

**HIGHLAND COPPER COMPANY INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
– QUARTERLY HIGHLIGHTS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2016**

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, 2016 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, 2016 (“**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, 2016 (the “**Interim Financial Statements**”), the Company's audited consolidated financial statements for the years ended June 30, 2016 and 2015 (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, 2017.

All financial results presented in this Interim MD&A are expressed in Canadian dollars unless otherwise indicated.

***DESCRIPTION OF BUSINESS***

Highland is a Canadian-based company engaged in the acquisition, exploration and development of mineral projects located in Michigan's Upper Peninsula region. Highland's financial year-end is June 30 and its common shares trade on the TSX Venture Exchange (“TSXV”) under the symbol HI. At February 16, 2017, the Company had 189,198,483 common shares issued and outstanding.

The Company has assembled a number of advanced-stage copper projects, including **Copperwood**, a feasibility stage project, **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).

***HIGHLIGHTS FOR THE PERIOD***

- In February 2017, the Company commenced a 35-hole, 6,800 meters core drilling program at the Copperwood project, designed to upgrade the current inferred resources at the eastern section of the deposit, obtain metallurgical samples and carry out geotechnical studies to refine a mining plan; these holes are expected to be completed by the end of March;
- On November 15, 2016, the Company had announced that it planned to raise up to \$23 million by the offering of 230 million units (the “Units”) at \$0.10 per Unit (the “Offering”). Each Unit is to consist of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a “Warrant”), with each Warrant exercisable to acquire one common share at \$0.15 for a period of 12 months from the closing

date of the Offering. On November 30, 2016, the Company completed a first tranche of the Offering by issuing 30,280,000 common shares and 15,140,000 warrants and raising \$3,028,000. The Company expects to close a second tranche on February 22, 2017 and a final tranche by March 17, 2017, subject to certain conditions including but not limited to the receipt of all required regulatory approvals, including the approval of the TSXV;

- On December 12, 2016, the Company settled an outstanding indebtedness in the amount of \$494,986, including accrued interest, owing to a company wholly-owned by David Fennell, the Company's chairman, by issuing 4,949,857 common shares and 2,474,928 warrants, with each warrant entitling the holder to purchase one common share of the Company for a period of 12 months at an exercise price of \$0.15 per share; Mr. Fennell, through his wholly-owned company, had advanced these funds to the Company during the period from July 1, 2016 to November 30, 2016 to ensure that critical payments to maintain the Company in good standing were being made; these advances bore interest at the rate of 1% per month on the principal amount;
- On December 30, 2016, the Company entered into an amended agreement with the lessor of certain mineral rights located in White Pine, Michigan to revise the payment schedule of the remaining amount of US\$575,000 owed by the Company to the Lessor under a 20-year lease agreement entered into in April 2015; under the terms of the amended agreement, the Company paid an amount of US\$135,000 on December 30, 2016 and agreed to pay the balance of US\$440,000 in sixteen equal quarterly principal amounts of US\$27,500, plus interest accruing at the rate of 8% per annum, starting on March 30, 2017;
- In accordance with its accounting policy, the Company capitalized to exploration and evaluation assets an amount of cash-related expenses of \$554,000 during the three months ended December 31, 2016, including \$201,000 related to the April 2015 White Pine lease agreement, labor expenses of \$184,000 and other general expenses of \$169,000;
- The Company incurred a net loss of \$269,250 (nil per share) for the three months ended December 31, 2016 compared to a net loss of \$493,768 (nil per share) during the comparative period in 2015.

## **OUTLOOK**

Assuming completion of the Offering described in the *Highlights for the Period* section, the Company is planning to finalize the drilling campaign at Copperwood described above, initiate the activities for the purpose of updating the feasibility study of the Copperwood Project and advance discussions with the various stakeholders (i.e. CRC and the Michigan Department of Environmental Quality) with the aim of completing the acquisition of the White Pine Project, as soon as is practicable.

## **OPERATING ACTIVITIES**

During the three months ended December 31, 2016, the Company incurred a net loss of \$269,250 (nil per share) compared to a net loss of \$493,768 (nil per share) during the comparative period in 2015. The loss in 2015 included a write-down of \$273,883 due to the non renewal of certain leased properties located in the Upper Peninsula of the State of Michigan.

Management and administration expenses of \$250,732 incurred during the three months ended December 31, 2016 (\$199,340 in 2015) consisted mostly of wages and fees to consultants of \$173,762 (a credit of \$7,776 in 2015 due to the reversal of unpaid salaries and benefits to the Company's former president and CEO following his resignation in February 2016), audit, tax regulatory fees, investor relations, travel and office expenses of \$65,679 (\$180,662 in 2015, including legal fees of \$96,870 related to the acquisition of the White Pine Project), depreciation and amortization of \$6,055 (\$8,045 in 2015) and share-based compensation of \$5,236 (\$18,409 in 2015).

The payment of compensation to the Company's directors and officers continues to be deferred and will be settled upon completion of the final tranche of the Offering described in the *Highlights for the Period* section.

Other items in the net loss during the three months ended December 31, 2016 included a finance expense of \$8,197 (nil in 2015) related to the funds advanced by the Company's chairman and a non-cash accretion on environmental liability of \$2,966 (\$3,908 in 2015).

#### **LIQUIDITIES AND CAPITAL RESOURCES**

At December 31, 2016, the Company had a working capital deficiency of \$2,323,777, including a balance of purchase price related to the Copperwood Project of \$1,603,703 due in June 2017. The Company's working capital deficiency at December 31, 2016 creates uncertainty regarding its ability to continue as a going concern. As described in the *Highlights of the Period* section, the Company announced on November 15, 2016 that it planned to complete the Offering to raise up to \$23 million. However, there is no assurance that the Company will be successful in raising such funds and if management is not successful in completing this Offering, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, it may be unable to complete the acquisition of the White Pine Project 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, 2016, the Company incurred administration expenses of \$21,000 and \$42,000, respectively (\$72,039 and \$186,016 during the comparative periods in 2015), 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, 2016, the Company recovered an amount of \$42,321 and \$63,348 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 (nil in 2015).

The remuneration awarded to key management personnel, including directors, the chairman and interim president and CEO, the executive vice-president and the CFO, during the three and six months ended December 31, 2016 totaled \$212,605 and \$395,387, respectively (\$18,729 and \$321,074 in 2015).

## **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 the mineral exploration and development generally. Risks specific to the Company include but are not limited to its current financial situation and the requirement for additional funds to settle its obligations and commitments, to maintain its interest in its projects, to pursue its planned drilling program, to update the Copperwood feasibility study, to finalize the acquisition of the White Pine project, and to conduct other exploration and development activities on its projects. Certain risks are described in this Interim MD&A. 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 REGARDING FORWARD LOOKING STATEMENTS**

This Interim MD&A may contain "forward-looking information", within the meaning of Canadian securities laws, such as statements that describe the Company's future plans, objectives or goals. Specifically, this Interim MD&A includes, but is not limited to, forward-looking information regarding: the completion of the Offering in the amount and timing described in this MD&A; the completion of a drilling program and an update of the Copperwood feasibility study; the completion of the acquisition of the White Pine Project; and the settling of debts and various unpaid amounts. There can be no assurance that such forward looking information will occur for various reasons including: the Company being unable to complete the Offering as described or being unable to raise, through other means, the funds required to pursue its activities and finance its ongoing expenses due to market conditions, commodity prices or other factors; and the Company being unable to obtain all regulatory approvals and funds required to complete the acquisition of the White Pine Project. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be 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](http://www.sedar.com)) and on the Company's website ([www.highlandcopper.com](http://www.highlandcopper.com)).