

**HIGHLAND COPPER COMPANY INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
– QUARTERLY HIGHLIGHTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019**

The following interim management's discussion and analysis – quarterly highlights ("**Interim MD&A**") of Highland Copper Company Inc. ("**Highland**" or the "**Company**") for the three months ended September 30, 2019 provides material information about the Company's business activities during the interim period and updates disclosure previously provided in the Company's management's discussion and analysis for the year ended June 30, 2019 ("**Annual MD&A**").

This Interim MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months ended September 30, 2019 (the "**Interim Financial Statements**"), the Company's audited consolidated financial statements for the years ended June 30, 2019 and 2018 (the "**Annual Financial Statements**") and the Company's Annual MD&A, including the section describing risks and uncertainties. All financial results presented in this Interim MD&A are expressed in US dollars unless otherwise indicated.

The effective date of this Interim MD&A is November 26, 2019.

***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 the State of Michigan, USA.

The Company has assembled a number of projects located in Michigan's Upper Peninsula region, including **Copperwood**, a feasibility stage copper project, **White Pine North**, a copper development stage project (subject to final closing of its acquisition from Copper Range Company ("**CRC**"), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and a mineral exploration property covering approximately 448,000 acres referred to as the **UPX Property**, which was acquired in May 2017 from Kennecott Exploration Company and Rio Tinto Nickel Company ("**RTX**").

Highland's common shares are listed on the TSX Venture Exchange ("**TSXV**") under the symbol HI and on the OTCQB Venture Marketplace (the "**OTCQB**") under the symbol "HDRSF". At November 26, 2019, the Company has 472,933,689 common shares issued and outstanding. Orion Resource Partners ("**Orion**") and Greenstone Resources II LP ("**Greenstone**") hold respectively 30% and 17.1% of the Company's issued and outstanding common shares.

***FINANCIAL CONDITION AND STRATEGIC REVIEW PROCESS***

At September 30, 2019, the Company had a working capital deficiency of \$19,320,017, including an amount due of \$3,524,043 under a loan provided by Greenstone and Osisko Gold Royalties Ltd ("**Osisko**"), and an amount due of \$15,510,438 to RTX as consideration for the acquisition of the UPX Property in May 2017.

On May 20, 2019, the Company entered into a secured loan agreement (the "**Loan**") with Greenstone and Osisko (collectively, the "**Lenders**"). Under the terms of the Loan, the Lenders have agreed to provide the Company with a loan of up to \$4,500,000 to be disbursed in a number of tranches pursuant to an approved budget. The Loan bears interest at a rate of 12% per annum and matures on February 28, 2020. The principal amount of the Loan as well as accrued interest

will be payable at the latest on the maturity date. Drawdowns under the Loan to September 30, 2019 totals \$3,600,000. The Loan is secured by a mortgage on the Copperwood property and a general security agreement over all the assets of the Company.

On May 30, 2017, the Company acquired the UPX Property for a total consideration of \$18.0 million of which \$2.0 million was paid in cash at closing. The Company also issued a 6-year \$16 million non-interest bearing promissory note (the "Note") to RTX, as part of the consideration for the acquisition of the UPX Property. The Note provided for the payment of \$1.0 million on the first anniversary of the acquisition (payment made on May 30, 2018) and \$3.0 million on each of the second, third, fourth, fifth and sixth anniversaries of the acquisition. The Company did not make the payment of \$3.0 million due on May 30, 2019. In accordance with the provisions of the Note, the failure to make the payment on May 30, 2019, constitutes an event of default and upon such occurrence and continuance, the amount of the Note then outstanding (\$15.0 million) bears interest at an annual rate of Libor plus 8% and becomes payable on demand. The Note is secured by a mortgage over the UPX Property and a general security agreement over all the assets of UPX Minerals Inc.

The Company has initiated discussions with RTX to restructure the schedule of payments provided under the secured promissory note or find another suitable resolution. There can be no assurance that RTX will agree to reschedule the payments or to another resolution; given the Company's inability to pay there is a risk that RTX initiates legal proceedings to demand the full payment of the Note and enforce its securities over the UPX Property.

The Company needs additional funds to reimburse the Loan, to meet all existing commitments (including the Note of \$15.5 million due to RTX), to complete the acquisition of White Pine (including an amount of approximately \$1.7 million to replace the current environmental financial assurance bond) and to provide for management and administration expenses for the next 12 months.

The Company has engaged BMO Nesbitt Burns Inc. in July 2019 to act as financial advisor to the Company to review all funding options available, including the sale of assets, the issuance of securities, a merger or other type of arrangement or a combination of assets or entities. However, given the state of the capital markets for a company such as Highland and current copper prices, there is no assurance that additional funds will be available or available on terms acceptable to the Company or that the Company will be able to complete a strategic transaction. These conditions and uncertainties indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

## **EXPLORATION AND DEVELOPMENT ACTIVITIES**

All field work has been suspended since early 2019, to minimize cash requirements.

In June 2019, in connection with the Company's ongoing strategic review process, the Company undertook to prepare a preliminary economic assessment ("PEA") and a mineral resource estimate for the White Pine North Project (the "Project"). The PEA and mineral resource estimate were prepared by G Mining Services Inc. ("GMSI"). The results of the PEA were released on September 23, 2019 and a technical report for the White Pine North Project was prepared by GMSI and filed on SEDAR on November 6, 2019. The highlights are presented below.

### White Pine North Project PEA Highlights

- Base case using a copper price of \$3.00/lb and a silver price of \$16.00/oz
- After-tax internal rate of return ("IRR") of 16.8%
- After-tax net present value ("NPV") at 8% of \$416 million
- Initial capital expenditures of \$457 million, net of pre-production revenue of \$56 million
- Life-of-mine ("LOM") cash costs of \$1.40/pound, including royalties
- Indicated mineral resource of 133.4 M tonnes at 1.07% Cu and 14.9 g/t Ag, containing 3.2 billion pounds of copper and 63.8 million ounces of silver.
- Inferred mineral resources of 97.2 M tonnes at 1.03% Cu and 8.7 g/t Ag, containing 2.2 billion pounds of copper and 27.2 million ounces of silver
- Mineral resources included in the mine plan of 121.4 M tonnes @ 0.98% Cu and 11.80 g/t Ag, containing 2.6 billion pounds of copper and 46.1 million ounces of silver
- Mine life of 25 years, including one year of ramp-up, with average annual LOM payable copper production of 89 million pounds and 1.3 million ounces of silver

*The reader is advised that a PEA is preliminary in nature and is intended to provide only an initial, high-level review of the project potential and design options. The PEA mine plan and economic model include numerous assumptions and the use of Inferred resources. Inferred resources are too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and to be used in an economic analysis except as allowed for in PEA studies. There is no guarantee that Inferred resources can be converted to Indicated or Measured resources, and as such, there is no guarantee the Project economics described herein will be achieved.*

The Company and CRC have agreed to extend the period to complete the acquisition of the White Pine project to January 31, 2020. The final closing of the acquisition is subject to a number of conditions including releasing CRC from certain environmental obligations associated with the remediation and closure plan of the historical White Pine mine site and replacing the related environmental bond. The Company may have to request an additional extension if all the conditions are not met by January 31, 2020, including having the funds to replace the environmental bond.

**EXPLORATION AND EVALUATION EXPENSES**

The amounts capitalized during the three months ended September 30, 2019 totaled \$58,877, consisting mostly of lease payments of \$61,250 on the Copperwood Project, partially offset by a foreign exchange gain of \$4,373.

The amounts capitalized during the three months ended June 30, 2018 included lease payments of \$51,250 on the Copperwood Project, an accretion expense of \$444,603 related to the non-interest-bearing promissory note in favor of RTX and an unrealized loss on foreign of exchange of \$6,356.

Exploration and evaluation expenses charged to the statement of net loss during the three months ended September 30, 2019 and 2018 are as follows:

	Copperwood	White Pine	UPX	Other	Three months ended Sep 30, 2019	Three months ended Sep 30, 2018
	Project	Project	Property	projects	Total	Total
	\$	\$	\$	\$	\$	\$
Labour	46,837	26,091	(5,828)	-	67,100	614,007
Studies and consultants	14,660	218,227	-	-	232,887	183,585
Drilling and assaying	-	-	-	-	-	39,481
Office, overhead and other administrative costs	18,097	45,520	13,989	4,315	81,921	199,443
	<b>79,594</b>	<b>289,838</b>	<b>8,161</b>	<b>4,315</b>	<b>381,908</b>	1,036,516

**OPERATING ACTIVITIES**

During the three months ended September 30, 2019, the Company incurred a net loss of \$1,294,708 (nil per share) compared to a net loss of \$1,659,222 (nil per share) during the comparative period in 2018. As part of the net loss during the three months ended September 30, 2019, the Company incurred finance expense of \$606,172 (\$35,500 in 2018) composed mostly of interest on the promissory note due to RTX of \$382,370 and the effective interest expense on the credit facility of \$217,043. Other significant items during the period included exploration and evaluation expenses of \$381,908 as detailed above (\$1,036,516 in 2018), management and administration expenses of \$235,603 (\$473,992 in 2018), share-based compensation of \$21,368 (\$72,322 in 2018) and an unrealized loss on foreign exchange of \$28,551 (\$38,867 in 2018).

Management and administration expenses decreased during the three months ended September 30, 2019 due mostly to lower wages and fees to consultants following the reduction in wages of certain officers and the reduction of personnel at the corporate office (wages and fees of \$152,621 during the current period compared to \$284,871 in 2018), lower professional fees (\$45,465 during the current period compared to \$102,574 in 2018, which included fees of \$45,270 paid to a project financing advisor) and lower investor relations and travel expenses due to a reduction in investor relations activities compared to 2018 (\$12,946 during the current period compared to \$38,454 in 2018).

**LIQUIDITIES AND CAPITAL RESOURCES**

At September 30, 2019, the Company had a working capital deficiency of \$19,320,017 compared to a working capital deficiency of \$17,992,199 at June 30, 2019. The increase in the working capital deficiency during the three months ended September 30, 2019 is mainly attributable to; i) exploration and evaluation expenses of \$381,908; ii) management and administration expenses of \$235,603; iii) lease payments of \$63,250 related to the Copperwood Project and other mineral leases held; iv) the reimbursement of an amount of \$27,500 under a 4-year note payable related to certain mineral rights located in White Pine, Michigan; v) the recording of the lease liabilities of a net amount of \$45,453 resulting from the adoption of IFRS 16, *Leases* (see section on *New Accounting Policy*); vi) additional accrued interest of \$382,370 for the three months ended September 30, 2019 on the note in favour of RTX; and vii) accrued interest of \$217,043 for the three months ended September 30, 2019 on the Loan from Greenstone and Osisko.

Additional drawdowns under the Loan (as described in the *Financial Condition and Strategic Review Process* section) during the three months ended September 30, 2019 totaled \$850,000. The Company accounted for the estimated fair value of the additional drawdowns under the Loan using a discount rate of 20%. The fair value adjustment of \$38,484 representing the below market element of the loan was presented in equity. The below market element of the loan and transaction costs incurred initially are being amortized over the loan period until February 28, 2020 using the effective interest rate method. The effective interest rate of the loan is 23.6%. Subsequent to September 30, 2019, the Company made additional drawdowns totaling \$350,000.

The following table summarizes the contractual maturities of the Company's financial liabilities at September 30, 2019:

	Carrying amount	Settlement amount	Within 1 year	2 years	Over 2 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	910,794	910,794	910,794	-	-
Credit facility	3,524,043	3,912,198	3,912,198	-	-
Note payable	137,500	145,740	117,700	28,040	-
Lease liabilities	45,453	58,602	58,602	-	-
Promissory note (a)	15,510,438	15,510,438	15,510,438	-	-
	<b>20,128,228</b>	<b>20,537,772</b>	<b>20,509,732</b>	<b>28,040</b>	-

**RELATED PARTY TRANSACTIONS**

During the three months ended September 30, 2019, the Company incurred administration expenses of \$17,151 (\$17,309 in 2018), mainly for the use of office space and telecommunication services provided by Reunion Gold Corporation, a related party by virtue of common management. During the three months ended September 30, 2019, the Company recovered an amount of nil for the provision of management services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation (\$64,535 during the three months ended September 30, 2018). During the three months ended September 30, 2019, the Company sold capital assets to Reunion Gold Corporation for proceeds of \$5,237.

The remuneration awarded to key management personnel, including directors, the president and CEO, the Vice President, Exploration and the CFO, during the three months ended September 30, 2019 totaled \$137,191 (\$214,676 in 2018).

### **NEW ACCOUNTING POLICY**

The Company adopted IFRS 16, *Leases*, effective July 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, *Leases* ("IAS 17"), and related interpretations. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. All leases result in the lessee obtaining the right to use an asset at the start of the lease and incurring a financing obligation corresponding to the lease payments to be made over time. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as "operating leases" under IAS 17. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at July 1, 2019 of 20%. At July 1, 2019, the Company recognized a right-of-use assets of \$58,183 with a corresponding amount to lease liabilities.

### **RISKS AND UNCERTAINTIES**

Highland is subject to a number of significant risks and uncertainties due to the nature of its business which includes the acquisition, exploration and development of mineral projects. Failure to successfully address such risks and uncertainties could have a significant negative impact on Highland's overall operations and financial condition and could materially affect the value of Highland's assets and impact its future operating results and business plans. Therefore, an investment in the securities of Highland involves significant risks and should be considered speculative.

The risks and uncertainties described below are not necessarily the only ones that Highland could be facing. Additional risks or uncertainties not presently known to Highland or that Highland currently considers immaterial may also impair its business operations. Highland cannot give assurance that it will successfully address these risks. For additional risk factors, refer to the risks and uncertainties described in the Annual MD&A. Readers should carefully consider these risks and uncertainties.

#### *Requirement for additional capital*

Highland requires substantial amount of funds to continue its planned activities including: a) for the development of its Copperwood Project and to place it into commercial production; if adequate financing is not available, the construction of the Copperwood mine and the commencement of production may be delayed indefinitely; b) to complete the acquisition of the White Pine Project, Highland requires funds to replace an environmental bond posted by CRC in relation with the remediation and closure plan of the historical White Pine mine site; if adequate financing is not available, the acquisition of the White Pine Project may be delayed or not be completed; c) to repay the outstanding secured promissory note and to conduct exploration programs on its UPX Property; if adequate financing is not available, RTX may demand payment of the \$15.0 million plus interest due under the Note and given the Company's inability to pay such amount, RTX may initiate legal proceedings to demand the full payment of the Note and enforce its securities over the UPX Property; d) to repay the Loan to Greenstone and Osisko by February 28, 2020; if Highland is unable to repay the Loan, the lenders may enforce their securities over all of the Company's assets; and e) for general and administrative expenses.

The ability of Highland to achieve its plans and objectives is dependent on its ability to raise sufficient amounts of capital through equity financings, debt financings, joint venture, the sale of assets and other means.

Highland's ability to raise the necessary funds and/or to complete a strategic transaction depends in part upon the market's perception of its mineral projects, the price of and demand for copper, the state of the market to finance resource projects and global market conditions in general. No assurance can be given that additional capital will be available at all or available on terms acceptable to Highland.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains certain "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, including, without limitation, statements relating to the Company's ability to obtain the funds necessary to settle its working capital deficiency, to meet its working capital needs and commitments, and to continue its activities; its ability to complete the acquisition of the White Pine North Project; and the potential of its mineral projects are forward-looking statements. Forward-looking statements involve various risks and uncertainties some of which are described above. While the Company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.

All forward-looking statements in this MD&A are based on information available to the Company as of the date hereof, and the Company undertakes no obligation to update forward-looking statements except as required by law.

**ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.highlandcopper.com](http://www.highlandcopper.com)).