Highland Copper Company Inc.

CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2014 and 2013

In Canadian dollars

KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500
Tour KPMG
Montréal (Québec) H3A 0A3

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Highland Copper Company Inc.;

We have audited the accompanying financial statements of Highland Copper Company Inc., which comprise the consolidated statements of financial position as at June 30, 2014 and June 30, 2013, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year ended June 30, 2014 and the 13-month period ended June 30, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Highland Copper Company Inc. as at June 30, 2014 and June 30, 2013, and its financial performance and its cash flows for the year ended June 30, 2014 and the 13-month period ended June 30, 2013 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

KPMG LLP*

October 9, 2014

Montréal, Canada

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

Highland Copper Company Inc.
Consolidated Statements of Financial Position
(in Canadian dollars)

	June 30, 2014	June 30, 2013
	$	$
ASSETS		
Current		
Cash	**3,242,710**	6,240,228
Sales taxes receivable	**159,433**	74,498
Prepaid expenses and other	**59,479**	54,723
	3,461,622	6,369,449
Non-current		
Capital assets (Note 8)	**428,457**	486,770
Exploration and evaluation assets (Note 9)	**42,645,934**	10,396,553
TOTAL ASSETS	**46,536,013**	17,252,772
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**1,987,950**	407,745
Promissory note (Note 10)	**7,473,900**	-
	9,461,850	407,745
Non-current		
Balance of purchase price payable (Note 11)	**1,434,850**	-
Environmental liability (Note 12)	**225,022**	-
TOTAL LIABILITIES	**11,121,722**	407,745
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	**41,394,661**	19,801,726
Contributed surplus	**4,221,734**	3,609,412
Deficit	**(10,450,128)**	(7,026,909)
Cumulative translation adjustment	**248,024**	460,798
TOTAL EQUITY	**35,414,291**	16,845,027
TOTAL LIABILITIES AND EQUITY	**46,536,013**	17,252,772

Going concern (Note 2)
Commitments and contingencies (Notes 6, 7, 9 and 17)

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

On behalf of the Board,

/s/ James Crombie
James Crombie, Director

/s/ Jo Mark Zurel
Jo Mark Zurel, Director

Highland Copper Company Inc.
Consolidated Statements of Comprehensive Loss
(in Canadian dollars)

	12-months ended June 30, 2014	13-months ended June 30, 2013 (Note 1)
	$	$
Expenses and other items		
Management and administration (Note 16)	**1,724,225**	2,607,240
Pre-exploration (Note 9)	**1,745,437**	41,785
Accretion on environmental liability (Note 12)	**2,106**	-
Finance income	**(8,664)**	(84,744)
Gain on foreign exchange	**(39,885)**	(256,946)
Net loss for the year	**(3,423,219)**	(2,307,335)
Other comprehensive loss		
Foreign currency translation adjustment	**(212,774)**	455,748
Total comprehensive loss for the year	**(3,635,993)**	(1,851,587)
Basic and diluted loss per common share (Note 15)	**(0.06)**	(0.04)
Weighted average number of common shares - basic and diluted	**55,316,991**	52,011,596

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

Highland Copper Company Inc.
Consolidated Statements of Changes in Shareholders' Equity
(in Canadian dollars)

	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity
		$	$	$	$	$
Balance at June 30, 2013	52,277,878	19,801,726	3,609,412	(7,026,909)	460,798	16,845,027
Shares issued						
Pursuant to a property option agreement (Note 9)	**66,667**	**10,000**	**-**	**-**	**-**	**10,000**
On acquisition of the White Pine Project (Note 6)	**3,000,000**	**1,500,000**	**-**	**-**	**-**	**1,500,000**
Private placement (Note 13)	**41,622,200**	**20,811,100**	**-**	**-**	**-**	**20,811,100**
Share issue expenses (Note 13)	**-**	**(728,165)**	**-**	**-**	**-**	**(728,165)**
Share-based remuneration	**-**		**612,322**	**-**		**612,322**
	44,688,867	**21,592,935**	**612,322**	**-**	**-**	**22,205,257**
Loss for the year	**-**	**-**	**-**	**(3,423,219)**	**-**	**(3,423,219)**
Other comprehensive income						
Foreign currency translation adjustment	**-**	**-**	**-**	**-**	**(212,774)**	**(212,774)**
Balance at June 30, 2014	**96,966,745**	**41,394,661**	**4,221,734**	**(10,450,128)**	**248,024**	**35,414,291**
Balance at May 31, 2012	51,383,212	19,312,032	2,162,095	(4,719,574)	5,050	16,759,603
Shares issued						
On exercise of warrants (Note 13)	828,000	464,112	(50,112)	-	-	414,000
Pursuant to a property option agreement (Note 9)	66,666	33,333	-	-	-	33,333
Share issue expenses	-	(7,751)	-	-	-	(7,751)
Share-based remuneration	-	-	1,497,429	-	-	1,497,429
	894,666	489,694	1,447,317	-	-	1,937,011
Loss for the year	-	-	-	(2,307,335)	-	(2,307,335)
Other comprehensive income						
Foreign currency translation adjustment	-	-	-	-	455,748	455,748
Balance at June 30, 2013	52,277,878	19,801,726	3,609,412	(7,026,909)	460,798	16,845,027

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

Highland Copper Company Inc.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	12-months ended June 30, 2014	13-months ended June 30, 2013 (Note 1)
	$	$
Operating activities		
Net loss for the year	**(3,423,219)**	(2,307,335)
Adjustments		
Share-based remuneration	**511,202**	1,192,529
Depreciation and amortization	**9,720**	5,948
Unrealized gain on foreign exchange	**(39,885)**	(254,655)
Accretion on environmental liability	**2,106**	-
Finance income accrued	**(8,664)**	(84,744)
Finance income received	**8,442**	83,438
Changes in working capital items		
Sales taxes receivable	**(84,900)**	(20,662)
Prepaid expenses and other	**(4,476)**	(31,764)
Accounts payable and accrued liabilities	**863,546**	5,863
	(2,166,128)	(1,411,382)
Investing activities		
Acquisition of capital assets	**(143,865)**	(564,335)
Additions to exploration and evaluation assets	**(6,776,138)**	(8,461,981)
Acquisition of Copperwood Project	**(14,106,357)**	-
	(21,026,360)	(9,026,316)
Financing activities		
Shares issued	**20,811,100**	-
Exercise of warrants and stock options	**-**	414,000
Share issue expenses	**(728,165)**	(7,751)
	20,082,935	406,249
Effect of exchange rate changes on cash held in foreign currency	**112,035**	302,032
Net change in cash	**(2,997,518)**	(9,729,417)
Cash, beginning of the year	**6,240,228**	15,969,645
Cash, end of the year	**3,242,710**	6,240,228
Supplemental cash flow information		
Current liabilities related to exploration and evaluation assets	**712,058**	339,155
Depreciation included in exploration and evaluation assets	**285,746**	222,032
Environmental liability included in exploration and evaluation assets	**227,315**	-
Promissory note related to exploration and evaluation assets	**7,596,310**	-
Balance of purchase price payable related to exploration and evaluation assets	**1,439,171**	-
Share-based remuneration included in exploration and evaluation assets	**101,120**	304,900
Shares issued included in capital assets	**50,000**	-
Shares issued included in exploration and evaluation assets	**1,460,000**	33,333

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

1. GENERAL INFORMATION

Highland Copper Company Inc. is a Canadian-based company. Highland and its subsidiaries (together "Highland" or the "Company") are primarily engaged in the acquisition, exploration and development of mineral properties in Michigan, USA. To date, the Company has not earned significant revenues and is considered to be in the exploration and development stage. The address of the Company's registered office is 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7. All financial results in these consolidated financial statements are expressed in Canadian dollars unless otherwise indicated.

On August 23, 2012, the Board of Directors of Highland resolved to change the Company's year-end from May 31 to June 30 in order to better align the Company's year-end to the year-end of other publicly traded mining companies. In accordance with the relevant legislation, these annual consolidated financial statements are for the 12-months ended on June 30, 2014. Comparative results are those of the 13-months ended June 30, 2013.

On October 31, 2012, Highland changed its name from Highland Resources Inc. to Highland Copper Company Inc. Highland's common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol HI.

The Board of Directors approved these consolidated financial statements on October 9, 2014.

2. GOING CONCERN

As is common with many exploration and development companies, the Company raises funds on the equity market to conduct its activities. The Company has incurred a net loss of $3,423,219 during the 12-months ended June 30, 2014 ($2,307,335 during the 13-months ended June 30, 2013) and has a deficit of $10,450,128 at June 30, 2014 (a deficit of $7,026,909 at June 30, 2013). The Company has a working capital deficit of $6,000,228 at June 30, 2014, including the promissory note of $7,473,900 (the “Note”) due by December 15, 2014 as a result of the acquisition of the Copperwood Project (Note 7). The Company requires additional funds to reimburse the Note due to Orvana, to pursue exploration and development work on its mineral projects, and to provide for management and administration expenses for at least the next 12 months. To this effect, the Company signed a non-binding letter of intent (“LOI”) with AMCI Holdings Inc. (“AMCI”) on May 29, 2014 to form a joint venture (the “JV”). Pursuant to the terms of the LOI, it is expected that Highland and AMCI will have equal participation in the JV entity to which Highland would contribute all of its interests in the mineral projects located in Michigan while AMCI would contribute US$45 million by December 15, 2014. It is expected that the reimbursement of the Note and the operating expenses over the next twelve months would be financed through the proceeds from AMCI’s JV contribution. However, given the non-binding nature of the LOI, there can be no assurance that the JV with AMCI will be completed as intended and that funds provided for under the LOI will be available. Should the JV with AMCI not be completed, the Company will have to conclude other financing arrangements, including the issuance of securities, debt financing or other arrangements. In addition, even if the JV with AMCI is completed, the Company will need to raise funds through equity financing or other arrangements to cover its management and administration expenses for at least the next 12 months.

If the Company is not successful in raising additional funds, the Company may not be able to reimburse the Note due to Orvana, it may be required to delay, reduce the scope of, or eliminate its current or future exploration and development activities and it may be unable to meet the earn-in requirements under the venture agreement with BRP. These conditions and uncertainties indicate the existence of a material uncertainty that casts a 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 to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, and reported expenses would be necessary.

3. SUMMARY OF ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of measurement

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

c) Basis of consolidation

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

d) Foreign currency translation

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

e) Financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

f) Capital assets

Intangibles

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

Property, plant and equipment

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

g) Exploration and evaluation assets

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

h) Impairment of non-financial assets

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

i) Provisions and contingent liabilities

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

j) Income taxes

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

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

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

k) Equity

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

l) Finance income

Finance income consists of interest on funds invested. Finance income is accounted for in the consolidated statement of comprehensive income as it accrues, using the effective interest rate method.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

m) Share-based payment transactions

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

n) Loss per share

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS 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:

a) 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 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.

b) Exploration and evaluation expenditures

The application of the Company‘s accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test in the year the new information becomes available. The Company has determined that there are currently no indicators of impairment.

c) 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.

5. NEW ACCOUNTING PRONOUNCEMENTS

Certain pronouncements issued by the International Accounting Standards Board ("IASB") became mandatory for accounting periods beginning on or after January 1, 2013. The following new standards and amendments have been adopted by the Company in preparing these consolidated financial statements.

a) IFRS 10, Consolidated Financial Statements

This new standard provides guidance on the determination of control where this is difficult to assess and replaces the consolidation requirements in SIC 12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The adoption of this standard has had no impact on the Company's financial information.

b) IFRS 11, Joint Arrangements

This new standard replaces IAS 31, *Interests in Joint Ventures* and provides guidance on how to account for interests in jointly controlled entities. This standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard has had no impact on the Company's financial information.

c) Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1 became effective for annual periods beginning on or after July 1, 2012 and require entities to group items presented in other comprehensive income ("OCI") into those that, in accordance with other IFRS, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately. These amendments have been applied retroactively and only the presentation of items under OCI has been modified to reflect the amendments.

5. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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.

a) IAS 32, Financial instruments - presentation

This standard has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The Company has not yet determined the extent of the impact of adopting IAS 32.

b) IFRS 9, Financial Instruments

The IASB aims to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities as well as the chapter dealing with hedge accounting have been issued. The chapter dealing with impairment methodology is still being developed. In November 2011, the IASB decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. In addition, in November 2013, the IASB decided to defer to January 1, 2015 the implementation of IFRS 9. The Company's management has yet to assess the impact of this new standard on the Company's consolidated financial statements. Management does not expect to elect to earlier application of IFRS 9.

c) IFRIC 21, Levies

The IFRS Interpretations Committee has provided guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognize a liability to pay a levy that is accounted in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that this guidance will have a significant effect on the Company's consolidated financial statements.

6. ACQUISITION OF THE WHITE PINE PROJECT

On May 13, 2014, the Company acquired from Copper Range Company ("CRC"), a subsidiary of First Quantum Minerals Ltd., a TSX-listed company, all of CRC's rights, title and interest in the White Pine copper project (the "White Pine Project") located in the Upper Peninsula of the state of Michigan, USA. At the interim closing date of May 13, 2014, the Company issued to CRC 3,000,000 of its common shares valued at $1,500,000.

The final closing of the acquisition will be completed once Highland has (i) released CRC for a US$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and (ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality. At that time, Highland will assume all of CRC's environmental liabilities related to White Pine and will also be responsible for all on-going environmental obligations. Final closing is anticipated to occur by December 31, 2015.

Highland further agreed that, upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, it will pay as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to US$0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and US$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper (the "Contingent Consideration"). At June 30, 2014, 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 included the contractual contingent liability in the purchase consideration at June 30, 2014.

Until final closing, Highland has access to White Pine under an access agreement entered into on March 5, 2014, which entitles it to perform exploration, engineering and environmental studies and other activities associated with the potential development of a new copper mine at White Pine, and CRC continues to be responsible for environmental obligations and for remediation work up to a maximum of US$2 million. In determining the value of the net assets acquired, the Company has taken into account estimated environmental work to be performed after the anticipated final closing date of December 31, 2015.

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

6. ACQUISITION OF THE WHITE PINE PROJECT (continued)

The following table summarizes the fair value of the purchase price, including transaction costs and the amounts of identified assets acquired and liabilities assumed:

Purchase price	$
Issuance of 3,000,000 common shares	1,500,000
Transaction costs	359,978
	1,859,978
Net assets acquired	
Capital assets	50,000
Exploration and evaluation assets	2,037,293
Environmental liability	(227,315)
	1,859,978

7. ACQUISITION OF THE COPPERWOOD PROJECT

On June 17, 2014, the Company acquired the Copperwood Project through the acquisition from Orvana Minerals Corp., a TSX-listed company ("Orvana"), of all of the outstanding shares of Orvana Resources US Corp. ("Orvana US"). Highland paid US$13 million in cash at closing and issued a US$7 million secured promissory note (the "Note"). The Note matures on December 15, 2014 and bears interest at an estimated effective rate of 15.2%. Highland may have to repay the Note, partially or completely, before maturity following the raising of additional capital. The Note is secured by, among other things, a first priority security interest over all of the assets of Orvana US and a pledge of 100% of Orvana US's shares.

An additional consideration of up to US$5,000,000 may be paid by Highland in cash or shares of Highland, at Orvana's option, with US$1.25 million payable upon the earliest of (i) commencement of commercial production of the Copperwood Project and (ii) the date that is 36 months after closing of the acquisition; and an additional US$1.25 million on the first anniversary of this payment (for a total of US$2.5 million accounted for as the "Future Consideration"); and US$1.25 million if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than US$4.25/lb; and an additional US$1.25 million if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than US$4.50/lb (for a total of US$2.5 million accounted for as the "Contingent Consideration").

The fair value of the Future Consideration has been included in the purchase consideration, using a discount rate of 20%, as these payments have a set maturity date. The contractual Contingent Consideration has not been included in the purchase consideration at June 30, 2014.

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

The Copperwood Project consists of a number of mineral leases, which call for total payments of US$2,611,395 until 2036. The mineral leases are also subject to quarterly NSR royalty payments and will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. Under the mineral leases, Orvana US will have mineral rights until the later of the 20th anniversary of the date of the lease or the date Orvana US ceases to be actively engaged in development, mining, or related operations on the property. The mineral leases may be terminated by Orvana US, the Company's wholly owned subsidiary, on 60 days' notice.

June 30, 2014 and 2013 (in Canadian dollars)

7. ACQUISITION OF THE COPPERWOOD PROJECT (continued)

The following table summarizes the fair value of the purchase price, including transaction costs and the amounts of identified assets acquired and liabilities assumed:

Purchase price	$
Cash	14,107,434
Promissory note	7,596,310
Balance of purchase price	1,439,171
Transaction costs	1,106,681
	24,249,596
Net assets acquired	
Cash	1,077
Capital assets	36,670
Exploration and evaluation assets	24,212,424
Accounts payable and accrued liabilities	(575)
	24,249,596

June 30, 2014 and 2013 (in Canadian dollars)

8. CAPITAL ASSETS

Capital assets subject to depreciation and amortization are presented below.

	Intangible assets	Vehicles	Computer equipment and furniture	Exploration equipment	Leasehold improvements	Total
	$	$	$	$	$	$
Cost						
Balance at May 31, 2012	-	24,236	32,110	44,500	52,312	153,158
Additions	52,763	146,667	85,209	264,497	15,199	564,335
Effect of foreign exchange	1,611	6,971	4,214	12,586	1,600	26,982
Balance at June 30, 2013	54,374	177,874	121,533	321,583	69,111	744,475
Additions	67,856	52,099	10,097	100,483	-	230,535
Effect of foreign exchange	482	2,342	1,680	3,731	1,085	9,320
Balance at June 30, 2014	122,712	232,315	133,310	425,797	70,196	984,330
Accumulated depreciation and amortization						
Balance at May 31, 2012	-	3,840	4,229	715	10,711	19,495
Depreciation and amortization	17,382	51,702	52,517	81,581	24,798	227,980
Effect of foreign exchange	543	2,376	2,364	3,652	1,295	10,230
Balance at June 30, 2013	17,925	57,918	59,110	85,948	36,804	257,705
Depreciation and amortization	35,137	64,016	50,226	117,935	28,152	295,466
Effect of foreign exchange	90	693	700	756	463	2,702
Balance at June 30, 2014	53,152	122,627	110,036	204,639	65,419	555,873
Carrying amounts						
Balance at June 30, 2013	36,449	119,956	62,423	235,635	32,307	486,770
Balance at June 30, 2014	69,560	109,688	23,274	221,158	4,777	428,457

Included in capital assets are assets with a carrying amount of $44,962 at June 30, 2014 ($13,682 at June 30, 2013) for use at the Company's corporate office. All other capital assets relate to the Company's exploration activities.

June 30, 2014 and 2013 (in Canadian dollars)

9. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	White Pine Project	Copperwood Project	Keweenaw Project	Leased Properties	Total
	$	$	$	$	$
Balance, May 31, 2012	-	-	627,941	-	627,941
Property payments in cash	-	-	246,455	32,604	279,059
Property payments in shares	-	-	33,333	-	33,333
Drilling and assaying	-	-	5,091,459	51,738	5,143,197
Site preparation and road building	-	-	226,021	-	226,021
Labour	-	-	1,003,910	12,902	1,016,812
Consulting	-	-	949,727	216,807	1,166,534
Studies	-	-	295,057	-	295,057
Other exploration expenses	-	-	669,134	5,322	674,456
Depreciation and amortization	-	-	222,032	-	222,032
Share-based remuneration	-	-	304,900	-	304,900
Effect of foreign exchange	-	-	392,961	14,250	407,211
	-	-	9,434,989	333,623	9,768,612
Balance, June 30, 2013	-	-	10,062,930	333,623	10,396,553
Property payments in cash	-	23,105,743	260,625	41,811	23,408,179
Property payments in shares	1,450,000	-	10,000	-	1,460,000
Property acquisition expenses	359,978	1,106,681	-	-	1,466,659
Environmental liability	227,320	-	-	-	227,320
Drilling and assaying	1,725,087	-	770,427	118,711	2,614,225
Site preparation and road building	59,109	-	26,175	10,298	95,582
Labour	281,534	9,877	588,314	34,712	914,437
Consulting	543,467	-	294,392	28,910	866,769
Studies	158,591	6,296	220,470	-	385,357
Other exploration expenses	274,775	4,267	454,642	(59,171)	674,513
Depreciation and amortization	-	934	282,537	2,275	285,746
Share-based remuneration	-	-	101,120	-	101,120
Finance expense	-	55,306	-	-	55,306
Effect of foreign exchange	(51,767)	(390,359)	131,782	4,512	(305,832)
	5,028,094	23,898,745	3,140,484	182,058	32,249,381
Balance, June 30, 2014	5,028,094	23,898,745	13,203,414	515,681	42,645,934

9. EXPLORATION AND EVALUATION ASSETS (continued)

Keweenaw Copper Project, Michigan, USA

Under a Mining Venture Agreement (the "Venture Agreement") with BRP LLC ("BRP") dated July 2011 and subsequently amended on May 30, 2012 and on April 29, 2013, the Company has an option to acquire a 65 percent interest in the Keweenaw Copper Project by spending US$11,500,000 in exploration work and providing a feasibility study by October 26, 2015. At June 30, 2014, a cumulative amount of US$12,948,000 had been spent on the Keweenaw Copper Project. Under the terms of the Venture Agreement, the Company was also required to make cash payments to BRP totalling US$750,000 (of which the last payment of US$250,000 was made on October 15, 2013) and issue to BRP a total of 200,000 common shares (of which the last tranche of 66,667 shares was issued on October 15, 2013). Upon providing a feasibility study and exercising the option, the Company will have a 65% interest and BRP will have a 35% interest in the property. In addition, BRP will be entitled to a sliding scale net smelter return royalty from production ("NSR") on those properties contributed by BRP based on the price per pound of copper with a minimum of 2% up to a maximum of 5%. For other properties, BRP will be entitled to a 1% NSR.

Leased Properties, Michigan, USA

In December 2012, the Company entered into a lease agreement with a Michigan corporation for the exploration and development of two areas totalling approximately 6,400 acres of mineral and surface ownership in the Upper Peninsula of the State of Michigan. The lease has a primary term of 10 years and may be extended for an additional 10 years under certain conditions. The Company paid an amount of US$35,000 as rent during the year ended June 30, 2014 (US$30,000 during the 13-months ended June 30, 2013). Annual payments will increase by US$5,000 per year until year 10. For years 11 to 20, the annual rental payments will be US$100,000 and will be treated as advance royalty payments. If the Company completes a feasibility study and constructs and operates a mine on any part of the leased premises, it has agreed to make certain fixed-amount payments and to pay a sliding scale NSR from production based on the price per pound of copper. The leased properties are not part of the Venture Agreement with BRP.

June 30, 2014 and 2013 (in Canadian dollars)

9. EXPLORATION AND EVALUATION ASSETS (continued)

Pre-exploration expenses

In accordance with the Company's accounting policy on exploration and evaluation assets, costs incurred before the legal right to undertake exploration and evaluation activities has been obtained are recognized in profit or loss when they are incurred.

During the 12-months ended June 30, 2014, the Company incurred the following pre-exploration expenses, mostly at the White Pine Project prior to the Company entering into an access agreement with CRC dated March 5, 2014. Subsequent to that date, exploration and evaluation activities at the White Pine Project were capitalized.

	12-months ended June 30 2014	13-months ended June 30, 2013
	$	$
Site preparation	**70,731**	-
Drilling and assaying	**118,793**	-
Labour	**219,520**	-
Consulting	**651,953**	41,785
Studies	**297,384**	-
Others	**387,056**	-
	1,745,437	41,785

June 30, 2014 and 2013 (in Canadian dollars)

10. PROMISSORY NOTE

On June 17, 2014, in connection with the acquisition of the Copperwood Project (Note 7), the Company issued a Note in the amount of US$7,000,000 to Orvana. The Note matures on December 15, 2014 and bears interest at an estimated effective rate of 15.2%. The Company may have to repay the Note, partially or completely, before the maturity date following the raising of additional capital. The Note is secured by a first priority security interest over all of the assets of Orvana US and a pledge of 100% of the shares of Orvana US. The amount of the Note was established as follows:

	12-months ended June 30, 2014	13-months ended June 30, 2013
	$	$
Balance, beginning of year	**-**	-
Acquisition of the Copperwood Project	**7,596,310**	-
Effect of foreign exchange	**(122,410)**	-
Balance, end of year	**7,473,900**	-

11. BALANCE OF PURCHASE PRICE PAYABLE

In connection with the acquisition of the Copperwood Project (Note 7), the Company has accounted for the estimated fair value of the Future Consideration using a discount rate of 20%. The Future Consideration in the amount of US$2,500,000 may be paid by Highland to Orvana in cash or shares of Highland, at Orvana's option, with US$1.25 million payable upon the earliest of (i) commencement of commercial production of Copperwood and (ii) the date that is 36 months after closing of the acquisition; and an additional US$1.25 million on the first anniversary of this payment. The balance of purchase price payable was determined as follows:

	12-months ended June 30, 2014	13-months ended June 30, 2013
	$	$
Balance, beginning of year	**-**	-
Acquisition of the Copperwood Project	**1,439,171**	-
Accretion expense	**18,870**	-
Effect of foreign exchange	**(23,191)**	-
Balance, end of year	**1,434,850**	-

June 30, 2014 and 2013 (in Canadian dollars)

12. ENVIRONMENTAL LIABILITY

The environmental liability consists of reclamation costs related to the acquisition of the White Pine Project (Note 6). The undiscounted cash flow amount of the liability was estimated at $313,460 at June 30, 2014 and the present value of the liability was estimated at $227,315, calculated using a discount rate of 8.0% and reflecting payments made from 2016 to 2023, inclusively.

	12-months ended June 30, 2014	13-months ended June 30, 2013
	$	$
Balance, beginning of year	**-**	-
Acquisition of the White Pine Project	**227,315**	-
Accretion expense	**2,106**	-
Effect of foreign exchange	**(4,399)**	-
Balance, end of year	**225,022**	-

13. SHARE CAPITAL AND WARRANTS

Issued and fully paid

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.

On November 1, 2012, the Company proceeded with the consolidation of its common shares on a 1 for 5 basis. The consolidation was approved at the special meeting of the shareholders held on October 11, 2012. The consolidation resulted in each shareholder of the Company receiving one post-consolidation share for every five pre-consolidation common shares held. The number of shares, warrants and stock options and earnings per share data presented in these consolidated financial statements reflect the impact of this share consolidation.

Issuance of common shares

From March to June 2014, the Company completed in three tranches a non-brokered private placement of its common shares by issuing 41,622,200 common shares at $0.50 per share for gross proceeds of $20,811,100. Share issue expenses of $728,165 were incurred in relation with this private placement, including finder's fees of $661,310.

On May 13, 2014, the Company issued 3,000,000 common shares, valued at $1,500,000, in consideration for the acquisition of the White Pine Project (Note 6).

The Company issued 66,667 common shares in October 2013 and issued 66,666 common shares in October 2012, in accordance with the Venture Agreement with BRP (Note 9), at a value of $10,000 and $33,333, respectively.

The Company issued 828,000 common shares in September 2012 for total proceeds of $414,000 following the exercise of share purchase warrants. These warrants had been issued on September 24, 2010 as part of the private placement completed at that date. Related share issue expenses totalled $7,751.

Share purchase warrants

In May 2014, the Company extended the expiry date of the 41,250,000 share purchase warrants originally issued in three tranches in May 2012 for a two-year term as part of a non-brokered private placement of the Company's securities, to March 31, 2015. The exercise price of $0.75 remains unchanged.

June 30, 2014 and 2013 (in Canadian dollars)

13. SHARE CAPITAL AND WARRANTS (continued)

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

	12-months ended June 30, 2014	13-months ended June 30, 2013
Number of warrants		
Balance, beginning of year	**41,250,000**	42,870,400
Exercised	**-**	(828,000)
Expired	**-**	(792,400)
Balance, end of year	**41,250,000**	41,250,000

All 41,250,000 outstanding share purchase warrants, exercisable at a price of $0.75 per share, are fully vested and expire on March 31, 2015.

14. STOCK OPTIONS

The following table sets out the activity in stock options:

		12-months ended June 30, 2014		13-months ended June 30, 2013
	Number	**Average exercise price ($)**	Number	Average exercise price ($)
Number of options				
Balance, beginning of year	**4,442,000**	**0.59**	238,000	0.69
Granted	**-**	**-**	4,380,000	0.59
Cancelled	**-**	**-**	(176,000)	(0.67)
Balance, end of year	**4,442,000**	**0.59**	4,442,000	0.59

In November 2012, the Company granted 3,980,000 stock options to directors, officers, employees and consultants with employee-related functions. These stock options vest equally over 2 years, with one-third vesting on the date of grant, one-third vesting 12 months following the date of grant and one-third vesting 24 months following the date of grant. The options, which have a 5-year term, are exercisable at a price of $0.60 per share. The weighted-average fair value of these options was estimated at $0.51 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.00%, a volatility rate of 161% and a 0% dividend factor.

June 30, 2014 and 2013 (in Canadian dollars)

14. **STOCK OPTIONS** (continued)

In July 2012, the Company granted 400,000 stock options to consultants with employee-related functions. These stock options vest equally over 2 years, with one-third vesting on the date of grant, one-third vesting 12 months following the date of grant and one-third vesting 24 months following the date of grant. The options, which have a 5-year term, are exercisable at a price of $0.50 per share. The weighted-average fair value of these options was estimated at $0.40 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.00%, a volatility rate of 147% and a 0% dividend factor.

At June 30, 2014, an amount of $120,321 of cost remains to be amortized in future periods (until November 2014) related to the grant of stock options.

The following table reflects the stock options issued and outstanding at June 30, 2014:

Issue date	Number of options	Exercise price	Remaining contratual life	Number of options exercisable (1)
		$	(years)	
September 22, 2006	2,000	1.00	2.2	2,000
August 18, 2009	20,000	0.78	0.1	20,000
October 8, 2009	20,000	0.93	0.3	20,000
April 28, 2010	20,000	0.50	0.8	20,000
July 6, 2012	400,000	0.50	3.0	266,667
November 5, 2012	3,980,000	0.60	3.3	2,653,333
	4,442,000	0.59	3.3	2,982,000

(1) At an average exercise price of $0.59 per share.

15. LOSS PER SHARE

The calculation of basic and diluted loss per share for the 12-months ended June 30, 2014 was based on the loss attributable to common shareholders of $3,423,219 ($2,307,335 for the 13-months ended June 30, 2013) and the weighted average number of common shares outstanding of 55,316,991 (52,011,596 in 2013).

Excluded from the calculation of the diluted loss per share for the 12-months ended June 30, 2014 are 41,250,000 share purchase warrants and 4,442,000 stock options (41,250,000 share purchase warrants and 4,442,000 stock options for the 13-months ended June 30, 2013) because to include them would be anti-dilutive as they would have the effect of decreasing the loss per share.

June 30, 2014 and 2013 (in Canadian dollars)

16. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	12-months ended June 30, 2014	13-months ended June 30, 2013
	$	$
Administrative and general	**490,781**	981,564
Office	**116,225**	118,659
Professional fees	**254,724**	56,163
Investor relations and travel	**320,140**	208,577
Reporting issuer costs	**21,433**	43,800
	1,203,303	1,408,763
Share-based remuneration	**511,202**	1,192,529
Depreciation and amortization	**9,720**	5,948
	1,724,225	2,607,240

17. OTHER COMMITMENTS

In addition to the commitments related to the exploration and evaluation assets (described in Notes 6, 7 and 9), the Company has entered into lease agreements expiring at various dates until February 2015 which calls for minimum lease payments of $42,000 in 2015 for the rental of office space and warehousing space.

June 30, 2014 and 2013 (in Canadian dollars)

18. RELATED PARTY TRANSACTIONS

During the 12-months ended June 30, 2014, the Company incurred administration expenses of $241,917 and purchased capital assets of $41,000 from Reunion Gold Corporation, a related party by virtue of common management and directors (administration expenses of $208,225 during the 13-months ended June 30, 2013).

During the 13-months ended June 30, 2013, the Company incurred administration expenses of $58,349 from a company controlled by a director and a former officer of the Company.

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, the CFO and the Vice President, Exploration, is as follows:

	12-months ended June 30, 2014	13-months ended June 30, 2013
	$	$
Salaries, benefits and director fees	**88,019**	651,944
Consulting fees	**425,302**	381,785
Share-based remuneration	**483,906**	1,230,138
	997,227	2,263,867

June 30, 2014 and 2013 (in Canadian dollars)

19. INCOME TAXES

The reconciliation of the effective tax rate is as follows:

		12-months ended June 30, 2013		13-months ended June 30, 2013
		$		$
Loss before income tax		**(3,423,219)**		(2,307,335)
Tax using the Company's domestic tax rate	26.90%	**(920,845)**	26.90%	(620,673)
Share-based remuneration	(4.02%)	**137,513**	(13.90%)	320,790
Effect of tax rate on deferred tax balance	-	**-**	4.33%	(99,917)
Non-deductible expenses and non-taxable revenues	0.64%	**(21,781)**	2.19%	(50,278)
Effect of tax rate in foreign jurisdictions	5.50%	**(188,478)**	(0.10%)	1,866
Unrecognized tax assets	(29.28%)	**1,002,321**	(21.19%)	488,866
Other	0.26%	**(8,730)**	1.77%	(40,654)
Deferred income tax	-	**-**	-	-

Recognized deferred tax assets and liabilities at June 30, 2014 are attributable to the following:

	Assets	**Liabilities**	**Net**
	$	**$**	**$**
Exploration and evaluation assets	**-**	**(177,576)**	**(177,576)**
Non-capital loss carry-forwards	**177,576**	**-**	**177,576**
	177,576	**(177,576)**	**-**
Offsetting of tax assets and liabilities	**(177,576)**	**177,576**	**-**
	-	**-**	**-**

Recognized deferred tax assets and liabilities at June 30, 2013 are attributable to the following:

	Assets	**Liabilities**	**Net**
	$	**$**	**$**
Capital assets	-	(35,605)	(35,605)
Exploration and evaluation assets	-	(274,026)	(274,026)
Non-capital loss carry-forwards	309,631	-	309,631
	309,631	(309,631)	-
Offsetting of tax assets and liabilities	(309,631)	309,631	-
	-	-	-

June 30, 2014 and 2013 (in Canadian dollars)

19. INCOME TAXES (continued)

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

			June 30, 2014
	Canada	**USA**	**Total**
	$	**$**	**$**
Non-capital loss carry-forwards	**5,517,245**	**1,618,932**	**7,135,177**
Capital assets	**15,667**	**327,408**	**343,075**
Exploration and evaluation assets	**1,352,051**	**-**	**1,352,051**
Share issue expenses	**736,067**	**-**	**736,067**
	7,621,030	**1,946,340**	**9,566,370**

			June 30, 2013
	Canada	USA	Total
	$	$	$
Non-capital loss carry-forwards	3,595,273	114,809	3,710,082
Capital assets	5,947	-	5,947
Exploration and evaluation assets	1,222,296	-	1,222,296
Share issue expenses	279,284	-	279,284
	5,102,800	114,809	5,217,609

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

Non-capital losses expire as follows:

	Canada	**USA**
	$	**$**
2027	**103,000**	**-**
2028	**120,000**	**-**
2029	**304,000**	**-**
2030	**539,000**	**-**
2031	**744,000**	**-**
2032	**951,000**	**-**
2033	**1,466,000**	**477,000**
2034	**1,290,000**	**1,142,000**
	5,517,000	**1,619,000**

20. CAPITAL MANAGEMENT

The Company defines capital that it manages as loans (including promissory note and balance of purchase price payable) and shareholders' equity. When managing capital, the Company's objectives are a) to ensure the entity continues as a going concern; b) to increase the value of the entity's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. As at June 30, 2014, managed capital was $44,323,041 ($16,845,027 at June 30, 2013).

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flows. The Company intends to raise such funds as and when required to complete the exploration and development of its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through the sale of equity capital of the Company, the exercise of outstanding warrants or stock options, or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. There were no changes in the Company's approach to capital management during the 12-months ended June 30, 2014. The Company is not subject to any externally imposed capital requirements as at June 30, 2014.

June 30, 2014 and 2013 (in Canadian dollars)

21. 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 12-months ended June 30, 2014.

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 (Note 2).

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2014:

	June 30, 2014				
	Carrying amount	**Settlement amount**	**Within 1 year**	**2-3 years**	**Over 3 years**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**1,987,950**	**1,987,950**	**1,987,950**	**-**	**-**
Promissory note and interest	**7,473,900**	**8,200,000**	**8,200,000**	**-**	**-**
Balance of purchase price payable	**1,434,850**	**2,670,000**	**-**	**1,335,000**	**1,335,000**
	10,896,700	**12,857,950**	**10,187,950**	**1,335,000**	**1,335,000**

At June 30, 2013, the carrying amount of the contractual maturities of the Company's financial liabilities, consisting of accounts payable and accrued liabilities in the amount of $407,745, is equal to the settlement amount.

Credit risk

At June 30, 2014, the Company's financial assets exposed to credit risk are primarily composed of cash. To mitigate exposure to credit risk, the Company has established a policy to ensure counterparties demonstrate minimum acceptable credit worthiness, and to ensure liquidity of available funds. The Company's cash is held with large financial institutions, with most of the Company's cash held with a Canadian-based financial institution.

21. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

The Company's interest risk relates to cash. The Company's current policy on its cash balances is to invest excess cash in guaranteed investment certificates or interest bearing accounts with a major Canadian-based chartered bank. The Company regularly monitors compliance to its cash management policy. Cash is subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately $33,000.

Given that the promissory note bears interest at a fixed rate, future cash flows related to the promissory note will not fluctuate due to changes in market interest rate. However, changes to market interest rate expose the Company to variations in fair value.

Currency risk

In the normal course of operations, the Company is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of each of the entities within the consolidated group. The currencies in which these transactions are denominated are primarily the Canadian and the US dollar. The consolidated entity seeks to minimise its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximize the consolidated entity's position. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are entered into at spot rates. The Board considers this policy appropriate, taking into account the consolidated entity's size, current stage of operations, financial position and the Board's approach to risk management. At June 30, 2014, assets and liabilities denominated in a foreign currency consisted of cash of $1,308,798, prepaid expenses and other of $22,192 and accounts payable and accrued liabilities of $250,276. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately $108,000.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts payable and accrued liabilities and promissory note are considered to be a reasonable approximation of fair value due to their immediate or short-term maturity. The balance of purchase price payable also approximates fair value as it was entered into just prior to the reporting date.

June 30, 2014 and 2013 (in Canadian dollars)

23. SEGMENTED INFORMATION

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

			June 30, 2014
	Canada	**USA**	**Total**
	$	**$**	**$**
Current assets	**3,403,109**	**58,513**	**3,461,622**
Capital assets	**44,962**	**383,495**	**428,457**
Exploration and evaluation assets	**-**	**42,645,934**	**42,645,934**
Total assets	**3,448,071**	**43,087,942**	**46,536,013**

			June 30, 2013
	Canada	USA	Total
	$	$	$
Current assets	6,293,873	75,576	6,369,449
Capital assets	13,682	473,088	486,770
Exploration and evaluation assets	-	10,396,553	10,396,553
Total assets	6,307,555	10,945,217	17,252,772