# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**2nd Quarter ended December 31, 2015**

In Canadian Dollars

**Unaudited**

**NOTICE TO READER**

The accompanying unaudited condensed interim consolidated financial statements of Highland Copper Company Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

# Highland Copper Company Inc.
## Condensed Interim Consolidated Statements of Financial Position

| (unaudited, in Canadian dollars) | December 31, 2015 | June 30, 2015 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| Current | | |
| Cash | **1,197,495** | 1,042,341 |
| Sales taxes receivable | **36,201** | 54,496 |
| Prepaid expenses and other | **26,646** | 52,441 |
| | **1,260,342** | 1,149,278 |
| Non-current | | |
| Capital assets (Note 4) | **196,720** | 233,615 |
| Exploration and evaluation assets (Note 5) | **69,885,674** | 61,568,034 |
| **TOTAL ASSETS** | **71,342,736** | 62,950,927 |
| | | |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | **2,166,390** | 3,146,097 |
| Due to a related party (Note 13) | **1,289** | 8,022 |
| Deposit on sale of royalty (Note 6) | **10,000,000** | 10,000,000 |
| | **12,167,679** | 13,154,119 |
| Non-current | | |
| Balance of purchase price payable (Note 7) | **2,701,691** | 2,207,430 |
| Environmental liability (Note 8) | **320,383** | 281,749 |
| **TOTAL LIABILITIES** | **15,189,753** | 15,643,298 |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 9) | **51,754,469** | 48,115,461 |
| Contributed surplus | **6,220,132** | 6,173,571 |
| Deficit | **(14,570,142)** | (13,592,922) |
| Cumulative translation adjustment | **12,748,524** | 6,611,519 |
| **TOTAL EQUITY** | **56,152,983** | 47,307,629 |
| **TOTAL LIABILITIES AND EQUITY** | **71,342,736** | 62,950,927 |

Going concern (Note 2); Commitments and contingencies (Notes 5, 6 and 11).

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

On behalf of the Board,

*/s/ David Fennell*
David Fennell, Director

*/s/ Jo Mark Zurel*
Jo Mark Zurel, Director

# Highland Copper Company Inc.
## Condensed Interim Consolidated Statements of Comprehensive Income

| *(unaudited, in Canadian dollars)* | 2nd Quarter ended December 31, 2015 | 2014 | Six months ended December 31, 2015 | 2014 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| **Expenses and other items** | | | | |
| Management and administration (Note 12) | **199,340** | 1,008,301 | **680,322** | 2,091,992 |
| Pre-exploration | **31,458** | - | **31,458** | 79,204 |
| Write-down of exploration and evaluation assets (Note 5) | **273,883** | - | **273,883** | - |
| Accretion on environmental liability (Note 8) | **3,908** | 4,528 | **7,816** | 8,862 |
| Finance income | **(2,340)** | (582) | **(2,928)** | (4,674) |
| Loss (gain) on foreign exchange | **(12,481)** | (777) | **(13,331)** | 1,206 |
| **Net loss for the period** | **(493,768)** | (1,011,470) | **(977,220)** | (2,176,590) |
| Other comprehensive income | | | | |
| Item that will not be subsequently reclassified to income | | | | |
| Foreign currency translation adjustment | **2,329,356** | 1,229,559 | **6,137,005** | 2,866,427 |
| **Total comprehensive income for the period** | **1,835,588** | 218,089 | **5,159,785** | 689,837 |
| Basic and diluted loss per common share | **(0.00)** | (0.01) | **(0.01)** | (0.02) |
| Weighted average number of common shares - basic and diluted | **152,375,598** | 96,966,745 | **140,958,895** | 96,966,745 |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Highland Copper Company Inc.
## Condensed Interim Consolidated Statements of Shareholders' Equity

| *(unaudited, in Canadian dollars)* | Number of issued and outstanding common shares | Share capital | Contributed surplus | Deficit | Cumulative translation adjustment | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at June 30, 2015 | 129,542,192 | 48,115,461 | 6,173,571 | (13,592,922) | 6,611,519 | 47,307,629 |
| Private placement (Note 9) | **24,426,434** | **3,663,965** | **-** | **-** | **-** | **3,663,965** |
| Share issue expenses | **-** | **(24,957)** | **-** | **-** | **-** | **(24,957)** |
| Share-based remuneration | **-** | **-** | **46,561** | **-** | **-** | **46,561** |
| | **24,426,434** | **3,639,008** | **46,561** | **-** | **-** | **3,685,569** |
| Loss for the period | **-** | **-** | **-** | **(977,220)** | **-** | **(977,220)** |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustment | **-** | **-** | **-** | **-** | **6,137,005** | **6,137,005** |
| **Balance at December 31, 2015** | **153,968,626** | **51,754,469** | **6,220,132** | **(14,570,142)** | **12,748,524** | **56,152,983** |
| Balance at June 30, 2014 | 96,966,745 | 41,394,661 | 4,221,734 | (10,450,128) | 248,024 | 35,414,291 |
| Share-based remuneration | - | - | 742,819 | - | - | 742,819 |
| Loss for the period | - | - | - | (2,176,590) | - | (2,176,590) |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustment | - | - | - | - | 2,866,427 | 2,866,427 |
| Balance at December 31, 2014 | 96,966,745 | 41,394,661 | 4,964,553 | (12,626,718) | 3,114,451 | 36,846,947 |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

# Highland Copper Company Inc.
## Condensed Interim Consolidated Statements of Cash Flows

| | 2nd Quarter ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| *(unaudited, in Canadian dollars)* | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| **Operating activities** | | | | |
| Net loss for the period | **(493,768)** | (1,011,470) | **(977,220)** | (2,176,590) |
| Adjustments | | | | |
| Share-based remuneration | **18,409** | 161,187 | **28,324** | 634,008 |
| Depreciation and amortization | **8,045** | 7,558 | **13,215** | 15,116 |
| Write-down of exploration and evaluation assets | **273,883** | - | **273,883** | - |
| Unrealized gain on foreign exchange | **(12,481)** | (1,983) | **(13,331)** | - |
| Accretion on environmental liability | **3,908** | 4,528 | **7,816** | 8,862 |
| Finance income accrued | **(2,340)** | (582) | **(2,928)** | (4,674) |
| Finance income received | **1,988** | 1,136 | **3,210** | 5,723 |
| Changes in working capital items | | | | |
| Sales taxes receivable | **(23,251)** | 16,599 | **18,295** | 93,507 |
| Prepaid expenses and other | **17,227** | (13,834) | **26,075** | (39,870) |
| Accounts payable and accrued liabilities | **(385,826)** | 74,949 | **(216,856)** | (281,022) |
| Due to a related party | **1,289** | - | **(6,733)** | - |
| | **(592,917)** | (761,912) | **(846,250)** | (1,744,940) |
| **Investing activities** | | | | |
| Acquisition of capital assets | **(31,681)** | (2,078) | **(33,127)** | (50,248) |
| Proceeds on disposal of capital assets | **-** | 1,152 | **-** | 27,837 |
| Additions to exploration and evaluation assets | **(1,952,284)** | (1,690,388) | **(2,600,191)** | (2,851,164) |
| | **(1,983,965)** | (1,691,314) | **(2,633,318)** | (2,873,575) |
| **Financing activities** | | | | |
| Issue of shares | **3,663,965** | - | **3,663,965** | - |
| Share issue expenses | **(24,957)** | - | **(24,957)** | - |
| Deposit on sale of royalty | **-** | 10,000,000 | **-** | 10,000,000 |
| Reimbursement of promissory note | **-** | (8,141,000) | **-** | (8,141,000) |
| | **3,639,008** | 1,859,000 | **3,639,008** | 1,859,000 |
| Effect of exchange rate changes on cash held in foreign currency | **27,056** | 28,703 | **(4,286)** | 54,403 |
| Net change in cash | **1,089,182** | (565,523) | **155,154** | (2,705,112) |
| Cash, beginning of period | **108,313** | 1,103,121 | **1,042,341** | 3,242,710 |
| Cash, end of period | **1,197,495** | 537,598 | **1,197,495** | 537,598 |
| **Supplemental cash flow information** | | | | |
| Current liabilities related to exploration and evaluation assets | **(982,414)** | 442,517 | **(871,851)** | 872,189 |
| Depreciation and amortization included in exploration and evaluation assets | **31,179** | 66,128 | **77,993** | 140,482 |
| Share-based remuneration included in exploration and evaluation assets | **9,118** | 27,495 | **18,237** | 108,811 |
| Finance expense included in exploration and evaluation assets | **120,412** | 124,046 | **244,260** | 254,142 |
| Gain on disposal of assets included in exploration and evaluation assets | **-** | (322) | **-** | (7,774) |

*The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.*

## 1. GENERAL INFORMATION

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

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 project and other target areas (the "Keweenaw Project").

To date, the Company has not earned significant revenues and is considered to be in the exploration and development stage. All financial results in these unaudited condensed interim consolidated financial statements are expressed in Canadian dollars unless otherwise indicated. Highland's common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol HI.

The Board of Directors approved these unaudited condensed interim consolidated financial statements on February 25, 2016.

## 2. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared on the basis of a going concern, which assumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities, including the successful completion of the acquisition of the White Pine Project and raising additional funds.

As is common with many exploration and development companies, the Company has relied on equity financing to fund its operations, including its investments in exploration and evaluation assets. The Company has incurred a net loss of $977,220 during the six months ended December 31, 2015 and has a deficit of $14,570,142 at December 31, 2015. The Company has a working capital deficiency of $10,907,337 at December 31, 2015, including a deposit on sale of a royalty of $10,000,000 from Osisko Gold Royalties Ltd. (“Osisko”), which upon the expected completion of the acquisition of the White Pine Project will be exchanged for the White Pine Royalty (Note 6). The completion of the acquisition of the White Pine Project is dependent on a number of factors, not all of which are under the Company’s control, and as such, there is no assurance that the Company will complete the acquisition of the White Pine Project. If the acquisition of the White Pine Project is not completed by February 29, 2016 and if at that time Osisko does not agree to a further extension of the maturity date of the deposit, the deposit on sale of a royalty of $10,000,000 will become refundable (see Notes 5 and 6 for detail of the extensions obtained to complete the acquisition of the White Pine Project).

The Company requires additional funds to settle its working capital deficiency, to complete the acquisition of the White Pine Project, 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. Such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements. If the Company is not successful in raising additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

The conditions and uncertainties described above indicate the existence of material uncertainties 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 these unaudited condensed interim consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.

## 3. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and follow the same accounting policies as the Company's most recent annual consolidated financial statements. They do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2015 and 2014 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

*Significant accounting judgements and estimates*

The preparation of these condensed interim 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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim 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: a) the Company completing the final acquisition of the White Pine Project; b) no indicators of impairment of exploration and evaluation assets; and c) sufficiency of the environmental liability.

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 4. CAPITAL ASSETS

Capital assets subject to depreciation and amortization are as follows:

| | Intangible assets | Vehicles | Computer equipment and furniture | Exploration equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Balance at June 30, 2015 | 28,254 | 66,890 | 11,980 | 126,491 | - | 233,615 |
| Additions | **-** | **-** | **33,127** | **-** | **-** | **33,127** |
| Depreciation and amortization | **(17,063)** | **(23,801)** | **(8,197)** | **(42,147)** | **-** | **(91,208)** |
| Effect of foreign exchange | **496** | **5,777** | **3,207** | **11,706** | **-** | **21,186** |
| **Balance at December 31, 2015** | **11,687** | **48,866** | **40,117** | **96,050** | **-** | **196,720** |
| | | | | | | |
| Balance at June 30, 2014 | 69,560 | 109,688 | 23,274 | 221,158 | 4,777 | 428,457 |
| Additions | 1,361 | 47,648 | 1,239 | - | - | 50,248 |
| Disposals | - | (20,063) | - | - | - | (20,063) |
| Depreciation and amortization | (27,453) | (43,670) | (9,995) | (69,398) | (5,082) | (155,598) |
| Effect of foreign exchange | 1,948 | 8,765 | 1,798 | 18,053 | 305 | 30,869 |
| Balance at December 31, 2014 | 45,416 | 102,368 | 16,316 | 169,813 | - | 333,913 |

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 5. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

| | Six months ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| **Cost of acquiring mineral properties** | | |
| Balance, beginning | **32,782,114** | 26,255,698 |
| Property payments in cash | **175,437** | 170,725 |
| Accretion on balance of purchase price payable | **244,260** | 254,142 |
| Finance expense on note payable to Orvana | **-** | 567,342 |
| Write-down *(1)* | **(67,521)** | - |
| Effect of foreign exchange | **3,474,384** | 2,266,881 |
| Balance, ending | **36,608,674** | 29,514,788 |
| **Expenses related to exploration and evaluation of mineral properties** | | |
| Balance, beginning | **28,785,920** | 16,390,236 |
| Site preparation, drilling and assaying | **7,099** | 315,660 |
| Labour | **804,986** | 1,119,001 |
| Studies | **498,089** | 1,005,887 |
| Other expenses | **242,729** | 544,738 |
| Gain on disposal of capital assets | **-** | (7,774) |
| Depreciation and amortization | **77,993** | 140,482 |
| Write-down *(1)* | **(206,362)** | - |
| Share-based remuneration | **18,237** | 108,811 |
| Effect of foreign exchange | **3,048,309** | 1,392,047 |
| Balance, ending | **33,277,000** | 21,009,088 |
| **Total exploration and evaluation assets at December 31, 2015** | **69,885,674** | 50,523,876 |

*(1) Resulting from the non renewal of certain leased properties located in the Upper Peninsula of the State of Michigan.*

Cumulative amounts invested by project are as follows:

| | **December 31,** | June 30, |
|---|---|---|
| | **2015** | 2015 |
| | **$** | $ |
| White Pine | **18,581,317** | 15,447,201 |
| Copperwood | **33,481,196** | 29,804,661 |
| Keweenaw | **17,352,573** | 15,642,832 |
| Others | **470,588** | 673,340 |
| | **69,885,674** | 61,568,034 |

**5. EXPLORATION AND EVALUATION ASSETS** (continued)

*White Pine Project*

In December 2015, the Company entered into an agreement with Copper Range Company ("CRC"), a subsidiary of First Quantum Minerals Ltd., to extend the period to complete the acquisition of the White Pine Project from December 31, 2015 to March 31, 2016. The final closing of the acquisition of the White Pine Project will be completed once Highland has (i) released CRC of a US$2.85 million financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation 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 the White Pine Project and will also be responsible for all on-going environmental obligations.

Upon completion of a feasibility study and receipt of all necessary permits for the development of a mine at White Pine, the Company will pay to CRC in cash or in common shares of Highland, at the option of the CRC, an amount equal to $0.005 (one half of one cent) per pound for the first 1 billion pounds of proven and probable reserves of copper and $0.0025 (one quarter of one cent) for each additional pound of proven and probable reserves of copper.

Under a 20-year lease agreement, with an option for an additional 5 years, for certain mineral rights located in White Pine, Michigan, additional cash payments of US$425,000 and US$150,000 will be payable in April 2016 and April 2017, respectively. Annual rent will also be payable on each anniversary of the lease. Upon commencement of production, Highland will have to pay a sliding scale royalty on copper and silver production from the leased mineral rights with a base royalty of 2% for copper and 2.5% for silver. The Company has an option to repurchase 50% of the royalties. Highland may terminate the lease at any time upon a 30 day notice.

**5. EXPLORATION AND EVALUATION ASSETS** (continued)

*Copperwood Project*

As part of the acquisition of the Copperwood project from Orvana Minerals Corp., a TSX-listed company ("Orvana"), through the acquisition of all of the outstanding shares of Orvana Resources US Corp. ("Orvana US"), the Company may be required to pay as additional consideration up to US$5 million in cash or shares of Highland, at Orvana's option, of which US$2.5 million has been accounted for as the "Future Consideration" described in Note 7. An amount of US$1.25 million may also be payable 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 payment of 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. This contingent liability of US$2.5 million will only be recognized if and when the contingency is satisfied.

The Copperwood Project consists of a number of mineral leases, which call for annual rent payments until 2036. The mineral leases are also subject to quarterly NSR royalty payments and will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. Under the mineral leases, Orvana US will have mineral rights until the later of the 20th anniversary of the date of the lease or the date Orvana US ceases to be actively engaged in development, mining, or related operations on the property. The mineral leases may be terminated by Orvana US, the Company's wholly owned subsidiary, on 60 days' notice.

*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 Project by spending US$11,500,000 in exploration and development work and providing a feasibility study by a specified date. In November 2015, BRP and the Company agreed to amend the Venture Agreement to provide the Company more time to exercise its option. Under the amended Venture Agreement, the period to provide a feasibility study on at least one deposit covered by the Venture Agreement was extended from October 26, 2015 to December 31, 2017. As consideration for this extension, the Company agreed to secure some of the shafts located on the Keweenaw property and has submitted a budget for environmental work to be completed as part of the feasibility study. At December 31, 2015, a cumulative amount of US$13,095,000 in eligible expenditures had 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 property. 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%.

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 6. DEPOSIT ON SALE OF ROYALTY

On December 15, 2014, Osisko Gold Royalties Ltd. ("Osisko") made a $10 million refundable deposit on a 3% sliding-scale NSR royalty on all metals from the White Pine Project (the "White Pine Royalty"). The Osisko deposit is secured against all of the Company's assets. Upon completion of the acquisition of the White Pine Project, the Osisko deposit will be exchanged for the White Pine Royalty. In the event the acquisition of the White Pine Project is not completed by the maturity date of the deposit, the Osisko deposit will need to be refunded and will bear interest at the rate of Libor + 5% until it is refunded. In December 2015, the maturity date of the deposit was extended from December 31, 2015 to January 31, 2016. A second extension to February 29, 2016 was subsequently agreed to. The White Pine Royalty will have a base rate of 3% and will increase by 0.01% for every $0.01 increase in the copper price above $3.00 per pound.

In connection with the White Pine Royalty, the Company has granted to Osisko an option to purchase for US$26 million any future silver production from the Company's projects, including White Pine, Copperwood and Keweenaw (the "Michigan Projects"). Osisko may elect to exercise the option to purchase the silver production by paying US$26 million to the Company within 60 days following the delivery to Osisko of a feasibility study on the Michigan Projects.

## 7. BALANCE OF PURCHASE PRICE PAYABLE

The estimated fair value of the Future Consideration payable to Orvana (Note 5) was accounted for using a discount rate of 20%. The Future Consideration in the amount of US$2,500,000 may be paid by Highland to Orvana in cash or shares of Highland, at Orvana's option, with US$1.25 million payable upon the earliest of (i) commencement of commercial production of Copperwood and (ii) June 17, 2017; and an additional US$1.25 million on the first anniversary of this payment. The balance of purchase price payable at December 31, 2015 was determined as follows:

| | **Six months ended December 31,** | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| Balance, beginning of period | **2,207,430** | 1,434,850 |
| Accretion expense | **244,260** | 254,142 |
| Effect of foreign exchange | **250,001** | 129,518 |
| Balance, end of period | **2,701,691** | 1,818,510 |

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 8. ENVIRONMENTAL LIABILITY

Changes to the environmental liability, which consists of reclamation costs related to the White Pine Project, are as follows:

| | Six months ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| Balance, beginning of period | **281,749** | 225,022 |
| Accretion expense | **7,816** | 8,862 |
| Effect of foreign exchange | **30,818** | 19,660 |
| Balance, end of period | **320,383** | 253,544 |

## 9. SHARE CAPITAL AND WARRANTS

*Issued and fully paid*

At December 31, 2015, the Company had 153,968,626 issued and outstanding common shares (129,542,192 at June 30, 2015).

*Issuance of shares*

On October 6, 2015, the Company completed a non brokered private placement of 24,426,434 common shares with Osisko at a price of $0.15 per share for gross proceeds of $3,663,965. Following completion of the private placement, Osisko owns 29,420,434 shares (representing approximately 19.1% of the issued and outstanding shares of Highland on a non-diluted basis).

*Share purchase warrants*

There was no activity in share purchase warrants during the six months ended December 31, 2015 and 2014. The following table reflects the number of issued and outstanding share purchase warrants at December 31, 2015 and June 30, 2015:

| | **Number of warrants** | Price per share | Expiry date |
|---|---|---|---|
| | | $ | |
| Private placement – May 2012 | **41,250,000** | 0.75 | Mar 31, 2016 |
| Private placement – March 11, 2015 | **12,275,020** | 0.50 | Sep 11, 2016 |
| Private placement – March 20, 2015 | **1,680,000** | 0.50 | Sep 20, 2016 |
| Private placement – March 27, 2015 | **1,250,353** | 0.50 | Sep 27, 2016 |
| | **56,455,373** | 0.68 | |
| Average price | **0.68** | | |

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 10. STOCK OPTIONS

The following table sets out the activity in stock options:

| | **2nd Quarter ended December 31, 2015** | | 2nd Quarter ended December 31, 2014 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price ($)** | Number | Weighted average exercise price ($) |
| Options, beginning of period | **7,597,000** | **0.49** | 4,442,000 | 0.59 |
| Granted | **200,000** | **0.13** | 1,400,000 | 0.50 |
| Expired | **(90,000)** | **(0.37)** | (70,000) | (0.85) |
| Options, end of period | **7,707,000** | **0.48** | 5,772,000 | 0.57 |

The following table reflects the stock options issued and outstanding at December 31, 2015:

| Issue date | Number of options | Exercise price | Remaining contractual life | Number of exercisable options | Exercise price of exercisable options |
|---|---|---|---|---|---|
| | | **$** | (years) | | $ |
| September 22, 2006 | 2,000 | 1.00 | 0.8 | 2,000 | 1.00 |
| July 6, 2012 | 400,000 | 0.50 | 1.5 | 400,000 | 0.50 |
| November 5, 2012 | 3,850,000 | 0.60 | 1.8 | 3,850,000 | 0.60 |
| August 1, 2014 | 1,400,000 | 0.50 | 3.6 | 1,400,000 | 0.50 |
| April 21, 2015 | 1,855,000 | 0.25 | 4.3 | 343,333 | 0.25 |
| November 20, 2015 | 200,000 | 0.13 | 4.9 | 66,667 | 0.13 |
| | 7,707,000 | 0.48 | 2.8 | 6,062,000 | 0.55 |

At December 31, 2015, an amount of $61,447 remains to be amortized in future periods (until November 2017) related to the grant of stock options.

## 11. CONTINGENCY

In February 2016, the Company's interim president and CEO tendered his resignation. As full and final settlement of all unpaid amounts related to his employment with the Company due at that time, the Company has agreed to pay to its former president and CEO a lump sum amount of US$150,000 in cash on the earliest of (a) five business days following the completion by the Company of an equity or debt financing or an asset sale of at least $10 million, and (b) five business days following the completion of a corporate transaction such as a business combination.

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 12. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

| | 2nd Quarter ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Administrative and general *(1)* | **(7,776)** | 442,761 | **290,238** | 750,969 |
| Office | **58,934** | 59,956 | **122,458** | 109,965 |
| Professional fees | **111,446** | 245,448 | **203,101** | 396,965 |
| Investor relations and travel | **7,312** | 81,164 | **17,783** | 170,744 |
| Reporting issuer costs | **2,970** | 10,227 | **5,203** | 14,225 |
| | **172,886** | 839,556 | **638,783** | 1,442,868 |
| Share-based remuneration | **18,409** | 161,187 | **28,324** | 634,008 |
| Depreciation and amortization | **8,045** | 7,558 | **13,215** | 15,116 |
| | **199,340** | 1,008,301 | **680,322** | 2,091,992 |

*(1) Includes an adjustment for unpaid salaries and benefits to the Company's former president and CEO following his resignation in February 2016, described in Note 11.*

## 13. RELATED PARTY TRANSACTIONS

During the 2nd Quarter and the six months ended December 31, 2015, the Company incurred administration expenses of $72,039 and $186,016, respectively from Reunion Gold Corporation, a related party by virtue of common management and directors ($139,215 and $257,907 during the 2nd Quarter and the six months ended December 31, 2014, respectively). During the 2nd Quarter and the six months ended December 31, 2015, the Company purchased geological services for amounts of $7,531 and $18,301, respectively from Avala Resources Ltd., a related party by virtue of common management and directors (nil during the comparative periods). During the 2nd Quarter ended December 31, 2015, the Company purchased office furniture and computer equipment for an amount of $31,681 from Reunion Gold Corporation (nil during the comparative period in 2014). These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

*Remuneration of directors and key management of the Company*

The remuneration awarded to directors and to senior key management, including the Executive Chairman, the interim President and CEO, the Executive Vice-President and the CFO, is as follows:

| | 2nd Quarter ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Salaries, benefits and director fees (Note 12) | **(89,559)** | 237,094 | **80,897** | 333,544 |
| Consulting fees | **89,084** | 78,858 | **210,261** | 183,760 |
| Share-based remuneration | **19,204** | 135,517 | **29,916** | 532,378 |
| | **18,729** | 451,469 | **321,074** | 1,049,682 |

**December 31, 2015** *(unaudited - in Canadian dollars)*

## 14. SEGMENTED INFORMATION

The Company has one reportable operating segment being the acquisition and exploration of mineral properties in Michigan, USA. Assets are located as follows:

| | | | **December 31, 2015** |
|---|---|---|---|
| | **Canada** | **USA** | **Total** |
| | **$** | **$** | **$** |
| Current assets | **1,218,195** | **42,147** | **1,260,342** |
| Capital assets | **42,456** | **154,264** | **196,720** |
| Exploration and evaluation assets | **-** | **69,885,674** | **69,885,674** |
| Total assets | **1,260,651** | **70,082,085** | **71,342,736** |

| | | | June 30, 2015 |
|---|---|---|---|
| | Canada | USA | Total |
| | $ | $ | $ |
| Current assets | 1,107,655 | 41,623 | 1,149,278 |
| Capital assets | 20,725 | 212,890 | 233,615 |
| Exploration and evaluation assets | - | 61,568,034 | 61,568,034 |
| Total assets | 1,128,380 | 61,822,547 | 62,950,927 |

HIGHLAND
Copper Company Inc.

# MANAGEMENT'S DISCUSSION & ANALYSIS

**2nd Quarter ended December 31, 2015**

# HIGHLAND COPPER COMPANY INC.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 2nd QUARTER ENDED DECEMBER 31, 2015

*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 February 25, 2016, covers the 2nd Quarter ended December 31, 2015 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes at December 31, 2015 (the "December 31, 2015 condensed interim consolidated financial statements"). Readers should also refer to the Company's MD&A for the year ended June 30, 2015, including the description of risks and uncertainties, and the audited consolidated financial statements for the years ended June 30, 2015 and 2014. 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. The Company's mineral projects are located in Michigan, USA. Highland's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol HI. At February 25, 2016, the Company had 153,968,626 common shares issued and outstanding.

The Company has assembled a number of advanced-stage copper projects located in Michigan's Upper Peninsula region, including **Copperwood**, a feasibility stage project, acquired in June 2014 from Orvana Minerals Corp. ("Orvana"), **White Pine,** subject to final closing pursuant to the May 2014 agreement with Copper Range Company ("CRC"), a wholly-owned subsidiary of First Quantum Minerals Ltd. (see *Highlights* section for detail of the extensions obtained to complete the acquisition of the White Pine project), 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). In addition, the Company has entered into lease agreements entitling the Company to explore and develop certain other projects located in the same area.

***FINANCIAL CONDITION***

At December 31, 2015, the Company had a working capital deficit of $10,907,337. This amount includes a $10,000,000 refundable deposit (made by Osisko Gold Royalties Ltd., a TSX-listed company ("Osisko") in December 2014), secured against all of the Company's assets, to be exchanged for a royalty on all metals from the White Pine project on final completion of the acquisition of the White Pine project.

On October 6, 2015, the Company completed a private placement of 24,426,434 shares with Osisko at a price of $0.15 per share for a total consideration of $3,663,965. However, the Company will require additional funds to meet its exploration and development objectives, to provide an environmental financial assurance required to complete the acquisition of White Pine, and to provide for management and administration expenses for at least the next 12 months. Such funding requirements may be met in the future in a number of ways, including the issuance of securities, debt financing, joint venture or other arrangements. There can be no assurance that the Company will be able to raise the funds required. If the Company is not successful in raising additional funds and is not able to complete the acquisition of the White Pine project, the Company may not be able to refund the $10,000,000 deposit described above and it may be required to delay, reduce the scope of, or eliminate its future exploration and development activities. The Company continues to assess different options to finance its exploration and development plans and ongoing obligations.

***HIGHLIGHTS***

- In December 2015, the Company entered into an agreement with CRC to extend the period to complete the acquisition of the White Pine project from December 31, 2015 to March 31, 2016. The Company also entered into an agreement with Osisko to extend the maturity of the $10,000,000 refundable deposit on a 3% sliding-scale NSR royalty on all metals from the White Pine project from December 31, 2015 to January 31, 2016, with a further extension granted subsequently by Osisko to February 29, 2016;
- Discussions are continuing with representatives from CRC, the Michigan Department of Environmental Quality ("MDEQ") and Highland, supported by various experts in the fields of environmental assessments and water management, with the aim of determining the amount of the environmental financial assurance and completing the final acquisition of the White Pine project as soon as is permissible; the Company may need to seek additional extensions from both CRC and Osisko to complete the final acquisition of the White Pine project but there is no assurance that such extensions will be granted;
- On October 6, 2015, the Company completed a non-brokered private placement of 24,426,434 common shares with Osisko at a price of $0.15 per share for gross proceeds of $3,663,965. Following completion of the private placement, Osisko owns 29,420,434 shares, representing approximately 19.1% of the issued and outstanding shares of Highland on a non-diluted basis;
- In November 2015, BRP LLC and the Company agreed to amend the Venture Agreement to provide the Company more time to exercise its option to acquire a 65% interest in the Keweenaw project from BRP. Under the amended Venture Agreement, the period to provide a feasibility study on at least one deposit covered by the Venture Agreement was extended from October 26, 2015 to December 31, 2017. As consideration for this extension, the Company has agreed to secure some of the shafts located on the Keweenaw property and has submitted a budget for environmental work to be completed as part of the feasibility study;
- Given the Company's limited financial resources and the current copper price environment, the Company has suspended all of its exploration and development activities, including all field work and pre-feasibility and environmental baseline studies, to conserve cash. Additional drilling on the Company's projects, studies and metallurgical tests required for the completion of a pre-feasibility study will recommence as soon as the Company has raised the required funds;
- On February 9, 2016, the Company's interim president and CEO tendered his resignation. Mr. David Fennell, the Company's Executive Chairman, will serve as interim president and CEO of the Company.

***EXPLORATION EXPENSES***

Amounts invested in exploration and evaluation assets and capitalized in accordance with the Company's accounting policy, during the six months ended December 31, 2015 are as follows:

| | **Six months ended December 31,** | |
|---|---|---|
| | **2015** | 2014 |
| | **$** | $ |
| Property payments | **175,437** | 170,725 |
| Site preparation, drilling and assaying | **7,099** | 315,660 |
| Labour | **804,986** | 1,119,001 |
| Studies | **498,089** | 1,005,887 |
| Finance expense on promissory note | **-** | 567,342 |
| Other expenses | **242,729** | 544,738 |
| | **1,728,340** | 3,723,353 |
| **Non-cash items** | | |
| Depreciation and amortization | **77,993** | 140,482 |
| Gain on disposal of capital assets | **-** | (7,774) |
| Write-down | **(273,883)** | |
| Share-based remuneration | **18,237** | 108,811 |
| Accretion on purchase price payable | **244,260** | 254,142 |
| Effect of foreign exchange | **6,522,693** | 3,658,928 |
| | **6,589,300** | 4,154,589 |
| | **8,317,640** | 7,877,942 |

Cumulative amounts invested by projects are as follows:

| | **December 31,** | June 30, |
|---|---|---|
| | **2015** | 2015 |
| | **$** | $ |
| Copperwood | **33,481,196** | 29,804,661 |
| White Pine | **18,581,317** | 15,447,201 |
| Keweenaw | **17,352,573** | 15,642,832 |
| Others | **470,588** | 673,340 |
| | **69,885,674** | 61,568,034 |

## *SELECTED CONSOLIDATED FINANCIAL INFORMATION (1 )(2)*

The following selected financial information should be read in conjunction with the Company's December 31, 2015 condensed interim consolidated financial statements.

| | **December 31, 2015** | June 30, 2015 |
|---|---|---|
| | **$** | $ |
| **Financial position** | | |
| Cash | **1,197,495** | 1,042,341 |
| Working capital deficit (a) | **(10,907,337)** | (12,004,841) |
| Exploration and evaluation assets | **69,885,674** | 61,568,034 |
| Total assets | **71,342,736** | 62,950,927 |
| Balance of purchase price payable | **2,701,691** | 2,207,430 |

(a) Including a $10,000,000 deposit on sale of royalty to Osisko

| | **2nd Quarter ended December 31,** | | **Six months ended December 31,** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$** | $ | **$** | $ |
| Net loss for the period | **(493,768)** | (1,011,470) | **(977,220)** | (2,176,590) |
| Basic and diluted loss per share | **(0.00)** | (0.01) | **(0.01)** | (0.02) |

1) *The Selected Consolidated Financial Information was derived from the Company's December 31, 2015 condensed interim consolidated financial statements, prepared in accordance with IFRS.*
2) *The Company's December 31, 2015 condensed interim consolidated financial statements have been prepared on the basis of a going concern, which assumes that the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company is subject to a number of risks and uncertainties associated with its future exploration and development activities, including the successful completion of the acquisition of the White Pine project and raising additional funds. If the acquisition of the White Pine project is not completed by February 29, 2016 and if, at that time, Osisko does not agree to a further extension of the maturity date of the deposit, the deposit on sale of a royalty will become refundable. If the Company is not successful in raising additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, any of which could have a negative impact on the business, financial condition and results of operation of the Company. The conditions and uncertainties described above indicate the existence of material uncertainties 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 December 31, 2015 condensed interim consolidated financial statements, adjustments which could be material would be necessary to the carrying value of assets and liabilities, in particular an impairment of exploration and evaluation assets, as well as adjustments to reported expenses.*

*Financial Review*

In accordance with its accounting policy, an amount of $8,317,640 in exploration and evaluation expenses was capitalized during the six months ended December 31, 2015. These include cash expenses of $1,728,340 (consisting mostly of labor, studies and property payments) and non-cash expenses of $6,589,300 including an unrealized foreign exchange loss of $6,522,693 due to the weakening of the Canadian dollar during the reporting period. During the comparative period in 2014, the Company capitalized an amount of $7,877,942 as exploration and evaluation assets, including cash expenses of $3,723,353 (consisting mostly of labor, studies, property payments and finance expense on the Orvana promissory note which was fully reimbursed in December 2014) and non-cash expenses of $4,154,589 including an unrealized foreign exchange loss of $3,658,928 due to the weakening of the Canadian dollar during the 2014 reporting period. The detail of the capitalized exploration and evaluation expenses and the exploration and evaluation assets by project is presented in the *Exploration expenses* section.

The Company incurred a net loss of $493,768 during the 2nd Quarter ended December 31, 2015 compared to a net loss of $1,011,470 during the 2nd Quarter ended December 31, 2014. The reduced loss during the current period is mostly due to lower management and administration expenses which totaled $199,340 during the current period compared to $1,008,301 in 2014. Management and administration expenses in 2015 include an adjustment for unpaid salaries and benefits to the Company's former president and CEO following his resignation in February 2016, lower professional fees (2014 professional fees included legal fees related to the deposit on sale of a royalty to Osisko) and lower share-based remuneration expense (an amount of $18,409 in 2015 compared to $161,187 in 2014, mostly due to the grant in August 2014 of 1,400,000 stock options at a fair value of $0.44 per share compared to 200,000 stock options at a fair value of $0.11 per share during the current period). The reduced management and administration expenses during the current period was partially offset by a write-down of $273,883 resulting from the non renewal of certain leased properties located in the Upper Peninsula of the state of Michigan.

The Company incurred a net loss of $977,220 during the six months ended December 31, 2015 compared to a net loss of $2,176,590 during the six months ended December 31, 2014. The reduced loss during the current period is mostly due to lower management and administration expenses which totaled $680,322 during the current period compared to $2,091,992 in 2014. Management and administration expenses in 2015 include an adjustment for unpaid salaries and benefits to the Company's former president and CEO following his resignation in February 2016, lower professional fees (2014 professional fees included legal, audit and tax fees related to the acquisition of the Copperwood project and legal fees related to the deposit on sale of a royalty to Osisko) and lower share-based remuneration expense (an amount of $28,324 in 2015 compared to $634,008 in 2014, mostly due to the grant in August 2014 of 1,400,000 stock options at a fair value of $0.44 per share compared to 200,000 stock options at a fair value of $0.11 per share during the current period). The reduced management and administration expenses during the current period was partially offset by a write-down of $273,883 resulting from the non renewal of certain leased properties located in the Upper Peninsula of the state of Michigan.

*Selected Quarterly Financial Information*

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

| Period ended | Revenues<br>$ | Net loss<br>$ | Basic and diluted loss per share<br>$ |
|---|---|---|---|
| December 31, 2015 | 2,340 | (493,768) | (0.00) |
| September 30, 2015 | 588 | (483,452) | (0.00) |
| June 30, 2015 | 3,359 | (529,381) | (0.01) |
| March 31, 2015 | 2,325 | (436,823) | (0.00) |
| December 31, 2014 | 582 | (1,011,470) | (0.01) |
| September 30, 2014 | 4,092 | (1,165,120) | (0.01) |
| June 30, 2014 | 3,303 | (846,359) | (0.01) |
| March 31, 2014 | 1,279 | (1,123,722) | (0.02) |

*Liquidity and Capital Resources*

The Company's working capital deficiency at December 31, 2015 totaled $10,907,337 compared to a working capital deficiency of $12,004,841 at June 30, 2015. The reduction in the working capital deficiency during the six months ended December 31, 2015 is mainly attributable to net proceeds of $3,639,008 received on October 6, 2015 from a non brokered private placement with Osisko of 24,426,434 common shares at $0.15 per share, partially offset by investments made on the Company's exploration and evaluation assets ($1,728,340) and by management and administration expenses ($638,783).

The Company requires additional funds to meet its exploration and development objectives and to provide for management and administration expenses for at least the next 12 months. 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 sale of equity capital of the Company, debt financing, joint venture or other arrangements. The ability of the Company to arrange the required financing depends in part upon the global economic and 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 deposit on sale of royalty 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. At December 31, 2015, managed capital was $68,854,674 ($59,515,059 at June 30, 2015). There were no changes in the Company's approach to capital management during the six months ended December 31, 2015. The Company is not subject to any externally imposed capital requirements as at December 31, 2015.

*Off-Balance Sheet Arrangements*

At December 31, 2015, the Company has no off-balance sheet arrangements.

*Transactions with Related Parties*

During the 2nd Quarter and the six months ended December 31, 2015, the Company incurred administration expenses of $72,039 and $186,016, respectively from Reunion Gold Corporation, a related party by virtue of common management and directors ($139,215 and $257,907 during the 2nd Quarter and the six months ended December 31, 2014, respectively). During the 2nd Quarter and the six months ended December 31, 2015, the Company purchased geological services for amounts of $7,531 and $18,301, respectively from Avala Resources Ltd., a related party by virtue of common management and directors (nil during the comparative periods). During the 2nd Quarter ended December 31, 2015, the Company purchased office furniture and computer equipment for an amount of $31,681 from Reunion Gold Corporation (nil during the comparative period in 2014). These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties. The services provided by Reunion under the service agreement include administrative support, corporate and regulatory services, office space and office supplies.

Remuneration to directors and key management of the Company totaled $18,729 and $321,074 during the 2nd Quarter and the six months ended December 31, 2015 ($451,469 and $$1,049,682 during the comparative periods in 2014). Expenses in 2015 include an adjustment for unpaid salaries and benefits to the Company's former president and CEO following his resignation in early February 2016.

*Book Value of Exploration and Evaluation Assets*

At the end of each period, the Company reviews impairment indicators related to its exploration and evaluation assets to determine whether any write-down is necessary. Following this analysis, no write-down was deemed necessary at December 31, 2015.

*Outstanding Share Data*

At February 25, 2016, the Company has 153,968,626 common shares issued and outstanding, 56,455,373 share purchase warrants exercisable at an average price of $0.68 per share until September 27, 2016, and 7,707,000 stock options outstanding with an average exercise price of $0.48, expiring at various dates until November 2020.

**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 '*Financial Condition*' section).

The following table summarizes the contractual maturities of the Company's financial liabilities at December 31, 2015:

| | Carrying Amount | Settlement amount | Within 1 year | 2-3 years | Over 3 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 2,166,390 | 2,166,390 | 2,166,390 | - | - |
| Deposit on sale of royalty | 10,000,000 | 10,000,000 | 10,000,000 | - | - |
| Balance of purchase price payable | 2,701,691 | 3,460,000 | - | 3,460,000 | - |
| | 14,868,081 | 15,626,390 | 12,166,390 | 3,460,000 | - |

As part of the acquisition of the White Pine project, Highland 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 one 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.

As part of acquisition of the Copperwood project from Orvana, the Company agreed to pay an amount of 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 payment of 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.

*Currency Risk*

Highland seeks to minimise its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximize the consolidated entity's position. Highland does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions, denominated primarily in Canadian and US dollars, are entered into at spot rates. The board of directors 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 December 31, 2015, assets and liabilities denominated in a foreign currency consisted of cash of $645,202 and accounts payable and accrued liabilities of $378,053. The impact on profit or loss of a 10% increase or decrease in foreign currencies against the Canadian dollar would be approximately $26,700.

*Credit Risk*

At December 31, 2015, 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 $12,000.

**OTHER RISKS AND UNCERTAINTIES**

The Company is subject to a number of significant risks and uncertainties which are presented below. 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. 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.

- The Company's activities do no generate cash flow and the Company may be unable to continue funding the exploration and development of its projects and achieve its business objectives and milestones. The Company has a working capital deficit and there is a risk that the Company will not be able to meet its financial obligations as they fall due.
- Current economic uncertainties globally have created market volatility and risk aversion among investors limiting the Company's capital raising options.
- The price of copper has declined significantly in recent years and may continue to decline. This could impact the Company's ability to raise new capital and further delay the 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. This would force the Company to refund the $10 million deposit on sale of a royalty to Osisko and would

negatively impact the Company's business; there is no assurance that the Company would be able to obtain further extensions or raise the funds necessary to reimburse the deposit.

- 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 will have to assume certain environmental responsibilities related to the closure of the former White Pine Mine.
- The Company is taking steps to verify title with respect to its most material mineral properties. Although the Company believes that title to its mineral properties are in good standing there is no guarantee that title to such properties will not be challenged or impugned.
- The Company's mineral resource estimates are not mineral reserves. There is no assurance that minerals will be discovered in sufficient quantities to justify commercial operations and that the Company will be able to demonstrate the economic viability of its deposits.
- The Company may not obtain all necessary permits to conduct its activities and operate a mine.
- Future issuance of common shares into the public market may result in dilution to the existing shareholders.
- The Company has no history of earnings and does not expect to receive revenues from operations in the foreseeable future.
- Mining operations including exploration and development activities are subject to numerous laws and regulations, which are subject to continuous changes.
- 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.

**Cautionary Note Regarding Forward-Looking Information**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. 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 raise additional funds to pursue the Company's activities and to meet its current obligations, plans to complete the acquisition of the White Pine project and plans to complete technical studies, additional drilling programs and resource estimates. 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 and obligations, the inability to complete a resource estimate and technical studies, the conclusions of such studies, 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, delays in obtaining or failures to obtain required governmental, environmental or other approvals and sufficient financing, changes in exchange rates, and other factors.

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 February 25, 2016. 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).