

HIGHLAND RESOURCES INC.
INTERIM FINANCIAL STATEMENTS

August 31, 2008

(Stated in Canadian Dollars)

(Unaudited)

**THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2008
HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS.**

HIGHLAND RESOURCES INC.
INTERIM BALANCE SHEETS
 August 31, 2008
 (Stated in Canadian Dollars)
 (Unaudited)

<u>ASSETS</u>	August 31, 2008	May 31, 2008
Current		
Cash	\$ 317,123	\$ 354,702
GST receivable	3,393	2,093
	\$ 320,516	\$ 356,795

<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 11,260	\$ 20,188

<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Notes 3, 4 and 5	518,845	518,845
Contributed surplus – Note 3	43,065	43,065
Deficit	(252,654)	(225,303)
	309,256	336,607
	\$ 320,516	\$ 356,795

Commitments – Note 3
 Subsequent events – Note 5

APPROVED ON BEHALF OF THE BOARD:

 “Robert Eadie” Director
 Robert Eadie

 “Gray Arca” Director
 Gary Arca

SEE ACCOMPANYING NOTES

HIGHLAND RESOURCES INC.
INTERIM STATEMENTS OF OPERATIONS AND DEFICIT
for the three months ended August 31, 2008 and 2007
(Stated in Canadian Dollars)
(Unaudited)

	2008	2007
Expenses		
Accounting and office administration – Note 4	\$ 4,998	\$ 4,801
Audit fees	-	3,300
Bank charges and interest	132	63
Consulting fees	2,200	1,320
Legal and corporate services	6,512	5,621
Qualifying transaction investigation costs	1,370	10,914
Rent – Note 4	4,500	4,500
Shareholder communications	75	1,569
Stock-based compensation – Note 3	-	4,438
Transfer agent and filing fees	8,108	1,540
Loss for the period before other items	(27,895)	(38,066)
Other items		
Foreign exchange	(536)	-
Interest income	1,080	2,914
Net loss and comprehensive loss for the period	(27,351)	(35,152)
Deficit and accumulated other comprehensive loss beginning of the period	(225,303)	(98,422)
Deficit and accumulated other comprehensive loss, end of the period	\$ (252,654)	\$ (133,574)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding	2,057,500	2,050,000

SEE ACCOMPANYING NOTES

HIGHLAND RESOURCES INC.
INTERIM STATEMENTS OF CASH FLOWS
for the three months ended August 31, 2008 and 2007
(Stated in Canadian Dollars)
(Unaudited)

	2008	2007
<hr/>		
Operating Activities		
Net loss for the period	\$ (27,351)	\$ (35,152)
Non-cash item:		
Stock based compensation	-	4,438
	<hr/>	<hr/>
	(27,351)	(30,714)
Changes in non-cash working capital balances:		
GST receivable	(1,300)	1,973
Prepaid expenses	-	102
Accounts payable and accrued liabilities	(8,928)	(36)
	<hr/>	<hr/>
Increase (decrease) in cash during the period	(37,579)	(28,675)
Cash, beginning of the period	354,702	445,152
	<hr/>	<hr/>
Cash, end of the period	\$ 317,123	\$ 416,477
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Supplementary disclosure of cash flow information		
Cash paid for:		
Interest	\$ -	\$ -
	<hr/>	<hr/>
Income taxes	\$ -	\$ -
	<hr/>	<hr/>

SEE ACCOMPANYING NOTES

HIGHLAND RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2008
(Stated in Canadian Dollars)
(unaudited)

Note 1 **Nature of Operations**

The Company was incorporated in the Province of British Columbia on June 7, 2006 under the Business Corporations Act of British Columbia. The Company received acceptance from the TSX Venture Exchange (the "Exchange") for the Company's qualifying transaction described in its filing statement dated September 16, 2008. As such the Company is no longer considered a capital pool company and is listed as a Tier 2 issuer on the Exchange.

Note 2 **Interim Reporting**

While the information presented in the accompanying interim financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. These interim financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of their application as the May 31, 2008 annual financial statements. It is suggested that these interim financial statements be read in conjunction with the Company's May 31, 2008 annual financial statements.

Note 3 **Share Capital**

a) Authorized:

Unlimited common shares without par value

b) Issued:

	Number	Amount
Balance, May 31, 2007	4,050,001	\$ 516,932
Issued for cash pursuant to:		
Exercise of agents' warrants - at \$0.20	7,500	1,500
Transferred from contributed surplus on exercise of agents' warrants	-	413
Balance, May 31, 2008 and August 31, 2008	4,057,501	\$ 518,845

i) The Company issued 2,000,001 common shares at \$0.10 per share to directors, officers and founders for gross proceeds of \$200,000. These shares are subject to an escrow agreement and will be released in accordance with the CPC policy guidelines.

Highland Resources Inc.

Notes to the Financial Statements

August 31, 2008

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(Unaudited)

Note 3 Share Capital – (cont'd)

b) Issued: - (cont'd)

- ii) The Company completed its IPO pursuant to its prospectus dated September 8, 2006, filed with the British Columbia and Alberta Securities Commissions and commenced trading on the Exchange on September 22, 2006. Pursuant to the IPO, the Company issued 2,000,000 common shares at a price of \$0.20 per share for proceeds of \$400,000. The agent for the offering received a cash commission of \$40,000, an administration fee of \$10,000, reimbursement of out-of-pocket costs, including legal fees, and agents' warrants to purchase 200,000 common shares at \$0.20 until September 22, 2008. Share issue costs include \$11,016 for the fair value of agents' warrants. Their fair value was determined using the Black-Scholes model with the following assumptions:

Dividend rate	0%
Risk-free interest rate	4.09%
Expected life	2 years
Expected annual volatility	44%

The net proceeds from all of the Company's financings have certain restrictions on them until completion of the Qualifying Transaction.

- iii) During the period ended May 31, 2007, the Company issued 50,000 common shares at \$0.20, for proceeds of \$10,000 pursuant to the exercise of agents' warrants.
- iv) During the year ended May 31, 2008, the Company issued 7,500 common shares at \$0.20, for proceeds of \$1,500 pursuant to the exercise of agents' warrants.

c) Commitments:

Stock-based Compensation

The Company, in accordance with the policies of the Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 10% of common stock outstanding. Options may be granted for a maximum term of 5 years. Option shares originally vested in accordance with the vesting provisions as to one quarter of the options each three months. During the year ended May 31, 2008, the shareholders elected to remove all vesting provisions from the option plan. The Company expensed \$23,059 representing the fair value of unvested options that were deemed to vest by the shareholders.

Highland Resources Inc.

Notes to the Financial Statements

August 31, 2008

(Stated in Canadian Dollars) – Page 3

(Unaudited)

Note 3 Share Capital – (cont'd)c) Commitments: - (cont'd)

In conjunction with its public listing, the Company granted 400,000 share purchase options (390,000 to directors and 10,000 to a registered charity). Each directors' option allows the holder to acquire an additional common share of the Company at \$0.20 per share for a period of five years until September 22, 2011. The registered charity options are exercisable at \$0.20 per share and expire on the earlier of August 20, 2016, or the 90th day following the date the charity ceases to be an eligible charitable organization.

The fair value of the 400,000 options granted was estimated to be \$35,216 using the Black-Scholes option-pricing model with the following weighted average assumptions at date of grant:

	Three months ended August 31, 2008	Year ended May 31, 2008	From June 7, 2006 (dated of incorporation) to May 31, 2007
Dividend rate	N/A	N/A	0%
Risk-free interest rate	N/A	N/A	4.06%
Expected life	N/A	N/A	5 Years
Expected annual volatility	N/A	N/A	44%

The Company incurred \$Nil (2007: \$4,438) for stock-based compensation expense during the period ended August 31, 2008.

A summary of stock option activity during the periods ended August 31, 2008, May 31, 2008 and 2007 is as follows:

	Number Of Shares	Weighted Average Exercise Price
Granted	400,000	\$0.20
Options outstanding, May 31, 2007 and May 31, 2008 and August 31, 2008	400,000	\$0.20

Highland Resources Inc.

Notes to the Financial Statements

August 31, 2008

(Stated in Canadian Dollars) – Page 4

(Unaudited)

Note 3 Share Capital – (cont'd)c) Commitments: – (cont'd)

At August 31, 2008, there were 400,000 stock options outstanding entitling the holders thereof to purchase one common share for each option held as follows:

Number of Shares	Number Exercisable	Exercise Price	Expiry Date	Contractual Life Remaining
390,000	390,000	\$0.20	September 22, 2011	3.06 years
10,000	10,000	\$0.20	September 22, 2016	8.07 years
<u>400,000</u>	<u>400,000</u>	<u>\$0.20</u>		<u>3.19 years</u>

Agents' Warrants

A summary of warrant activity during the periods ended August 31, 2008, and May 31, 2008 is as follows:

	Number Of Shares	Weighted Average Exercise Price
Balance, May 31, 2007	150,000	\$0.20
Exercised	(7,500)	\$0.20
Balance, May 31, 2008 and August 31, 2008	142,500	\$0.20

The warrants are exercisable until September 22, 2008.

d) Contributed Surplus:

	Three months ended August 31, 2008	Year ended May 31, 2008
Balance, beginning of period	\$ 43,065	\$ 20,419
Stock-based compensation	-	23,059
Agents' warrants granted	-	-
Transferred to share capital on exercise of warrants	-	(413)
Balance, end of period	\$ 43,065	\$ 43,065

Highland Resources Inc.

Notes to the Financial Statements

August 31, 2008

(Stated in Canadian Dollars) – Page 5

(Unaudited)

Note 4 Related Party Transactions

During the period ended August 31, 2008, the Company paid rent of \$4,500 (2007: \$4,500), office administration fees of \$2,250 (2007: \$2,250) to a company with a director in common.

These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

Note 5 Subsequent events

Subsequent to August 31, 2008:

- a) The Company entered into a letter agreement with Desert Pacific Exploration Inc. (“Desert Pacific”) dated June 24, 2008 to acquire 81 mineral claims (the “Claims”) in Mineral Country, Nevada (the “Acquisition”). Desert Pacific is a private company incorporated in Nevada, U.S.A.

In consideration of the Acquisition, Highland will reimburse Desert Pacific’s costs related to the Claims, including filing fees and fees paid to maintain the Claims in good standing, and commit to the following over a five-year period to earn a 100% interest in the Claims:

- i) Make cash payments totalling an aggregate of \$247,500 (paid \$10,000);
 - ii) Commit to a total of \$3,850,000 in exploration expenditures;
 - iii) Issue an aggregate of 775,000 common shares of the Company to Desert Pacific (issued 25,000).
- b) The Company issued 195,000 common shares to directors pursuant to the exercise of share purchase options at \$0.20 for proceeds of \$39,000.
- c) 142,500 share purchase warrants expired unexercised.