Highland Copper Company Inc.

Condensed interim consolidated financial statements

For the three and nine months ended March 31, 2020

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

(unaudited, in US dollars)	**March 31, 2020**	June 30, 2019
	$	$
ASSETS		
Current		
Cash (Note 4)	**462,106**	605,046
Sales taxes receivable	**13,018**	12,767
Prepaid expenses and other	**38,950**	36,899
	514,074	654,712
Non-current		
Capital assets	**71,330**	81,768
Exploration and evaluation assets (Note 5)	**20,597,940**	20,385,814
TOTAL ASSETS	**21,183,344**	21,122,294
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**795,858**	913,359
Credit facility, including accrued interest (Note 6)	**4,816,140**	2,495,484
Note payable (Note 7)	**110,000**	110,000
Lease liabilities (Note 8)	**21,252**	-
Promissory note, including accrued interest (Note 9)	**16,228,013**	15,128,068
	21,971,263	18,646,911
Non-current		
Note payable (Note 7)	**-**	55,000
Environmental liability	**263,864**	257,004
TOTAL LIABILITIES	**22,235,127**	18,958,915
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital (Note 10)	**66,137,274**	66,137,274
Contributed surplus	**11,844,522**	11,681,150
Deficit	**(81,003,123)**	(77,278,822)
Cumulative translation adjustment	**1,969,544**	1,623,777
TOTAL EQUITY (DEFICIT)	**(1,051,783)**	2,163,379
TOTAL LIABILITIES AND EQUITY (DEFICIT)	**21,183,344**	21,122,294

Going concern (Note 2); Event after the reporting date (Note 17).

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 Net Loss and Comprehensive Loss

(unaudited, in US dollars)	Three months ended March 31, **2020**	2019	Nine months ended March 31, **2020**	2019
	$	$	**$**	$
Expenses and other items				
Exploration and evaluation (Note 12)	**108,490**	478,383	**678,943**	2,105,942
Management and administration (Note 13)	**316,142**	315,048	**791,369**	1,173,805
Share-based compensation	**1,719**	30,623	**26,811**	139,058
Depreciation and amortization	**19,130**	13,464	**61,411**	38,040
Loss (gain) on sale of capital assets	**541**	(15,741)	**1,280**	(15,741)
Accretion on environmental liability	**2,287**	1,081	**6,860**	3,244
Finance expense (Note 14)	**604,905**	42,796	**1,823,881**	135,746
Finance income	**(847)**	(625)	**(5,434)**	(17,308)
Loss on foreign exchange	**334,293**	12,674	**339,179**	11,489
Net loss for the period	**(1,386,660)**	(877,703)	**(3,724,301)**	(3,574,275)
Other comprehensive income				
Item that will not be subsequently reclassified to income				
Foreign currency translation adjustment	**721,365**	(611,893)	**665,477**	418,244
Item that may be subsequently reclassified to income				
Foreign currency translation adjustment	**(370,362)**	612,755	**(319,710)**	(412,282)
Comprehensive loss for the period	**(1,035,657)**	(876,841)	**(3,378,534)**	(3,568,313)
Basic and diluted loss per common share	**(0.00)**	(0.00)	**(0.01)**	(0.01)
Weighted average number of common shares - basic and diluted	**472,933,689**	472,933,689	**472,933,689**	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 (Deficit)

(unaudited, in US dollars)	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity (deficit)
		$	$	$	$	$
Balance at June 30, 2019	**472,933,689**	**66,137,274**	**11,681,150**	**(77,278,822)**	**1,623,777**	**2,163,379**
Share-based compensation	**-**	**-**	**26,811**	**-**	**-**	**26,811**
Below market element of credit facility (Note 5)	**-**	**-**	**136,561**	**-**	**-**	**136,561**
Net loss for the period	**-**	**-**	**-**	**(3,724,301)**	**-**	**(3,724,301)**
Foreign currency translation adjustment	**-**	**-**	**-**	**-**	**345,767**	**345,767**
Balance at March 31, 2020	**472,933,689**	**66,137,274**	**11,844,522**	**(81,033,123)**	**1,969,544**	**(1,051,783)**
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	-	-	139,058	-	-	139,058
Net loss for the period	-	-	-	(3,574,275)	-	(3,574,275)
Foreign currency translation adjustment	-	-	-	-	5,962	5,962
Balance at March 31, 2019	472,933,689	66,137,274	11,488,635	(58,697,516)	1,687,553	20,615,946

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

(unaudited, in US dollars)	**Nine months ended March 31,** **2020**	2019
	$	$
Operating activities		
Net loss for the period	**(3,724,301)**	(3,574,275)
Adjustments		
Share-based compensation	**26,811**	139,058
Depreciation and amortization	**61,411**	38,040
Loss (gain) on sale of capital assets	**1,280**	(15,741)
Accretion on environmental liability	**6,860**	3,244
Unrealized loss on foreign exchange	**339,180**	11,489
Finance expense	**1,815,037**	20,000
Finance income accrued	**(5,434)**	(17,308)
Finance income received	**6,374**	20,907
Changes in working capital items		
Sales taxes receivable	**(1,325)**	130,213
Receivable from related parties	**-**	-
Prepaid expenses and other	**(4,601)**	38,211
Accounts payable and accrued liabilities	**(150,364)**	(3,767)
	(1,629,072)	(3,209,929)
Investing activities		
Proceeds from sale of capital assets	**5,727**	21,777
Additions to exploration and evaluation assets (Note 5)	**(153,410)**	(125,253)
	(147,683)	(103,476)
Financing activities		
Credit facility (Note 6)	**1,750,000**	-
Reimbursement of note payable (Note 7)	**(55,000)**	(55,000)
Repayment of lease liabilities (Note 8)	**(46,264)**	-
	1,648,736	(55,000)
Effect of exchange rate changes on cash held in foreign currency	**(14,921)**	(8,227)
Net change in cash and cash equivalents	**(142,940)**	(3,376,632)
Cash and cash equivalents, beginning of period	**605,046**	3,487,847
Cash, end of period	**462,106**	111,215

Supplemental cash flow information		
Accounts payable and accrued liabilities related to exploration and evaluation assets	**87,500**	70,000
Finance expense included in exploration and evaluation assets	**-**	1,402,765

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 North copper project (subject to final closing pursuant to the May 2014 asset purchase agreement with Copper Range Company (“CRC”), a wholly-owned subsidiary of First Quantum Minerals Ltd.) (the “White Pine North 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 June 1, 2020.

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 complete the acquisition of the White Pine North Project, the ability of the Company to obtain the necessary financing to complete the development of the projects, and future profitable production from the projects or proceeds from their disposition thereof.

To date, the Company has not earned revenues and is in the exploration and development stage. The Company has incurred a net loss of $3,724,301 during the nine months ended March 31, 2020 ($3,574,275 during the comparative period in 2019) and has a deficit of $81,003,123 at March 31, 2020 (a deficit of $77,278,822 at June 30, 2019). The Company also has a working capital deficiency of $21,457,189 at March 31, 2020 (a working capital deficiency of $17,992,199 at June 30, 2019), including the amount of the credit facility of $4,816,140 due on June 30, 2020 (Note 17) and the amount of $16,228,013 related to the promissory note described in Note 9, which amount is payable on demand following default by the Company of the payment of $3,000,000 which was due on May 30, 2019.

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

The conditions and uncertainties described above indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. If the going concern assumption was not appropriate for these 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.

3. BASIS OF PRESENTATION AND CHANGE IN ACCOUNTING POLICY

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, except for the adoption of IFRS 16, *Leases*, described below. 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, 2019 and 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Adoption of IFRS 16, Leases

On July 1, 2019, the Company has adopted IFRS 16 using the modified retrospective approach for transition. As a result, comparative information has not been restated. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, *Leases*, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. All leases result in the lessee obtaining the right to use an asset at the start of the lease and incurring a financing obligation corresponding to the lease payments to be made over time.

The main impact of IFRS 16 relates to office space leases. At July 1, 2019, the Company recognized a right-of-use assets of $58,183 included in capital assets with a corresponding amount to lease liabilities. When measuring lease liabilities, the Company discounts lease payments using its incremental borrowing rate of 20%. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use assets are amortized over the lease terms on a straight-line basis.

4. CASH

At March 31, 2020, the cash position of $462,106 ($605,046 at June 30, 2019) is restricted to be disbursed pursuant to an approved budget by the lenders of the Credit Facility (Note 6).

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

5. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine North Project *(1)*	UPX Property	Other Properties	Total
	$	$	$	$	$
Balance at June 30, 2019	**17,102,484**	**3,132,246**	**-**	**151,084**	**20,385,814**
Property payments	**209,775**	**-**	**-**	**31,136**	**240,911**
Effect of change in foreign exchange	**-**	**-**	**-**	**(28,785)**	**(28,785)**
	209,775	**-**	**-**	**2,351**	**212,126**
Balance at March 31, 2020	**17,312,259**	**3,132,246**	**-**	**153,435**	**20,597,940**
Balance at June 30, 2018	16,801,384	3,107,246	11,756,257	130,945	31,795,832
Property payments	168,600	-	-	26,652	195,252
Finance expense	-	-	1,402,765	-	1,402,765
Effect of change in foreign exchange	-	-	-	(14,182)	(14,182)
	168,600	-	1,402,765	12,470	1,583,835
Balance at March 31, 2019	16,969,984	3,107,246	13,159,022	143,415	33,379,667

(1) The final closing of the acquisition of the White Pine North Project, which initially was to occur by December 31, 2015, was further extended on January 15, 2020, to June 30, 2020. 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 North Project.

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

6. CREDIT FACILITY

On May 20, 2019, the Company entered into a loan agreement with Greenstone Resources II LP and Osisko Gold Royalties Ltd (collectively, the "Lenders"), which are deemed to have significant influence over the Company. Under the terms of the loan agreement, the Lenders have agreed to provide the Company with a loan of up to $4,500,000 (the “Principal Amount”). The loan bears interest at a rate of 12% per annum. On December 31, 2019, the Lenders agreed to extend the maturity date of the loan from February 28, 2020 to May 31, 2020 and effective on May 31, 2020, the Lenders agreed to further extend the maturity date to June 30, 2020 (Note 17). The Principal Amount of the loan as well as accrued interest are payable by June 30, 2020. The loan is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company.

During the nine months ended March 31, 2020, the Company made additional drawdowns on the credit facility totalling $1,750,000, with total drawdowns on the credit facility amounting to $4,500,000 at March 31, 2020. The Company accounted for the estimated fair value of the additional drawdowns using a discount rate of 20%. The fair value adjustment, representing the below market element of the loan, was recorded in contributed surplus. The fair value adjustments and the transaction costs initially incurred and presented as a reduction of the loan are amortized over the loan period using the effective interest rate method. The effective interest rate of the loan is 23.6%.

In December 2019, the balance of the loan was adjusted by $51,465 to reflect the impact of the modification of the maturity date of the loan, with a corresponding increase to the below market element of the loan recorded in contributed surplus.

The balance of the loan is determined as follows:

	Nine months ended March 31, 2020
	$
Balance, beginning of period	**2,495,484**
Modification adjustment	**(51,465)**
Additional drawdowns, discounted at the rate of 20%	**1,665,308**
Interest payable	**343,073**
Accretion of loan and amortization of transactions costs	**363,740**
Balance, end of period	**4,816,140**

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

7. NOTE PAYABLE

The note is payable to the Lessor of certain mineral rights located in White Pine, Michigan. It is reimbursable in four 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:

	Nine months ended March 31, 2020
	$
Balance, beginning of period	**165,000**
Reimbursements	**(55,000)**
Balance, end of period	**110,000**
Current liability	**110,000**
Non-current liability	**-**
	110,000

8. LEASE LIABILITIES

Following the adoption of IFRS 16 on July 1, 2019 (Note 3), the Company recorded lease liabilities of $58,183. The Company accounted for the estimated fair value of the lease liabilities using a discount rate of 20%. The balance of the lease liabilities at March 31, 2020 is as follows:

	Nine months ended March 31, 2020
	$
Balance, beginning of period	-
Lease liabilities on adoption of IFRS 16	**58,183**
Accretion expense	**9,333**
Repayment of liabilities	**(46,264)**
Balance, end of period	**21,252**

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

9. PROMISSORY NOTE

On May 30, 2017, the Company issued a $16 million secured non-interest-bearing promissory note (the “Note”) to Kennecott Exploration Company and Rio Tinto Nickel Company (“RTX”), as part of the consideration for the acquisition of the UPX Property. The Note provided for the payment of $1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018) and $3.0 million on each of the second, third, fourth, fifth and sixth anniversaries of the acquisition. The Note has an effective interest rate of 20%. The Company did not make the payment of $3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019 constitutes an event of default, and upon such occurrence and continuance, the amount of the Note then outstanding bears interest at an annual rate of Libor plus 8% (a rate of 9.02% at March 31, 2020) and becomes payable on demand. The Note is secured by a mortgage over the acquired property and a general security agreement over all the assets of UPX Minerals Inc, an indirect wholly-owned subsidiary of the Company.

The balance of the Note is determined as follows:

	Nine months ended March 31, 2020
	$
Balance, beginning of period	**15,128,068**
Interest payable from July 1, 2019 to March 31, 2020	**1,099,945**
Balance, end of period	**16,228,013**

10. SHARE CAPITAL AND WARRANTS

Issued and fully paid

At March 31, 2020 and June 30, 2019, the Company had 472,933,689 issued and outstanding common shares.

Share purchase warrants

On March 17, 2020, 1,000,000 outstanding share purchase warrants expired unexercised, resulting in no remaining share purchase warrants outstanding at March 31, 2020 (1,000,000 outstanding share purchase at June 30, 2019 with an exercise price of C$0.15 per share).

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

11. STOCK OPTIONS

The following table sets out the activity in stock options:

	Nine months ended March 31, 2020	
	Number	**Weighted average exercise price (C$)**
Options, beginning of period	**13,685,000**	**0.17**
Expired	**(3,770,000)**	**(0.27)**
Options, end of period	**9,915,000**	**0.13**

The following table reflects the stock options issued and outstanding at March 31, 2020:

Issue date	Number of options	Exercise price	Remaining contractual life	Number of exercisable options	Exercise price of exercisable options
		C$	(years)		C$
April 21, 2015	1,240,000	0.25	0.1	662,500	0.25
August 28, 2017	7,925,000	0.11	2.4	7,925,000	0.11
October 26, 2017	750,000	0.17	2.6	750,000	0.17
	9,915,000	0.13	2.1	9,337,500	0.13

12. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Labour	**36,256**	336,561	**139,867**	1,359,372
Studies and consultants	**29,519**	23,410	**322,832**	243,668
Drilling and assaying	**-**	705	**-**	40,973
Office, overhead and other administrative costs	**42,715**	117,707	**216,244**	461,929
	108,490	478,383	**678,943**	2,105,942

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

13. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Administrative and general	**171,594**	249,982	**474,378**	787,339
Office	**62,804**	23,439	**117,207**	84,304
Professional fees	**54,353**	14,087	**139,841**	199,118
Investor relations and travel	**16,063**	18,142	**41,914**	75,619
Reporting issuer costs	**11,328**	9,398	**18,029**	27,425
	316,142	315,048	**791,369**	1,173,805

14. FINANCE EXPENSE

The Company incurred the following finance expense:

	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Effective interest on credit facility (Note 6)	**249,909**	-	**705,759**	-
Interest on note payable (Note 7)	**2,200**	4,400	**8,250**	14,850
Accretion on lease liabilities (Note 8)	**3,267**	-	**9,333**	-
Interest on promissory note (Note 9)	**349,529**	-	**1,099,945**	-
Interest on balance of purchase price payable	**-**	37,500	**-**	120,000
Other	**-**	896	**594**	896
	604,905	42,796	**1,823,881**	135,746

15. FINANCIAL RISK MANAGEMENT

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance, including, liquidity risk, interest risk and currency risk. The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. The Company’s condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in its annual consolidated financial statements. There were no changes in the risk management or any of its policies since June 30, 2019, except as noted below:

COVID-19 Pandemic

The rapid spread of the COVID-19 virus and actions taken globally in response to COVID-19 have significantly disrupted business activities and capital markets throughout the world. The Company's business relies, to a certain extent, on free movement of goods, services, and capital within Canada and the United States. 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, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Three and nine months ended March 31, 2020 (unaudited - in US dollars)

16. 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:

			March 31, 2020
	Canada	**USA**	**Total**
	$	**$**	**$**
Current assets	**463,124**	**50,950**	**514,074**
Capital assets	**70,314**	**1,016**	**71,330**
Exploration and evaluation assets	**-**	**20,597,940**	**20,597,940**
Total assets	**533,438**	**20,649,906**	**21,183,344**

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

17. EVENT AFTER THE REPORTING DATE

Effective on May 31, 2020, the Lenders to the credit facility (Note 6) agreed to extend the maturity date of the repayment of the Principal Amount of the loan as well as accrued interest to June 30, 2020.

HIGHLAND COPPER COMPANY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
– QUARTERLY HIGHLIGHTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020

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 March 31, 2020 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, 2019 ("**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 nine months ended March 31, 2020 (the "**Interim Financial Statements**"), the Company's audited consolidated financial statements for the years ended June 30, 2019 and 2018 (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 June 1, 2020.

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 has assembled a number of projects located in Michigan's Upper Peninsula region, including **Copperwood**, a feasibility stage copper project, **White Pine North,** a development stage copper project (subject to final closing of its 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 referred to as the **UPX Property**, which was acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company ("**RTX**").

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 June 1, 2020, the Company has 472,933,689 common shares issued and outstanding. Orion Resource Partners ("**Orion**") and Greenstone Resources II LP ("**Greenstone**") hold respectively 30% and 17.1% of the Company's issued and outstanding common shares.

FINANCIAL CONDITION

At March 31, 2020, the Company had a working capital deficiency of $21,457,189, including an amount of $4,816,140 under a loan provided by Greenstone and Osisko Gold Royalties Ltd (**"Osisko"**), and an amount of $16,228,013 due to RTX as consideration for the acquisition of the UPX Property in May 2017.

On May 20, 2019, the Company entered into a secured credit agreement (the "**Loan**") with Greenstone and Osisko (collectively, the "**Lenders**"). Under the terms of the Loan, the Lenders have agreed to provide the Company up to $4,500,000 to be disbursed in a number of tranches pursuant to an approved budget. At March 31, 2020, the amount of the Loan had been fully drawn. The Loan bears interest at a rate of 12%. On December 31, 2019, the Lenders agreed to extend the maturity date of the Loan from February 28, 2020 to May 31, 2020 and effective on May 31, 2020, the Lenders agreed to further extend the maturity date to June 30, 2020.The principal amount of the Loan as well as accrued interest are payable by June 30, 2020. The Loan is secured by a mortgage on the Copperwood Project and a general security agreement over all the assets of the Company.

On May 30, 2017, the Company acquired the UPX Property for a total consideration of $18.0 million of which $2.0 million was paid in cash at closing and the Company issued a 6-year $16 million non-interest bearing promissory note (the "**Note**") to RTX. The Note provided for the payment of $1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018) and $3.0 million on each of the second, third, fourth, fifth and sixth anniversaries of the acquisition. The Company did not make the payment of $3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019, constituted an event of default and upon such occurrence and continuance, the amount of the Note then outstanding ($15.0 million) bore interest at an annual rate of Libor plus 8% and became payable on demand. As of the date of this MD&A, the Company has not received a demand for payment of the outstanding amounts under the Note. The Note is secured by a mortgage over the UPX Property and a general security agreement over all the assets of UPX Minerals Inc. Given the Company's inability at this time to repay the Note there is a risk that RTX initiates legal proceedings to demand the full payment of the Note and enforce its securities over the UPX Property.

On January 15, 2020, the Company and CRC agreed to extend the period to complete the acquisition of the White Pine North Project to June 30, 2020. 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 financial assurance bond estimated to be approximately $1.7 million. The Company intends to request an additional extension since it is unlikely that all the conditions will be met by June 30, 2020.

The Company needs additional funds to reimburse the Loan and accrued interest of $4.8 million due to the Lenders, to meet all existing commitments (including the payment of the Note and accrued interest of $16.2 million due to RTX), to complete the acquisition of White Pine (including an amount of approximately $1.7 million to replace the environmental bond) and to provide for management and administration expenses for the next 12 months.

The Company has engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available, including the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, given the Company's financial condition, the state of the capital markets for a company such as Highland and current copper prices, there is no assurance that additional funds will be available or available on terms acceptable to the Company or that the Company will be able to complete a strategic transaction. These conditions and uncertainties indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

EXPLORATION AND EVALUATION EXPENSES

All field exploration work have been suspended since early 2019 to minimize cash requirements. The amounts capitalized during the nine months ended March 31, 2020 totaled $240,911, consisting of lease payments of $209,775 on the Copperwood Project and $31,136 related to other properties. During the nine months ended March 31, 2019, amounts capitalized included lease payments of $168,600 on the Copperwood Project and $26,652 related to other properties, and an accretion expense of $1,402,765 related to the then non-interest-bearing promissory note in favor of RTX.

Exploration and evaluation expenses charged to the statement of net loss during the three months ended March 31, 2020 and 2019 are as follows:

	Copperwood Project	White Pine Project	UPX Property	Other projects	Three months ended Mar 31, 2020 Total	Three months ended Mar 31, 2019 Total
	$	$	$	$	$	$
Labour	**16,307**	**18,615**	**1,334**	**-**	**36,256**	336,561
Studies and consultants	**2,002**	**27,517**	**-**	**-**	**29,519**	23,410
Drilling and assaying	**-**	**-**	**-**	**-**	**-**	705
Office, overhead and other administrative costs	**10,061**	**24,905**	**2,679**	**5,070**	**42,715**	117,707
	28,370	**71,037**	**4,013**	**5,070**	**108,490**	478,383

OPERATING ACTIVITIES

During the three months ended March 31, 2020, the Company incurred a net loss of $1,386,660 (nil per share) compared to a net loss of $877,703 (nil per share) during the comparative period in 2019. As part of the net loss during the three months ended March 31, 2020, the Company recorded finance expense of $604,905 ($42,796 in 2019) composed mostly of interest of $349,529 on the Note due to RTX and the effective interest expense of $249,909 on the Loan due to Greenstone and Osisko. Other significant items during the period included exploration and evaluation expenses of $108,490 as detailed above ($478,383 in 2019), management and administration expenses of $316,142 ($315,048 in 2019) and an unrealized loss on foreign exchange of $334,293 ($12,674 in 2019) mostly due to the conversion of the Loan to Canadian dollars.

Management and administration expenses during the three months ended March 31, 2020 included lower wages and fees to consultants following the reduction in wages of certain officers and the reduction of personnel at the corporate office (wages and fees of $171,594 during the current period compared to $249,982 in 2019), higher office costs due mostly to increased insurance premiums (office expenses of $62,804 during the current period compared to $23,439 in 2019) and higher professional fees consisting of tax, legal and technical work related to the strategic review process ($54,353 during the current period compared to $14,087 in 2019).

LIQUIDITIES AND CAPITAL RESOURCES

At March 31, 2020, the Company had a working capital deficiency of $21,457,189 compared to a working capital deficiency of $17,992,199 at June 30, 2019. The increase in the working capital deficiency during the nine months ended March 31, 2020 is mainly attributable to; i) exploration and evaluation expenses of $678,943; ii) management and administration expenses of $791,369; iii) lease payments of $153,410 related to the Copperwood Project and other mineral leases held; iv) the reimbursement of an amount of $55,000 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan; v) additional accrued interest of $1,099,945 for the nine months ended March 31, 2020 on the Note in favour of RTX; and vi) accrued interest of $705,759 for the nine months ended March 31, 2020 on the Loan from Greenstone and Osisko.

Additional drawdowns under the Loan (as described in the *Financial Condition and Strategic Review Process* section) during the nine months ended March 31, 2020 totaled $1,750,000.

The following table summarizes the contractual maturities of the Company's financial liabilities at March 31, 2020:

	Carrying amount	Settlement amount	Within 1 year	2 years	Over 2 years
	$	$	$	$	$
Accounts payable and accrued liabilities	**795,858**	**795,858**	**795,858**	**-**	**-**
Credit facility	**4,816,140**	**4,965,991**	**4,965,991**	**-**	**-**
Note payable	**110,000**	**115,490**	**115,490**	**-**	**-**
Lease liabilities	**21,252**	**27,826**	**27,826**	**-**	**-**
Promissory note	**16,228,013**	**16,228,013**	**16,228,013**	-	**-**
	21,971,263	**22,133,178**	**22,133,178**	**-**	**-**

RELATED PARTY TRANSACTIONS

During the three and nine months ended March 31, 2020, the Company incurred administration expenses of $20,501 and $59,527, respectively ($19,293 and $53,665 during the comparative periods in 2019) from Reunion Gold Corporation, a related party by virtue of common key management and a director. During the three and nine months ended March 31, 2020, the Company recovered an amount of nil for the provision of services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation ($41,378 and $169,752, respectively during the three and nine months ended March 31, 2019). During the three and nine months ended March 31, 2020, the Company sold capital assets to Reunion Gold Corporation for proceeds of nil and $5,237, respectively.

The remuneration to directors and key management of the Company, including the Executive Chairman, the President and CEO and the CFO, during the three and nine months ended March 31, 2020 totaled $124,211 and $387,792, respectively ($143,427 and $523,726 during the comparative periods in 2019).

NEW ACCOUNTING POLICY

The Company adopted IFRS 16, *Leases*, effective July 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, *Leases* ("IAS 17"), and related interpretations. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. All leases result in the lessee obtaining the right to use an asset at the start of the lease and incurring a financing obligation corresponding to the lease payments to be made over time. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as "operating leases" under IAS 17. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at July 1, 2019 of 20%. At July 1, 2019, the Company recognized a right-of-use assets of $58,183 with a corresponding amount to lease liabilities.

RISKS AND UNCERTAINTIES

Highland is subject to a number of significant risks and uncertainties due to its current financial condition and 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 speculative.

The risks and uncertainties described below are not necessarily the only ones that Highland could be facing. 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.

Requirement for additional capital

Highland requires substantial amount of funds to continue its planned activities including: a) to repay the Loan due to Greenstone and Osisko by June 30, 2020; if Highland is unable to repay the Loan, the lenders may enforce their securities over all of the Company's assets; b) to repay the outstanding secured promissory note and to conduct exploration programs on its UPX Property; if adequate financing is not available, RTX may demand payment of the $15.0 million plus interest due under the Note and given the Company's inability to pay such amount, RTX may initiate legal proceedings to demand the full payment of the Note and enforce its securities over the UPX Property; c) for the development of the 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; d) to complete the acquisition of the White Pine North 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 North Project may be delayed or not be completed; 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 financings, debt financings, joint venture, the sale of assets and other means.

Highland's ability to raise the necessary funds and/or to complete a strategic transaction depends in part upon the market's perception of its mineral projects, 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.

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; its ability to complete the acquisition of the White Pine North Project; and the potential of its mineral projects 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).