HIGHLAND RESOURCES INC.

INTERIM FINANCIAL STATEMENTS

August 31, 2009

(Stated in Canadian Dollars)

(Unaudited)

THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2009 HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS.

HIGHLAND RESOURCES INC.
INTERIM BALANCE SHEETS
August 31, 2009 and May 31, 2009
(Stated in Canadian Dollars)
(Unaudited)

		August 31, 2009		May 31, 2009
ASSETS				
Current				
Cash	**$**	**232,693**	$	333,540
GST recoverable		**9,177**		26,816
Prepaid expenses – Note 5		**2,575**		2,575
		244,445		362,931
Equipment (net of accumulated amortization of $43)		**1,115**		-
Mineral properties – Notes 3 and 4		**1,016,044**		962,936
	$	**1,261,604**	$	1,325,867
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**12,750**	$	15,617
SHAREHOLDERS' EQUITY				
Share capital – Note 4		**1,331,855**		1,331,855
Contributed surplus – Note 4		**635,897**		499,897
Deficit		**(718,898)**		(521,502)
		1,248,854		1,310,250
	$	**1,261,604**	$	1,325,867

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 3, 4 and 9
Subsequent Event – Note 9

APPROVED ON BEHALF OF THE BOARD:

"Roger Blair" Director
Roger Blair

" Gary Arca" Director
Gary Arca

SEE ACCOMPANYING NOTES

HIGHLAND RESOURCES INC.
INTERIM STATEMENTS OF OPERATIONS AND DEFICIT
for the three months ended August 31, 2009 and 2008
(Stated in Canadian Dollars)
(Unaudited)

		2009		2008
Expenses				
Accounting and office administration – Note 5	**$**	**2,316**	$	4,998
Amortization		**43**		-
Bank charges and interest		**163**		132
Consulting fees – Note 5		**17,062**		2,200
Legal and corporate services		**12,399**		6,512
Management fees – Note 5		**10,000**		-
Qualifying transaction investigation costs		**-**		1,370
Rent – Note 5		**7,500**		4,500
Shareholder communications		**11,191**		75
Stock-based compensation – Note 4		**136,000**		-
Transfer agent and filing fees		**1,067**		8,108
Loss for the period before other items		**(197,741)**		(136,269)
Other items				
Foreign exchange		**-**		(536)
Interest income		**345**		1,080
Net loss and comprehensive loss for the year		**(197,396)**		(27,351)
Deficit, beginning of the year		**(521,502)**		(225,303)
Deficit, end of the year	**$**	**(718,898)**	$	(252,654)
Basic and diluted loss per share	**$**	**(0.02)**	$	(0.01)
Weighted average number of shares outstanding		**8,882,500**		2,057,500

SEE ACCOMPANYING NOTES

HIGHLAND RESOURCES INC.
INTERIM STATEMENTS OF CASH FLOWS
for the three months ended August 31, 2009 and 2008
(Stated in Canadian Dollars)
(Unaudited)

		2009		2008
Cash Flows used in Operating Activities				
Net loss for the year	**$**	**(197,396)**	$	(27,351)
Items not affecting cash:				
Amortization		**43**		-
Stock based compensation		**136,000**		-
		(61,353)		(27,351)
Changes in non-cash working capital balances:				
GST recoverable		**17,639**		(1,300)
Accounts payable and accrued liabilities		**(2,867)**		(8,928)
		(46,581)		(37,579)
Cash Flows used in Investing Activities				
Equipment		**(1,158)**		-
Mineral property costs		**(53,108)**		-
		(54,266)		-
Decrease in cash during the year		**(100,847)**		(37,579)
Cash, beginning of the year		**333,540**		354,702
Cash, end of the year	**$**	**232,693**	$	317,123
Supplementary disclosure of cash flow information:				
Cash paid for:				
Interest	**$**	-	$	-
Income taxes	**$**	-	$	-

Non-cash Transactions – Note 4

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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 listed as a Tier 2 issuer on the Exchange.

The Company is in the exploration stage and has entered into option and purchase agreements to acquire resource properties in Canada. The economic recoverability of the properties' reserves has yet to be determined. The recoverability of amounts from the properties will be dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under the property agreement and to complete the development of the properties and upon future profitable production or proceeds from the sale thereof. The outcome of these matters cannot be predicted with any certainty at this time.

The financial statements have been prepared using Canadian generally accepted accounting principles applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at August 31, 2009, the Company had not yet achieved profitable operations and has accumulated losses of $718,898 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those reported in the financial statements. Working capital at August 31, 2009 was $231,695, however this may not be adequate to meet the Company's obligations over the next twelve months. As such, the Company's ability to continue as a going concern is in substantial doubt. If required, it is anticipated that any additional funding will be in the form of equity financing from the sale of common shares, however there is no guarantee that funding from such financings will be available in amounts sufficient to meet the commitments of the Company (see Note 9 – Subsequent Events).

Note 2 Interim Reporting and Initial Adoption of Accounting Policies

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 in accordance with Canadian generally accepted accounting principles ("GAAP"). It is suggested that these interim financial statements be read in conjunction with the Company's May 31, 2009 annual financial statements.

(Stated in Canadian Dollars)

Note 2 Interim Reporting and Initial Adoption of Accounting Policies – (cont'd)

These unaudited interim financial statements follow the same accounting policies and methods as the Company's most recent annual audited financial statements except for the initial adoption of the policies outlined below. Operating results for the three months ended August 31, 2009 are not necessarily indicative of the results that can be expected for the year ending May 31, 2010. The Company has adopted the following accounting policies during the period ended August 31, 2009:

Equipment and Leaseholds

Equipment and leaseholds are recorded at cost. The Company provides for amortization on the declining balance method at the following annual rates:

Computer equipment	45%

Note 3 Mineral Properties

a) Summary of Expenditures

	Rickaby Property
Balance, May 31, 2009	$ 962,936
Exploration costs:	
Assays and sampling	4,228
Field costs & site visits	24,711
Geological consulting	24,169
	53,108
Balance, August 31, 2009	**$ 1,016,044**

(Stated in Canadian Dollars)

Note 3 Mineral Properties – (cont'd)

	Rickaby Property	Montgomery Pass Property	Total
Balance, May 31, 2008	$ -	$ -	$ -
Acquisition costs:			
Property payments	250,000	10,000	260,000
25,000 common shares at $0.35	-	8,750	8,750
2,916,666 common shares at $0.20	583,333	-	583,333
393,749 common shares at $0.20	78,750	-	78,750
Expense reimbursements	-	13,918	13,918
	912,083	32,668	944,751
Exploration costs:			
Claim maintenance	13,750	-	13,750
Mapping and reports	9,100	-	9,100
Surveys	25,136	-	25,136
Assays and sampling	2,867	-	2,867
	50,853	-	50,853
Subtotal before write-down	962,936	32,668	995,604
Write-off	-	(32,668)	(32,668)
Balance, May 31, 2009	$ 962,936	$ -	$ 962,936

b) Rickaby Property

During the year ended May 31, 2009, the Company entered into a Property Purchase & Joint Venture Agreement (the "Agreement") with Canadian Prospector Inc. ("CPI"). The Agreement, as amended on January 23, 2009, grants the Company an option to acquire an undivided 51% interest in 88 mineral claims located in the Beardmore-Geraldton Belt of the Thunder Bay Mining District, Ontario ("Rickaby Property"). The Agreement was accepted by regulatory authorities on May 6, 2009 (the "Approval Date"). Consideration is payable is as follows:

(i) payment of an aggregate $250,000 (paid);
(ii) expenditures by the Company in the aggregate amount of $1,000,000 by May 6, 2010; and
(iii) issuance of 2,916,666 shares (issued) to be held in escrow until $1,000,000 in exploration expenditures have been incurred by the Company. In the event the Company does not incur $1,000,000 of expenditures, the shares shall be returned to the Company for cancellation. These shares were valued using the market value of the shares as of the Approval Date.

Note 3 Mineral Properties – (cont'd)

b) Rickaby Property – (cont'd)

In connection with the Agreement, a finder's fee was paid by the issue of 393,749 shares of the Company. These shares were valued using the market value of the shares as of the Approval Date.

c) Montgomery Pass Property

The Company entered into a letter of agreement with Desert Pacific Exploration Inc. ("Desert Pacific") dated June 24, 2008 to acquire 81 mineral claims in Mineral County, Nevada. Desert Pacific is a private company incorporated in Nevada, U.S.A.

Pursuant to the letter of agreement, the Company may have acquired a 100% undivided interest, subject to a 3% net smelter royalty ("NSR"). During the period ended August 31, 2009, the Company terminated the proposed acquisition of the Montgomery Pass Property. The Company recorded a write-down of $32,668 relating to this property in the statement of operations and deficit for the year ended May 31, 2009.

d) Environmental Protection Practices

The Company is subject to laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

(Stated in Canadian Dollars)

Note 4 Share Capital and Contributed Surplus

a) Authorized:

Unlimited common shares without par value.

b) Issued:

		Number	Amount
Balance, May 31, 2008		4,057,501	518,845
Issued for cash pursuant to:			
Private placement	- at $0.15	4,605,000	332,750
Exercise of stock options	- at $0.20	195,000	39,000
Issued pursuant to:			
Property option agreement		25,000	8,750
Property purchase and joint venture agreement		2,916,666	583,333
Finders fee		393,749	78,750
Share issue costs:			
Cash payments			(130,741)
Agents' options granted			(116,000)
Transferred from contributed surplus on exercise of stock options		-	17,168
Balance, May 31, 2009 and August 31, 2009		**12,192,916**	**$ 1,331,855**

i) During the year ended May 31, 2009, the Company issued 195,000 common shares at $0.20 per share, for proceeds of $39,000 pursuant to the exercise of stock options. The Company transferred $17,168 from contributed surplus to share capital pursuant to the exercise of the stock options. This non-cash amount has been excluded from the statement of cash flows.

ii) During the year ended May 31, 2009, the Company issued 25,000 common shares valued at $8,750 pursuant to the letter of agreement with Desert Pacific. The value of these shares, $8,750, has been excluded from the statement of cash flows.

iii) During the year ended May 31, 2009, the Company issued 2,916,666 common shares valued at $0.20 per share pursuant to the Rickaby Property agreement. The Company also issued 393,749 common shares as finder's fees in the acquisition. The values of these shares, $583,333 and $78,750 respectively, have been excluded from the statement of cash flows.

(Stated in Canadian Dollars)

Note 4 **Share Capital** – (cont'd)

b) Issued: – (cont'd)

iv) During the year ended May 31, 2009, the Company issued 4,605,000 units at $0.15 per unit for proceeds of $690,750. Each unit consisted of one common share and one-half of one transferable share purchase warrant. Each whole warrant is exercisable to purchase one share at a price of $0.30 per share for the first 12 months ending April 29, 2010 or $0.40 per share for the second 12 month period ending April 29, 2011. The proceeds were allocated to the fair value of the warrants of $358,000 with the remainder allocated to share capital.

The Agents received cash commissions of $55,260 and 690,750 Agents'options. Each Agent's option exercisable into one unit at $0.15 per unit until April 29, 2011. The fair value of the Agents' options of $116,000 is included in share issue costs. Other legal and corporate fees of $47,092 were incurred.

The fair values of the warrants and the Agent's options are non-cash and have been excluded from the statement of cash flows. Fair values were calculated using the Black-Scholes model with the following weighted-average assumptions:

Dividend rate	0%
Risk-free interest rate	1.33%
Expected life	2 Years
Expected annual volatility	187%

v) No common shares were issued during the period ended August 31, 2009

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 five 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. During the year ended May 31, 2009, the Company expensed $Nil (2008: $23,059) representing the fair value of unvested options that were deemed to vest by the shareholders.

During the period ended August 31, 2009, the Company granted 775,000 options to officers, directors and consultants, exercisable at $0.155 for a period of five years. The fair value of the 775,000 options granted was estimated to be $136,000 using the Black-Scholes option-pricing model with the following weighted average assumptions at date of grant:

(Stated in Canadian Dollars)

Note 4 Share Capital – (cont'd)

c) Commitments: – (cont'd)

Stock-based Compensation – (cont'd)

Dividend rate	0%
Risk-free interest rate	2.53%
Expected life	5 Years
Expected annual volatility	196%

In conjunction with its public listing during the year ended May 31, 2007, the Company granted 400,000 stock 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. During the period ended August 31, 2009, 57,500 of the stock options granted to directors were cancelled following the resignation of two directors.

A summary of stock option activity during the period ended August 31, 2009 and the year ended May 31, 2009 is as follows:

	Number Of Shares	Weighted Average Exercise Price
Options outstanding, June 1, 2008	400,000	$0.20
Exercised	(195,000)	$0.20
Options outstanding, May 31, 2009	205,000	$0.20
Granted	775,000	$0.155
Cancelled	(57,500)	$0.20
Options outstanding, August 31, 2009	**922,500**	**$0.16**

At August 31, 2009, there were 922,500 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
147,500	147,500	$0.20	September 22, 2011	2.06 years
775,000	775,000	$0.155	August 18, 2014	4.97 years
10,000	10,000	$0.20	September 22, 2016	7.07 years
922,500	**922,500**	**$0.16**		**4.56 years**

(Stated in Canadian Dollars)

Note 4 Share Capital – (cont'd)

c) Commitments: – (cont'd)

Warrants

A summary of warrant activity during the period ended August 31, 2009 and the year ended May 31, 2009 is as follows:

	Number Of Shares	Weighted Average Exercise Price
Balance, May 31, 2008	142,500	$0.20
Issued	2,302,500	$0.30
Expired	(142,500)	$0.20
Balance, May 31, 2009 and August 31, 2009	**2,302,500**	**$0.30**

Each of the warrants outstanding at August 31, 2009 are exercisable to purchase one share at a price of $0.30 per share for the first 12 months ending April 29, 2010 or $0.40 per share for the second 12 month period ending April 29, 2011.

Agents' Options

Each Agent's option is exercisable for one unit at $0.15 per unit until April 29, 2011. Each unit consists of one common share and one-half of one transferable share purchase warrant. Each whole warrant is exercisable to purchase one share at a price of $0.30 per share for the first 12 months ending April 29, 2010 or $0.40 per share for the second 12 month period ending April 29, 2011. A summary of Agent's options activity during the period ended August 31, 2009 and the year ended May 31, 2009 is as follows:

	Number Of Units	Weighted Average Exercise Price
Balance, May 31, 2008	-	N/A
Granted	690,750	$0.15
Balance, May 31, 2009 and August 31, 2009	**690,750**	**$0.15**

(Stated in Canadian Dollars)

Note 4 **Share Capital** – (cont'd)

d) Contributed Surplus:

	Period ended August 31, 2009	Year Ended May 31, 2009
Balance, beginning of period	**$ 499,897**	$ 43,065
Stock-based compensation	**136,000**	-
Private placement warrants issued	**-**	358,000
Agents' options granted	**-**	116,000
Transferred to share capital on exercise of options	**-**	(17,168)
Balance, end of period	**$ 635,897**	$ 499,897

e) Escrow Shares:

As at August 31, 2009 4,810,416 (May 31, 2009: 4,810,416) shares were held in escrow. 1,500,001 shares will be released bi-annually in five (5) releases of 300,000 (on March 25 and September 25) until September 25, 2011. 2,916,666 plus 393,749 shares will be released or cancelled in accordance with the Rickaby property agreement disclosed in Note 3.

Note 5 **Related Party Transactions**

The Company incurred the following costs with companies controlled by directors of the Company and with companies controlled by significant shareholders:

	August 31, 2009	August 31, 2008
Consulting fees	**$ 13,250**	$ -
Corporate services	**3,000**	-
Management fees	**10,000**	-
Rent	**7,500**	4,500
Shareholder communications	**3,000**	-
Accounting and office administration	**2,250**	2,250
	$ 39,000	$ 6,750

Included in prepaid expenses at August 31, 2009, is $2,575 (May 31, 2009: $2,575) for prepaid rent with 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 6 Financial Instruments

a) Interest Rate Risk

The Company's cash earns interest at a variable interest rate. Because of the nature of this financial instrument, fluctuations in market rates do not have a significant impact on estimated fair values as of August 31, 2009. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's exposure to interest rate fluctuations is minimal.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash, the balance of which at August 31, 2009 is $232,693. Cash is held at a chartered Canadian financial institution.

c) Liquidity Risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company achieves this by maintaining sufficient cash reserves. As at August 31, 2009, the Company was holding cash of $232,693. The Company's accounts payable and accrued liabilities are due in the short term.

(d) Currency Risk

Currency risk is the risk that funds held in currencies other than the operating currency will fluctuate negatively, resulting in a foreign exchange loss. The Company holds all of its cash in Canadian dollars and does have significant transactions denominated in foreign currencies. As such, the Company is not significantly exposed to currency risk.

Note 8 Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

Note 9 Subsequent Event

Financing

Subsequent to August 31, 2009, the Company arranged a non-brokered private placement for proceeds of up to $1,500,000. The private placement will consist of:

(a) up to 4,000,000 flow-through common shares (the "Shares") at a price of $0.15 per Share; and

(b) up to 6,000,000 non-flow-through Units (the "Units") at a price of $0.15 per Unit. Each Unit will consist of one common share of the Company and one-half non-transferable share purchase warrant (the "Warrant"). Each whole Warrant will entitle the holder to purchase one additional common share of the Company at a price of $0.20 if exercised in the first year, or $0.30 if exercised in the second year.

Subsequent to August 31, 2009, the Company received $900,000 in respect of flow-through subscriptions and $600,000 in respect of non-flow-through Unit subscriptions.

Options

On October 9, 2009, the Company granted incentive stock options to directors, officers and consultants of the Company, entitling them to purchase up to 250,000 common shares at $0.185 per share exercisable up to October 8, 2014.