



**Condensed interim consolidated financial statements**

**For the three and six months ended December 31, 2021**

In US dollars

**Unaudited**

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**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,<br>2021 | June 30,<br>2021  |
|--|----------------------|-------------------|
|  | \$                   | \$                |
| <b>ASSETS</b>                              |                      |                   |
| Current                                    |                      |                   |
| Cash and cash equivalents (Note 4)         | 15,586,181           | 2,982,600         |
| Sales taxes receivable                     | 42,019               | 6,822             |
| Prepaid expenses and other                 | 53,335               | 32,048            |
|  | <b>15,681,535</b>    | <b>3,021,470</b>  |
| Non-current                                |                      |                   |
| Environmental bond (Note 5)                | 1,676,149            | -                 |
| Capital assets                             | 26,405               | 29,446            |
| Exploration and evaluation assets (Note 5) | 21,440,794           | 38,740,479        |
| <b>TOTAL ASSETS</b>                        | <b>38,824,883</b>    | <b>41,791,395</b> |
| <b>LIABILITIES</b>                         |                      |                   |
| Current                                    |                      |                   |
| Accounts payable and accrued liabilities   | 915,162              | 2,236,842         |
| Credit facility (Note 6)                   | -                    | 6,218,415         |
| Promissory note (Note 7)                   | -                    | 17,754,189        |
|  | <b>915,162</b>       | <b>26,209,446</b> |
| Non-current                                |                      |                   |
| Environmental liability (Note 8)           | 872,673              | 274,275           |
| <b>TOTAL LIABILITIES</b>                   | <b>1,787,835</b>     | <b>26,483,721</b> |
| <b>SHAREHOLDERS' EQUITY</b>                |                      |                   |
| Share capital (Note 9)                     | 83,948,587           | 66,137,274        |
| Contributed surplus                        | 14,887,859           | 11,961,512        |
| Deficit                                    | (63,085,657)         | (63,970,379)      |
| Cumulative translation adjustment          | 1,286,259            | 1,179,267         |
| <b>TOTAL EQUITY</b>                        | <b>37,037,048</b>    | <b>15,307,674</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>        | <b>38,824,883</b>    | <b>41,791,395</b> |

Going concern (Note 2).

*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/ Caroline Donally  
Caroline Donally, Director

# Highland Copper Company Inc.

## Condensed Interim Consolidated Statements of Income (loss) and Comprehensive Income (loss)

| <i>(unaudited, in US dollars)</i>                              | Three months ended December 31, |                    | Six months ended December 31, |                    |
|--|---------------------------------|--------------------|-------------------------------|--------------------|
|  | 2021                            | 2020               | 2021                          | 2020               |
|  |                                 |                    | \$                            | \$                 |
| <b>Expenses and other items</b>                                |                                 |                    |                               |                    |
| Exploration and evaluation (Note 11)                           | 334,052                         | 201,298            | 538,960                       | 382,611            |
| Management and administration (Note 12)                        | 448,359                         | 199,816            | 1,045,217                     | 469,481            |
| Depreciation and amortization                                  | 1,236                           | 2,766              | 2,739                         | 18,240             |
| Share-based compensation (Note 10)                             | 72,583                          | -                  | 72,583                        | -                  |
| Gain on disposal of exploration and evaluation assets (Note 5) | -                               | -                  | (2,946,908)                   | -                  |
| Accretion on environmental liability (Note 8)                  | 2,625                           | 2,031              | 5,250                         | 4,062              |
| Finance expenses (Note 13)                                     | -                               | 571,046            | 322,147                       | 1,121,471          |
| Finance income   | (13,184)                        | (10)               | (16,838)                      | (19)               |
| Loss (gain) on foreign exchange                                | 38,333                          | (259,190)          | 92,128                        | (359,171)          |
| <b>Net income (loss) for the period</b>                        | <b>(884,004)</b>                | <b>(717,757)</b>   | <b>884,722</b>                | <b>(1,636,675)</b> |
| Other comprehensive income (loss)                              |                                 |                    |                               |                    |
| Item that may be subsequently reclassified to income           |                                 |                    |                               |                    |
| Foreign currency translation adjustment                        | 64,811                          | (285,883)          | 106,992                       | (376,500)          |
| <b>Comprehensive income (loss) for the period</b>              | <b>(819,193)</b>                | <b>(1,003,640)</b> | <b>991,714</b>                | <b>(2,013,175)</b> |
| Basic and diluted loss per common share                        | (0.00)                          | (0.00)             | (0.00)                        | (0.00)             |
| Weighted average number of common shares - basic and diluted   | 736,363,619                     | 472,933,689        | 652,584,076                   | 472,933,689        |

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<br>and outstanding<br>common shares | Share<br>capital  | Contributed<br>Surplus | Deficit             | Cumulative<br>translation<br>adjustment | Total<br>shareholders'<br>equity (deficit) |
|---|--|-------------------|------------------------|---------------------|---|--|
|   |  | \$                | \$                     | \$                  | \$                                      | \$   |
| Balance at June 30, 2021                | 472,933,689  | 66,137,274        | 11,961,512             | (63,970,379)        | 1,179,267                               | 15,307,674                                 |
| Private placement (Note 9)              | 263,429,930  | 17,971,063        | 2,853,764              | -                   | -                                       | 20,824,827                                 |
| Share issue expenses (Note 9)           | -  | (159,750)         | -                      | -                   | -                                       | (159,750)                                  |
| Share-based compensation (Note 10)      | -  | -                 | 72,583                 | -                   | -                                       | 72,583                                     |
| Net income for the period               | -  | -                 | -                      | 884,722             | -                                       | 884,722                                    |
| Foreign currency translation adjustment | -  | -                 | -                      | -                   | 106,992                                 | 106,992                                    |
| <b>Balance at December 31, 2021</b>     | <b>736,363,619</b>                                   | <b>83,948,587</b> | <b>14,887,859</b>      | <b>(63,085,657)</b> | <b>1,286,259</b>                        | <b>37,037,048</b>                          |
| Balance at June 30, 2020                | 472,933,689  | 66,137,274        | 11,872,108             | (81,650,160)        | 1,740,956                               | (1,899,822)                                |
| Below market element of credit facility | -  | -                 | 176,182                | -                   | -                                       | 176,182                                    |
| Net loss for the period                 | -  | -                 | -                      | (1,636,675)         | -                                       | (1,636,675)                                |
| Foreign currency translation adjustment | -  | -                 | -                      | -                   | (376,500)                               | (376,500)                                  |
| <b>Balance at December 31, 2020</b>     | <b>472,933,689</b>                                   | <b>66,137,274</b> | <b>12,048,290</b>      | <b>(83,286,835)</b> | <b>1,364,456</b>                        | <b>(3,736,815)</b>                         |

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>  | Six months ended December 31, |                  |
|--|-------------------------------|------------------|
|  | 2021                          | 2020             |
|  | \$                            | \$               |
| <b>Operating activities</b>  |                               |                  |
| Net income (loss) for the period   | 884,722                       | (1,636,675)      |
| Adjustments  |                               |                  |
| Share-based compensation (Note 10)   | 72,583                        | -                |
| Depreciation and amortization  | 2,739                         | 18,240           |
| Gain on disposal of exploration and evaluation assets (Note 5)                                       | (2,946,908)                   | -                |
| Accretion on environmental liability (Note 8)  | 5,250                         | 4,062            |
| Unrealized loss (gain) on foreign exchange   | 92,128                        | (359,171)        |
| Finance expense (Note 13)  | 322,147                       | 1,119,763        |
| Changes in working capital items   |                               |                  |
| Sales taxes receivable   | (35,549)                      | (1,348)          |
| Prepaid expenses and other   | (22,134)                      | (27,402)         |
| Accounts payable and accrued liabilities   | (1,281,935)                   | 526,127          |
|  | <b>(2,906,957)</b>            | <b>(356,404)</b> |
| <b>Investing activities</b>  |                               |                  |
| Environmental bond (Note 5)  | (1,676,149)                   | -                |
| Acquisition of assets  | (4,266)                       | -                |
| Proceeds from sale of exploration and evaluation assets (Note 5)                                     | 3,000,000                     | -                |
| Additions to exploration and evaluation assets (Note 5)  | (126,025)                     | (122,275)        |
|  | <b>1,193,560</b>              | <b>(122,275)</b> |
| <b>Financing activities</b>  |                               |                  |
| Issue of share capital (Note 9)  | 20,824,827                    | -                |
| Share issue expenses (Note 9)  | (159,750)                     | -                |
| Credit facility  | -                             | 500,000          |
| Reimbursement of credit facility (Note 6)  | (6,337,766)                   | -                |
| Reimbursement of note payable  | -                             | (55,000)         |
| Repayment of lease liabilities   | -                             | (12,537)         |
|  | <b>14,327,311</b>             | <b>432,463</b>   |
| Effect of exchange rate changes on cash held in foreign currency                                     | (10,333)                      | 19,252           |
| Net change in cash and cash equivalents  | <b>12,603,581</b>             | <b>(26,964)</b>  |
| Cash, beginning of period  | <b>2,982,600</b>              | <b>164,327</b>   |
| Cash and cash equivalents, end of period   | <b>15,586,181</b>             | <b>137,363</b>   |
| <b>Supplemental cash flow information</b>  |                               |                  |
| Additions to exploration and evaluation assets, included in accounts payable and accrued liabilities | -                             | 31,378           |
| Additions to exploration and evaluation assets and to environmental liability                        | 593,148                       | -                |
| Below-market element of credit facility in contributed surplus                                       | -                             | 176,182          |

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

**Three and six months ended December 31, 2021** (unaudited - in US dollars)

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## 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 the State of Michigan, USA. 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".

At December 31, 2021, the Company's principal assets, located in Michigan's Upper Peninsula region, include the 100%-owned Copperwood copper project (the "Copperwood Project") and the White Pine North copper project (the "White Pine North Project").

On July 27, 2021, the Company completed the final acquisition of the White Pine North Project from Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd. (Note 5). On August 27, 2021, the Company sold its mineral exploration project referred to as the UPX Property to Sweetwater Royalties LLC ("Sweetwater"), a company owned by Orion Mine Finance ("Orion"), a significant shareholder of the Company (Note 5). On August 27, 2021 and on September 9, 2021, the Company completed in two tranches a non-brokered private placement for gross proceeds of C\$26,342,993 (\$20,824,827) (Note 9) and settled all amounts due to Osisko Gold Royalties Ltd ("Osisko") and Greenstone Resources II LP ("Greenstone") under the credit facility described in Note 6.

All financial results in these unaudited condensed interim consolidated financial statements are expressed in US dollars unless otherwise indicated.

The Board of Directors approved these unaudited condensed interim consolidated financial statements on February 24, 2022.

### *COVID-19*

The outbreak of the coronavirus (COVID-19) has resulted in a major global health crisis which at the date of these condensed interim consolidated financial statements continues to have a significant impact on the global economy and the financial markets. Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the economy and the Company's business in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

**Three and six months ended December 31, 2021** *(unaudited - in US dollars)*

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## 2. GOING CONCERN

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. The recovery of amounts recorded for exploration and evaluation assets depends on the ability of the Company to obtain the necessary financing to complete the development of the projects, and future profitable production from the projects or proceeds from their disposition thereof.

Management of the Company believes it has sufficient funds to pay for its ongoing general and administrative expenses and to meet its liabilities, obligations and existing commitments for at least the next 12 months. However, since the Company does not generate revenues, the Company will need to obtain additional funds to pursue its operations and meet its obligations related to the development of the Copperwood and White Pine North projects.

To date, the Company has not yet generated positive cash flows from its operating activities and is in the exploration and development stage. The Company has a deficit of \$63,085,657 at December 31, 2021 (a deficit of \$63,970,379 at June 30, 2021). At December 31, 2021, the Company has a working capital of \$14,766,373 (a working capital deficiency of \$23,187,976 at June 30, 2021).

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 and reported expenses.

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

**Three and six months ended December 31, 2021** (unaudited - in US dollars)

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### 3. BASIS OF PRESENTATION

These 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 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, 2021 and 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### 4. CASH AND CASH EQUIVALENTS

As at December 31, 2021, cash and cash equivalents of \$15,586,181 includes C\$7,000,000 (\$5,521,376) of guaranteed investment certificates bearing interest at a weighted-average rate of 0.59%, cashable at any time without penalties.



# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (unaudited - in US dollars)

## 5. EXPLORATION AND EVALUATION ASSETS

|  | Copperwood<br>Project | White Pine<br>North Project | UPX<br>Property | Total             |
|--|-----------------------|-----------------------------|-----------------|-------------------|
|  | \$                    | \$                          | \$              | \$                |
| Balance at June 30, 2021                     | 17,538,034            | 3,192,368                   | 18,010,077      | 38,740,479        |
| Property payments                            | 126,025               | -                           | -               | 126,025           |
| Disposal of UPX Property                     | -                     | -                           | (18,010,077)    | (18,010,077)      |
| Addition to environmental liability (Note 8) | -                     | 593,148                     | -               | 593,148           |
| Effect of change in foreign exchange         | -                     | (8,781)                     | -               | (8,781)           |
| <b>Balance at December 31, 2021</b>          | <b>17,664,059</b>     | <b>3,776,735</b>            | <b>-</b>        | <b>21,440,794</b> |

### Final Closing of the Acquisition of the White Pine North Project

On July 27, 2021, as part of the final closing of the acquisition of the White Pine North Project from CRC, Highland has deposited an agreed amount of \$1,676,149 with the Michigan Department of Environment, Great Lakes, and Energy ("EGLE") associated with the remediation and closure plan of the previous White Pine operation. Concurrently, Highland assumed all of CRC's environmental liabilities related to the former White Pine mine site resulting in an increase of the environmental liability by \$593,148 as at July 27, 2021 (Note 8).

### Sale of the UPX Project

On August 27, 2021, the Company completed the sale of its mineral exploration project referred to as the UPX Property, through the sale of all of the issued and outstanding shares of UPX Minerals Inc. ("UPX Minerals"), an indirect wholly-owned subsidiary of Highland, to Sweetwater, an entity owned by Orion. In exchange, the Company received a cash consideration of \$3,000,000 and Sweetwater assumed the remaining amount due under a promissory note in favor of Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX"), resulting in a gain on disposal of \$2,946,908.

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

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (unaudited - in US dollars)

## 6. CREDIT FACILITY

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

|   | Six months ended<br>December 31, 2021 |
|---|---------------------------------------|
|   | \$                                    |
| Balance, beginning of period                      | 6,218,415                             |
| Interest payable                                  | 119,351                               |
| Reimbursement of loan, including accrued interest | (6,337,766)                           |
| Balance, end of period                            | -                                     |

## 7. PROMISSORY NOTE

On August 27, 2021, the Company sold the UPX Property to Sweetwater for a cash amount of \$3,000,000 and the assumption by Sweetwater of the amount owing under the promissory note.

|  | Six months ended<br>December 31, 2021 |
|--|---------------------------------------|
|  | \$                                    |
| Balance, beginning of period                         | 17,754,189                            |
| Accrued interest                                     | 202,796                               |
| Assumption of promissory note by Sweetwater (Note 5) | (17,956,985)                          |
| Balance, end of period                               | -                                     |

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

**Three and six months ended December 31, 2021** (unaudited - in US dollars)

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## 8. ENVIRONMENTAL LIABILITY

The environmental liability consists of reclamation costs related to the final acquisition of the White Pine North Project (Note 5). The undiscounted cash flow amount of the total liability was estimated at \$2,048,600 at July 27, 2021 and the present value of the total liability was estimated at \$867,423, calculated using a discount rate of 8.0% and reflecting payments to be made from 2022 to 2051, inclusively.

|  | <b>Six months ended</b>  |
|--|--------------------------|
|  | <b>December 31, 2021</b> |
|  | \$                       |
| Balance, beginning of period                               | 274,275                  |
| Final acquisition of the White Pine North Project (Note 5) | <b>593,148</b>           |
| Accretion expense  | <b>5,250</b>             |
| Balance, end of period                                     | <b>872,673</b>           |

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (unaudited - in US dollars)

## 9. SHARE CAPITAL

### *Issued and fully paid*

At December 31, 2021, the Company had 736,363,619 issued and outstanding common shares (472,933,689 issued and outstanding common shares at June 30, 2021).

### *Issuance of securities*

On August 27, 2021 and on September 9, 2021, the Company completed in two tranches a non-brokered private placement through the issuance of 263,429,930 units (the "Units") at a price of C\$0.10 per Unit for total proceeds of C\$26,342,993 (\$20,824,827). Each Unit consisted of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a "Warrant") with each Warrant exercisable to acquire one common share of the Company at a price of C\$0.18 per share until August 27, 2023 and September 9, 2023. The fair value of the common shares was calculated by using the TSXV share price on the date of the issuance and the fair value of the warrants was estimated at C\$0.03 per warrant by applying the Black-Scholes option pricing model, using an expected time-period of 2 years, a weighted average risk-free interest rate of 0.9%, a weighted average volatility rate of 88% and a 0% dividend factor. An amount of \$2,853,764 was allocated to the share purchase warrants and presented as part of contributed surplus. Share issue expenses related to this private placement amounted to \$159,750, including finders' fees of \$82,600.

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

### *Share purchase warrants*

The following table reflects the number of issued and outstanding share purchase warrants at December 31, 2021:

| Grant date        | Number of warrants |             | Number of warrants | Price per share | Expiry date  |
|-------------------|--------------------|-------------|--------------------|-----------------|--------------|
|                   | June 30, 2021      | Granted     | December 31, 2021  | C\$             |              |
| August 27, 2021   | -                  | 126,464,965 | 126,464,965        | 0.18            | Aug 27, 2023 |
| September 9, 2021 | -                  | 5,250,000   | 5,250,000          | 0.18            | Sep 9, 2023  |
|                   | -                  | 131,714,965 | 131,714,965        | 0.18            |              |

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (unaudited - in US dollars)

## 10. STOCK OPTIONS

The following table sets out the activity in stock options:

|                              | Six months ended December 31, 2021 |                                       |
|------------------------------|------------------------------------|---------------------------------------|
|                              | Number                             | Weighted average exercise price (C\$) |
| Options, beginning of period | 7,525,000                          | 0.12                                  |
| Granted                      | 3,500,000                          | 0.11                                  |
| Options, end of period       | 11,025,000                         | 0.12                                  |

On December 16, 2021, the Company granted 3,500,000 stock options to its directors. The stock options have a five-year term and are exercisable at a price of C\$0.11 per share. The stock options granted will vest over a two-year period. The fair value of the stock options was estimated at C\$0.07 per option by applying the Black-Scholes option pricing model, using an expected time period of 5 years, a risk-free interest rate of 1.3%, a volatility rate of 95% and a 0% dividend factor.

The underlying expected volatility of option grants was determined by reference to historical data of the Company's share price over the expected stock option life. No special features inherent to the stock options granted were incorporated into the measurement of fair value.

The following table reflects the stock options issued and outstanding at December 31, 2021:

| Issue date        | Number of options | Exercise price<br>C\$ | Remaining contractual life<br>(years) | Number of exercisable options | Exercise price of exercisable options<br>C\$ |
|-------------------|-------------------|-----------------------|---------------------------------------|-------------------------------|--|
| August 28, 2017   | 6,775,000         | 0.11                  | 0.7                                   | 6,775,000                     | 0.11   |
| October 26, 2017  | 750,000           | 0.17                  | 0.8                                   | 750,000                       | 0.17   |
| December 16, 2021 | 3,500,000         | 0.11                  | 5.0                                   | 1,166,667                     | 0.11   |
|                   | 11,025,000        | 0.11                  | 2.0                                   | 8,691,667                     | 0.12   |

### Share-based compensation costs

During the three and six months ended December 31, 2021, the Company recorded share-based compensation costs related to stock options in the amount of \$72,583 (nil during the three and six months ended December 31, 2020).

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (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, |         |
|-----------------------------|---------------------------------|---------|-------------------------------|---------|
|                             | 2021                            | 2020    | 2021                          | 2020    |
|                             | \$                              | \$      | \$                            | \$      |
| Labour                      | 53,311                          | 31,221  | 69,430                        | 49,141  |
| Studies                     | 193,081                         | 123,800 | 304,469                       | 219,493 |
| Office, overhead and others | 87,660                          | 46,277  | 165,061                       | 113,977 |
|                             | <b>334,052</b>                  | 201,298 | <b>538,960</b>                | 382,611 |

## 12. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

|                               | Three months ended December 31, |         | Six months ended December 31, |         |
|-------------------------------|---------------------------------|---------|-------------------------------|---------|
|                               | 2021                            | 2020    | 2021                          | 2020    |
|                               | \$                              | \$      | \$                            | \$      |
| Administrative and general    | 275,553                         | 150,106 | 709,860                       | 352,735 |
| Office                        | 32,094                          | 27,167  | 58,833                        | 51,358  |
| Professional fees             | 114,264                         | 17,243  | 241,084                       | 54,852  |
| Investor relations and travel | 16,128                          | 649     | 19,298                        | 807     |
| Reporting issuer costs        | 10,320                          | 4,651   | 16,142                        | 9,729   |
|                               | <b>448,359</b>                  | 199,816 | <b>1,045,217</b>              | 469,481 |

## 13. FINANCE EXPENSES

The Company incurred the following finance expenses:

|  | Three months ended December 31, |         | Six months ended December 31, |           |
|--|---------------------------------|---------|-------------------------------|-----------|
|  | 2021                            | 2020    | 2021                          | 2020      |
|  | \$                              | \$      | \$                            | \$        |
| Effective interest on credit facility (Note 6) | -                               | 263,323 | 119,351                       | 500,635   |
| Interest on note payable                       | -                               | 550     | -                             | 1,650     |
| Accretion on lease liabilities                 | -                               | -       | -                             | 3,091     |
| Interest on promissory note (Note 7)           | -                               | 307,708 | 202,796                       | 616,036   |
| Other  | -                               | (535)   | -                             | 59        |
|  | -                               | 571,046 | <b>322,147</b>                | 1,121,471 |

# Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2021 (unaudited - in US dollars)

## 14. 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, 2021 |            |            |
|-----------------------------------|-------------------|------------|------------|
|                                   | Canada            | USA        | Total      |
|                                   | \$                | \$         | \$         |
| Current assets                    | 12,700,033        | 2,981,502  | 15,681,535 |
| Environmental bond                | -                 | 1,676,149  | 1,676,149  |
| Capital assets                    | 3,886             | 22,519     | 26,405     |
| Exploration and evaluation assets | -                 | 21,440,794 | 21,440,794 |
| Total assets                      | 12,703,919        | 26,120,964 | 38,824,883 |

  

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

**HIGHLAND COPPER COMPANY INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
- QUARTERLY HIGHLIGHTS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2021**

*The following 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, 2021 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, 2021 ("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, 2021 (the "Interim Financial Statements"), the Company's audited consolidated financial statements for the years ended June 30, 2021 and 2020 (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 24, 2022.*

**DESCRIPTION OF BUSINESS**

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

Highland, a Canadian-based company, was incorporated under the *Business Corporations Act (British Columbia)* in 2006. Highland's common shares are listed on the TSX Venture Exchange ("**TSXV**") under the symbol HI and on the OTCQB Venture Marketplace (the "**OTCQB**") under the symbol "HDRSF". As at February 24, 2022, the Company has 736,363,619 common shares issued and outstanding. Orion Mine Finance ("**Orion**"), Condire Investors LLC ("**Condire**") and Greenstone Resources II LP ("**Greenstone**") hold respectively 27.7%, 16.2% and 15.9% of the Company's issued and outstanding common shares.

**HIGHLIGHTS DURING THE THREE MONTHS ENDED DECEMBER 31, 2021**

*Corporate activities*

- Effective February 14, 2022, Mr. Barry O'Shea has assumed the position of Chief Financial Officer ("CFO") of the Company and Mr. Alain Krushnisky has agreed to step down as CFO to devote more time in his role as CFO of other reporting issuers. Mr. O'Shea has over 20 years of finance experience across diverse industries and countries. Mr. O'Shea was CFO of Fiore Gold Ltd. from May 2018 until its recent acquisition by Calibre Mining Corp. Prior to that, he spent eight years with New Gold Inc. in various capacities, initially as Vice President of Finance and subsequently as Vice President, Business Development, responsible for corporate development, investor relations, and strategic capital allocation. Mr. O'Shea is a Chartered Professional Accountant and has an Honours Business Administration degree from the Ivey Business School.



- At the Company's annual meeting of shareholders ("AGM") held on December 16, 2021, all proposed resolutions described in the Company's Management Information Circular dated November 10, 2021 were approved, including the re-election of Denis Miville-Deschênes (President and CEO) and Jo Mark Zurel, and the election of six new directors namely, Jonathan Cherry, Caroline Donally, Iain Farmer, Stephen J. Hicks, Melanie R. Miller and David B. Tennant.
- On December 16, 2021, Jo Mark Zurel was appointed Chairman of the Board of Directors and the Company granted a total of 3,500,000 incentive stock options to the seven non-executive directors of the Company pursuant to the Company's Stock Option Plan. The stock options are exercisable at a price of C\$0.11 per share for a period of five years and are subject to vesting provisions.
- The Company incurred a net loss of \$0.9 million during the three months ended December 31, 2021 (nil per share) compared to a net loss of \$0.7 million during the three-month comparative period (nil per share).
- As at December 31, 2021, the Company is debt free and has a working capital of \$14.8 million.
- The Company estimates that the current working capital will be sufficient: (i) to complete the update of the 2018 Copperwood Feasibility Study described below, (ii) to initiate baseline environmental studies at the White Pine North Project and (iii) to provide for management and administration expenses for at least the next 12 months.

#### *Copperwood Project*

- The Company has initiated an update of the feasibility study on its Copperwood Project, completed in June 2018, reviewing capital and operating costs, supply chain issues, the project execution plan as well as project opportunities. The Company has retained the services of G Mining Services Inc. ("**GMSI**"), a Canadian mining consultancy firm, targeting to complete the updated feasibility study, including a development schedule, for the second quarter of 2022.
- The Company is aiming to initiate construction activities at the Copperwood Project later in 2022 but its ability to do so will depend in part on the results of the updated feasibility study, the price of and demand for copper, the state of the capital market to finance the construction costs, global market conditions in general, availability of personnel, and other factors described in the *Risks and Uncertainties* section of this Interim MD&A and Annual MD&A.

#### *White Pine North Project*

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

### **EXPLORATION AND EVALUATION EXPENSES**

The amounts capitalized during the six months ended December 31, 2021 include lease payments of \$126,025 related to the Copperwood Project and an amount of \$593,148 resulting from an increase of the environmental liability related to the White Pine North Project following its final acquisition in July 2021.

Exploration and evaluation expenses charged to earnings during the three months ended December 31, 2021 and 2020 are as follows:

|   | Copperwood     | White Pine    | Other         | Three months<br>ended<br>Dec 31, 2021 | Three months<br>ended<br>Dec 31, 2020 |
|---|----------------|---------------|---------------|---------------------------------------|---------------------------------------|
|   | Project        | Project       | expenses      | Total                                 | Total                                 |
|   | \$             | \$            | \$            | \$                                    | \$                                    |
| Labour  | 42,119         | 11,192        | -             | 53,311                                | 31,221                                |
| Studies and consultants                         | 176,153        | 16,928        | -             | 193,081                               | 123,800                               |
| Office, overhead and other administrative costs | 18,482         | 37,737        | 31,441        | 87,660                                | 46,277                                |
|   | <b>236,754</b> | <b>65,857</b> | <b>31,441</b> | <b>334,052</b>                        | <b>201,298</b>                        |

### **OPERATING ACTIVITIES**

During the three months ended December 31, 2021, the Company incurred a net loss of \$884,004 (nil per share) compared to a net loss of \$717,757 (nil per share) during the comparative period in 2020. Significant items during the period included exploration and evaluation expenses of \$334,052 as detailed above (\$201,298 in 2020), management and administration expenses of \$448,359 (\$199,816 in 2020), share-based compensation of \$72,583 and an unrealized loss on foreign exchange of \$38,333 mostly related to the conversion to Canadian dollars of working capital items held by the parent Company in US dollars (a foreign exchange gain of \$259,190 in 2020).

Management and administration expenses during the three months ended December 31, 2021 included wages and fees to consultants of \$275,553 (\$150,106 in 2020), professional fees of \$114,264 composed mainly of legal, tax and recruitment fees (\$17,243 in 2020) and office expenses of \$32,094 (\$27,167 in 2020).

The Company incurred an amount of \$72,583 as stock-based compensation during the three months ended December 31, 2021 related to the grant of 3,500,000 stock options to directors in December 2021 (nil in 2020).

### **LIQUIDITIES AND CAPITAL RESOURCES**

At December 31, 2021, the Company had a working capital of \$14,766,373 compared to a working capital deficiency of \$23,187,976 at June 30, 2021. During the six months ended December 31, 2021, the Company completed a non-brokered private placement for a net amount of \$20,665,077, completed the sale of UPX Minerals Inc. for a cash amount of \$3,000,000 and the assumption by Sweetwater Resources LLC ("Sweetwater") of the amount owing under the Note due to Kennecott Exploration Company and Rio Tinto Nickel Company ("RTX") of \$17,956,985, reimbursed the full amount of \$6,337,766 due to Osisko and Greenstone under the Credit Facility, posted an environmental bond in the amount of \$1,676,149 related to the final acquisition of the White Pine North Project, incurred exploration and evaluation expenses of \$538,960, management and administration expenses of \$1,045,217 and made property payments of \$126,025.

At December 31, 2021, financial liabilities of \$915,162 consisted of accounts payable and accrued liabilities due within the next three months.

### **RELATED PARTY TRANSACTIONS**

The remuneration to directors and key management of the Company, including the President and CEO and the CFO, during the three and six months ended December 31, 2021, totaled \$269,819 and \$676,065, respectively (\$126,559 and \$300,288 during the comparative periods in 2020).

As described in the *Corporate Activities* section of the Company's Annual MD&A, the sale of UPX Minerals Inc. to Sweetwater, an affiliate of Orion, and the participation of insiders in the Offering are also related party transactions that occurred during the six months ended December 31, 2021.

During the three and six months ended December 31, 2021, the Company incurred administration expenses of \$15,701 and \$31,040, respectively from Reunion Gold Corporation ("**Reunion Gold**"), a related party by virtue of common key management (\$16,993 and \$36,380 during the comparative period in 2020). At December 31, 2021, the Company had an amount payable of \$11,805 to Reunion Gold (\$126,051 at June 30, 2021).

### **RISKS AND UNCERTAINTIES**

Highland is subject to a number of significant risks and uncertainties due to the nature of its business which includes the acquisition, exploration and development of mineral projects. Failure to successfully address such risks and uncertainties could have a significant negative impact on Highland's overall operations and financial condition and could materially affect the value of Highland's assets and impact its future operating results and business plans. Therefore, an investment in the securities of Highland involves significant risks and should be considered highly speculative.

Highland's ability to raise the necessary funds to develop its projects and place them into commercial production depends in part upon the market's perception of its mineral projects, the results of feasibility studies that will be undertaken, the price of and demand for copper, 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.

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

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.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains “forward-looking information” within the meaning of Canadian securities legislation and “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, “**forward-looking statements**”). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect expectations or beliefs of the Company’s management regarding future events. Forward-looking statements include but are not limited to statements with respect to: funding requirements to develop the Copperwood and White Pine North projects; the estimation of mineral resources and mineral reserves; the timing of completion of the Copperwood updated feasibility study; the timing of construction activities at the Copperwood Project; and the Company’s plans and objectives. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, “believes” or variations of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. In this document certain forward-looking statements are identified by words including “anticipation”, “plan” and “expected”.

By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, availability of financing in the debt and capital markets; availability of skilled and experienced personnel; risks inherent to future prices of copper and other metals, the accuracy of mineral resource and mineral reserve estimates, increased operating and capital costs, changes to governmental regulations, compliance with governmental regulations and environmental laws and regulations, reliance on approvals and permits from governmental authorities, challenges to title to the Company’s mineral properties, maintaining social license to operate, dependence on key management personnel, competition in the mining industry, and other risks of the mining industry as well as those factors detailed from time to time in the Company’s interim and annual financial statements and MD&A, all of which are filed and available for review under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those described in these forward-looking statements, there may be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended.

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

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

Additional information on the Company is available through regular filings of press releases, financial statements and MD&A on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company’s website ([www.highlandcopper.com](http://www.highlandcopper.com)).