



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2016

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

| <i>(unaudited, in Canadian dollars)</i> | December 31, 2016 | June 30, 2016 |
|--|----------------------|-------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 2,169,563 | 201,998 |
| Sales taxes receivable | 9,954 | - |
| Receivable from a related party (Note 10) | 106,633 | - |
| Prepaid expenses and other | 14,727 | 6,233 |
| | 2,300,877 | 208,231 |
| Non-current | | |
| Capital assets | 69,776 | 114,990 |
| Exploration and evaluation assets (Note 4) | 57,215,027 | 53,827,188 |
| TOTAL ASSETS | 59,585,680 | 54,150,409 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 2,873,254 | 3,019,495 |
| Due to a related party (Note 10) | - | 25,543 |
| Current portion of note payable (Note 5) | 147,697 | - |
| Balance of purchase price payable (Note 4) | 1,603,703 | 1,445,087 |
| | 4,624,654 | 4,490,125 |
| Non-current | | |
| Note payable (Note 5) | 443,091 | - |
| Balance of purchase price payable (Note 4) | 1,441,822 | 1,289,355 |
| Environmental liability | 324,746 | 306,606 |
| TOTAL LIABILITIES | 6,834,313 | 6,086,086 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 6) | 54,748,246 | 51,754,469 |
| Shares to issue (Note 6) | 10,000 | - |
| Contributed surplus | 6,623,852 | 6,253,329 |
| Deficit | (18,393,505) | (17,809,014) |
| Cumulative translation adjustment | 9,762,774 | 7,865,539 |
| TOTAL EQUITY | 52,751,367 | 48,064,323 |
| TOTAL LIABILITIES AND EQUITY | 59,585,680 | 54,150,409 |

Going concern (Note 2); Commitments and contingencies (Note 4).

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

| <i>(unaudited, in Canadian dollars)</i> | Three months ended December 31, | | Six months ended December 31, | |
|--|---------------------------------|------------------|-------------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Expenses and other items | | | | |
| Management and administration (Note 8) | 250,732 | 199,340 | 559,287 | 680,322 |
| Pre-exploration | - | 31,458 | - | 31,458 |
| Write-down of exploration and evaluation assets | - | 273,883 | - | 273,883 |
| Accretion on environmental liability | 2,966 | 3,908 | 5,931 | 7,816 |
| Finance expense on loan from a director (Note 10) | 8,197 | - | 11,497 | - |
| Finance income | (1,509) | (2,340) | (1,544) | (2,928) |
| Loss (gain) on foreign exchange | 8,864 | (12,481) | 9,320 | (13,331) |
| Net loss for the period | (269,250) | (493,768) | (584,491) | (977,220) |
| Other comprehensive income | | | | |
| Item that will not be subsequently reclassified to income | | | | |
| Foreign currency translation adjustment | 1,162,281 | 2,329,356 | 1,897,235 | 6,137,005 |
| Comprehensive income for the period | 893,031 | 1,835,588 | 1,312,744 | 5,159,785 |
| Basic and diluted loss per common share | (0.00) | (0.00) | (0.00) | (0.01) |
| Weighted average number of common shares - basic and diluted | 165,193,923 | 152,375,598 | 159,581,274 | 140,958,895 |

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

| <i>(unaudited, in Canadian dollars)</i> | Number of issued and outstanding common shares | Share capital | Shares to issue | Contributed surplus | Deficit | Cumulative translation adjustment | Total shareholders' equity |
|---|--|-------------------|--------------------|------------------------|---------------------|---|----------------------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at June 30, 2016 | 153,968,626 | 51,754,469 | - | 6,253,329 | (17,809,014) | 7,865,539 | 48,064,323 |
| Private placement (Note 6) | 30,280,000 | 2,724,465 | - | 303,535 | - | - | 3,028,000 |
| Shares issued on debt settlement (Note 6) | 4,949,857 | 445,367 | - | 49,619 | - | - | 494,986 |
| Share issue expenses | - | (176,055) | - | - | - | - | (176,055) |
| Shares to issue (Note 6) | - | - | 10,000 | - | - | - | 10,000 |
| Share-based compensation | - | - | - | 17,369 | - | - | 17,369 |
| Loss for the period | - | - | - | - | (584,491) | - | (584,491) |
| Foreign currency translation adjustment | - | - | - | - | - | 1,897,235 | 1,897,235 |
| Balance at December 31, 2016 | 189,198,483 | 54,748,246 | 10,000 | 6,623,852 | (18,393,505) | 9,762,774 | 52,751,367 |
| 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 | 24,426,434 | 3,663,965 | - | - | - | - | 3,663,965 |
| Share issue expenses | - | (24,957) | - | - | - | - | (24,957) |
| Share-based compensation | - | - | - | 46,561 | - | - | 46,561 |
| Loss for the period | - | - | - | - | (977,220) | - | (977,220) |
| 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 |

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

| <i>(unaudited, in Canadian dollars)</i> | Three months ended December 31, | | Six months ended December 31, | |
|---|---------------------------------|-------------|-------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net loss for the period | (269,250) | (493,768) | (584,491) | (977,220) |
| Adjustments | | | | |
| Share-based compensation | 5,236 | 18,409 | 11,289 | 28,324 |
| Depreciation and amortization | 6,055 | 8,045 | 14,980 | 13,215 |
| Write-down of exploration and evaluation assets | - | 273,883 | - | 273,883 |
| Unrealized loss (gain) on foreign exchange | 8,864 | (12,481) | 9,320 | (13,331) |
| Accretion on environmental liability | 2,966 | 3,908 | 5,931 | 7,816 |
| Finance expense on loan from a director | 8,197 | - | 11,497 | - |
| Finance income accrued | (1,509) | (2,340) | (1,544) | (2,928) |
| Finance income received | 1,485 | 1,988 | 1,544 | 3,210 |
| Changes in working capital items | | | | |
| Sales taxes receivable | (504) | (23,251) | (9,954) | 18,295 |
| Prepaid expenses and other | (1,009) | 17,227 | (8,181) | 26,075 |
| Accounts payable and accrued liabilities | 134,116 | (385,826) | 270,370 | (216,856) |
| Due from a related party | (112,798) | 1,289 | (132,176) | (6,733) |
| | (218,151) | (592,917) | (411,415) | (846,250) |
| Investing activities | | | | |
| Acquisition of capital assets | - | (31,681) | - | (33,127) |
| Additions to exploration and evaluation assets | (628,419) | (1,952,284) | (959,276) | (2,600,191) |
| | (628,419) | (1,983,965) | (959,276) | (2,633,318) |
| Financing activities | | | | |
| Loan from a director (Note 10) | 33,489 | - | 483,489 | - |
| Addition to note payable (Note 4) | 201,406 | - | 201,406 | - |
| Reimbursement of note payable (Note 5) | (181,265) | - | (181,265) | - |
| Issue of shares (Note 6) | 3,028,000 | 3,663,965 | 3,028,000 | 3,663,965 |
| Shares to issue (Note 6) | 10,000 | - | 10,000 | - |
| Share issue expenses | (176,055) | (24,957) | (176,055) | (24,957) |
| | 2,915,575 | 3,639,008 | 3,365,575 | 3,639,008 |
| Effect of exchange rate changes on cash held in foreign currency | (15,947) | 27,056 | (27,319) | (4,286) |
| Net change in cash | 2,053,058 | 1,089,182 | 1,967,565 | 155,154 |
| Cash, beginning of period | 116,505 | 108,313 | 201,998 | 1,042,341 |
| Cash, end of period | 2,169,563 | 1,197,495 | 2,169,563 | 1,197,495 |
| Supplemental cash flow information | | | | |
| Current liabilities related to exploration and evaluation assets | (74,105) | (982,414) | 111,395 | (871,851) |
| Depreciation and amortization included in exploration and evaluation assets | 16,249 | 31,179 | 33,573 | 77,993 |
| Share-based compensation included in exploration and evaluation assets | 3,040 | 9,118 | 6,080 | 18,237 |
| Finance expense included in exploration and evaluation assets | 97,824 | 120,412 | 199,260 | 244,260 |
| Reclassification of accounts payable to note payable | 548,973 | - | 548,973 | - |
| Loan from a director settled by the issue of shares and warrants | 494,986 | - | 494,986 | - |

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

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

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. The Company has assembled a number of advanced-stage copper projects located in Michigan’s Upper Peninsula region, including Copperwood, White Pine and Keweenaw. 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.

On November 15, 2016, the Company announced that it planned to complete a non-brokered private placement of its securities comprised of up to 230 million units (the “Units”) at \$0.10 per Unit, to raise up to \$23 million (the “Offering”). Each Unit will consist of one common share of the Company and one half of one common share purchase warrant (each whole warrant, a “Warrant”), with each Warrant exercisable to acquire one common share at \$0.15 for a period of 12 months from the closing date of the Offering.

On November 30, 2016, the Company completed a first tranche of the private placement for an amount of \$3,028,000 (Note 6). The Company expects to close a second tranche on February 22, 2017 and a final tranche by March 17, 2017, subject to certain conditions including but not limited to the receipt of all required regulatory approvals, including the approval of the TSXV.

The Company intends to use the proceeds from the Offering to update the feasibility of the Copperwood Project, to complete the acquisition of the White Pine Project, to settle its liabilities, and for general corporate purposes.

The Board of Directors approved these consolidated financial statements on February 16, 2017.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2016 (unaudited - in Canadian dollars)

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 raising additional funds, completing the acquisition of the White Pine Project and acquiring a 65% interest in the Keweenaw Project. The Company has incurred a net loss of \$584,491 during the six months ended December 31, 2016 and has a deficit of \$18,393,505 at December 31, 2016. The Company has a working capital deficiency of \$2,323,777 at December 31, 2016.

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. To this effect, the Company announced on November 15, 2016, that it planned to raise through a non brokered private placement an amount of up to \$23 million, of which a first tranche of \$3,028,000 was completed on November 30, 2016 (Note 6). However, there is no assurance that the Company will be successful in raising the remaining amount of the announced private placement. Should the Company not be successful in raising such additional funds, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, and / or sell some of its assets, 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 a material uncertainty that may cast 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, 2016 and 2015 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2016 (unaudited - in Canadian dollars)

4. EXPLORATION AND EVALUATION ASSETS

Amounts invested in exploration and evaluation assets are as follows:

| | White Pine Project | Copperwood Project | Keweenaw Project | Leased Properties | Total |
|-------------------------------------|-----------------------|-----------------------|---------------------|----------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at June 30, 2016 | 18,587,530 | 21,462,768 | 13,337,295 | 439,595 | 53,827,188 |
| Property payments in cash | 197,925 | 145,818 | - | 32,212 | 375,955 |
| Labour | 193,265 | 161,038 | 7,718 | - | 362,021 |
| Studies | - | 12,034 | - | - | 12,034 |
| Other exploration expenses | 276,524 | 36,257 | 7,880 | - | 320,661 |
| Depreciation and amortization | 18,552 | 1,348 | 13,673 | - | 33,573 |
| Share-based compensation | - | - | 6,080 | - | 6,080 |
| Finance expense | - | 199,260 | - | - | 199,260 |
| Effect of foreign exchange | 726,771 | 857,183 | 476,379 | 17,922 | 2,078,255 |
| | 1,413,037 | 1,412,938 | 511,730 | 50,134 | 3,387,839 |
| Balance at December 31, 2016 | 20,000,567 | 22,875,706 | 13,849,025 | 489,729 | 57,215,027 |
| Balance at June 30, 2015 | 15,447,201 | 29,804,661 | 15,642,832 | 673,340 | 61,568,034 |
| Property payments in cash | - | 146,122 | - | 29,315 | 175,437 |
| Labour | 662,430 | 63,937 | 78,619 | - | 804,986 |
| Studies | 507,879 | (9,790) | - | - | 498,089 |
| Other exploration expenses | 240,083 | (13,102) | 22,847 | - | 249,828 |
| Depreciation and amortization | 20,248 | 2,849 | 54,896 | - | 77,993 |
| Write-down | - | - | - | (273,883) | (273,883) |
| Share-based compensation | - | - | 18,237 | - | 18,237 |
| Finance expense | 244,260 | - | - | - | 244,260 |
| Effect of foreign exchange | 1,685,838 | 3,241,810 | 1,535,241 | 59,804 | 6,522,693 |
| | 3,360,738 | 3,431,826 | 1,709,840 | (184,764) | 8,317,640 |
| Balance at December 31, 2015 | 18,807,939 | 33,236,487 | 17,352,672 | 488,576 | 69,885,674 |

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2016 (unaudited - in Canadian dollars)

4. EXPLORATION AND EVALUATION ASSETS (continued)

White Pine Project, Michigan, USA

On May 13, 2014 (the interim closing date), the Company entered into an agreement to acquire from Copper Range Company ("CRC") all of CRC's rights, title and interest in the White Pine Project. The final closing of the acquisition will be completed once Highland has (i) released CRC of a financial assurance letter of credit associated with the remediation and closure plan of the previous White Pine operation; and (ii) released CRC from its environmental obligations with the Michigan Department of Environmental Quality. Final closing has been extended to February 28, 2017. Should the Company not be able to meet the final closing conditions, it will not be able to complete the acquisition of the White Pine Project.

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 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. At December 31, 2016, the Company has not yet estimated any proven and probable reserves at the White Pine Project and has not yet completed a feasibility study or initiated the activities required to obtain the necessary permits. Consequently, the Company has not yet accounted for this contractual contingent liability.

Lease Agreement, White Pine, Michigan, USA

In April 2015, the Company entered into a 20-year lease agreement, with an option for an additional 5 years, for certain mineral rights located in White Pine, Michigan. In accordance with the terms of the agreement with the holder of the mineral rights (the "Lessor"), an additional cash payment of US\$575,000 was to be made to the Lessor by the Company, including \$425,000 payable in April 2016 and US\$150,000 due in April 2017. On December 30, 2016, the Company entered into an amended agreement with the Lessor providing a revised schedule of payments for the US\$575,000 amount owed to the Lessor, including the April 2016 payment which had not yet been made, as described in Note 5 below.

The lease agreement also calls for an annual rent to be paid on the anniversary of the lease. The initial rent payment of US\$25,000 which was due in April 2016 was paid on December 30, 2016.

Upon commencement of production, Highland will have to pay to the Lessor 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.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements
December 31, 2016 (unaudited - in Canadian dollars)

4. EXPLORATION AND EVALUATION ASSETS (continued)

Copperwood Project

As part of the June 2014 acquisition of the Copperwood project from Orvana Minerals Corp., a TSX-listed company ("Orvana"), 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\$1.25 million is due on June 17, 2017 and US\$1.25 million on June 17, 2018. The fair value of the amounts due in 2017 and 2018 have been accounted for and presented as Balance of Purchase Price Payable on the consolidated statements of financial position. An additional 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. The 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 net smelter return ("NSR") royalty payments and will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices.

Osisko royalty and Osisko option on future silver production

Following an amendment in June 2016 of the December 2014 agreement between the Company and Osisko Gold Royalties Ltd. ("Osisko"), Osisko now holds a 3.0% NSR royalty on all metals to be produced at the Copperwood Project. The June 2016 amendment also provides that upon closing of the acquisition of the White Pine Project, the Company will grant to Osisko a 1.5% NSR royalty on all metals from the White Pine North project (part of the White Pine Project), and Osisko's NSR royalty on the Copperwood Project will be reduced to 1.5%. Osisko retains security over all of the Company's assets to guarantee the payment of the royalty.

In connection with the December 2014 agreement with Osisko, the Company had 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 within 60 days following the delivery to Osisko of a feasibility study on the Michigan Projects.

Keweenaw Project

Under a Mining Venture Agreement with BRP LLC ("BRP"), the Company has an option to acquire a 65 percent interest in the Keweenaw Project (which includes the 543S deposit) by providing a feasibility study by December 31, 2017 and securing some of the historical shafts located in the Keweenaw region. Upon 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 NSR royalty from production 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%.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

5. NOTE PAYABLE

On December 30, 2016, the Company entered into an amended agreement with the Lessor of certain mineral rights located in White Pine, Michigan (Note 4 - *Lease Agreement, White Pine, Michigan, USA*) for the remaining amount of US\$575,000 owed to the Lessor. Under the terms of the amended agreement, the Company paid an amount of US\$135,000 on December 30, 2016 and agreed to pay the balance of US\$440,000 in sixteen equal quarterly principal amounts of US\$27,500, plus interest accruing at the rate of 8% per annum. The first quarterly payment is due on March 30, 2017 and subsequent quarterly payments are due on June 30, September 30, December 30 and March 30 of each year until fully paid. At December 31, 2016, the Company presented an amount of \$147,697 (US\$110,000) as current liability and the remaining balance of \$443,091 (US\$330,000) as non current liability.

6. SHARE CAPITAL AND WARRANTS

Issued and fully paid

At December 31, 2016, the Company had 189,198,483 issued and outstanding common shares (153,968,626 at June 30, 2016).

On November 30, 2016, the Company completed a first tranche of a non brokered private placement for gross proceeds of \$3,028,000 (the "Financing"). A total of 30,280,000 units, each unit comprised of one common share of the Company and one half of one share purchase warrant ("Warrant"), were sold at \$0.10 per unit. Each Warrant is exercisable for a period of 12 months from the closing at an exercise price of \$0.15 to acquire one common share. Proceeds of the Financing were allocated between common shares and Warrants based on their relative fair values. The fair value of the common shares was calculated by using the subscription price of the Financing and the value of the Warrants was measured based on the Black-Scholes option pricing model, using a risk-free interest rate of 0.69%, an expected life of the Warrants of 1.0 year, an annualized volatility of 89% (determined by reference to historical data) and a dividend rate of 0%. An amount of \$303,535 was allocated to such Warrants and was presented as part of contributed surplus. The Company paid finders' fees totaling \$71,071 and incurred other share issue expenses of \$104,984.

On December 12, 2016, the Company settled an outstanding indebtedness in the amount of \$494,986 owing to Laurentian Mountains Investments Limited, a company owned by David Fennell, the Company's chairman, by issuing 4,949,857 common shares and 2,474,928 Warrants (the "Debt Settlement"). Each Warrant entitles the holder to purchase one common share of the Company for a period of 12 months from the closing at an exercise price of \$0.15 to acquire one common share. The amount of the Debt Settlement was allocated between common shares and Warrants based on their relative fair values. The fair value of the common shares was calculated by using the subscription price of the Debt Settlement and the value of the Warrants was measured based on the Black-Scholes option pricing model, using a risk-free interest rate of 0.69%, an expected life of the Warrants of 1.0 year, an annualized volatility of 89% (determined by reference to historical data) and a dividend rate of 0%. An amount of \$49,619 was allocated to such Warrants and was presented as part of contributed surplus.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

6. SHARE CAPITAL AND WARRANTS (continued)

Shares to issue

In December 2016, the Company received an amount of \$10,000 as settlement for shares to be issued in the final tranche of the Company's private placement.

Share purchase warrants

The following table sets out the activity in share purchase warrants:

| Grant date | Number of Warrants June 30, 2016 | Granted | Expired | Number of warrants December 31, 2016 | Price Per Share \$ | Expiry Date |
|--------------------|---|------------|--------------|---|-----------------------------|----------------|
| May 2012 | 41,250,000 | - | - | 41,250,000 | 0.75 | Mar 31, 2017 |
| March 11, 2015 (1) | 12,275,020 | - | (12,275,020) | - | - | - |
| March 20, 2015 (1) | 1,680,000 | - | (1,680,000) | - | - | - |
| March 27, 2015 (1) | 1,250,353 | - | (1,250,353) | - | - | - |
| November 30, 2016 | - | 15,140,000 | - | 15,140,000 | 0.10 | Nov 30, 2017 |
| December 12, 2016 | - | 2,474,928 | - | 2,474,928 | 0.10 | Dec 12, 2017 |
| | 56,455,373 | 17,614,928 | (15,205,373) | 58,864,928 | 0.56 | |
| Average price | 0.68 | 0.10 | (0.50) | 0.56 | | |

(1) These share purchase warrants expired unexercised in September 2016.

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

7. STOCK OPTIONS

The following table sets out the activity in stock options:

| | Six months ended December 31, 2016 | |
|------------------------------|---------------------------------------|--|
| | Number | Weighted average exercise price (\$) |
| Options, beginning of period | 7,522,000 | 0.48 |
| Expired | (67,000) | (0.43) |
| Options, end of period | 7,455,000 | 0.48 |

The following table reflects the stock options issued and outstanding at December 31, 2016:

| Issue date | Number of options | Exercise price \$ | Remaining contractual life (years) | Number of exercisable options | Exercise price of exercisable options \$ |
|-------------------|----------------------|-------------------------|---|-------------------------------------|--|
| July 6, 2012 | 400,000 | 0.50 | 0.5 | 400,000 | 0.50 |
| November 5, 2012 | 3,740,000 | 0.60 | 0.8 | 3,740,000 | 0.60 |
| August 1, 2014 | 1,400,000 | 0.50 | 2.6 | 1,400,000 | 0.50 |
| April 21, 2015 | 1,715,000 | 0.25 | 3.3 | 640,000 | 0.25 |
| November 20, 2015 | 200,000 | 0.13 | 3.9 | 133,333 | 0.13 |
| | 7,455,000 | 0.48 | 1.8 | 6,313,333 | 0.53 |

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

8. MANAGEMENT AND ADMINISTRATION EXPENSES

The Company incurred the following management and administration expenses:

| | Three months ended December 31, | | Six months ended December 31, | |
|-------------------------------|---------------------------------|----------------|-------------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Administrative and general | 173,762 | (7,776) | 357,287 | 290,238 |
| Office | 8,598 | 58,934 | 67,906 | 122,458 |
| Professional fees | 45,858 | 111,446 | 93,495 | 203,101 |
| Investor relations and travel | 6,043 | 7,312 | 7,855 | 17,783 |
| Reporting issuer costs | 5,180 | 2,970 | 6,475 | 5,203 |
| Share-based compensation | 5,236 | 18,409 | 11,289 | 28,324 |
| Depreciation and amortization | 6,055 | 8,045 | 14,980 | 13,215 |
| | 250,732 | 199,340 | 559,287 | 680,322 |

9. 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, 2016 | | |
|-----------------------------------|-------------------|-------------------|-------------------|
| | Canada | USA | Total |
| | \$ | \$ | \$ |
| Current assets | 2,254,271 | 46,606 | 2,300,877 |
| Capital assets | 489 | 69,287 | 69,776 |
| Exploration and evaluation assets | - | 57,215,027 | 57,215,027 |
| Total assets | 2,254,760 | 57,330,920 | 59,585,680 |

| | June 30, 2016 | | |
|-----------------------------------|----------------|-------------------|-------------------|
| | Canada | USA | Total |
| | \$ | \$ | \$ |
| Current assets | 182,915 | 25,316 | 208,231 |
| Capital assets | 15,469 | 99,521 | 114,990 |
| Exploration and evaluation assets | - | 53,827,188 | 53,827,188 |
| Total assets | 198,384 | 53,952,025 | 54,150,409 |

Highland Copper Company Inc.

Notes to Condensed Interim Consolidated Financial Statements

December 31, 2016 (unaudited - in Canadian dollars)

10. RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2016, the Company incurred administration expenses of \$21,000 and \$42,000, respectively from Reunion Gold Corporation, a related party by virtue of common management (\$72,039 and \$186,016 during the three and six months ended December 31, 2015, respectively).

During the three and six months ended December 31, 2016, the Company recovered amounts of \$42,321 and \$63,348, respectively for the provision of management services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation (nil during the three and the six months ended December 3, 2015). The services are provided at cost.

At December 31, 2016, the Company had an amount receivable from Reunion Gold Corporation of \$106,633 (an amount due of \$25,543 at June 30, 2016).

Loan from a director

David Fennell, the Company's chairman and interim president and CEO advanced funds of \$483,489 during the six months ended December 31, 2016, through a company wholly-owned by David Fennell, to ensure that critical payments to maintain the Company in good standing were being made. These advances bore interest at the rate of 1% per month on the principal amount. On December 12, 2016, the Company settled the amount of the debt due to Mr. Fennell, by issuing common shares and share purchase warrants (Note 6).

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 and interim President and CEO, the Executive Vice-President and the CFO, is as follows:

| | Three months ended December 31, | | Six months ended December 31, | |
|--------------------------------------|---------------------------------|----------|-------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Salaries, benefits and director fees | 121,690 | (89,559) | 240,323 | 80,897 |
| Consulting fees | 85,413 | 89,084 | 143,244 | 210,261 |
| Share-based compensation | 5,502 | 19,204 | 11,820 | 29,916 |
| | 212,605 | 18,729 | 395,387 | 321,074 |

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

The following interim management's discussion and analysis – quarterly highlights (“**Interim MD&A**”) of Highland Copper Company Inc. (“**Highland**” or the “**Company**”) for the three months ended December 31, 2016 provides material information about the Company's business activities during the interim period and updates disclosure previously provided in the Company's management's discussion and analysis for the year ended June 30, 2016 (“**Annual MD&A**”).

This Interim MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and six months ended December 31, 2016 (the “**Interim Financial Statements**”), the Company's audited consolidated financial statements for the years ended June 30, 2016 and 2015 (the “**Annual Financial Statements**”), and the Company's Annual MD&A, including the section describing risks and uncertainties.

The effective date of this Interim MD&A is February 16, 2017.

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

DESCRIPTION OF BUSINESS

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

The Company has assembled a number of advanced-stage copper projects, including **Copperwood**, a feasibility stage project, **White Pine** (subject to final closing of the acquisition from Copper Range Company (“CRC”), a wholly-owned subsidiary of First Quantum Minerals Ltd.), and **Keweenaw**, which includes the 543S deposit (subject to the exercise of an option to acquire a 65% interest in the project from BRP LLC).

HIGHLIGHTS FOR THE PERIOD

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

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

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

OUTLOOK

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

OPERATING ACTIVITIES

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

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

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

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

LIQUIDITIES AND CAPITAL RESOURCES

At December 31, 2016, the Company had a working capital deficiency of \$2,323,777, including a balance of purchase price related to the Copperwood Project of \$1,603,703 due in June 2017. The Company's working capital deficiency at December 31, 2016 creates uncertainty regarding its ability to continue as a going concern. As described in the *Highlights of the Period* section, the Company announced on November 15, 2016 that it planned to complete the Offering to raise up to \$23 million. However, there is no assurance that the Company will be successful in raising such funds and if management is not successful in completing this Offering, it may be required to further delay, reduce the scope of, or eliminate its current or future exploration and development activities, it may be unable to complete the acquisition of the White Pine Project and / or it may have to sell some or all of its assets, any of which could have a negative impact on the business, financial condition and results of operation of the Company.

OTHER RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2016, the Company incurred administration expenses of \$21,000 and \$42,000, respectively (\$72,039 and \$186,016 during the comparative periods in 2015), mainly for the use of office space and telecommunication services provided by Reunion Gold Corporation, a related party by virtue of common management. During the three and six months ended December 31, 2016, the Company recovered an amount of \$42,321 and \$63,348 for the provision of management services to other TSXV-listed companies, related by virtue of common management, including Odyssey Resources Limited and Reunion Gold Corporation (nil in 2015).

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

RISKS AND UNCERTAINTIES

The Company is subject to a number of significant risks and uncertainties due to the nature of its business, its present stage of development and the nature of the mineral exploration and development generally. Risks specific to the Company include but are not limited to its current financial situation and the requirement for additional funds to settle its obligations and commitments, to maintain its interest in its projects, to pursue its planned drilling program, to update the Copperwood feasibility study, to finalize the acquisition of the White Pine project, and to conduct other exploration and development activities on its projects. Certain risks are described in this Interim MD&A. For additional risk factors, refer to the risks and uncertainties described in the Annual MD&A. Investment in the Company's securities should be considered as highly speculative.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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