



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2017

In US Dollars

Unaudited

NOTICE TO READER

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

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Financial Position

<i>(unaudited, in US dollars)</i>	December 31, 2017	June 30, 2017
	\$	\$
ASSETS		(Note 1 - restated)
Current		
Cash and cash equivalents (Note 4)	9,831,451	14,061,705
Sales taxes receivable	127,724	42,423
Receivable from related parties	2,620	-
Prepaid expenses and other	261,686	64,283
	10,223,481	14,168,411
Non-current		
Capital assets	134,409	58,453
Exploration and evaluation assets (Note 5)	31,444,472	30,351,733
TOTAL ASSETS	41,802,362	44,578,597
LIABILITIES		
Current		
Accounts payable and accrued liabilities	2,046,885	1,499,435
Current portion of note payable (Note 6)	110,000	110,000
Current portion of promissory note (Note 7)	925,034	835,074
Balance of purchase price payable (Note 8)	1,200,382	1,139,767
	4,282,301	3,584,276
Non-current		
Note payable (Note 6)	220,000	275,000
Promissory note (Note 7)	7,915,410	7,170,686
Environmental liability	249,110	246,315
TOTAL LIABILITIES	12,666,821	11,276,277
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	65,304,799	64,197,630
Contributed surplus	11,368,525	11,176,081
Deficit	(48,523,122)	(42,587,151)
Cumulative translation adjustment	985,339	515,760
TOTAL EQUITY	29,135,541	33,302,320
TOTAL LIABILITIES AND EQUITY	41,802,362	44,578,597

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/ Jo Mark Zurel
Jo Mark Zurel, Director

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

<i>(unaudited, in US dollars)</i>	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
	(Note 1 – restated)		(Note 1 - restated)	
Expenses and other items				
Exploration and evaluation (Note 11)	2,771,212	241,034	4,580,083	526,499
Management and administration (Note 12)	357,099	179,009	721,693	403,954
Business development	62,916	-	122,828	-
Share-based compensation	134,274	6,196	322,978	13,163
Depreciation and amortization	9,625	16,684	17,241	36,797
Accretion on environmental liability	918	2,223	2,795	4,495
Finance expense on note payable	7,150	-	14,850	-
Finance expense on loan from a director	-	6,184	-	8,713
Finance income	(31,933)	(1,143)	(60,671)	(1,170)
Loss (gain) on foreign exchange	(74,656)	6,714	214,174	7,063
Net loss for the period	(3,236,605)	(456,901)	(5,935,971)	(999,514)
Other comprehensive income				
Item that will not be subsequently reclassified to income				
Foreign currency translation adjustment	(80,679)	7,470	469,579	9,307
Comprehensive loss for the period	(3,317,284)	(449,431)	(5,466,392)	(990,207)
Basic and diluted loss per common share	(0.01)	(0.00)	(0.01)	(0.01)
Weighted average number of common shares - basic and diluted	461,975,639	165,193,923	460,561,896	159,581,274

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

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Shareholders' Equity

<i>(unaudited, in US dollars)</i>	Number of issued and outstanding common shares	Share capital	Contributed surplus	Deficit	Cumulative translation adjustment	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance at June 30, 2017 (Note 1 – restated)	459,148,153	64,197,630	11,176,081	(42,587,151)	515,760	33,302,320
Shares issued on exercise of warrants (Note 9)	8,391,250	1,107,169	(130,534)	-	-	976,635
Share-based compensation	-	-	322,978	-	-	322,978
Net loss for the period	-	-	-	(5,935,971)	-	(5,935,971)
Foreign currency translation adjustment	-	-	-	-	469,579	469,579
Balance at December 31, 2017	467,539,403	65,304,799	11,368,525	(48,523,122)	985,339	29,135,541
Balance at June 30, 2016 (Note 1 – restated)	153,968,626	47,531,970	5,756,400	(39,069,008)	1,092,806	15,312,168
Private placement	30,280,000	2,036,694	226,080	-	-	2,262,774
Shares issued on debt settlement	4,949,857	334,913	37,313	-	-	372,226
Share issue expenses	-	(131,129)	-	-	-	(131,129)
Share-based compensation	-	-	13,163	-	-	13,163
Net loss for the period	-	-	-	(999,514)	-	(999,514)
Foreign currency translation adjustment	-	-	-	-	9,307	9,307
Balance at December 31, 2016	153,968,626	49,772,448	6,032,956	(40,068,522)	1,102,113	16,838,995

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

Highland Copper Company Inc.

Condensed Interim Consolidated Statements of Cash Flows

<i>(unaudited, in US dollars)</i>	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
		(Note 1 – restated)		(Note 1 – restated)
Operating activities				
Net loss for the period	(3,236,605)	(456,901)	(5,935,971)	(999,514)
Adjustments				
Share-based compensation	134,274	6,196	322,978	13,163
Depreciation and amortization	9,625	16,684	17,241	36,797
Unrealized loss (gain) on foreign exchange	(74,656)	6,714	214,174	7,063
Accretion on environmental liability	918	2,223	2,795	4,495
Finance expense on loan from a director	-	6,184	-	8,713
Finance income accrued	(31,933)	(1,143)	(60,671)	(1,170)
Finance income received	20,397	1,143	50,128	1,170
Changes in working capital items				
Sales taxes receivable	(81,221)	(209)	(83,345)	(7,413)
Receivable from related parties	(2,620)	(83,690)	(2,620)	(98,463)
Prepaid expenses and other	(189,395)	(845)	(196,017)	(6,326)
Accounts payable and accrued liabilities	425,072	(367,077)	508,676	(108,916)
	(3,026,144)	(870,721)	(5,162,632)	(1,150,401)
Investing activities				
Acquisition of capital assets	(36,679)	-	(93,140)	-
Additions to exploration and evaluation assets (Note 5)	(74,245)	(172,412)	(162,495)	(284,922)
	(110,924)	(172,412)	(255,635)	(284,922)
Financing activities				
Loan from a director	-	23,352	-	366,418
Addition to note payable	-	150,000	-	150,000
Reimbursement of note payable (Note 6)	(27,500)	(135,000)	(55,000)	(135,000)
Issue of shares (Note 9)	976,635	2,262,774	976,635	2,262,774
Share issue expenses	-	(131,129)	-	(131,129)
	949,135	2,169,997	921,635	2,513,063
Effect of exchange rate changes on cash held in foreign currency	5,563	400,137	266,378	381,699
Net change in cash and cash equivalents	(2,182,370)	1,527,001	(4,230,254)	1,459,439
Cash, beginning of period	12,013,821	88,820	14,061,705	156,382
Cash and cash equivalents, end of period	9,831,451	1,615,821	9,831,451	1,615,821
Supplemental cash flow information				
Finance expense included in exploration and evaluation assets	457,223	73,289	895,299	151,012
Loan from a director settled by the issue of shares and warrants	-	372,226	-	372,226

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

1. GENERAL INFORMATION AND CHANGE IN PRESENTATION CURRENCY

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.

The Company has assembled a number of advanced-stage copper projects located in Michigan’s Upper Peninsula region, including the 100%-owned Copperwood project (the “Copperwood Project”), the White Pine project (subject to final closing pursuant to the May 2014 agreement with Copper Range Company (“CRC”), a wholly-owned subsidiary of First Quantum Minerals Ltd.) (the “White Pine Project”), and the Keweenaw project which hosts the 543S deposit and other target areas (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC) (the “Keweenaw Project”). Also, in May 2017, the Company acquired from subsidiaries of the Rio Tinto Group (“RTX”) a mineral property covering approximately 448,000 acres in the Upper Peninsula region (the “UPX Property”). To date, the Company has not earned significant revenues and is considered to be in the exploration and development stage.

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 (the “TSXV”) under the symbol HI.

The Board of Directors approved these consolidated financial statements on February 16, 2018.

Change in presentation currency

Prior to July 1, 2017, the Company reported its annual and quarterly consolidated statements of financial position and the related statements of comprehensive loss, shareholder’s equity and cash flows in Canadian dollars. Effective July 1, 2017, the Company decided to change its reporting currency to the United States dollar as all of the Company’s exploration and evaluation assets are located in the United States. This change will also facilitate the comparability of financial information with similar mining companies. In accordance with International Accounting Standard 21, *The Effects of Changes in Foreign Exchange Rates*, the consolidated financial statements for all periods presented have been translated into US dollars. The consolidated statements of comprehensive loss and the consolidated statements of cash flows for each period have been translated into the presentation currency using the average exchange rate prevailing during each period. All assets and liabilities have been translated using the exchange rate prevailing at the statements of financial position dates. Equity transactions have been translated at the exchange rate in effect on the date of the specific transaction. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income or loss. All comparative financial information has been restated to reflect the Company’s results as if they had been historically reported in US dollars.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

2. GOING CONCERN

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

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

As is common with many exploration and development companies, the Company has relied on equity financing to fund its operations, including its investments in exploration and evaluation assets. The Company has incurred a net loss of \$5,935,971 during the six months ended December 31, 2017 and has a deficit of \$48,523,122 at December 31, 2017. The Company has a working capital of \$5,941,180 at December 31, 2017.

The Company will require additional funds to carry-out its planned exploration and development work and to provide for management and administration expenses for the next 12 months and to meet all existing commitments which are due after December 31, 2018. Although such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements, there is no assurance that the Company will be successful in raising such funds. Should the Company not be successful in raising additional funds, it may be required to delay, reduce the scope of, or eliminate its current or future exploration and development activities, and / or sell some of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

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

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and follow the same accounting policies as the Company's most recent annual consolidated financial statements, except for the change in the presentation currency to the US dollar described in Note 1. These unaudited condensed interim consolidated financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2017 and 2016 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

4. CASH AND CASH EQUIVALENTS

	December 31, 2017	June 30, 2017
	\$	\$
Cash	2,931,451	14,061,705
Cash equivalents	6,900,000	-
	9,831,451	14,061,705

Cash equivalents are comprised of term deposits bearing a weighted-average interest rate of 1.29% and having maturity dates in January 2017 and March 2017.

5. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine Project (1)	UPX Property	Other Properties (2)	Total
	\$	\$	\$	\$	\$
Balance at June 30, 2017	16,505,051	2,706,122	10,016,530	1,124,030	30,351,733
Property payments in cash	133,600	-	-	28,895	162,495
Finance expense	60,615	-	834,684	-	895,299
Effect of change in foreign exchange	-	-	-	34,945	34,945
	194,215	-	834,684	63,840	1,092,739
Balance at December 31, 2017	16,699,266	2,706,122	10,851,214	1,187,870	31,444,472
Balance at June 30, 2016	16,113,171	2,556,122	-	1,104,333	19,773,626
Property payments in cash	110,510	150,000	-	24,412	284,922
Finance expense	151,012	-	-	-	151,012
Effect of change in foreign exchange	-	-	-	(38,724)	(38,724)
	261,522	150,000	-	(14,312)	397,210
Balance at December 31, 2016	16,374,693	2,706,122	-	1,090,021	20,170,836

(1) The final closing of the acquisition of the White Pine Project, which initially was to occur by December 31, 2015, was further extended in December 2017 to February 28, 2018. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project.

(2) Other properties consist mostly of the Company's option to acquire a 65% interest in the Keweenaw Project. In December 2017, the Company and BRP agreed that the period required to provide a feasibility study on the project be extended to December 31, 2018.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

6. NOTE PAYABLE

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

	Six months ended December 31, 2017
	\$
Balance, beginning of period	385,000
Reimbursements	(55,000)
Balance, end of period	330,000
At December 31, 2017	
Current liability	110,000
Non-current liability	220,000
	330,000

7. PROMISSORY NOTE

The Company issued a US\$16 million secured non-interest bearing promissory note (the "Note") to RTX, as remaining consideration for the acquisition of the UPX Property, that provides for the payment of US\$1.0 million on the first anniversary of the acquisition (May 30, 2018) and US\$3.0 million on each of the second, third, fourth, fifth and sixth anniversary of the acquisition. The payments under the Note will be accelerated if Highland publicly releases a feasibility study covering any portion of the UPX Property. Given that the Note is non-interest bearing, the Company accounted for its estimated fair value using a discount rate of 20%. The balance of the Note was determined as follows:

	Six months ended December 31, 2017
	\$
Balance, beginning of period	8,005,760
Accretion included in exploration and evaluation assets, calculated at a rate of 20%	834,684
Balance, end of period	8,840,444
At December 31, 2017	
Current liability	925,034
Non-current liability	7,915,410
	8,840,444

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

8. BALANCE OF PURCHASE PRICE PAYABLE

The fair value of the remaining amount payable of \$1,250,000 due to Orvana Minerals Corp. on June 17, 2018 in connection with the acquisition of the Copperwood Project, was estimated using a discount rate of 20%. This amount may be paid by Highland to Orvana in cash or shares of Highland, at Orvana's option. The balance of purchase price payable is as follows:

	Six months ended December 31, 2017
	\$
Balance, beginning of period	1,139,767
Accretion included in exploration and evaluation assets	60,615
Balance, end of period	1,200,382

9. SHARE CAPITAL AND WARRANTS

Issued and fully paid

At December 31, 2017, the Company had 467,539,403 issued and outstanding common shares (459,148,153 at June 30, 2017).

On November 30, 2017, the Company issued a total of 8,391,250 shares following the exercise of 8,391,250 share purchase warrants at a price of Can \$0.15 per share for total proceeds of \$976,635. A total of 9,223,678 share purchase warrants expired unexercised on November 30, 2017 and December 12, 2017.

Share purchase warrants

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

Grant date	Number of warrants			Number of warrants Dec 31, 2017	Price per share Can \$	Expiry Date
	June 30, 2017	Exercised	Expired			
November 30, 2016	15,140,000	(8,391,250)	(6,748,750)	-	-	-
December 12, 2016	2,474,928	-	(2,474,928)	-	-	-
February 22, 2017	9,574,545	-	-	9,574,545	0.15	Feb 22, 2018
March 17, 2017	76,730,714	-	-	76,730,714	0.15	Mar 17, 2018
March 17, 2017	1,000,000	-	-	1,000,000	0.15	Mar 17, 2020
March 24, 2017	48,669,575	-	-	48,669,575	0.15	Mar 24, 2018
	153,589,762	(8,391,250)	(9,223,678)	135,974,834	0.15	
Average price (Can \$)	0.15	0.15	0.15	0.15		

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (unaudited - in US dollars)

10. STOCK OPTIONS

The following table sets out the activity in stock options:

	Six months ended December 31, 2017	
	Number	Weighted average exercise price (\$)
Options, beginning of period	7,455,000	0.48
Granted	11,095,000	0.12
Expired	(4,300,000)	(0.58)
Options, end of period	14,250,000	0.17

On August 28, 2017, the Company granted a total of 9,025,000 stock options to its directors, officers, employees and consultants. The stock options granted will vest over 2 years. The options have a five-year term and are exercisable at a price of Can \$0.11 per share. On the grant date, the market price of the Company's shares was Can \$0.11. The fair value of the stock options was estimated at Can \$0.07 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.5%, a volatility rate of 83% and a 0% dividend factor.

On October 26, 2017, the Company granted a total of 2,070,000 incentive stock options to a director, an officer and employees of the Company at an exercise price of Can \$0.17 per share. The stock options granted will vest over two years. The options have a five-year term and are exercisable at a price of Can \$0.17 per share. On the grant date, the market price of the Company's shares was Can \$0.17. The fair value of the stock options was estimated at Can \$0.10 per option by applying the Black-Scholes option pricing model, using an expected time-period of 5 years, a semi-annual weighted-average risk-free interest rate of 1.7%, a volatility rate of 87% and a 0% dividend factor.

The following table reflects the stock options issued and outstanding at December 31, 2017:

Issue date	Number of options	Exercise price Can \$	Remaining contractual life (years)	Number of exercisable options	Exercise price of exercisable options \$
August 1, 2014	1,400,000	0.50	1.6	1,400,000	0.50
April 21, 2015	1,555,000	0.25	2.3	880,000	0.25
November 20, 2015	200,000	0.13	2.9	200,000	0.13
August 28, 2017	9,025,000	0.11	4.7	2,925,000	0.11
October 26, 2017	2,070,000	0.17	4.8	690,000	0.17
	14,250,000	0.17	4.1	6,095,000	0.23

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2017 (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,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Drilling and assaying	262,336	-	821,927	-
Labour	655,663	138,130	1,144,090	274,362
Studies	1,603,169	6,620	2,139,499	9,120
Overhead	250,044	96,284	474,567	243,017
	2,771,212	241,034	4,580,083	526,499

During the six months ended December 31, 2017, the Company entered into long-term lease agreements in Michigan, expiring up to August 2020, which calls for minimum lease payments of \$137,920 for the rental of office and warehousing spaces. Minimum lease payments are \$50,640 in 2018, \$48,380 in 2019, \$33,400 in 2020 and \$5,500 in 2021.

12. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Administrative and general	218,980	130,154	422,186	270,775
Office	16,661	6,020	52,236	51,463
Professional fees	57,841	34,355	149,336	70,856
Investor relations and travel	43,023	4,565	68,968	5,953
Reporting issuer costs	20,594	3,915	28,967	4,907
	357,099	179,009	721,693	403,954

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2017 (unaudited - in US dollars)

13. SEGMENTED INFORMATION

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

	December 31, 2017		
	Canada	USA	Total
	\$	\$	\$
Current assets	10,031,863	191,618	10,223,481
Capital assets	3,179	131,230	134,409
Exploration and evaluation assets	-	31,444,472	31,444,472
Total assets	10,035,042	31,767,320	41,802,362

	June 30, 2017		
	Canada	USA	Total
	\$	\$	\$
Current assets	14,077,348	91,063	14,168,411
Capital assets	1,318	57,135	58,453
Exploration and evaluation assets	-	30,351,733	30,351,733
Total assets	14,078,666	30,499,931	44,578,597



MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2017

The following interim management's discussion and analysis – quarterly highlights ("**Interim MD&A**") of Highland Copper Company Inc. ("**Highland**" or the "**Company**") for the three months ended December 31, 2017 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, 2017 ("**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, 2017 (the "**Interim Financial Statements**"), the Company's audited consolidated financial statements for the years ended June 30, 2017 and 2016 (the "**Annual Financial Statements**"), and the Company's Annual MD&A, including the section describing risks and uncertainties.

The effective date of this Interim MD&A is February 16, 2018.

All financial results presented in this Interim MD&A are expressed in US dollars unless otherwise indicated. Effective July 1, 2017, the Company changed its reporting currency to the United States dollar as all of the Company's exploration and evaluation assets are located in the United States. This change will also facilitate the comparability of financial information with similar mining companies. All comparative financial information included in this Interim MD&A have been restated as if they had been historically reported in US dollars.

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 advanced-stage copper projects located in Michigan's western Upper Peninsula region, including **Copperwood**, a feasibility stage project, acquired in June 2014 from Orvana Minerals Corp. ("**Orvana**"), **White Pine** (subject to final closing of the acquisition from Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and **Keweenaw**, which includes the 543S deposit (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC). In May 2017, the Company acquired from subsidiaries of the Rio Tinto Group a mineral property covering approximately 448,000 acres in the central Upper Peninsula region (referred to as the "**UPX Property**"). The acquisition of the UPX Property establishes Highland as a dominant mineral exploration and development company in the Upper Peninsula of Michigan.

The Company's primary objective is the completion of the Copperwood feasibility study update, which is expected to be completed by the end of June 2018. The Company also aims to finalize the acquisition of the White Pine Project as soon as is practicable and to continue the exploration program at the UPX Property.

Highland's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol HI and trades on the OTCQB Venture Marketplace under the symbol "HDRSF".

At December 31, 2017, the Company has a cash position of \$9.8 million, 467.5 million issued and outstanding common shares and 136.0 million share purchase warrants with an exercise price of C\$0.15 per share exercisable in February and March 2018.

COPPERWOOD PROJECT

Feasibility Study

The work required to update the 2012 feasibility study prepared by Orvana ("FS Update") on the Copperwood Project has progressed significantly during the reporting period. At December 31, 2017, the Company estimates that greater than 60% of the activities related to the preparation of the FS Update have been completed. The Company expects to release the results of the FS Update toward the end of the second quarter of 2018. Subject to receipt of the permits and funds required for the development of the Copperwood Project, the Company plans to begin construction in the second half of 2018.

G Mining Services Inc. ("G Mining") is lead consultant for the preparation of the FS Update. G Mining is also responsible for mineral resource modelling and estimation and mine design with geotechnical support from Golder Associates. Design of the processing facility is being completed by Lycopodium Minerals Canada of Toronto. Design of the tailings facility and water management systems is being done by Golder Associates. A thorough metallurgical test program is being completed at SGS Lakefield in Ontario, Canada on samples from all mineralized zones.

Infrastructure studies, including transportation, are being carried out internally. Various power alternatives are being studied. Raw water is available from nearby municipalities and the Company is also considering other sources of water. A portion of the environmental permitting applications is being handled internally, but the permitting lead and coordination is being performed by Foth Infrastructure and Environment, a Wisconsin-based engineering firm.

In early February 2018, the Company started a 2,700-meter drilling campaign at the eastern extension of the Copperwood deposit to essentially complete the program which began last winter but could not be completed due to an early spring thaw. The planned eight-holes are located in the Section 5 area of Gogebic County. The Company anticipates completing all of the drilling by mid-March 2018.

Updated Resource Estimate

On October 19, 2017, the Company reported an updated mineral resource estimate for the Copperwood Project prepared by G Mining. The updated mineral resource is estimated at 42.5 million tonnes grading an average of 1.59% copper and 3.9 g/t silver containing 1.5 billion pounds of copper and 5.4 million ounces of silver in the measured and indicated resource category, using a cut-off grade of 1.0% Cu. An additional 1.2 billion pounds of copper and 3.7 million ounces of silver has also been estimated in the inferred resource category, with most of these resources located in "satellite" deposits. This updated resource estimate provides a solid base for the FS Update described above. More detail on the updated mineral resource estimate was provided by the Company in a press release dated October 19, 2017.

UPX PROPERTY

The UPX Property covers several Precambrian geological domains with known potential for nickel-copper massive sulphide deposits, gold deposits, and sediment-hosted base metal deposits. For each of these geological domains, the Company's exploration team is carrying out a systematic compilation of significant historical data obtained with the acquisition of the UPX Property to better understand the potential of the property and is identifying exploration targets using ongoing geological mapping, rock and soil sampling programs, and interpretation of high-resolution magnetic data covering the full extent of the UPX Property. More detail on these activities has been provided by the Company in a press release dated November 21, 2017.

CORPORATE ACTIVITIES

Extension to complete the acquisition of the White Pine Project and the Keweenaw Project

In December 2017, the Company and CRC agreed to further extend the period to complete the acquisition of the White Pine Project to February 28, 2018. Also, in December 2017, the Company and BRP LLC agreed that the period required to provide a feasibility study on the Keweenaw Project be extended to December 31, 2018.

Exercise of warrants

On November 30, 2017, a total of 8,391,250 warrants exercisable at a price of C\$0.15, expiring on this date, were exercised for total proceeds of \$976,635 (C\$1,258,688). This amount represents 55.4% of the total share purchase warrants expiring on this date. Also, a total of 2,474,928 share purchase warrants with a maturity date of December 12, 2017 expired unexercised.

Appointment of a director

On October 26, 2017, the Board of Directors appointed Mr. Jean Desrosiers as a director of the Company. Mr. Desrosiers is a retired mining engineer with over 40 years of experience in the mining industry.

Grant of stock options

On October 26, 2017, the Company granted a total of 2,070,000 incentive stock options to a director, an officer and employees of the Company at an exercise price of C\$0.17 per share. All of the stock options will vest over a period of two years and, if not exercised, will expire five years from the date of the grant.

EXPLORATION AND EVALUATION EXPENSES

At June 30, 2017, the Company had changed its accounting policy related to exploration and evaluation expenses, which previously consisted in capitalizing all such expenditures. Under the new policy, the cost of acquiring prospective properties and exploration rights continues to be capitalized and exploration and evaluation costs, subsequent to acquisition, are expensed until it has been established that a mineral property is commercially viable and a mine development decision

has been made by the Company. Thereafter, the Company will capitalize expenditures incurred to develop the mine, prior to the start of mining operations. This change in accounting was applied retroactively.

During the six months ended December 31, 2017, amounts invested in exploration and evaluation assets and capitalized in accordance with the Company's accounting policy on exploration and evaluation expenses described above, included lease payments of \$133,600 related to the Copperwood Project and \$28,895 related to other properties. A total accretion amount of \$895,299 related to the non-interest bearing promissory note in favor of RTX and the non-interest-bearing balance of purchase price payable in favor of Orvana was also capitalized to exploration and evaluation assets during the six months ended December 31, 2017.

In 2016, the capitalized amounts included lease payments of \$110,510 related to the Copperwood Project, \$150,000 to the White Pine Project and \$24,412 related to other properties, and an accretion amount of \$151,012 related to the non-interest-bearing balance of purchase price payable in favor of Orvana.

Exploration and evaluation expenses charged to the statement of comprehensive loss during the three months ended December 31, 2017 and 2016 are as follows:

	Copperwood	White Pine	UPX	Other	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016
	Project	Project	Property	projects	Total	Total
	\$	\$	\$	\$	\$	\$
Site preparation, drilling and assaying	171,072	-	91,264	-	262,336	-
Labour	258,585	19,573	376,838	667	655,663	138,130
Studies and consultants	1,503,847	99,322	-	-	1,603,169	6,620
Office, overhead and other administrative costs	83,716	17,181	135,666	13,481	250,044	96,284
	2,017,220	136,076	603,768	14,148	2,771,212	241,034

OPERATING ACTIVITIES

During the three months ended December 31, 2017, the Company incurred a net loss of \$3,236,605 (\$0.01 per share) compared to a net loss of \$456,901 (nil per share) during the comparative period in 2016. Significant items during the period included exploration and evaluation expenses of \$2,771,212 as detailed above (\$241,034 in 2016), management and administration expenses of \$357,099 (\$179,009 in 2016), business development expenses of \$62,916 (nil in 2016), share-based compensation of \$134,274 following the grant of 9,025,000 stock options on August 28, 2017 and 2,070,000 stock options on October 26, 2017 (\$6,196 in 2016) and an unrealized gain on foreign exchange of \$74,656 on the conversion of the Company's cash position held in Canadian dollars at December 31, 2017 (an unrealized foreign exchange loss of \$6,714 in 2016).

Management and administration expenses increased during the three months ended December 31, 2017 due mostly to higher wages and fees to consultants following the hiring of senior corporate staff in early 2017 (wages and fees of

\$218,980 during the current period compared to \$130,154 in 2016) and higher investor relations and travel expenses related to various investor relations events (\$43,023 during the current period compared to \$4,565 in 2016). Other management and administration expenses consisted of professional fees of \$57,841 due mostly to higher legal fees (\$34,355 in 2016), office expenses of \$16,661 (\$6,020 in 2016) and reporting issuer costs of \$20,594 (\$3,915 in 2016).

LIQUIDITIES AND CAPITAL RESOURCES

At December 31, 2017, the Company had a working capital of \$5,941,180 compared to \$10,584,135 at June 30, 2017. The decrease in the working capital during the six months ended December 31, 2017 is mainly attributable to exploration and evaluation expenses of \$4,580,083, management and administration expenses of \$721,693, business development expenses of \$122,828, the acquisition of capital assets of \$93,140 (consisting mostly of leasehold improvements and the acquisition of vehicles and computer-related equipment), lease payments of \$162,495 related to the Copperwood Project and other mineral leases held, and the reimbursement of an amount of \$55,000 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan, with all such expenditures partially offset with the proceeds of \$976,635 received following the exercise of 8,391,250 share purchase warrants.

The Company will require additional funds to carry-out its planned exploration and development work and to provide for management and administration expenses for the next 12 months and to meet all existing commitments which are due after December 31, 2018. Although such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements, there is no assurance that the Company will be successful in raising such funds. Should the Company not be successful in raising such funds, it may be required to delay, reduce the scope of, or eliminate its future exploration and development activities, and / or it may have to sell some or all of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

OTHER RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2017, the Company incurred administration expenses of \$7,728 and \$31,882, respectively (a recovery of \$3,358 and expenses of \$32,255 during the comparative periods in 2016), mainly for the use of office space and telecommunication services provided by Reunion Gold Corporation, a related party by virtue of common management. During the three and six months ended December 31, 2017, the Company recovered an amount of \$38,355 and \$72,171, respectively for the provision of management services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation (\$31,727 and \$47,839 during the comparative periods in 2016).

The remuneration awarded to key management personnel, including directors, the president and CEO, the Vice President, Exploration and the CFO, during the three and six months ended December 31, 2017 totaled \$265,888 and \$602,698, respectively (\$159,386 and \$299,438 during the comparative periods in 2016).

RISKS AND UNCERTAINTIES

The Company is subject to a number of significant risks and uncertainties due to the nature of its business, its present stage of development and the nature of mineral exploration and development generally. Risks specific to the Company include but are not limited to: the ability of the Company to achieve its plans and objectives, including the development of a mine at its Copperwood project, as well as its ability to raise funds may be affected by the results of the ongoing feasibility study update, the results of ongoing exploration programs, delays in obtaining or failures to obtain required governmental, environmental or other approvals, and other variables such as changes in demand for and prices of copper, lower than expected grades and quantities of resources, mining rates and recovery rates, legislative, environmental and other regulatory approval or political changes; risks of being unable to meet the final closing conditions of the acquisition of the White Pine Project on terms acceptable to the Company; risks related to environmental liabilities (pre-existing and those that may be caused by the Company's activities); risks caused by unusual or severe weather conditions which may negatively impact the Company's planned activities; uncertainties involved in the interpretation of drilling results and geological tests and the estimation of reserves and resources; unexpected cost increases; risks that even if an economic deposit of minerals is located, it may not be commercially mined; and risks that metal price fluctuation and market volatility may have a negative impact on the Company's common shares, on its financial results and on its development activities. For additional risk factors, refer to the risks and uncertainties described in the Annual MD&A. Investment in the Company's securities should be considered as highly speculative.

CAUTIONARY NOTE

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 mineral resource estimate, the potential timing and result of the feasibility update on the Copperwood deposit, the timing of the acquisition of the White Pine Project, and the timing and potential results of the exploration program at the UPX Property are forward-looking statements. Forward-looking statements involve various risks and uncertainties some of which are described above. 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.

Highland advises U.S. investors that this MD&A contains the terms "inferred", "indicated" and "measured" resources. All resource estimates have been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy, and Petroleum Definition Standards on Mineral Resources and Mineral Reserves. NI 43-101 is a rule developed by the Canadian Securities Administrators, which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Canadian standards differ significantly from the requirements of the United States Securities and Exchange Commission, and resource information contained therein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". "Inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to

their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred resource" will ever be upgraded to a higher category. U.S. investors are cautioned not to assume that all or part of an inferred resource exists, or is economically or legally mineable. U.S. Investors are also cautioned not to assume that all or any part of mineral deposits in the "measured" or "indicated" resource categories will ever be converted into reserves.

QUALIFIED PERSON

The technical information in this MD&A has been reviewed and approved by Carlos H. Bertoni, P. Geo, Vice President, Exploration of Highland, and a qualified person under NI 43-101.

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).