a \$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation; and (ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality. At that time, Highland will assume all of CRC's environmental liabilities related to White Pine and will also be responsible for all ongoing environmental obligations. Final closing, which initially was to occur by December 31, 2015, was extended on a number of occasions until August 31, 2019, and was further extended on that date to January 31, 2020 (Note 26). Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project.

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

Upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, the Company will pay to CRC as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to \$0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and \$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper (the "Contingent Consideration"). At June 30, 2019, the Company has not yet estimated any proven and probable reserves at the White Pine Project and has not yet completed a feasibility study or initiated the activities required to obtain the necessary permits. Consequently, the Company has not yet accounted for this contractual contingent liability.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 7. EXPLORATION AND EVALUATION ASSETS (continued)

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

In April 2015, the Company entered into a 20-year lease agreement, with an option for an additional 5 years, for certain mineral rights located in White Pine, Michigan. In accordance with the terms of the agreement with the holder of the mineral rights (the "Lessor"), an additional cash payment of \$575,000 was to be made to the Lessor by the Company. On December 30, 2016, the Company entered into an amended agreement with the Lessor providing a revised schedule of payments for the amount of \$575,000 owed to the Lessor, as described in Note 9. The lease agreement also calls for annual lease payments of \$25,000 for the first five years, \$30,000 for the sixth and seventh years, and \$1,000,000 thereafter.

Upon commencement of production, Highland will have to pay to the Lessor a sliding scale royalty on copper and silver production from the leased mineral rights with a base royalty of 2% for copper and 2.5% for silver. The Company has an option to repurchase 50% of the royalties. Highland may terminate the lease at any time upon a 30-day notice.

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

In accordance with an agreement entered into in December 2014 (and subsequently amended in June 2016), Osisko holds a 3.0% net smelter return ("NSR") royalty on all metals produced from the mineral rights and leases associated with the Copperwood Project. The June 2016 amendment also provided that upon final closing of the acquisition of the White Pine Project, the Company will grant Osisko a 1.5% NSR royalty on all metals from the White Pine North Project, and Osisko's royalty on the Copperwood Project will be reduced to 1.5%. To secure the payment of future NSR royalty, Osisko has a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 7. EXPLORATION AND EVALUATION ASSETS (continued)

### *UPX Property*

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

The UPX Property was acquired for a total consideration of \$18.0 million. A cash payment of \$2.0 million was made at the acquisition date and the Company issued a \$16 million secured non-interest-bearing promissory note (the "Note") payable over a period of 6 years (Note 11). The Note is secured by a first priority security interest over the UPX Property.

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

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

### *Other properties*

In December 2012, the Company entered into a lease agreement with a Michigan corporation for the exploration and development of mineral properties in the Upper Peninsula of the State of Michigan, which lease agreement was subsequently amended in September 2016 following the non-renewal of a portion of the leased area. The lease has a primary term of 10 years and may be extended for an additional 10 years under certain conditions.

At June 30, 2018, the Company has written off the amount of \$654,405 in exploration and evaluation assets related to the Keweenaw Project as it has no plans to conduct any work on this property in the near term.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 8. CREDIT FACILITY

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

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

The balance of the loan is determined as follows:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 9. NOTE PAYABLE

On December 30, 2016, the Company entered into an amended agreement with the Lessor of certain mineral rights located in White Pine, Michigan (Note 7 - *Lease Agreement, White Pine, Michigan, USA*) for the remaining amount of \$575,000 owed to the Lessor. Under the terms of the amended agreement, the Company paid an amount of \$135,000 on December 30, 2016 and agreed to pay the balance of \$440,000 in sixteen equal quarterly principal amounts of \$27,500, plus interest accruing at the rate of 8% per annum, until December 31, 2020.

The balance of the Note Payable is determined as follows:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 10. BALANCE OF PURCHASE PRICE PAYABLE

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

The balance of purchase price payable is as follows:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 11. PROMISSORY NOTE

On May 30, 2017, the Company issued a \$16 million secured non-interest-bearing promissory note (the "Note") to RTX, as part of the consideration for the acquisition of the UPX Property described in Note 7. The Note provided for the payment of \$1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018) and \$3.0 million on each of the second, third, fourth, fifth and sixth anniversaries of the acquisition. The Note has an effective interest rate of 20%. The Company did not make the payment of \$3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019 constitutes an event of default, and upon such occurrence and continuance, the amount of the Note then outstanding bears interest at an annual rate of Libor plus 8% (a rate of 10.39% at June 30, 2019) and becomes payable on demand. The Note is secured by a mortgage over the acquired property and a general security agreement over all the assets of UPX Minerals Inc.

The balance of the Note is determined as follows:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 12. ENVIRONMENTAL LIABILITY

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 13. SHARE CAPITAL

### *Authorized*

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

### *Issuance of common shares*

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

### *Share purchase warrants*

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

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 14. STOCK OPTIONS

The following table sets out the activity in stock options:

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

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

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

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 14. STOCK OPTIONS (continued)

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

Issue date	Number of options	Exercise price C\$	Remaining contractual life (years)	Number of exercisable options	Exercise price of exercisable options C\$
August 1, 2014	1,400,000	0.50	0.1	1,400,000	0.50
April 21, 2015	1,240,000	0.25	0.8	662,500	0.25
August 28, 2017	8,175,000	0.11	3.2	5,450,000	0.11
October 26, 2017	2,070,000	0.17	3.3	1,380,000	0.17
May 15, 2018	800,000	0.10	3.9	533,333	0.10
	13,685,000	0.17	2.7	9,425,833	0.19

## 15. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

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

## 16. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 17. FINANCE EXPENSE

The Company incurred the following finance expense:

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

## 18. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 18. INCOME TAXES (continued)

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

	June 30, 2019		
	Assets	Liabilities	Net
	\$	\$	\$
Advances in foreign currency	-	(376,623)	(376,623)
Non-capital loss carry-forwards	376,623	-	376,623
	376,623	(376,623)	-
Offsetting of tax assets and liabilities	(376,623)	376,623	-
	-	-	-
	June 30, 2018		
	Assets	Liabilities	Net
	\$	\$	\$
Advances in foreign currency	-	(412,808)	(412,808)
Non-capital loss carry-forwards	412,808	-	412,808
	421,808	(412,808)	-
Offsetting of tax assets and liabilities	(412,808)	412,808	-
	-	-	-

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

	June 30, 2019		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	9,751,521	27,646,369	37,397,890
Capital assets	87,347	107,153	194,500
Exploration and evaluation assets	2,088,309	23,787,100	25,875,409
Share issue expenses	330,280	-	330,280
Financing expenses	238,313	-	238,313
	12,495,770	51,540,622	64,036,392
	June 30, 2018		
	Canada	USA	Total
	\$	\$	\$
Non-capital loss carry-forwards	8,591,819	25,595,301	34,187,120
Capital assets	78,448	298,313	376,761
Exploration and evaluation assets	2,081,172	5,859,997	7,941,169
Share issue expenses	528,218	-	528,218
Financing expenses	18,056	-	18,056
	11,297,713	31,753,611	43,051,324

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 18. INCOME TAXES (continued)

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

Non-capital losses expire as follows:

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

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

## 19. LOSS PER SHARE

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 20. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 21. CAPITAL MANAGEMENT

The Company defines capital that it manages as loans (including credit facility, note payable, balance of purchase price payable and promissory note) and shareholders' equity. When managing capital, the Company's objectives are a) to ensure the entity continues as a going concern; b) to increase the value of the entity's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. As at June 30, 2019, managed capital was \$19,951,931 (\$34,070,021 at June 30, 2018).

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flows. The Company intends to raise such funds as and when required to complete the exploration and development of its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms (Note 2). The only sources of future funds presently available to the Company are through shareholder loans, the sale of equity capital of the Company or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. There were no changes in the Company's approach to capital management during the year ended June 30, 2019. The Company is not subject to any externally imposed capital requirements as at June 30, 2019.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 22. FINANCIAL RISK MANAGEMENT

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors. There were no changes to the financial objectives, policies and processes during the year ended June 30, 2019.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required for its continued operations, which may involve the completion of a strategic transaction as described in Note 2. The Company generates cash flow only from its financing activities.

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

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

### *Credit risk*

Credit risk is the risk that the Company will incur losses due to the non-payment of contractual obligations by third parties. The Company is exposed to credit risk with respect to cash and cash equivalents which are mainly held in accounts with a major Canadian-based chartered bank.

### *Interest rate risk*

The Company's interest rate risk relates to cash and cash equivalents. The Company's current policy on its cash balances is to invest excess cash in guaranteed investment certificates or interest-bearing accounts with a major Canadian-based chartered bank. The Company regularly monitors compliance to its cash management policy. Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately \$6,000.

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

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## 22. FINANCIAL RISK MANAGEMENT (continued)

### *Currency risk*

In the normal course of operations, the Company is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of each of the entities within the consolidated group. The currencies in which these transactions are denominated are primarily the Canadian and the US dollar. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are recorded at spot rates. The Board considers this policy appropriate, considering the consolidated entity's size, current stage of operations, financial position and the Board's approach to risk management.

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

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, credit facility, note payable, balance of purchase price payable and promissory note are considered to be a reasonable approximation of fair value due to their immediate or short-term maturity. The fair value of the note payable also approximates its carrying value as the effective interest rate of the note is similar to market conditions at year-end.

## 24. OTHER COMMITMENTS

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

# Highland Copper Company Inc.

Notes to Consolidated Financial Statements

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

## 25. SEGMENTED INFORMATION

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

	June 30, 2019		
	Canada	USA	Total
	\$	\$	\$
Current assets	586,867	67,845	654,712
Capital assets	9,156	72,612	81,768
Exploration and evaluation assets	-	20,385,814	20,385,814
<b>Total assets</b>	<b>596,023</b>	<b>20,526,271</b>	<b>21,122,294</b>

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

## 26. EVENTS AFTER THE REPORTING DATE

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

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

## 27. COMPARATIVE INFORMATION

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