



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2018

In US Dollars

Unaudited

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of Highland Copper Company Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Financial Position

<i>(unaudited, in US dollars)</i>	December 31, 2018	June 30, 2018
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (Note 4)	497,307	3,487,847
Sales taxes receivable	-	132,093
Prepaid expenses and other	117,345	123,663
	614,652	3,743,603
Non-current		
Capital assets	114,162	140,006
Exploration and evaluation assets (Note 5)	32,820,074	31,795,832
TOTAL ASSETS	33,548,888	35,679,441
LIABILITIES		
Current		
Accounts payable and accrued liabilities	934,588	1,356,742
Current portion of note payable (Note 6)	110,000	110,000
Balance of purchase price payable (Note 7)	1,020,000	1,004,333
Current portion of promissory note (Note 8)	2,762,030	2,501,248
	4,826,618	4,972,323
Non-current		
Note payable (Note 6)	110,000	165,000
Promissory note (Note 8)	6,895,265	6,244,239
Environmental liability	254,841	252,678
TOTAL LIABILITIES	12,086,724	11,634,240
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	66,137,274	66,137,274
Contributed surplus	11,458,012	11,349,577
Deficit	(57,819,813)	(55,123,241)
Cumulative translation adjustment	1,686,691	1,681,591
TOTAL EQUITY	21,462,164	24,045,201
TOTAL LIABILITIES AND EQUITY	33,548,888	35,679,441

Going concern (Note 2) and Other commitments (Note 14).

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

On behalf of the Board,

/s/ Denis Miville-Deschênes
Denis Miville-Deschênes, Director

/s/ Jo Mark Zurel
Jo Mark Zurel, Director

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

<i>(unaudited, in US dollars)</i>	Three months ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Expenses and other items				
Exploration and evaluation (Note 11)	591,043	2,771,212	1,627,559	4,580,083
Management and administration (Note 12)	384,765	357,099	858,757	721,693
Business development	-	62,916	-	122,828
Share-based compensation	36,113	134,274	108,435	322,978
Depreciation and amortization	10,878	9,625	24,576	17,241
Accretion on environmental liability	1,082	918	2,163	2,795
Finance expense	57,450	7,150	92,950	14,850
Finance income	(3,929)	(31,933)	(16,683)	(60,671)
(Gain) loss on foreign exchange	(40,052)	(74,656)	(1,185)	214,174
Net loss for the period	(1,037,350)	(3,236,605)	(2,696,572)	(5,935,971)
Other comprehensive income				
Item that will not be subsequently reclassified to income				
Foreign currency translation adjustment	(32,370)	(80,679)	5,100	469,579
Comprehensive loss for the period	(1,069,720)	(3,317,284)	(2,691,472)	(5,466,392)
Basic and diluted loss per common share	(0.00)	(0.01)	(0.01)	(0.01)
Weighted average number of common shares - basic and diluted	472,933,689	461,975,639	472,933,689	460,561,896

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

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Shareholders' Equity

<i>(unaudited, 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	-	-	108,435	-	-	108,435
Net loss for the period	-	-	-	(2,696,572)	-	(2,696,572)
Foreign currency translation adjustment	-	-	-	-	5,100	5,100
Balance at December 31, 2018	472,933,689	66,137,274	11,458,012	(57,819,813)	1,686,691	21,462,164
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	8,391,250	1,107,169	(130,534)	-	-	976,635
Share-based compensation	-	-	322,978	-	-	322,978
Net loss for the period	-	-	-	(5,935,971)	-	(5,935,971)
Foreign currency translation adjustment	-	-	-	-	469,579	469,579
Balance at December 31, 2017	467,539,403	65,304,799	11,368,525	(49,487,519)	1,949,736	29,135,541

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

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Cash Flows

<i>(unaudited, in US dollars)</i>	Three months ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(1,037,350)	(3,236,605)	(2,696,572)	(5,935,971)
Adjustments				
Share-based compensation	36,113	134,274	108,435	322,978
Depreciation and amortization	10,878	9,625	24,576	17,241
Finance expense	20,000	-	20,000	-
Unrealized (gain) loss on foreign exchange	(40,052)	(74,656)	(1,185)	214,174
Accretion on environmental liability	1,082	918	2,163	2,795
Finance income accrued	(3,929)	(31,933)	(16,683)	(60,671)
Finance income received	5,797	20,397	19,840	50,128
Changes in working capital items				
Sales taxes receivable	16,064	(81,221)	132,430	(83,345)
Receivable from related parties	(5,714)	(2,620)	(1,779)	(2,620)
Prepaid expenses and other	(35,845)	(189,395)	5,730	(196,017)
Accounts payable and accrued liabilities	(292,621)	425,072	(404,948)	508,676
	(1,325,577)	(3,026,144)	(2,807,993)	(5,162,632)
Investing activities				
Acquisition of capital assets	-	(36,679)	-	(93,140)
Additions to exploration and evaluation assets (Note 5)	(72,003)	(74,245)	(125,253)	(162,495)
	(72,003)	(110,924)	(125,253)	(255,635)
Financing activities				
Reimbursement of note payable (Note 6)	(27,500)	(27,500)	(55,000)	(55,000)
Issue of shares	-	976,635	-	976,635
	(27,500)	949,135	(55,000)	921,635
Effect of exchange rate changes on cash held in foreign currency	(5,970)	5,563	(2,294)	266,378
Net change in cash and cash equivalents	(1,431,050)	(2,182,370)	(2,990,540)	(4,230,254)
Cash and cash equivalents, beginning of period	1,928,357	12,013,821	3,487,847	14,061,705
Cash and cash equivalents, end of period	497,307	9,831,451	497,307	9,831,451
Supplemental cash flow information				
Finance expense included in exploration and evaluation assets	467,205	457,223	911,808	895,299

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

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2018 *(unaudited - in US dollars)*

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.

The Company's principal assets, located in Michigan's Upper Peninsula region, include the 100%-owned Copperwood copper project (the "Copperwood Project"), the White Pine copper project (subject to final closing pursuant to the May 2014 agreement with Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd.) (the "White Pine Project"), and a mineral exploration property covering approximately 448,000 acres in the Upper Peninsula region, referred to as the UPX property.

All financial results in these unaudited condensed interim consolidated financial statements are expressed in US dollars unless otherwise indicated. Highland's common shares are listed on the TSX Venture Exchange under the symbol HI, and on the OTCQB Venture Marketplace under the symbol "HDRSF".

The Board of Directors approved these unaudited condensed interim consolidated financial statements on February 21, 2019.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2018 *(unaudited - in US dollars)*

2. GOING CONCERN

To date, the Company has not earned revenues and is in the exploration and development stage. These unaudited condensed interim consolidated financial statements have been prepared on the basis of a going concern, which assumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities, including raising additional funds and completing the acquisition of the White Pine Project.

The Company has incurred a net loss of \$2,696,572 during the six months ended December 31, 2018 (a net loss of \$5,935,791 during the six months ended December 31, 2017), has a deficit of \$57,819,813 at December 31, 2018 (a deficit of \$55,123,241 at June 30, 2018) and has a working capital deficiency of \$4,211,966 at December 31, 2018 (a working capital deficiency of \$1,228,720 at June 30, 2018).

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, to provide for management and administration expenses for the next 12 months and to carry-out its planned exploration and development work, including the development of the Copperwood Project. The Company's primary objective is to raise sufficient funds to ensure that working capital requirements are met for at least the next 12 months. Although such funding requirements may be met in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements, there is no assurance that the Company will be successful in raising such funds. Should the Company not be successful in raising additional funds, it may be required to delay, reduce the scope of, or eliminate its current or future exploration and development activities, and / or sell some of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

The conditions and uncertainties described above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for these unaudited condensed interim 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 Condensed Interim Consolidated Financial Statements
December 31, 2018 (unaudited - in US dollars)

3. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and follow the same accounting policies as the Company's most recent annual consolidated financial statements. These unaudited condensed interim consolidated financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

New accounting standard

The Company has adopted IFRS 9, *Financial Instruments*, effective July 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes three measurement categories for financial assets: (i) amortized cost; (ii) fair value through profit or loss ("FVPL"); and (iii) fair value through other comprehensive income ("FVOCI"); and it establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between a hedged item and a hedging instrument.

The adoption of this standard did not have an impact on the Company's consolidated financial statements. There was no impact on carrying values and equity as at July 1, 2018 as a result of the adoption of the standard and there were no measurement differences on the Company's financial instruments.

The Company's financial instruments at July 1, 2018 are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39:

Cash and cash equivalents: Amortized cost under IFRS 9 (loans and receivables, measured at amortized cost under IAS 39)

Accounts payable and accrued liabilities: Amortized cost under IFRS 9 (other financial liabilities, measured at amortized cost under IAS 39).

Note payable, balance of purchase price payable and promissory note: Amortized cost under IFRS 9 (other financial liabilities, measured at amortized cost under IAS 39).

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2018 (unaudited - in US dollars)

4. CASH AND CASH EQUIVALENTS

	December 31, 2018	June 30, 2018
	\$	\$
Cash	497,307	734,984
Cash equivalents	-	2,752,863
	497,307	3,487,847

5. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine Project (1)	UPX Property	Other Properties	Total
	\$	\$	\$	\$	\$
Balance at June 30, 2018	16,801,384	3,107,246	11,756,257	130,945	31,795,832
Property payments in cash	98,600	-	-	26,653	125,253
Finance expense	-	-	911,808	-	911,808
Effect of change in foreign exchange	-	-	-	(12,819)	(12,819)
	98,600	-	911,808	13,833	1,024,242
Balance at December 31, 2018	16,899,984	3,107,246	12,668,065	144,779	32,820,074
Balance at June 30, 2017	16,505,051	2,706,122	10,016,530	1,124,030	30,351,733
Property payments in cash	133,600	-	-	28,895	162,495
Finance expense	60,615	-	834,684	-	895,299
Effect of change in foreign exchange	-	-	-	34,945	34,945
	194,215	-	834,684	63,840	1,092,739
Balance at December 31, 2017	16,699,266	2,706,122	10,851,214	1,187,870	31,444,472

(1) The final closing of the acquisition of the White Pine Project, which initially was to occur by December 31, 2015, was further extended on November 30, 2018 to March 31, 2019. 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.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2018 (unaudited - in US dollars)

6. NOTE PAYABLE

The note is payable to the Lessor of certain mineral rights located in White Pine, Michigan. It is reimbursable in eight remaining equal quarterly principal amounts of \$27,500, plus interest accruing at the rate of 8% per annum, until December 31, 2020. The balance of the Note Payable was determined as follows:

	Six months ended December 31, 2018
	\$
Balance, beginning of period	275,000
Reimbursements	(55,000)
Balance, end of period	220,000
At December 31, 2018	
Current liability	110,000
Non-current liability	110,000
	220,000

7. BALANCE OF PURCHASE PRICE PAYABLE

In connection with the acquisition of the Copperwood Project from Orvana Minerals Corp. ("Orvana") in June 2014, a remaining amount of \$1,000,000 is due to Orvana at December 31, 2018. In accordance with a May 2018 amended agreement between Orvana and the Company, the remaining amount was repayable in cash at the earlier of (a) 10 days after the closing of an equity financing by the Company of at least \$4,000,000 and (b) November 30, 2018. Given that the amount was not repaid by November 30, 2018, the remaining amount bears interest at a rate of 15% per annum starting on December 1, 2018 (12% prior to this date) and a 2% penalty on the outstanding amount becomes payable. The 2% penalty was accounted for as finance expense.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2018 (unaudited - in US dollars)

8. PROMISSORY NOTE

In connection with the acquisition of the UPX Property from Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX"), subsidiaries of the Rio Tinto Group, on May 30, 2017, the balance of the non-interest-bearing promissory note owed to RTX at December 31, 2018 amounts to \$15.0 million. An amount of \$3.0 million is repayable to RTX on May 30th of each of the second, third, fourth, fifth and sixth anniversary of the acquisition. The payments under the Note will be accelerated if Highland publicly releases a feasibility study covering any portion of the UPX Property. Given that the Note is non-interest-bearing, the Company accounted for its estimated fair value using a discount rate of 20%. The balance of the Note was determined as follows:

	Six months ended December 31, 2018
	\$
Balance, beginning of period	8,745,487
Accretion included in exploration and evaluation assets, calculated at a rate of 20%	911,808
Balance, end of period	9,657,295
At December 31, 2018	
Current liability	2,762,030
Non-current liability	6,895,265
	9,657,295

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2018 (unaudited - in US dollars)

9. SHARE CAPITAL AND WARRANTS

Issued and fully paid

At December 31, 2018 and June 30, 2018, the Company had 472,933,689 issued and outstanding common shares.

Share purchase warrants

At December 31, 2018 and June 30, 2018, the Company had 1,000,000 share purchase warrants outstanding with an exercise price of C\$0.15, expiring on March 17, 2020.

10. STOCK OPTIONS

The following table sets out the activity in stock options:

	Six months ended December 31, 2018	
	Number	Weighted average exercise price (C\$)
Options, beginning of period	15,200,000	0.17
Expired	(465,000)	(0.14)
Options, end of period	14,735,000	0.17

The following table reflects the stock options issued and outstanding at December 31, 2018:

Issue date	Number of options	Exercise price C\$	Remaining contractual life (years)	Number of exercisable options	Exercise price of exercisable options C\$
August 1, 2014	1,400,000	0.50	0.6	1,400,000	0.50
April 21, 2015	1,440,000	0.25	1.3	780,000	0.25
November 20, 2015	200,000	0.13	1.9	200,000	0.13
August 28, 2017	8,675,000	0.11	3.7	5,783,333	0.11
October 26, 2017	2,070,000	0.17	3.8	1,380,000	0.17
May 15, 2018	950,000	0.10	4.4	316,667	0.10
	14,735,000	0.17	3.2	9,860,000	0.19

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2018 (unaudited - in US dollars)

11. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Labour	408,804	655,663	1,022,811	1,144,090
Studies	36,673	1,603,169	220,258	2,139,499
Drilling and assaying	787	262,336	40,268	821,927
Office, overhead and other administrative costs	144,779	250,044	344,222	474,567
	591,043	2,771,212	1,627,559	4,580,083

12. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Administrative and general	252,486	218,980	537,357	422,186
Office	29,914	16,661	60,865	52,236
Professional fees	82,457	57,841	185,031	149,336
Investor relations and travel	19,023	43,023	57,477	68,968
Reporting issuer costs	885	20,594	18,027	28,967
	384,765	357,099	858,757	721,693

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2018 (unaudited - in US dollars)

13. 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:

	December 31, 2018		
	Canada	USA	Total
	\$	\$	\$
Current assets	520,944	93,708	614,652
Capital assets	13,866	100,296	114,162
Exploration and evaluation assets	-	32,820,074	32,820,074
Total assets	534,810	33,014,078	33,548,888

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

14. OTHER COMMITMENTS

The Company has entered into long-term lease agreements expiring in April 2022 which calls for minimum lease payments of \$254,000 for the rental of office and warehouse spaces. Minimum lease payments are \$49,100 in 2019, \$96,800 in 2020, \$70,000 in 2021 and \$38,100 in 2022.

**HIGHLAND COPPER COMPANY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
– QUARTERLY HIGHLIGHTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2018**

The following interim management's discussion and analysis – quarterly highlights (“**Interim MD&A**”) of Highland Copper Company Inc. (“**Highland**” or the “**Company**”) for the three months ended December 31, 2018 provides material information about the Company's business activities during the interim period and updates disclosure previously provided in the Company's management's discussion and analysis for the year ended June 30, 2018 (“**Annual MD&A**”).

This Interim MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and six months ended December 31, 2018 (the “**Interim Financial Statements**”), the Company's audited consolidated financial statements for the years ended June 30, 2018 and 2017 (the “**Annual Financial Statements**”) and the Company's Annual MD&A, including the section describing risks and uncertainties. All financial results presented in this Interim MD&A are expressed in US dollars unless otherwise indicated.

The effective date of this Interim MD&A is February 21, 2019.

DESCRIPTION OF BUSINESS

Highland is a Canadian-based company engaged in the acquisition, exploration and development of mineral properties. The Company's mineral projects are located in the State of Michigan, USA.

The Company's principal assets, located in Michigan's Upper Peninsula region, include **Copperwood**, a feasibility stage project, acquired in June 2014 from Orvana Minerals Corp. (“**Orvana**”), **White Pine** (subject to final closing of the acquisition from Copper Range Company (“**CRC**”), a wholly-owned subsidiary of First Quantum Minerals Ltd.) and a mineral exploration property covering approximately 448,000 acres in the Upper Peninsula region, referred to as **UPX Property**.

Highland's common shares are listed on the TSX Venture Exchange (“**TSXV**”) under the symbol HI and trade on the OTCQB Venture Marketplace under the symbol "HDRSF". At February 21, 2019, the Company has 472,933,689 common shares and 1,000,000 share purchase warrants issued and outstanding.

FINANCIAL CONDITION

At December 31, 2018, the Company had a working capital deficiency of \$4,211,966, including the balance of purchase price of \$1,020,000 due to Orvana for the purchase of the Copperwood Project and the current portion of the promissory note of \$2,762,030 due to Rio Tinto following the acquisition of the UPX property in May 2017. The Company requires additional funds to settle its working capital deficiency, to meet all existing commitments, to complete the acquisition of White Pine (including an amount to replace the current environmental financial assurance bond), to provide for management and administration expenses for at least the next 12 months and to carry-out its planned development of the Copperwood project and other exploration activities.

Management is looking at various options to raise such additional funds, including the issuance of new equity or debt, the sale of assets, joint venture arrangements and other potential strategic transactions.

The Company's financial condition, including its working capital deficiency at December 31, 2018 creates uncertainty regarding the Company's ability to continue as a going concern. Given the state of the capital markets for a company such as Highland and current copper prices, there can be no assurance that additional funds will be available or available on terms acceptable to the Company or that the Company will be able to borrow funds or complete a strategic transaction. If the Company is not successful in obtaining additional funds, the Company may be required to sell some of its core assets, which would have a negative impact on the business and future operations of the Company.

As at February 21, 2019, the Company has suspended all of its exploration and development activities, including field work, studies and efforts to finance the development of the Copperwood Project, to minimize cash requirements.

COPPERWOOD PROJECT

Copperwood is a development stage project. A feasibility study of the Copperwood Project was completed in June 2018. During the reporting period, the Company received all major permits required to build and operate the Copperwood Project.

The Michigan Department of Environmental Quality ("MDEQ") approved the Company's request to amend the Mining Permit originally granted in 2012 to Copperwood Resources Inc. ("CRI"), the Company's 100%-owned subsidiary, under the provisions of Part 632, Nonferrous Metallic Mineral Mining, of the Natural Resources and Environmental Protection Act. The amendment was required to allow the Company to begin construction at Copperwood in accordance with the changes to the mine plan and facilities described in the updated feasibility study released on June 15, 2018. The amendment was approved under certain conditions that the Company will have to meet, namely:

- Provide a revised subsidence monitoring plan for the life of mine and post closure period;
- Provide a plan to conduct confirmation baseline environmental sampling and review prior to the start of mining operations;
- Reclaim the ore stockpile area and dispose of the geomembrane liner according to regulations; and
- Reclaim or remove water intake and power supply infrastructure according to approved plans unless beneficial use agreements are established with another party.

In addition to the Mining Permit, the Company received three additional permits from the MDEQ, those being the Part 301/303/325 Wetland Permit, the Part 55 Air Discharge Permit, and the Part 315 Dam Safety Permit-Tailing Dam. The grant of the Part 301/303/325 Wetland Permit included the following mitigation requirements:

- The preservation of 717 acres of high-quality wetlands and 93 acres of forested upland in the headwaters area of the wild and scenic Black River and the creation of 18.3 acres of forested and emergent wetlands on-site at the Copperwood project; and
- Stream mitigation by creating 13,700 feet of natural stream channel on-site at the Copperwood Project and replacing a culvert that is blocking brook trout passage in a tributary to the wild and scenic Cisco Branch to the Ontonagon River.

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

WHITE PINE PROJECT

In May 2014 the Company completed the interim closing of the acquisition of the White Pine copper project from CRC. The final closing of the acquisition is subject to a number of conditions including releasing CRC from certain environmental obligations associated with the remediation and closure plan of the historical White Pine mine site and replacing the related environmental bond. On December 3, 2018, the Company and CRC agreed to extend the period to complete the acquisition of the White Pine project to March 31, 2019. The Company may have to request an additional extension if all the conditions are not met, including having the funds to replace the environmental bond.

UPX PROPERTY

The UPX Property is a large land package with potential for several mineral deposit types acquired in May 2017 from the Rio Tinto group ("RTX"). The Company has put the project on care and maintenance while management continues its efforts to finance exploration programs on the project.

KEWEENAW PROJECT

Under a Mining Venture Agreement with BRP LLC dated July 2011 and subsequently amended, the Company had an option to acquire a 65% interest in the Keweenaw Project by spending \$11,500,000 in exploration work (which amount has been spent) and providing a feasibility study by December 31, 2018 (the "Due Date"). The Company, having been unable to deliver the feasibility study in time, has initiated discussions with BRP with respect to the possibility of extending the Due Date or modifying the terms of the transaction.

EXPLORATION AND EVALUATION EXPENSES

During the six months ended December 31, 2018, amounts invested in exploration and evaluation assets, and capitalized in accordance with the Company's accounting policy on exploration and evaluation expenses, included lease payments of \$98,600 related to the Copperwood project and \$26,653 related to other projects. A total accretion amount of \$911,808 related to the non-interest bearing promissory note in favour of RTX was also capitalized to exploration and evaluation assets during the period.

During the comparative period in December 2017, the capitalized amounts included lease payments of \$133,600 related to the Copperwood project and \$28,895 related to other properties, and an accretion amount of \$895,299 related to the non-interest bearing promissory note in favour of RTX and the non-interest-bearing balance of purchase price payable in favor of Orvana.

Exploration and evaluation expenses charged to the statement of comprehensive loss during the three-month period ended December 31, 2018 and 2017 are as follows:

	Copperwood	White Pine	UPX	Other	Three months ended Dec 31, 2018	Three months ended Dec 31, 2017
	Project	Project	Property	projects	Total	Total
	\$	\$	\$	\$	\$	\$
Labour	261,944	26,524	120,336	-	408,804	655,663
Studies and consultants	15,873	20,800	-	-	36,673	1,603,169
Drilling and assaying	405	-	4,132	(3,750)	787	262,336
Office, overhead and other administrative costs	57,776	18,497	60,008	8,498	144,779	250,044
	335,988	65,821	184,476	4,748	591,043	2,771,212

OPERATING ACTIVITIES

During the three months ended December 31, 2018, the Company incurred a net loss of \$1,037,350 (nil per share) compared to a net loss of \$3,236,605 (\$0.01 per share) during the comparative period in 2017. Significant items during the period included exploration and evaluation expenses of \$591,043 as detailed above (\$2,771,212 in 2017), management and administration expenses of \$384,765 (\$357,099 in 2017), share-based compensation of \$36,113 (\$134,274 in 2017), finance expense of \$57,450 mostly related to the remaining amount due to Orvana of \$1,020,000 (\$7,150 in 2017) and an unrealized gain on foreign exchange of \$40,052 on the conversion of the Company's cash position held in Canadian dollars at December 31, 2018 (an unrealized foreign exchange gain of \$74,656 in 2017).

Management and administration expenses increased during the three months ended December 31, 2018 due mostly to higher wages and fees to consultants following the hiring of additional personnel at the corporate office and in Michigan in the second half of the financial year ended June 30, 2018 (wages and fees of \$252,486 during the current period compared to \$218,980 in 2017), higher office costs mainly attributable to the increase in personnel (\$29,914 compared to \$16,661 in 2017) and higher professional fees mainly attributable to fees paid to financial advisors (\$82,457 during the current period compared to \$57,841 in 2017). The increase was compensated by lower investor relations and travel expenses (\$19,023 during the current period compared to \$43,023 in 2017) and lower reporting issuers' costs due to non-recurring professional

fees related to the Company's OTCQB Venture Marketplace listing in 2017 (\$855 during the current period compared to \$20,594 in 2017).

LIQUIDITIES AND CAPITAL RESOURCES

At December 31, 2018, the Company had a working capital deficiency of \$4,211,966 compared to a working capital deficiency of \$1,228,720 at June 30, 2018. The decrease in the working capital during the six months ended December 31, 2018 is mainly attributable to exploration and evaluation expenses of \$1,627,559, management and administration expenses of \$858,757, lease payments of \$125,253 related to the Copperwood Project and other mineral leases held, the reimbursement of an amount of \$55,000 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan and the finance expense of \$72,950 related mostly to the balance of purchase price payable to Orvana.

In May 2018, the Company and Orvana had agreed to defer the payment of \$1,000,000 due to Orvana until the earlier of (a) ten (10) days after the closing of an equity financing by the Company of at least \$4,000,000 and (b) November 30, 2018 (the "**Due Date**"). The amount of \$1,000,000 was bearing interest at a rate of 12% per year until the Due Date. The Company has been unable to repay Orvana by the Due Date and the unpaid amount now bears interest at the rate of 15% per year and the Company is required to pay a default penalty amount of 2% to Orvana.

The Company requires additional funds to carry-out its planned exploration and development work, to repay the balance of purchase price to Orvana, to complete the acquisition of the White Pine Project, to meet all other existing commitments, and to provide for management and administration expenses for the next 12 months.

The following table summarizes the contractual maturities of the Company's financial liabilities at December 31, 2018:

	Carrying amount	Settlement amount	Within 6 months	Within 1 year	2-3 years	Over 3 years
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	934,588	934,588	450,873	483,715	-	-
Note payable	220,000	220,000	55,000	55,000	110,000	-
Balance of purchase price payable	1,020,000	1,020,000	1,020,000	-	-	-
Promissory note	9,657,295	15,000,000	3,000,000	-	6,000,000	6,000,000
	11,831,883	17,174,588	4,525,873	538,715	6,110,000	6,000,000

RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2018, the Company incurred administration expenses of \$17,063 and \$34,372 (\$7,728 and \$31,882 during the comparative period in 2017), mainly for the use of office space and telecommunication services provided by Reunion Gold Corporation, a related party by virtue of common management. During the three and six months ended December 31, 2018, the Company recovered an amount of \$63,839 and \$128,374, respectively for the provision of management services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation (\$38,355 and \$72,172 during the three and six months ended December 31, 2017).

The remuneration awarded to key management personnel, including directors, the president and CEO, the Vice President, Exploration and the CFO, during the three and six months ended December 31, 2018 totaled \$184,597 and \$399,273 (\$265,888 and \$602,698 in 2017).

NEW ACCOUNTING STANDARD

The Company adopted IFRS 9, *Financial Instruments*, effective July 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. The adoption of this standard did not have an impact on the Company's consolidated financial statements. There was no impact on carrying values and equity as at July 1, 2018 as a result of the adoption of the standard and there were no measurement differences on the Company's financial instruments.

RISKS AND UNCERTAINTIES

Highland is subject to a number of significant risks and uncertainties due to the nature of its business which includes the acquisition, exploration and development of mineral projects. Risks specific to the Company include but are not limited to the risk relating to its current financial situation. Failure to successfully address such risks and uncertainties could have a significant negative impact on Highland's overall operations and financial condition and could materially affect the value of Highland's assets and impact its future operating results and business plans. Therefore, an investment in the securities of Highland involves significant risks and should be considered speculative.

The risks and uncertainties described below are not necessarily the only ones that Highland could be facing. Additional risks or uncertainties not presently known to Highland or that Highland currently considers immaterial may also impair its business operations. Highland cannot give assurance that it will successfully address these risks. For additional risk factors, refer to the risks and uncertainties described in the Annual MD&A. Readers should carefully consider these risks and uncertainties.

Requirement for additional capital

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

The ability of Highland to achieve its plans and objectives is dependent on its ability to raise sufficient amounts of capital through equity and / or debt financing, joint venturing of projects, the sale of assets, rights offering to its existing shareholders and other means. The outcome of these matters cannot be predicted at this time.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, including, without limitation, statements relating to the Company's ability to obtain the funds necessary to settle its working capital deficiency, to meet its working capital needs and commitments, and to continue its activities; the potential timing and result of the permit applications for the Copperwood Project; the ability to complete the acquisition of the White Pine project; the potential of its mineral projects; and the timing and potential results of the exploration program at the UPX Property are forward-looking statements. Forward-looking statements involve various risks and uncertainties some of which are described above. While the Company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.

All forward-looking statements in this MD&A are based on information available to the Company as of the date hereof, and the Company undertakes no obligation to update forward-looking statements except as required by law.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR (www.sedar.com) and on the Company's website (www.highlandcopper.com).