

HIGHLAND RESOURCES INC.

MANAGEMENT DISCUSSION & ANALYSIS For the period ended August 31, 2009

Directors and Officers as at October 28, 2009

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HIGHLAND RESOURCES INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the period ended August 31, 2009

1.1 Date of This Report

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the unaudited interim financial statements of Highland Resources Inc. (“Highland”, or the “Company”) for the period ended August 31, 2009. All dollar amounts herein are expressed in Canadian Dollars unless stated otherwise.

This MD&A is prepared as of October 28, 2009.

This MD&A includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

1.2 Overall Performance

Description of Business

The Company was incorporated in the Province of British Columbia on June 7, 2006 under the Business Corporations Act of British Columbia. The Company received acceptance from the TSX Venture Exchange (the “Exchange”) for the Company’s qualifying transaction described in its filing statement dated September 16, 2008. As such the Company is no longer considered a capital pool company and is listed as a Tier 2 issuer on the Exchange. See section 1.4.1 for a discussion of the Company’s qualifying transaction.

The Company is engaged in the business of mineral exploration in the Canada. The Company’s objective is to locate and develop economic precious and base metal properties of merit. The Company had signed a letter of agreement to acquire 100% of the Montgomery Pass Property in Nevada. (see Section 1.4.1) but terminated the proposed acquisition during the period ended August 31, 2009. The Company has entered into a Mineral Property Purchase & Joint Venture Agreement for the proposed acquisition of a 51% interest in claims located in Ontario, Canada (see Section 1.4.1).

Financings

During the year ended May 31, 2008, the Company issued 7,500 common shares to the agent of the IPO at \$0.20 per share for proceeds of \$1,500 pursuant to the exercise of agent warrants.

During the year ended May 31, 2009, the Company issued 195,000 common shares at \$0.20, for proceeds of \$39,000 pursuant to the exercise of stock options.

In connection with the Rickaby Property Acquisition (see Section 1.4.1), the Company issued 4,605,000 units at \$0.15 per unit for proceeds of \$690,750. Each unit consisted of one common share and one-half of one transferable share purchase warrant. Each whole warrant is exercisable to purchase one share at a price of \$0.30 per share for the first 12 months ending April 29, 2010 or \$0.40 per share for the second 12 month period ending April 29, 2011. The proceeds were allocated to the fair value of the warrants of \$358,000 with the remainder allocated to share capital.

The Agents received cash commissions of \$55,260 and 690,750 Agents' options. Each Agent's option exercisable into one unit at \$0.15 per unit until April 29, 2011. The fair value of the Agents' options of \$116,000 is included in share issue costs. Other legal and corporate fees of \$47,092 were incurred.

Subsequent to August 31, 2009, the Company announced that it had arranged a non-brokered private placement for proceeds of up to \$1,500,000. The private placement will consist of:

- (a) up to 4,000,000 flow-through common shares (the "Shares") at a price of \$0.15 per Share; and
- (b) up to 6,000,000 non-flow-through Units (the "Units") at a price of \$0.15 per Unit. Each Unit will consist of one common share of the Company and one-half non-transferable share purchase warrant (the "Warrant"). Each whole Warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.20 if exercised in the first year, or \$0.30 if exercised in the second year.

The net proceeds of the private placement will be added to working capital and will be used to finance the 2009 - 2010 exploration program for the Rickaby Property.

1.3 Selected Annual Information

The highlights of financial data for the Company's three most recently completed year-ends are as follows:

	Year ended May 31, 2009	Year ended May 31, 2008	June 7, 2006 (Date of Incorporation) to May 31, 2007
(a) Net sales	Nil	Nil	Nil
(b) Loss before other items	(263,057)	(136,269)	(107,183)
(c) Net loss	(296,199)	(126,881)	(98,422)
(d) Loss per share – basic and diluted	(0.07)	(0.06)	(0.07)
(e) Total assets	1,325,867	356,795	448,515
(f) Total long-term liabilities	Nil	Nil	Nil
(g) Cash dividends declared per-share	Nil	Nil	Nil

1.4 Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the financial statements of the Company and notes attached thereto.

1.4.1 Property Activity

Montgomery Pass Property

The Company entered into a letter of agreement with Desert Pacific Exploration Inc. (“Desert Pacific”) dated June 24, 2008 to acquire 81 mineral claims in Mineral County, Nevada. Desert Pacific is a private company incorporated in Nevada, U.S.A.

Pursuant to the letter of agreement, the Company may have acquired a 100% undivided interest, subject to a 3% net smelter royalty (“NSR”). During the period ended August 31, 2009, the Company terminated the proposed acquisition of the Montgomery Pass Property. The Company recorded a write-down of \$32,668 relating to this property in the statement of operations and deficit for the year ended May 31, 2009

Rickaby Property

During the year ended May 31, 2009, the Company entered into a Property Purchase & Joint Venture Agreement (the “Agreement”) with Canadian Prospector Inc. (“CPI”). The Agreement, as amended on January 23, 2009, grants the Company an option to acquire an undivided 51% interest in 88 mineral claims located in the Beardmore-Geraldton Belt of the Thunder Bay Mining District, Ontario (“Rickaby Property”). The Agreement was accepted by regulatory authorities on May 6, 2009 (the “Approval Date”). Consideration payable is as follows:

- (i) payment of an aggregate \$250,000 (paid);
- (ii) expenditures by the Company in the aggregate amount of \$1,000,000 by May 6, 2010; and
- (iii) issuance of 2,916,666 shares (issued) to be held in escrow until \$1,000,000 in exploration expenditures have been incurred by the Company. In the event the Company does not incur \$1,000,000 of expenditures, the shares shall be returned to the Company for cancellation. These shares were valued using the market value of the shares as of the Approval Date.

In connection with the Agreement, a finder’s fee was paid by the issue of 393,749 shares of the Company. These shares were valued using the market value of the shares as of the Approval Date.

The Rickaby property is a grassroots gold property located in Elmhirst and Rickaby Townships in Northwestern western Ontario (see Claim Map available at www.highlandresources.ca) located in the Thunder Bay Mining District.

The property is in the Geraldton-Beardmore Gold belt which has a long history of gold exploration and development and has produced an estimated 4,373,300 ounces of gold over the years from 24 mining operations of various sizes, including production from one deposit located in part on the property. The property hosts gold-rich quartz veins and has exploration potential for base metal massive sulphide mineralization. The gold veins on the property occur in and around a granodiorite stock and are identical to gold veins that exhibit high grades, substantial widths and considerable continuity being developed on the adjacent Hercules property by Kodiak Exploration. Low grade base metal mineralization occurs on the property as well in a stringer/replacement type sulphide occurrence. The mineralization occurs in a rhyolite volcanogenic hydrothermal system of the kind in which many massive sulphide deposits in the Canadian Shield occur. There is unevaluated potential for massive sulphides at depth in the volcanogenic hydrothermal system.

No qualified person has undertaken independent verification of the information contained in this portion of the MD&A. The Company has not conducted any exploration on the property to date. J. L. LeBel, P. Eng., of Orequest Consultants Ltd., who is independent to the Company, is the Company’s qualified person on the project as required under NI 43-101 and has prepared the technical information contained in this property description. He has prepared a 43-101 compliant report on the Rickaby Property, Thunder Bay Mining Division, Ontario, which will be submitted to the regulatory authorities for review and acceptance, and subsequent filing on SEDAR.

Exploration Activity

The Company engaged the services of GeoVector Management Services Inc. of Ottawa, Ontario (“GeoVector”) to manage the exploration program on the Rickaby Property. GeoVector, a mineral exploration consulting firm whose

principals have over 100 years of cumulative industry experience, provides consulting services to the mineral industry, ranging from grass-roots exploration to advanced pre-development programs.

GeoVector was engaged to interpret the results of a recent airborne survey flown over three blocks, where a total of 982-line km. of geophysical data was acquired during the survey. The cost to Highland of the survey over the Rickaby Property was approximately \$190,000. GeoVector began field work, with the objective of completing a work program this season, the results of which will be integrated with geological, geophysical and geochemical project databases for a complete multidisciplinary approach in the search for large ore deposits.

During the period ended August 31, 2009, the initial field work on the Rickaby Property was completed by GeoVector. As part of the current work program, GeoVector completed channeling on the eastern end of the Highland claims adjacent to Mantis Mineral Corporation's historic Orphan mine claims. The Orphan Main vein was mined briefly in the 1930's and produced 3,525-tons of ore grading 0.689 ounces per ton gold. Highland's claims cover the eastern strike extension of this vein system and this area was extensively stripped in 2008 and exposed two new quartz veins. Channel sampling was carried out on these new pyrite mineralized quartz veins that are up to 1.8m wide, and contained mineralized feldspar, porphyry and granodiorite zones that are similar to the rock types hosting the Hercules mineralization. Channel sampling occurred over 60m of vein strike length, and the veins continued to extend into low swampy ground on both ends of the stripped area. The exposed extension of the Orphan vein remains to be channel sampled, and this will be carried out during the next phase of work on the property.

Highland is currently awaiting assay results from 91 channel samples and 23 prospecting grab samples, 19 of which were samples taken on what is more commonly known as the Zeus area, located adjacent to the Hercules property, and where recent trenching and drilling carried out by Kodiak extended up to Highland's claim boundary. Samples are being analyzed by Activation Laboratories (Thunder Bay), and results are expected within a few weeks.

GeoVector will compile the results of previous trenching and stripping, and will combine them with the results of a detailed VTEM and magnetic helicopter borne survey done over the property in June 2008. With the addition of the work currently being undertaken, Highland will be able to create a comprehensive GIS project of the geology, structure and historical mineralization on the property to guide future exploration programs.

Joe Campbell (P.Geo.), President of GeoVector, is the Company's qualified person on the project as required under NI 43-101 and has prepared the technical information contained in this description of exploration activities.

1.4.2 Results of Operations

The Company incurred a loss for the period ended August 31, 2009 of \$197,396 as compared to a loss for the comparative period ended August 31, 2008 of \$27,351 as follows:

	2009	2008
Accounting and office administration	\$ 2,316	\$ 4,998
Amortization	43	-
Bank charges and interest	163	132
Consulting fees	17,062	2,200
Legal and corporate services	12,399	6,512
Management fees	10,000	-
Qualifying transaction investigation costs	-	1,370
Rent	7,500	4,500
Shareholder communications	11,191	75
Stock-based compensation	136,000	-
Transfer agent and filing fees	1,067	8,108
Foreign exchange	-	536
Interest income	(345)	(1,080)
Net loss for the period	\$ 197,396	\$ 27,351

The Company completed its qualifying transaction during the year ended May 31, 2009 and has fully commenced ongoing public company activities as such, during the comparative period ended August 31, 2008 the Company was still in the start up phase and as a result, expenditures for that period vary from the current period ended August 31, 2009 at which time the Company was operating normally. In the prior period, transfer agent and filing fees of \$8,108 relate to the Company's qualifying transaction. Legal and corporate services of \$12,399 in the current period ended August 31, 2009 relate to ongoing corporate activities. Current activities include accounting and office administration fees of \$2,316, shareholder communications of \$11,191, consulting fees of \$17,062, and management fees of \$10,000. The most significant expense is the Stock based compensation expense in the period ended August 31, 2009 of \$136,000 related to options which vested in the period. The expense was calculated at fair value using the Black Scholes option pricing model.

Investor Relations Activities

There are no formal investor relations agreements in place.

Financings, Principal Purposes & Milestones

See section 1.2.

1.5 Summary of Quarterly Results

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

	Q1 <u>31-Aug-09</u>	Q4 <u>31-May-09</u>	Q3 <u>28-Feb-09</u>	Q2 <u>30-Nov-08</u>
Net Loss:				
Total	\$ 197,396	\$ 118,136	\$ 88,611	\$ 62,101
Per share – basic and fully diluted loss	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.03)

	Q1 <u>31-Aug-08</u>	Q4 <u>31-May-08</u>	Q3 <u>29-Feb-08</u>	Q2 <u>30-Nov-07</u>
Net Loss:				
Total	\$ 27,351	\$ 46,272	\$ 21,796	\$ 23,661
Per share – basic and fully diluted loss	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)

Discussion

For the discussion of results for the period ended August 31, 2009, please refer to Section 1.4.2 *Results of Operations*.

1.6 Liquidity and Capital Resources

In management's view, given the nature of the operations, which currently consists of its agreement to acquire certain resource properties, the most relevant financial information relates primarily to current liquidity, solvency and planned expenditures. The Company's financial success will be dependent upon the extent to which it can determine whether its resource properties contain reserves, which are economically recoverable.

Such development may take years to complete and the amount of resulting income, if any, is difficult to determine. The Company does not expect to receive significant income in the foreseeable future.

As at August 31, 2009, the Company had not yet achieved profitable operations and has accumulated losses of \$718,898 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. Working capital at August 31, 2009 was \$231,695, however this may not be adequate to meet the Company's obligations over the next twelve months. As such, the Company's ability to continue as a going concern is in substantial doubt. If required, it is anticipated that any additional funding will be in the form of equity financing from the sale of common shares, however there is no guarantee that funding from such financings will be available in amounts sufficient to meet the commitments of the Company.

Subsequent to August 31, 2009, the Company announced it had arranged a non-brokered private placement for proceeds of up to \$1,500,000 which will be used to finance the GeoVector exploration program as well as for general working capital needs. See Section 1.2.

1.6 Capital Resources

The only capital resource of the Company is the Rickaby Property, with historical costs of \$962,936 as at May 31, 2009. The Company is committed to further expenditures on the properties, as detailed in Section 1.4 Results of Operations.

1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

The Company incurred the following costs with companies controlled by directors of the Company and with companies controlled by significant shareholders:

	August 31, 2009	August 31, 2008
Consulting fees	\$ 13,250	\$ -
Corporate services	3,000	-
Management fees	10,000	-
Rent	7,500	4,500
Shareholder communications	3,000	-
Accounting and office administration	2,250	2,250
	<u>\$ 39,000</u>	<u>\$ 6,750</u>

Included in prepaid expenses at August 31, 2009, is \$2,575 (May 31, 2009: \$2,575) for prepaid rent with a company with a director in common.

These transactions were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

1.10 First Quarter

The first quarter ended August 31, 2009 differs significantly from the comparative quarter in the prior year. See Section 1.4.2 for a discussion.

1.11 Proposed Transactions

See "Financings" Section 1.2.

1.12 Critical Accounting Estimates

Stock-Based Compensation

The Company adopted the recommendations of CICA Handbook section 3870, "Stock-Based Compensation and Other Stock-Based Payments." This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's shares, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate, as determined at the grant date. The estimated fair value of awards of stock-based compensation are charged to expense over their vesting period, with offsetting amounts recognized as contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

1.13 Changes in Accounting Policies Including Initial Adoption

The unaudited interim financial statements of the Company follow the same accounting policies and methods as the Company's most recent annual audited financial statements except for the initial adoption of the policies outlined below:

Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on an annual basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

Asset Retirement Obligations

The Company follows the recommendations in CICA Handbook Section 3110 – "Asset Retirement Obligations" with respect to asset retirement obligations. Under Section 3110, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which is included in cost of sales and operating expenses.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Company has only performed preliminary exploratory work on its mineral properties, and has not incurred significant reclamation obligations in the current year or prior periods.

Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at May 31, 2009.

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage and, as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended May 31, 2009. The Company is not subject to externally imposed capital requirements

1.14 Financial and Other Instruments

The carrying value of the Company's financial instruments, consisting of cash and accounts payable and accrued liabilities approximate their fair values due to the short maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

1.15 International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to IFRS for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a May 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending August 31, 2011, with comparative financial information for the quarter ended August 31, 2010. The first audited annual financial statements will be for the year ending May 31, 2012, with comparative financial information for the year ended May 31, 2011. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the June 1, 2011 opening balance sheet which will be issued as part of the comparative financial information in the August 31, 2011 unaudited interim financial statements.

The Company intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. During fiscal 2010, the Company will continue to evaluate the impact of IFRS on the Company and develop and put in place a plan for the conversion to IFRS. If the

Company decides not to early adopt the standards, the actual conversion work will occur in late 2010 and 2011, in anticipation of the preparation of the May 31, 2011 balance sheet that will be required for comparative purposes for all periods ending in fiscal 2012.

1.16 Other

1.16.1 Disclosure of Outstanding Share Capital as at October 28, 2009:

	Number	Book Value
Common Shares	12,192,916	\$ 1,331,855

At August 31, 2009, the Company had outstanding 147,500 and 775,000 share purchase options and 10,000 charitable share purchase options, each option allowing the holder to acquire an additional share of the Company at \$0.20 and \$0.155 per share until September 22, 2011 and August 18, 2014, respectively and at \$0.20 per share until September 22, 2016 for charitable share purchase option holders. Subsequent to August 31, 2009, the Company granted incentive stock options to directors, officers and consultants of the Company, entitling them to purchase up to 250,000 common shares at \$0.185 per share exercisable up to October 8, 2014.

At August 31, 2009, the Company had 2,302,500 share purchase warrants outstanding, exercisable to purchase one common share at \$0.30 per share until April 29, 2010 or at \$0.40 per share until April 29, 2011.

At August 31, 2009, the Company also had 690,750 Agent's options outstanding. Each Agent's option is exercisable for one unit at \$0.15 per unit until April 29, 2011. Each unit consists of one common share and one-half of one transferable share purchase warrant. Each whole warrant is exercisable to purchase one share at a price of \$0.30 per share for the first 12 months ending April 29, 2010 or \$0.40 per share for the second 12 month period ending April 29, 2011