Highland Copper Company Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

Year ended June 30, 2014

HIGHLAND COPPER COMPANY INC.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2014[1]

The following management's discussion and analysis ("MD&A") of the operations, results, and financial position of Highland Copper Company Inc. ("Highland" or the "Company"), dated October 9, 2014, covers the 12-months ended June 30, 2014 (year ended June 30, 2014) and the 13-months ended June 30, 2013 (year ended June 30, 2013) and should be read in conjunction with the audited consolidated financial statements and related notes at June 30, 2014 and 2013 (the "June 30, 2014 and 2013 consolidated financial statements"). The June 30, 2014 and 2013 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial results presented in this 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 properties in the state of Michigan, USA. Highland's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol HI. At October 9, 2014, the Company had 96,966,745 common shares issued and outstanding.

In May 2014, the Company completed the interim closing for the acquisition of the White Pine copper project (the "White Pine Project") and in June 2014, the Company acquired the Copperwood copper project (the "Copperwood Project"). The Company also has an option to acquire a 65% interest in the Keweenaw project which hosts the 543S deposit, the G-2 prospect and other target areas (the "Keweenaw Project") and has entered into lease agreements entitling the Company to explore and develop certain other properties. All projects are located in the Upper Peninsula of the state of Michigan, USA.

At June 30, 2014, the Company had a working capital deficit of $6.0 million which includes an amount of $7.5 million due on December 15, 2014 for the acquisition of the Copperwood Project (see '*Acquisition of the Copperwood Project'* below). Management will need to raise additional funds to meet the Company's obligations and budgeted expenditures for the next 12 months. To this effect, the Company signed a non-binding letter of intent ("LOI") with AMCI Holdings Inc. ("AMCI") on May 29, 2014 to form a joint venture (the "JV"). Pursuant to the terms of the LOI, it is expected that Highland and AMCI will have equal participation in the JV entity to which Highland would contribute all of its interests in the mineral projects located in Michigan and AMCI would contribute US$45 million by December 15, 2014. Given the non-binding nature of the LOI, there can be no assurance that the JV with AMCI will be completed as intended. Should the JV with AMCI not be completed, the Company will evaluate other financing options, including the issuance of securities, debt financing or other arrangements. In addition, even if the JV with AMCI is completed, the Company will need to raise funds through equity financing or other arrangements to cover its management and administration expenses for at least the next 12 months. The continuation of the Company as a going concern is dependent on its ability to obtain necessary new funding to meet its financial obligations and to continue its exploration and development activities. See *'Going Concern Assumption'* below.

[1] In August 2012, the Company changed its year-end from May 31 to June 30. Accordingly, the current period financial information presented in this MD&A is for the 12-months ended June 30, 2014 and the comparative financial information is for the 13-months ended June 30, 2013.

HIGHLIGHTS FOR THE YEAR ENDED JUNE 30, 2014

- On November 18, 2013, the Company entered into a binding letter agreement with Copper Range Company ("CRC") to acquire all of CRC's rights, title and interest in the White Pine Project;
- On February 11, 2014, the Company entered into an agreement with Orvana Minerals Corp., a TSX-listed company ("Orvana"), to acquire the Copperwood Project through the acquisition of all of the outstanding shares of Orvana Resources US Corp. ("Orvana US") for a consideration of up to US$25 million in aggregate;
- On March 5, 2014, the Company entered into a definitive asset purchase agreement with CRC to acquire all of CRC'S rights, title and interest in the White Pine Project;
- On March 17, 2014, the Company completed the 1st tranche of a previously announced private placement by issuing a total of 4,127,400 common shares for gross proceeds of $2,063,700 and on May 13, 2014, the Company issued an additional 800,000 common shares for gross proceeds of $400,000;
- From mid-March to early May 2014, the Company conducted an initial 9-hole drilling program for 8,853 meters at the northeast sector of the White Pine Project with the aim of confirming the quality of the historic exploration data and reducing the spacing of the historic drill holes. Results from this initial drilling program were released on July 8, 2014;
- On May 13, 2014, the Company completed the interim closing for the acquisition of the White Pine Project and issued 3,000,000 of its common shares to CRC;
- On May 13, 2014, the Company announced that the TSXV had accepted the Company's request to extend the expiry date of the 41,250,000 share purchase warrants originally issued for a two-year term in May 2012 to March 31, 2015 with the exercise price of $0.75 remaining unchanged;
- On May 29, 2014, the Company announced that it has entered into a non-binding LOI with AMCI for form a 50/50 JV, whereby the Company would contribute to the JV all of its interests in the mineral projects located in Michigan and AMCI would contribute US$45 million in cash by December 15, 2014;
- On June 17, 2014, the Company completed the third and last tranche of its previously announced private placement by issuing an additional 36,694,800 common shares for gross proceeds of $18,347,400;
- On June 17, 2014, the Company completed the acquisition of the Copperwood Project for a cash consideration of US$13 million, a US$7 million promissory note due by December 15, 2014 and an additional consideration of up to US$5 million in cash or shares of Highland;
- On August 25, 2014, the Company reported an initial resource estimate for the 543S deposit.

ACQUISITION OF THE WHITE PINE PROJECT

On March 5, 2014, the Company entered into a definitive asset agreement ("APA") with CRC, a subsidiary of First Quantum Minerals Ltd., to acquire all of CRC's rights, title and interest in the White Pine Project located in the Upper Peninsula of the state of Michigan, USA. Under the APA, the Company agreed to issue to CRC, at the interim closing, 3,000,000 of its common shares. Highland further agreed that, upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, it will pay as additional consideration, in cash or in common shares of Highland, at the option of CRC, an amount equal to US$0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and US$0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper. On May 13, 2014, the Company completed the interim closing for the acquisition of the White Pine Project and issued 3,000,000 of its common shares to CRC.

The final closing of the acquisition will be completed once Highland has (i) released CRC for a US$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the White Pine site in a manner that is acceptable to all parties involved, including the applicable governmental authorities; and (ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality. At that time, Highland will assume all of CRC's environmental liabilities related to White Pine site and will also be responsible for all on-going environmental obligations. Final closing is anticipated to occur by December 31, 2015.

Until final closing, Highland has access to White Pine site under an access agreement to perform exploration, engineering and environmental studies and other activities associated with the development of a new copper mine at White Pine, and CRC continues to be responsible for environmental obligations and for remediation work up to a maximum of US$2 million.

Overview of the White Pine Project

CRC acquired the original White Pine mine in 1937. Subsequent drilling revealed the widespread nature of the mineralization and underground mining by room and pillar methods followed by flotation of sulfides began in 1952. Mining ceased in 1995 due largely to depressed copper prices, although significant amounts of mineralization remained, particularly to the northeast of the mine. Production from 1952 to 1995 was 198,070,985 short tons averaging 1.14% copper for approximately 4.5 billion pounds of copper. In 1995, CRC, then a subsidiary of Inmet Mining Corporation, closed the White Pine mine. An historical estimate was completed in October 1995 by the then White Pine chief geologist based on 526 diamond drill holes. The total historical estimate at that time was 118.7 million short tons averaging 20.7 pounds of copper per ton, for approximately 2.5 billion pounds of contained copper.

The resources reported herein are provided as historical data only. A qualified person has not completed the work necessary to verify the quality of the historic exploration data or to classify the historical estimate as current mineral resources or mineral reserves. The Company is not treating the historical estimate as current mineral resources or mineral reserves and the historical data should not be relied upon until they have been verified.

ACQUISITION OF THE COPPERWOOD PROJECT

On February 11, 2014, the Company and Orvana entered into a share purchase agreement to acquire all rights, title and interest in the Copperwood Project from Orvana through the acquisition of all of the outstanding shares of Orvana Resources US Corp ("Orvana US"). As consideration for the acquisition, Highland will pay Orvana up to US$25 million in aggregate, of which US$20 million will be settled upon closing of the acquisition and up to US$5 million will be paid in cash or shares of Highland, at Orvana's option, upon the occurrence of the events described below:

- US$1.25 million upon the earliest of (i) commencement of commercial production of Copperwood and (ii) the date that is 36 months after closing of the Acquisition; and an additional US$1.25 million on the first anniversary of this payment.

- US$1.25 million if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than US$4.25/lb; and an additional US$1.25 million if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than US$4.50/lb.

On June 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of Orvana US. Highland paid US$13 million in cash and issued a US$7 million secured promissory note (the "Note"). The Note matures on December 15, 2014 and bears interest at an estimated effective rate of 15.2%. Highland may have to repay the Note, partially or completely, before maturity with the raising of additional capital. The Note is secured by, among other things, a first priority security interest over all of the assets of Orvana US and a pledge of 100% of Orvana US's shares.

About Copperwood

Copperwood is a feasibility stage project. On February 25, 2011, Orvana announced an updated resource estimate for Copperwood, including the mineralization in the adjacent Copperwood satellites area. In July 2011, Orvana completed a pre-feasibility study and subsequently, on February 7, 2012, Orvana announced the results of a feasibility study for Copperwood.

The following mineral reserves and mineral resources reported by Orvana are provided as historical data only. A qualified person has not completed the work necessary to verify the quality of the historic exploration data or to classify the historical estimate as current mineral resources or mineral reserves. Highland is not treating the historical estimate as current mineral resources or mineral reserves and the historical data should not be relied upon until they have been verified.

<u>Copperwood Project Historical Estimate of Mineral Reserves and Resources</u>

	Copper			Silver	
	M st	**%**	**M lbs.**	**gpt**	**M oz.**
Proven Reserves	23.1	1.46	710	3.98	2.98
Probable Reserves	7.1	1.21	142	2.44	0.46
Total Reserves	30.2	1.41	852	3.63	3.46
Indicated Resources (Copperwood satellite area)	25	1.4	771		
Inferred Resources (Copperwood satellite area)	36.1	1.3	1,033		

Source: NI 43-101 Technical Report – Copperwood S6 & Satellites: AMEC E & C Services (USA) G. Kulla & D. Thomas, January, 2011
Source: NI 43-101 Technical Report the Copperwood Project; Joseph M. Keane, P.E., Steve Milne, P.E., and David List P.E., March 21, 2012

KEWEENAW PROJECT

Under a Mining Venture Agreement (the "Venture Agreement") with BRP LLC ("BRP"), the Company has an option to acquire a 65 percent interest in the Keweenaw Copper Project ("Keweenaw Project"), which includes the 543S deposit, the G2 prospect and other target areas, by spending US$11,500,000 in exploration and development work and providing a feasibility study by October 26, 2015. The Keweenaw Project covers an area of approximately 9,000 acres. At June 30, 2014, a cumulative amount of US$12,948,000 in eligible expenditures has been spent on the Keweenaw Project. Upon satisfying all conditions and exercising the option, the Company will have a 65% interest and BRP will have a 35% interest in the Keweenaw Project. In addition, BRP will be entitled to a sliding scale net smelter return royalty from production ("NSR") on those properties contributed by BRP based on the price per pound of copper with a minimum of 2% up to a maximum of 5%. Under the terms of the Venture Agreement, the Company was also required to make cash payments to BRP totaling US$750,000 and issue to BRP a total of 200,000 common shares, on or before October 26, 2013. These commitments have been fully met.

On August 25, 2014, the Company announced an initial resource estimate for the 543S deposit, as follows:

543S deposit – Base Case - Underground Scenario

Mineral Resource Estimate – July 5, 2014

Resource Category	**Cut-Off Grade** Cu Eq. (%)	**Tonnage** ('000 t)	**Grade** Cu Eq. (%)	**Grade** Cu (%)	**Copper** ('000 lbs)	**Grade** Ag (g/t)	**Silver** ('000 oz)
Indicated	1.9	1,518	3.31	3.27	109,514	5.1	248
Inferred	1.9	193	3.12	3.08	13,116	4.8	30

Notes on Mineral Resources

(1) Cu Equivalent = Cu% + (Ag g/t * 20$/oz * 80% * 90%) / (22.0462 lbs/10kg * 3$/lb * 31.1035 g/oz * 90% * 96.5%)
(2) Mineral Resources are reported using a copper price of 3$/lb and a silver price of 20$/oz
(3) A payable rate of 96.5% for copper and 90% for silver was assumed
(4) Preliminary metallurgical testing suggests recovery of 90% for copper and 80% for silver
(5) Cut-off grade of 1.9% Cu Eq. was used
(6) Underground mining costs are estimated at 57.27$/t of ore
(7) Production costs are estimated at 37.50$/t of ore: 12.00$/t for processing, 2.50$/t for general and administrative costs, 0.50$/t for tailings and 22.50$/t for ore transportation to White Pine Complex
(8) A 5% royalty was used (4.99$/t ore)
(9) No mining dilution and mining loss were considered for the Mineral Resources
(10) Rock bulk densities are based on rock types, %Cu and proximity to specific gravity measurements
(11) Assay capping was applied to some mineralized domains
(12) Classification of Mineral Resources conforms to CIM definitions
(13) The qualified person for the estimate is Mr. Réjean Sirois, eng., Vice President Geology and Resources of G Mining. The estimate has an effective date of July 5, 2014
(14) Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.
(15) The quantity and grade of reported inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these inferred resources as indicated or measured mineral resources.

The mineral resource estimate was prepared by G Mining Services Inc. ("G Mining"), a Canadian mining consulting firm. After a detailed review of different options, G Mining recommended to report the mineral resources for potential underground development of the 543S deposit. This initial mineral resource estimate for the 543S deposit is based on 262 diamond drill holes totaling 45,608 m, on a drill grid spaced 30.5 by 15 m (refer to the August 25, 2014 press release for more information on mineral resources at various cut-off grades, mineral resource estimate methodology, metallurgical work and geology of the 543S deposit).

FINANCING

Private placement

Between March 17 and June 17, 2014, the Company completed in three tranches a private placement of its common shares by issuing a total of 41,622,200 common shares at $0.50 per share for gross proceeds of $20,811,100. Total share issue expenses of $728,165 were incurred in relation with this private placement, including finder's fees of $661,310.

Non-binding LOI to form a JV with AMCI

On May 29, 2014, the Company signed a non-binding LOI with AMCI, a US-based private equity firm, to form a JV to develop Highland's projects in the Upper Peninsula of Michigan. It is expected that Highland and AMCI will have equal participation in the JV entity. Highland would contribute to the JV all of its interests in the mineral projects in Michigan and AMCI would contribute US$45 million in the JV by December 15, 2014 (the "AMCI Funding Completion Date"). AMCI and the Company are in the process of completing the definitive joint venture agreement.

Highland would grant to AMCI a number of common share purchase warrants which would vary between 7 million and 10 million depending on the date of the AMCI Funding Completion Date, with a strike price of C$0.80 (subject to any adjustment of the price as required by the TSXV) for a term expiring on June 30, 2016 (subject to Highland's right to accelerate the expiry date under certain circumstances).

The LOI is intended to serve as a basis for the negotiation and execution of a definitive joint venture agreement which would include a number of customary conditions precedent, including approval of the TSXV and all other required regulatory, corporate, security holder and other third party approvals.

WORK CONDUCTED DURING THE YEAR ENDED JUNE 30, 2014

White Pine North

Pursuant to an Access Agreement entered on March 5, 2014 between the Company and CRC, Highland conducted an initial drilling program on the north portion of the White Pine Project ("White Pine North") to verify historical exploration data and increase the density of drill points, which currently varies from 400 meters to in excess of 1,000 meters, so that a mineral resource estimate can be done. Highland has also conducted validation re-sampling and assaying of historical drill core, collected samples for metallurgical testing, and carried out infrastructure evaluation and environmental monitoring.

During March and April 2014, Highland completed nine diamond drill holes totaling 8,853 meters using HQ core size at White Pine North. The results from this first phase in-fill drilling program were presented in a press release dated July 8, 2014 and confirmed copper-silver mineralization from adjacent historical drill holes. Three holes were cased for re-entry during the winter of 2015 because of spring melting. Highland also completed eleven wedges from eight holes to obtain approximately 435 kg of mineralized samples for metallurgical testing. Highland designed its 2014 winter drilling program both to in-fill the historical drill grid and to expand the historical mineral resource area. Assay results from holes drilled by Highland at White Pine North are consistent with results from previous CRC drill programs. Activation Laboratories in Thunder Bay, Ontario, Canada (*IOS 17025 accreditation*), assayed all samples using an ICP method tailored for the project samples, followed by a metallic procedure for samples containing at least 0.1% Cu. Highland applied industry standard QA/QC protocols to all steps of the drilling program.

In January 2014, Highland initiated an analytical program to validate historical assay results from 51 diamond drill holes completed by CRC in the White Pine North deposit. Thirty-six of these holes were drilled between 1958 and 1980, while the other 15 holes were drilled in 1994 and 1995. Highland's validation program used a ¼ cut of the original whole core from 883 historic sample intervals. This re-sampling duplicated the exact interval previously sampled and assayed in the historical programs. The remaining ¼ of the original core was retained as reference material. The validation analytical technique used both a screen metallic assay method and a 2.5-gram digestion ICP assay method to determine total copper and results from both methods were in good agreement. The results from this validation program were presented in a press release dated July 8, 2014. Highland considers the correlation between the historical and validation assays to be excellent, showing no bias between the two groups of assays. Highland plans to use the sample values from the original program for a future resource estimate at White Pine North.

Keweenaw Project

During the year ended June 30, 2014, the Company drilled 4,312 meters in 31 holes at 543S mainly to test zones of satellite mineralization identified from the historical drilling, soil anomalies, and geophysical surveys adjacent to 543S. Numerous zones of chalcocite were intersected with assays reported in a news release dated November 13, 2013. Following completion of drilling at 543S, two drills were moved to the G-2 prospect, located 18 kilometers east of 543S. G-2 is in the eastern portion of the chalcocite belt. The Company has completed 7,519 meters in 44 diamond drill holes at G-2. Assays from all holes drilled by the Company at the G-2 prospect have been reported in news releases. Currently known chalcocite mineralization at G-2 is confined to five near-vertical lenses. The geology is generally similar to the 543S deposit except that lower grade mineralization has not yet been intersected over significant lengths. The Company has completed the compilation of results from the G-2 prospect exploration program and is considering future work needed.

Plans going forward

Highland has recently retained G Mining to carry out a number of technical studies including metallurgy, infrastructure requirements and mining methods that are intended to be used in a future prefeasibility study. In addition, Golder Associates is performing baseline environmental work including hydrology and flora studies at White Pine North and Copperwood and COREM is carrying out mineral processing work on mineralized samples from the White Pine North deposit.

Subject to available financing, Highland plans to complete a second phase drilling program at White Pine North during the winter of 2015. These drill holes will focus on the higher-grade central portion of the deposit. Following the completion of this drilling campaign, the Company expects to be able to release a resource estimate of the White Pine North deposit.

QUALIFIED PERSON

Carlos Bertoni, P. Geo., a Qualified Person under NI 43-101, has reviewed and approved all of the technical information in this MD&A. Mr. Bertoni is the Company's project manager.

EXPLORATION EXPENSES

Amounts invested in exploration and evaluation assets are as follows:

	White Pine Project	Copperwood Project	Keweenaw Project	Leased Properties	Total
	$	$	$	$	$
Balance, May 31, 2012	-	-	627,941	-	627,941
Property payments	-	-	279,788	32,604	312,392
Drilling and assaying	-	-	5,091,459	51,738	5,143,197
Site preparation and road building	-	-	226,021	-	226,021
Labour	-	-	1,003,910	12,902	1,016,812
Consulting	-	-	949,727	216,807	1,166,534
Studies	-	-	295,057	-	295,057
Other exploration expenses	-	-	669,134	5,322	674,456
Depreciation and amortization	-	-	222,032	-	222,032
Share-based remuneration	-	-	304,900	-	304,900
Effect of foreign exchange	-	-	392,961	14,250	407,211
	-	-	9,434,989	333,623	9,768,612
Balance, June 30, 2013	-	-	10,062,930	333,623	10,396,553
Acquisition of the White Pine Project	2,037,298	-	-	-	2,037,298
Acquisition of the Copperwood Project	-	24,212,424	-	-	24,212,424
Other property payments	-	-	270,625	41,811	312,436
Drilling and assaying	1,725,087	-	770,427	118,711	2,614,225
Site preparation and road building	59,109	-	26,175	10,298	95,582
Labour	281,534	9,877	588,314	34,712	914,437
Consulting	543,467	-	294,392	28,910	866,769
Studies	158,591	6,296	220,470	-	385,357
Other exploration expenses	274,775	4,267	454,642	(59,171)	674,513
Depreciation and amortization	-	934	282,537	2,275	285,746
Share-based remuneration	-	-	101,120	-	101,120
Finance expense	-	55,306	-	-	55,306
Effect of foreign exchange	(51,767)	(390,359)	131,782	4,512	(305,832)
	5,028,094	23,898,745	3,140,484	182,058	32,249,381
Balance, June 30, 2014	5,028,094	23,898,745	13,203,414	515,681	42,645,934

Pre-exploration expenses

During the year ended June 30, 2014, the Company incurred exploration and evaluation expenses in the amount of $1,745,437 ($41,785 during the year ended June 30, 2013) on properties on which the legal right to undertake exploration and evaluation activities had not yet been obtained. These expenditures, which are detailed below, include mostly preparation work related to the White Pine Project incurred prior to the execution of the Asset Purchase Agreement and Access Agreement between the Company and CRC on March 5, 2014.

	12-months ended June 30, 2014	13-months ended June 30, 2013	12-months ended May 31, 2012
	$	$	$
Site preparation	**70,731**	-	-
Drilling and assaying	**118,793**	-	-
Labour	**219,520**	-	-
Consulting	**651,953**	41,785	8,415
Studies	**297,384**	-	-
Others	**387,056**	-	-
	1,745,437	41,785	8,415

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the Company's June 30, 2014 and 2013 consolidated financial statements.

	June 30, 2014	June 30, 2013
	$	$
Financial position		
Cash	**3,242,710**	6,240,228
Exploration and evauation assets	**42,645,934**	10,396,553
Total assets	**46,536,013**	17,252,772
Promissory note	**7,473,900**	-
Balance of purchase price payable	**1,434,850**	-
Shareholders' equity	**35,414,291**	16,845,027

	12-months ended June 30, 2014	13-months ended June 30, 2013	12-months ended May 31, 2012
	$	$	$
Operations			
Management and administration expenses	**1,724,225**	2,607,240	933,499
Pre-exploration expenses	**1,745,437**	41,785	8,415
Impairment of exploration and evaluation assets	**-**	-	2,078,284
Accretion on decommissioning liability	**2,106**	-	-
Finance income	**(8,664)**	(84,744)	(5,915)
Gain on foreign exchange	**(39,885)**	(256,946)	(22,721)
Net loss for the year	**(3,423,219)**	(2,307,335)	(2,991,562)
Basic and diluted loss per share	**(0.06)**	(0.04)	(0.38)
Cash flows			
Operating activities	**(2,166,128)**	(1,411,382)	(897,274)
Investing activities	**(21,026,360)**	(9,026,316)	410,219
Financing activities	**20,082,935**	406,249	16,255,726

Since its incorporation, the Company has not paid any cash dividend on its outstanding common shares. Any future dividend payment will depend on the Company's financial needs to fund its exploration programs and any other factor that the board may deem necessary to consider. It is highly unlikely that any dividends will be paid in the near future.

Management and administration expenses are summarized as follows:

	12-months ended June 30, 2014	13-months ended June 30, 2013	12-months ended May 31, 2012
	$	$	$
Administrative and general	**490,781**	981,564	271,731
Office	**116,225**	118,659	200,130
Professional fees	**254,724**	56,163	183,785
Investor relations and travel	**320,140**	208,577	189,763
Reporting issuer costs	**21,433**	43,800	59,976
	1,203,303	1,408,763	905,385
Share-based remuneration	**511,202**	1,192,529	-
Depreciation and amortization	**9,720**	5,948	28,114
	1,724,225	2,607,240	933,499

GOING CONCERN ASSUMPTION

As is common with many exploration and development companies, the Company raises funds on the equity market to conduct its activities. The Company has incurred a net loss of $3,423,219 during the year ended June 30, 2014 ($2,307,335 during the year ended June 30, 2013) and has a deficit of $10,450,128 at June 30, 2014 (a deficit of $7,026,909 at June 30, 2013). The Company has a working capital deficit of $6,000,228 at June 30, 2014, including the Note of $7,473,900 due by December 15, 2014 as a result of the acquisition of the Copperwood Project described above. The Company requires additional funds to reimburse the Note due to Orvana, to pursue exploration and development work on its mineral projects, and to provide for management and administration expenses for at least the next 12 months. To this effect, the Company announced on May 29, 2014 that it had entered into a non-binding LOI to form a JV with AMCI (see '*Non-binding LOI to form a JV with AMCI'* section). It is expected that the reimbursement of the Note and the operating expenses over the next twelve months would be financed through the proceeds from AMCI's JV contribution. However, given the non-binding nature of the LOI, there can be no assurance that the JV with AMCI will be completed as intended and that funds provided for under the LOI will be available. Should the JV with AMCI not be completed, the Company will have to conclude other financing arrangements, including the issuance of securities, debt financing or other arrangements. In addition, even if the JV with AMCI is completed, the Company will need to raise funds through equity financing or other arrangements to cover its management and administration expenses for at least the next 12 months.

If the Company is not successful in raising additional funds, the Company may not be able to reimburse the Note due to Orvana, it may be required to delay, reduce the scope of, or eliminate its current or future exploration and development activities and it may be unable to meet the earn-in requirements under the Venture Agreement with BRP. These conditions and uncertainties indicate the existence of a material uncertainty that casts a significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for the Company's consolidated financial statements, adjustments to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, and reported expenses would be necessary.

Financial Review

The Company is in the exploration and development phase and does not yet have revenue-generating activities. Accordingly, the Company's financial performance is largely a function of the level of exploration and development activities undertaken on its projects and the management and administrative expenses required to operate and carry out its activities as well as other items such as foreign exchange gains or losses.

In accordance with its accounting policy, the Company capitalized a total amount of $32,249,381 as exploration and evaluation assets during the year ended June 30, 2014, including the cost of acquiring the White Pine Project ($2,037,298) and the Copperwood Project ($24,212,424) (exploration and evaluation expenses of $9,768,612 were capitalized during the year ended June 30, 2013). The detail of the deferred exploration and evaluation assets by project and the pre-exploration expenses is presented in the *Exploration expenses* section.

Year ended June 30, 2014 compared to year ended June 30, 2013

The Company incurred a net loss of $3,423,219 during the year ended June 30, 2014 compared to a net loss of $2,307,335 during the year ended June 30, 2013. The increased loss is due mainly to pre-exploration expenses of $1,745,437 incurred during the current period (which mainly included preparation work related to the White Pine Project before the legal right to undertake exploration and evaluation activities had been obtained) compared to $41,785 in 2013. This increased loss was partially offset by lower management and administration expenses. Lower administrative and general expenses during the current period (administrative and general expenses during the year ended June 30, 2013 included signing bonuses of $587,600 in order to retain the services of the executive chairman and the president and CEO of the Company) and lower share-based remuneration were partially offset by higher professional fees related to the acquisition of the White Pine and Copperwood projects and to higher investor relations and travel expenses due to the increased corporate activities.

During the years ended June 30, 2014 and 2013, amounts of $511,202 and $1,192,529, respectively were charged to income as share-based remuneration and amounts of $101,120 and $304,900, respectively were deferred to exploration and evaluation assets. No stock options were granted during the current period compared to 4,380,000 stock options at a weighted-average fair value of $0.51 per option in 2013. At June 30, 2014, an amount of $120,321 of cost remains to be amortized in future periods (until November 2014), related to the grant of stock options.

During the year ended June 30, 2014, the Company accounted for a gain on foreign exchange of $39,885, which results mostly from the conversion of cash held by the parent company in US dollars. During the comparative period, the Company accounted for a gain on foreign exchange of $256,946.

Year ended June 30, 2013 compared to year ended May 31, 2012

Following the completion in May 2012 of a non-brokered private placement for net proceeds of $16,216,726, the Company initiated exploration activities and drilling programs on targets located within the Keweenaw Project (mainly the 543S and G-2 target areas). During the year ended June 30, 2013, the Company completed a total of 36,364 meters of diamond drilling and in accordance with its accounting policy, the Company deferred a total amount of $9,768,612 as exploration and evaluation assets, which are presented in the *Exploration expenses* section. During the year ended May 31, 2012, the Company did not conduct any significant exploration programs on its properties due to its limited cash position. Additions to exploration and evaluation assets in 2012 consisted mostly of property-related payments, as well as expenditures to maintain the properties in good standing.

The Company incurred a net loss of $2,307,335 during the year ended June 30, 2013 as compared to a net loss of $2,991,562 during the year ended May 31, 2012. During the year ended June 30, 2013, management and administration expenses (before non-cash items) increased by $503,379 compared to the year ended May 31, 2012. Such increase is due mainly to the start in July 2012 of exploration activities at the Keweenaw Project and to signing bonuses of $587,600 paid by the Company in October 2012 in order to retain the services of the executive chairman and the president and CEO of the Company.

During the year ended June 30, 2013, the Company granted a total of 4,380,000 stock options at a weighted-average fair value of $0.51 per option. A total of 1,460,000 of these options vested during the year. In 2012, the Company had not granted any stock options. An amount of $1,192,529 was charged to income as share-based remuneration and an amount of $304,900 was deferred to exploration and evaluation assets during the year ended June 30, 2013. At June 30, 2013, an amount of $732,643 remained to be amortized in future periods (until November 2014), related to the grant of stock options.

During the year ended June 30, 2013, the Company accounted for a gain on foreign exchange of $256,946, which results mostly from the conversion of cash held by the parent company in US dollars. During the comparative period, the Company accounted for a gain on foreign exchange of $22,721.

During the year ended May 31, 2012, the Company had recorded an impairment of $2,078,284 related to the Rickaby Property, located in Ontario, Canada, following the return of the property to its previous owner. No impairment of exploration and evaluation assets was accounted for during the year ended June 30, 2013.

4th quarter ended June 30, 2014 compared to the 4th quarter ended June 30, 2013

During the 4th quarter ended June 30, 2014, the Company incurred a net loss of $846,359 ($0.01 per share), compared to a net loss of $223,999 (nil per share) during the 4th quarter ended June 30, 2013.

Management and administration expenses totaled $528,408 during the 4th quarter ended June 30, 2014 compared to $366,621 during the comparative period in 2013. The increase in management and administration expenses is mainly due to higher administrative and general expenses ($70,565 due to increased corporate activities) and professional fees ($177,991 related to the acquisition of the White Pine and Copperwood projects), partially offset by lower share-based remuneration. Pre-exploration expenses which relate to activities conducted on projects before the legal right to undertake exploration and evaluation activities has been obtained totaled $287,320 during the 4th quarter ended June 30, 2014 compared to $41,785 during the comparative period.

During the 4th quarter ended June 30, 2014, the Company accounted for a loss on foreign exchange of $31,828, which resulted mostly from the weakening of the US dollar during the period on the conversion of cash held by the parent company in US dollars. During the comparative period, the Company accounted for a gain on foreign exchange of $137,775.

Selected Quarterly Financial Information

The following is a summary of the Company's financial results for the past eight quarters:

	Finance income	Net loss	Basic and diluted loss per share
Period ended	$	$	$
June 30, 2014	3,303	(846,359)	(0.01)
March 31, 2014	1,279	(1,123,722)	(0.02)
December 31, 2013	1,529	(718,037)	(0.01)
September 30, 2013	2,553	(735,101)	(0.02)
June 30, 2013	4,847	(223,999)	(0.00)
March 31, 2013	11,364	(234,412)	(0.00)
December 31, 2012	21,809	(1,483,919)	(0.03)
September 30, 2012	46,724	(365,005)	(0.01)

Liquidity and Capital Resources

The Company has a working capital deficit of $6,000,228 at June 30, 2014 compared to a working capital of $5,961,704 at June 30, 2013. The decrease in working capital during the year ended June 30, 2014 is attributable to the acquisition of the Copperwood Project ($21,702,667), investments made on the Company's exploration and evaluation assets ($6,776,138), pre-exploration expenses ($1,745,437), management and administration expenses ($1,203,303), the acquisition of capital assets ($143,865), partially offset by the net proceeds of a private placement ($20,082,935).

From March to June 2014, the Company completed in three tranches a non-brokered private placement of its common shares by issuing 41,622,200 common shares at $0.50 per share for gross proceeds of $20,811,100. Share issue expenses of $728,165 were incurred in relation with this private placement, including finder's fees of $661,310.

On June 17, 2014, in connection with the acquisition of the Copperwood Project, the Company issued a promissory note in the amount of $7,473,900 (US$7,000,000) to Orvana. The Note matures on December 15, 2014 and bears interest at an estimated effective rate of 15.2%. The Company may have to repay the Note, partially or completely, before the maturity date with the raising of additional capital. The Note is secured by a first priority security interest over all of the assets of Orvana US and a pledge of 100% of the shares of Orvana US.

The Company needs to raise additional funds to reimburse the Note and accrued interest due to Orvana by December 15, 2014 and to pursue exploration and development work on its mineral projects and to provide for management and administration expenses for at least the next 12 months. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required for continued operations through future financings, including completing the JV with AMCI described in the *Non-binding LOI to form a JV with AMCI* section (see '*Going Concern* Assumption' section). The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The potential sources of future funds presently available to the Company are through the completion of the JV with AMCI, the sale of equity capital of the Company, the exercise of outstanding warrants or stock options and debt financing. The ability of the Company to arrange the required financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

Capital Management

The Company defines capital that it manages as loans (including promissory note and balance of purchase price payable) and shareholders' equity. When managing capital, the Company's objectives are a) to ensure the entity continues as a going concern; b) to increase the value of the entity's assets; and c) to achieve optimal returns to shareholders. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them to production or obtaining sufficient proceeds from their disposal. As at June 30, 2014, managed capital was $44,323,041 ($16,845,027 at June 30, 2013). There were no changes in the Company's approach to capital management during the year ended June 30, 2014. The Company is not subject to any externally imposed capital requirements as at June 30, 2014.

Off-Balance Sheet Arrangements

At June 30, 2014, the Company has no off-balance sheet arrangements.

Transactions with Related Parties

During the year ended June 30, 2014, the Company incurred administration expenses of $241,917 and purchased capital assets of $41,000 from Reunion Gold Corporation, a related party by virtue of common management and directors (administration expenses of $208,225 during the year ended June 30, 2013). During the year ended June 30, 2013 the Company incurred administration expenses of $58,349 from a company controlled by a director and a former officer of the Company. These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

Remuneration to directors and key management of the Company totaled $997,227 and $2,263,867 during the years ended June 30, 2014 and 2013, respectively.

Other Commitments

In addition to commitments related to the exploration and evaluation assets, the Company has entered into lease agreements expiring at various date until February 2015 which calls for minimum lease payments of $42,000 in 2015 for the rental of office space and warehousing space.

Outstanding Share Data

At October 9, 2014, the Company has 96,966,745, common shares issued and outstanding, 41,250,000 share purchase warrants exercisable at $0.75 per share and expiring on March 31, 2015, and 5,842,000 stock options outstanding with an average exercise price of $0.57, expiring at various dates until August 2019.

Significant Accounting Policies

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars. The functional currency of Highland is the Canadian dollar and the functional currency of the Company's US-based subsidiaries is the US dollar. The functional currencies of Highland and its subsidiaries have remained unchanged during the reporting years. Monetary assets and liabilities denominated in a foreign currency other than the functional currency of each entity are translated at the exchange rate in effect at the reporting date, whereas non-monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Revenues and expenses denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Gains and losses on exchange arising from the translation of foreign operations are recorded in profit or loss under gain or loss on foreign exchange. On consolidation, assets and liabilities of the Company's US-based subsidiaries are translated into Canadian dollars at the closing rate in effect at the reporting date. Income and expenses are translated into Canadian dollars at the average rate over the reporting year. Exchange differences are presented as other comprehensive income and recognised in the currency translation adjustment reserve in equity.

Exploration and evaluation assets

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred. Once the legal right to undertake exploration and evaluation activities has been obtained, all option and lease payments, costs of acquiring mineral rights and expenses related to the exploration and evaluation of mining properties are capitalized as exploration and evaluation assets. Expenses related to exploration and evaluation which are capitalized include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are carried at cost less any accumulated impairment losses. No depreciation expense is recognized for these assets during the exploration and evaluation phase. Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts with the difference recognized in profit or loss. When the technical feasibility and the commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred as tangible assets and related development expenditures are capitalized. Before the reclassification, the related exploration and evaluation assets are tested for impairment and any impairment loss is then recognized in profit or loss. Borrowing costs directly attributable to the acquisition of exploration and evaluation assets are added to the cost of the project until such time as the assets are substantially ready for their intended use or sale, which in the case of mining properties, is when they are capable of commercial production.

Impairment of non-financial assets

At the end of each reporting date, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Factors which could trigger an impairment review include, but are not limited to, the expiration of the right to explore in the specific area during the period or said right will expire in the near future and is not expected to be renewed; substantive expenditures in a specific area are neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale due to significant negative industry or economic trends and a significant drop in commodity prices. The recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Value in use takes into account estimated future cash flows associated with the asset, such value being discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In the case of exploration and evaluation assets, impairment reviews are carried out on a property-by-property basis, with each property representing a potential cash-generating unit. A previous impairment is reversed if the asset's recoverable amount exceeds its carrying amount.

Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the related asset, as soon as the obligation to incur such costs arises and to the extent that such cost can be reasonably estimated.

Share-based payment transactions

Equity-settled share-based payments are made in exchange for services received and transactions related to mineral properties and are measured at their fair value. The fair value of the services rendered or the mineral property transaction is determined indirectly by reference to the fair value of the equity instruments granted when the fair value of services rendered or the mineral property transaction cannot be reliably estimated. The fair value of share-based payments to directors, officers, employees and consultants with employee-related functions is recognized as an expense over the vesting period with a corresponding increase to contributed surplus. Financing warrants and warrants to brokers, in respect of an equity financing, are recognized as a share issue expense with a corresponding increase to contributed surplus. The fair value of stock options granted is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model and taking into account an estimated forfeiture rate and the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. Upon the exercise of share-based payments, the proceeds received, net of any direct expenses, as well as the related compensation expense previously recorded as contributed surplus are credited to share capital.

Significant accounting judgements and estimates

The preparation of the Company's consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The Company's consolidated financial statements include estimates which, by their nature, are uncertain and may require accounting adjustments based on future occurrences. Revisions to accounting estimates, judgments and assumptions are recognized in the period in which the estimate is revised and future period if the revision affects both current and future period. These estimates, judgments and assumptions are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

a) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

b) Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test in the year the new information becomes available. The Company has determined that there are currently no indicators of impairment.

c) Environmental liability

The Company's accounting policy for the recognition of environmental liability requires significant estimates and assumptions such as the requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance, the timing, extent, and costs of closure and rehabilitation activities and the determination of an appropriate discount factor. Changes to these estimates and assumptions may result in future actual expenditures differing from the amounts currently provided for. The environmental liability is periodically reviewed and updated based on the available facts and circumstances.

New Accounting Pronouncements

Certain pronouncements issued by the IASB or the IFRS Interpretations Committee are mandatory for accounting periods beginning on or after January 1, 2013. These include IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; and Amendments to IAS 1, Presentation of Financial Statements. The Company has adopted these new standards, amendments and interpretations effective July 1, 2013 but they have had no significant impact on its financial information.

Accounting Standards Issued but not yet Applied

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of these consolidated financial statements that are expected to be relevant to the Company are listed below. Certain other standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

a) IAS 32, Financial instruments - presentation

This standard has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The Company has not yet determined the extent of the impact of adopting IAS 32.

b) IFRS 9, Financial Instruments

The IASB aims to replace IAS 39, "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities as well as the chapter dealing with hedge accounting have been issued. The chapter dealing with impairment methodology is still being developed. In November 2011, the IASB decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. In addition, in November 2013, the IASB decided to defer to January 1, 2015 the implementation of IFRS 9. The Company's management has yet to assess the impact of this new standard on the Company's consolidated financial statements. Management does not expect to elect to earlier application of IFRS 9.

c) IFRIC 21, Levies

The IFRS Interpretations Committee has provided guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognize a liability to pay a levy that is accounted in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that this guidance will have a significant effect on the Company's consolidated financial statements.

FINANCIAL RISK FACTORS

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include liquidity risk, currency risk, credit risk and interest rate risk. Where material, these risks are reviewed by the board of directors.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required for continued operations through future financings (see '*Going Concern* Assumption' section).

The following table summarizes the contractual maturities of the Company's financial liabilities at June 30, 2014:

	June 30, 2014				
	Carrying amount	Settlement amount	Within 1 year	2-3 years	Over 3 years
	$	$	$	$	$
Accounts payable and accrued liabilities	1,987,950	1,987,950	1,987,950	-	-
Promissory note and interest	7,473,900	8,200,000	8,200,000	-	-
Balance of purchase price payable	1,434,850	2,670,000	-	1,335,000	1,335,000
	10,896,700	12,857,950	10,187,950	1,335,000	1,335,000

At June 30, 2013, the carrying amount of the contractual maturities of the Company's financial liabilities, consisting of accounts payable and accrued liabilities in the amount of $407,745, is equal to the settlement amount.

Currency Risk

In the normal course of operations, the Company is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of each of the entities within the consolidated group. The currency in which these transactions are denominated is primarily the US dollar. The consolidated entity seeks to minimize its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximize the consolidated entity's position. The consolidated entity does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are entered into at spot rates. The board considers this policy appropriate, taking into account the consolidated entity's size, current stage of operations, financial position and the board's approach to risk management. At June 30, 2014, assets and liabilities denominated in a foreign currency consisted of cash of $1,308,798, prepaid expenses and other of $22,192 and accounts payable and accrued liabilities of $250,276. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately $108,000.

Credit Risk

At June 30, 2014, the Company's financial assets exposed to credit risk are primarily composed of cash. To mitigate exposure to credit risk, the Company has established a policy to ensure counterparties demonstrate minimum acceptable credit worthiness, and to ensure liquidity of available funds. The Company's cash is held with large financial institutions, with most of the Company's cash held with a Canadian-based financial institution.

Interest Rate Risk

The Company's interest rate risk relates to cash. The Company's current policy on its cash balances is to invest excess cash in guaranteed investment certificates or interest bearing accounts with major Canadian-based chartered banks. The Company regularly monitors compliance to its cash management policy. Cash is subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect profit or loss by approximately $33,000. Given that the promissory note bears interest at a fixed rate, future cash flows related to the promissory note will not fluctuate due to changes in interest rate. However, changes to market interest rates expose the Company to variations in fair value.

OTHER RISKS AND UNCERTAINTIES

The Company is subject to a number of significant risks and uncertainties which includes but are not limited to the nature of its business and the present stage of exploration and development of its mineral projects, the requirement for additional funds to settle its current obligations, to complete its acquisitions and to pursue its exploration and development activities on all its projects.. Failure to successfully address such risks and uncertainties could have a significant negative impact on the Company's overall operations and financial condition and could materially affect the value of the Company's assets and future operating results. Therefore, an investment in the securities of the Company involves significant risks and should be considered speculative. The risks and uncertainties described herein are not necessarily the only ones that the Company could be facing. The Company cannot give assurance that it will successfully address these risks or other unknown risks that may affect its business. Readers should carefully consider the risks and uncertainties described below.

Company Specific Risks

- The Company may be unable to complete the JV with AMCI. The Company may be unable to reimburse the US$7 million Note due to Orvana by December 15, 2014 and may have to forfeit its rights and interest in the Copperwood Project under the terms of the secured Note.
- The Company may be unable to continue funding the exploration and development of its projects.
- The Company may be unable to complete the acquisition of the White Pine Project if it cannot meet the final closing conditions.
- The Company is subject to environmental risks related to the fact that the White Pine Project is subject to a consent decree and, as part of the acquisition of White Pine, the Company may have to assume certain environmental responsibilities related to the closure of the former White Pine Mine.
- The Company may be unable to complete a feasibility study by October 26, 2015 and acquire a 65% interest in the Keweenaw Project. Extensive technical, economic, legal, social and environmental studies as well as substantial expenditures will be required to complete a feasibility study for the Keweenaw Project.
- Future issuance of common shares into the public market may result in dilution to the existing shareholders.
- There is no assurance that minerals will be discovered in sufficient quantities to justify commercial operations and the projects may not be economically viable.
- The Company's exploration activities are subject to certain environmental liabilities.
- The Company may not obtain all necessary permits to conduct its activities and operate a mine.
- The Company faces substantial competition within the mining industry from other mineral companies with much greater financial and technical resources.

- The Company has no experience in mine production.
- The Company has no history of earnings and does not expect to receive revenues from operations in the foreseeable future; the Company may never achieve profitability, which may cause the market price of the Company's common shares to decline.
- Certain directors and senior officers of the Company also serve as officers and/or directors of other mineral resource companies, which may give rise to conflicts.

Industry Risks

- Mineral exploration and development is a high risk, speculative business. Few properties that are explored are ultimately developed into producing mines.
- Mineral exploration is subject to geological uncertainties and interpretation.
- Mineral exploration is subject to numerous industry operating hazards and risks, many of which are beyond the Company's control.
- Substantial expenditures are required to explore mineral projects, define mineral resources, and complete all metallurgical, engineering, environmental, financial and other studies required to complete a feasibility study.
- Changes in mining and environmental laws.
- Necessary permits to operate may not be granted or may be granted later than anticipated.
- Current economic uncertainties globally have created market volatility and risk aversion among investors, limiting capital raising options.
- Commodity prices including the price of copper have fluctuated widely in the past and are expected to continue to do so in the future.
- Mining operations including exploration and development activities are subject to numerous laws and regulations.
- Title to mineral rights and surface rights may be disputed.
- Social and environmental groups may be opposed to the development of mining projects.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made. Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking information.

Specifically, this MD&A contains forward-looking information regarding the Company's plans going forward including plans to form a JV with AMCI or complete other form of financing to fund the Company's activities and the repayment of the Note, plans to complete the acquisition of the White Pine Project and of a 65% interest in the Keweenaw Project, and plans to complete technical studies, a second phase drilling program and a resource estimate at White Pine North. Other forward looking information in this MD&A includes, but is not limited to, forward-looking information with respect to the requirement for additional capital and other statements relating to the financial and business prospects of the Company.

There can be no assurance that the Company will be successful in its efforts to complete its plans and achieve its objectives and that such forward-looking information will prove to be accurate. Actual results could differ materially from those currently anticipated due to any number of factors, including the inability of the Company to secure the funds necessary to meet its plans, the inability to complete a resource estimates and technical study, the conclusions of such study, and other variables such as lower than expected grades and quantities of resources, changes in demand for and prices of copper, mining rates and recovery rates, legislative, environmental and other regulatory approval or political changes.

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 information, except as may be required by law.

Additional Information and Continuous Disclosure

This MD&A has been prepared as at October 9, 2014. Additional information on the Company is available through regular filings of press releases, financial statements and MD&A on SEDAR (www.sedar.com) and on the Company's website (www.highlandcopper.com).