



Condensed interim consolidated financial statements

For the three and six months ended December 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

<i>(unaudited, in US dollars)</i>	December 31, 2020	June 30, 2020
	\$	\$
ASSETS		
Current		
Cash	137,363	164,327
Sales taxes receivable	9,189	7,282
Prepaid expenses and other	59,555	29,297
	206,107	200,906
Non-current		
Capital assets	33,020	51,214
Exploration and evaluation assets (Note 4)	20,817,728	20,636,987
TOTAL ASSETS	21,056,855	20,889,107
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,541,575	916,939
Credit facility, including accrued interest (Note 5)	5,830,595	5,006,142
Note payable (Note 6)	-	55,000
Lease liabilities (Note 7)	-	9,446
Promissory note, including accrued interest (Note 8)	17,151,287	16,535,251
	24,523,457	22,522,778
Non-current		
Environmental liability	270,213	266,151
TOTAL LIABILITIES	24,793,670	22,788,929
SHAREHOLDERS' (DEFICIT) EQUITY		
Share capital (Note 9)	66,137,274	66,137,274
Contributed surplus	12,048,290	11,872,108
Deficit	(83,286,835)	(81,650,160)
Cumulative translation adjustment	1,364,456	1,740,956
TOTAL (DEFICIT) EQUITY	(3,736,815)	(1,899,822)
TOTAL LIABILITIES AND (DEFICIT) EQUITY	21,056,855	20,889,107

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 Net Loss and Comprehensive Loss

<i>(unaudited, in US dollars)</i>	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Expenses and other items				
Exploration and evaluation (Note 11)	201,298	188,545	382,611	570,453
Management and administration (Note 12)	199,816	239,624	469,481	475,227
Share-based compensation	-	3,724	-	25,092
Depreciation and amortization	2,766	21,140	18,240	42,281
Loss on sale of capital assets	-	-	-	739
Accretion on environmental liability	2,031	2,286	4,062	4,573
Finance expense (Note 13)	571,046	612,804	1,121,471	1,218,976
Finance income	(10)	(1,526)	(19)	(4,587)
(Gain) loss on foreign exchange	(259,190)	(23,664)	(359,171)	4,887
Net loss for the period	(717,757)	(1,042,933)	(1,636,675)	(2,337,641)
Other comprehensive income				
Item that will not be subsequently reclassified to income				
Foreign currency translation adjustment	(462,020)	(143,293)	(649,552)	(55,888)
Item that may be subsequently reclassified to income				
Foreign currency translation adjustment	176,137	116,246	273,052	50,652
Comprehensive loss for the period	(1,003,640)	(1,069,980)	(2,013,176)	(2,342,877)
Basic and diluted loss per common share	(0.00)	(0.00)	(0.00)	(0.00)
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' (Deficit) Equity

<i>(unaudited, in US dollars)</i>	Number of issued and outstanding common shares	Share capital	Contributed Surplus	Deficit	Cumulative translation adjustment	Total shareholders' (deficit) equity
		\$	\$	\$	\$	\$
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 (Note 5)	-	-	176,182	-	-	176,182
Net loss for the period	-	-	-	(1,636,675)	-	(1,636,675)
Foreign currency translation adjustment	-	-	-	-	(376,500)	(376,500)
Balance at December 31, 2020	472,933,689	66,137,274	12,048,290	(83,286,835)	1,364,456	(3,736,815)
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	-	-	25,092	-	-	25,092
Below market element of credit facility	-	-	127,146	-	-	127,146
Net loss for the period	-	-	-	(2,337,641)	-	(2,337,641)
Foreign currency translation adjustment	-	-	-	-	(5,236)	(5,236)
Balance at December 31, 2019	472,933,689	66,137,274	11,833,388	(79,616,463)	1,618,541	(27,260)

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,	
	2020	2019
	\$	\$
Operating activities		
Net loss for the period	(1,636,675)	(2,337,641)
Adjustments		
Share-based compensation	-	25,092
Depreciation and amortization	18,240	42,281
Loss on sale of capital assets	-	739
Accretion on environmental liability	4,062	4,573
Unrealized (gain) loss on foreign exchange	(359,171)	4,887
Finance expense	1,119,763	1,212,332
Finance income accrued	(19)	(4,587)
Finance income received	19	5,116
Changes in working capital items		
Sales taxes receivable	(1,348)	(36,350)
Prepaid expenses and other	(27,402)	23,420
Accounts payable and accrued liabilities	526,127	(180,514)
	(356,404)	(1,240,652)
Investing activities		
Proceeds from sale of capital assets	-	5,579
Additions to exploration and evaluation assets (Note 4)	(122,275)	(153,410)
	(122,275)	(147,831)
Financing activities		
Credit facility (Note 5)	500,000	1,350,000
Reimbursement of note payable (Note 6)	(55,000)	(55,000)
Repayment of lease liabilities (Note 7)	(12,537)	(30,976)
	432,463	1,264,024
Effect of exchange rate changes on cash held in foreign currency	19,252	(9,124)
Net change in cash	(26,964)	(133,583)
Cash, beginning of period	164,327	605,046
Cash, end of period	137,363	471,463
Supplemental cash flow information		
Additions to exploration and evaluation assets, included in accounts payable and accrued liabilities	31,378	-
Lease liabilities included in capital assets	-	58,183
Below-market element of credit facility in contributed surplus (Note 5)	176,182	127,146

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, 2020 (unaudited - in US dollars)

1. GENERAL INFORMATION

Highland Copper Company Inc. is a Canadian-based company. Highland and its subsidiaries (together "Highland" or the "Company") are primarily engaged in the acquisition, exploration and development of mineral properties in 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".

The Company's 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 referred to as the UPX Property, which was acquired in May 2017 from subsidiaries of the Rio Tinto Group.

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 25, 2021.

COVID-19

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. 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, 2020 *(unaudited - in US dollars)*

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 \$1,636,675 during the six months ended December 31, 2020 (\$2,337,641 during the comparative period in 2019) and has a deficit of \$83,286,835 at December 31, 2020 (a deficit of \$81,650,160 at June 30, 2020). The Company also has a working capital deficiency of \$24,317,350 at December 31, 2020 (a working capital deficiency of \$22,321,872 at June 30, 2020).

The Company needs to secure funds to reimburse the credit facility and accrued interest described in Note 6, to reimburse the promissory note and accrued interest described in Note 9, to meet all existing commitments, to complete the acquisition of the White Pine North Project (including an amount of approximately \$1.7 million to replace the current environmental financial assurance bond) and to provide for management and administration expenses for the next 12 months. The Company is continuing its review of various options to secure such additional funds. This includes discussions with its major shareholders, lenders and royalty holders. Given the Company's significant working capital deficiency and the state of the capital markets for a company such as Highland, 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.

The conditions and uncertainties described above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for these unaudited condensed interim consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

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, 2020 and 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

4. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

	Copperwood Project	White Pine North Project (1)	Other Properties	Total
	\$	\$	\$	\$
Balance at June 30, 2020	17,312,259	3,157,246	167,482	20,636,987
Property payments	122,275	-	31,378	153,653
Effect of change in foreign exchange	-	-	27,088	27,088
Balance at December 31, 2020	17,434,534	3,157,246	225,948	20,817,728
Balance at June 30, 2019	17,102,484	3,132,246	151,084	20,385,814
Property payments	122,275	-	31,135	153,410
Effect of change in foreign exchange	-	-	2,830	2,830
Balance at December 31, 2019	17,224,759	3,132,246	185,049	20,542,054

(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 to March 31, 2021. 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.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

5. CREDIT FACILITY

On May 20, 2019, the Company entered into a loan agreement with Greenstone Resources II LP ("Greenstone") and Osisko Gold Royalties Ltd ("Osisko") (collectively, the "Lenders"). Under the terms of the loan agreement, the Lenders agreed to provide the Company with a loan of up to \$4,500,000, which amount was disbursed in a number of tranches until February 2020. 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 bears interest at a rate of 12% per annum. The maturity date of the loan agreement was extended on several occasions, but since October 31, 2020, the loan is payable on demand. The loan is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company and includes specifically a pledge of the shares of the following subsidiaries: Copperwood Resources Inc., Upper Peninsula Copper Holdings Inc., White Pine Copper LLC and Keweenaw Copper Co.

The Company accounted for the estimated fair value of the additional amount of the loan 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 adjustment is amortized over the loan period using the effective interest rate method. The effective interest rate of the loan is 23.6%.

During the six months ended December 31, 2020, the balance of the loan was adjusted by \$170,852 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:

	Six months ended December 31, 2020
	\$
Balance, beginning of period	5,006,142
Modification adjustment	(170,852)
Additional loan, discounted at the rate of 20%	494,670
Interest payable	328,259
Accretion of loan	172,376
Balance, end of period	5,830,595

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

6. NOTE PAYABLE

The note is payable to the Lessor of certain mineral rights located in White Pine, Michigan. The note was reimbursable in quarterly principal amounts of \$27,500, plus interest at the rate of 8% per annum, until December 31, 2020.

The balance of the Note Payable is as follows:

	Six months ended December 31, 2020
	\$
Balance, beginning of period	55,000
Reimbursement	(55,000)
Balance, end of period	-

7. LEASE LIABILITIES

The balance of the lease liabilities is as follows:

	Six months ended December 31, 2020
	\$
Balance, beginning of period	9,446
Accretion expense	3,091
Repayment of liabilities	(12,537)
Balance, end of period	-

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

8. 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 has an effective interest rate of 20%. The Company did not make the payment of \$3.0 million due on May 30, 2019 (and has also not made the payment due on May 30, 2020), which 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 8.14% at December 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 as follows:

	Six months ended December 31, 2020
	\$
Balance, beginning of period	16,535,251
Accrued interest	616,036
Balance, end of period	17,151,287

9. SHARE CAPITAL

Issued and fully paid

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

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

10. STOCK OPTIONS

At December 31, 2020 and June 30, 2020, the Company had 8,675,000 issued and outstanding stock options.

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

Issue date	Number of options	Exercise price C\$	Remaining contractual life (years)	Number of exercisable options	Exercise price of exercisable options C\$
August 28, 2017	7,925,000	0.11	1.9	7,925,000	0.11
October 26, 2017	750,000	0.17	2.1	750,000	0.17
	8,675,000	0.12	1.9	8,675,000	0.12

11. EXPLORATION AND EVALUATION EXPENSES

The Company incurred the following exploration and evaluation expenses:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Labour	31,221	36,511	49,141	103,611
Studies and consultants	123,800	60,426	219,493	293,313
Office, overhead and other administrative costs	46,277	91,608	113,977	173,529
	201,298	188,545	382,611	570,453

12. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Administrative and general	150,106	150,163	352,735	302,784
Office	27,167	30,459	51,358	54,403
Professional fees	17,243	40,023	54,852	85,488
Investor relations and travel	649	12,905	807	25,851
Reporting issuer costs	4,651	6,074	9,729	6,701
	199,816	239,624	469,481	475,227

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

Three and six months ended December 31, 2020 (unaudited - in US dollars)

13. FINANCE EXPENSE

The Company incurred the following finance expense:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Effective interest on credit facility (Note 5)	263,323	238,807	500,635	455,850
Interest on note payable (Note 6)	550	2,750	1,650	6,050
Accretion on lease liabilities (Note 7)	-	3,108	3,091	6,066
Interest on promissory note (Note 8)	307,708	368,046	616,036	750,416
Other	(535)	93	59	594
	571,046	612,804	1,121,471	1,218,976

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, 2020		
	Canada	USA	Total
	\$	\$	\$
Current assets	193,293	12,814	206,107
Capital assets	473	32,547	33,020
Exploration and evaluation assets	-	20,817,728	20,817,728
Total assets	193,766	20,863,089	21,056,855

	June 30, 2020		
	Canada	USA	Total
	\$	\$	\$
Current assets	179,085	21,821	200,906
Capital assets	880	50,334	51,214
Exploration and evaluation assets	-	20,636,987	20,636,987
Total assets	179,965	20,709,142	20,889,107

**HIGHLAND COPPER COMPANY INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS
– QUARTERLY HIGHLIGHTS
FOR THE THREE MONTHS ENDED DECEMBER 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 December 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, 2020 (“**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, 2020 (the “**Interim Financial Statements**”), the Company’s audited consolidated financial statements for the years ended June 30, 2020 and 2019 (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 25, 2021.

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, through its subsidiaries, 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 project (subject to final closing of the acquisition from Copper Range Company (“**CRC**”), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and a mineral exploration property 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 February 25, 2021, the Company has 472,933,689 common shares issued and outstanding. Orion Resource Partners (“**Orion**”) and Greenstone Resources II LP (“**Greenstone**”) hold respectively 30.0% and 17.1% of the Company’s issued and outstanding shares.

FINANCIAL CONDITION

At December 31, 2020, the Company had a working capital deficiency of \$24,317,350, including an amount due of \$5,830,595 under a loan provided by Osisko Gold Royalties Ltd (“**Osisko**”) and Greenstone, and an amount of \$17,151,287 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 loan agreement (the “**Loan Agreement**”) with Osisko and Greenstone (collectively, the “**Lenders**”). Under the terms of the Loan Agreement, the Lenders agreed to provide the Company with a loan of up to \$4,500,000, which amount was disbursed in a number of tranches until February 2020. 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, which is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company, bears interest at a rate of 12% per annum. The maturity date of the Loan Agreement was extended on several occasions, but since October 31, 2020, the loan is payable on demand. As at the date of this MD&A, the principal amount of the loan and accrued interest are estimated at \$5.95 million. The Company is in discussion with the Lenders concerning various options to repay the loan but there can be no assurance that the Company will have the funds required to repay the loan. The Lenders have thus far been supporting the Company but can, at any time, initiate legal proceedings to demand the payment of the loan and enforce its securities over the Company's assets.

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 \$16.0 million was payable to RTX over 6 years under a non-interest bearing secured promissory note (the "**Note**"). A payment of \$1.0 million was made on the first anniversary of the acquisition. The Company did not make the payments of \$3.0 million due on each of May 30, 2019 and May 30, 2020. This constitutes an event of default and upon such occurrence and continuance, the amount of the Note then outstanding (\$15.0 million) bears interest at an annual rate of Libor plus 8% and becomes payable on demand. The Company is in discussion with RTX assessing various options to resolve this situation including the possible sale of the assets. There can be no assurance that a solution acceptable to RTX and the Company will be found. Given the Company's inability to pay 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. 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 Company needs to secure funds to reimburse the loan and accrued interest due to Osisko and Greenstone, to reimburse the Note and accrued interest due to RTX, to meet all existing commitments, to complete the acquisition of White Pine (including an amount of approximately \$1.7 million required to replace an environmental financial assurance bond) and to provide for management and administration expenses for the next 12 months. The Company is continuing its review of various options to secure such additional funds. This includes discussions with its major shareholders, lenders and royalty holders. As announced on September 11, 2020 in connection with an amendment of the Loan Agreement, the Company and Osisko have agreed on the terms and conditions pursuant to which Osisko intends to exercise its silver royalty option that was originally granted by the Company to Osisko in December 2014. Subject to certain conditions, Osisko would pay to Highland an initial tranche of \$3 million on closing with the remaining amount of \$23 million to be paid within 60 days from the publication of a feasibility study on the White Pine North project in Michigan.

Given the Company's significant working capital deficiency and the state of the capital markets for a company such as Highland, 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.

All field exploration activities have been suspended since early 2019 to minimize cash requirements. Also, the number of employees has been reduced to its minimum level to support the care and maintenance of the projects and to comply with corporate and regulatory requirements. The payment of salaries and fees to officers and directors of the Company has been deferred since May 2020 and will continue to be deferred until the Company can raise additional cash.

EXPLORATION AND EVALUATION EXPENSES

The amounts capitalized during the six months ended December 31, 2020 totaled \$153,653 which consist of lease payments related mostly to the Copperwood Project (\$153,410 during the six months ended December 31, 2019).

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

	Copperwood	White Pine	UPX	Other	Three months ended Dec 31, 2020	Three months ended Dec 31, 2019
	Project	Project	Property	projects	Total	Total
	\$	\$	\$	\$	\$	\$
Labour	12,792	18,429	-	-	31,221	36,511
Studies and consultants	375	123,425	-	-	123,800	60,426
Office, overhead and other administrative costs	17,605	15,623	8,126	4,923	46,277	91,608
	30,772	157,477	8,126	4,923	201,298	188,545

OPERATING ACTIVITIES

During the three months ended December 31, 2020, the Company incurred a net loss of \$717,757 (nil per share) compared to a net loss of \$1,042,933 (nil per share) during the comparative period in 2019. As part of the net loss during the three months ended December 31, 2020, the Company recorded finance expense of \$571,046 (\$612,804 in 2019) composed mainly of interest of \$307,708 on the Note due to RTX and the effective interest expense of \$263,323 on the loan due to Greenstone and Osisko. Other significant items during the period included exploration and evaluation expenses of \$201,298 as detailed above (\$188,545 in 2019), management and administration expenses of \$199,816 (\$239,624 in 2019) and an unrealized gain on foreign exchange of \$259,190 (a foreign exchange gain of \$23,664 in 2019) mostly related to the conversion of the loan to Canadian dollars.

Management and administration expenses during the three months ended December 31, 2020 include wages and fees to consultants of \$150,106, compared to \$150,163 in 2019, lower professional fees due to lower legal costs (\$17,243 during the current period compared to \$40,023 in 2019) and lower investor relations and travel expenses (\$649 during the current period compared to \$12,905 in 2019).

LIQUIDITIES AND CAPITAL RESOURCES

At December 31, 2020, the Company had a working capital deficiency of \$24,317,350 compared to a working capital deficiency of \$22,321,872 at June 30, 2020. The increase in the working capital deficiency during the six months ended December 31, 2020 is mainly attributable to; i) exploration and evaluation expenses of \$382,611; ii) management and administration expenses of \$469,481; iii) lease payments of \$122,275 related to the Copperwood Project; 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 \$616,036 for the six months ended December 31, 2020 on the Note in

favour of RTX; and vi) accrued interest of \$500,635 for the six months ended December 31, 2020 on the loan from Greenstone and Osisko.

On September 4, 2020, Osisko made available to the Company an additional amount of \$500,000, increasing the total indebtedness under the Loan Agreement described in the *Financial Condition* section to \$5,000,000, plus accrued interest.

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

	Carrying amount	Settlement amount	Within 1 year	2 years	Over 2 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,541,575	1,541,575	1,541,575	-	-
Credit facility	5,830,595	5,864,260	5,864,260	-	-
Promissory note	17,151,287	17,151,287	17,151,287	-	-
	24,523,457	24,557,122	24,557,122	-	-

RELATED PARTY TRANSACTIONS

In addition to the Loan Agreement with two of the then Company's shareholders described in the *Financial Condition* section, during the three and six months ended December 31, 2020, the Company incurred administration expenses of \$16,993 and \$36,380, respectively from Reunion Gold Corporation ("Reunion Gold"), a related party by virtue of common key management and a director (\$21,875 and \$39,026 during the comparative periods in 2019). At December 31, 2020, the Company had an amount payable of \$71,700 to Reunion Gold (\$38,859 at June 30, 2020).

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 six months ended December 31, 2020 totaled \$126,559 and \$300,288, respectively (\$126,390 and \$263,581 during the comparative periods in 2019).

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 activities including: a) to repay the loan due to Greenstone and Osisko; 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 due to RTX; 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).