

**YELLOWHEAD MINING INC.**  
(An Exploration Stage Company)

**Consolidated Financial Statements**  
**Three and Nine Months Ended July 31, 2011 and 2010**  
**(Canadian Dollars)**  
**Unaudited – Prepared by Management**

<u>Index</u>	<u>Page</u>
<b>Management’s Responsibility for Financial Reporting</b>	1
<b>Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 16

**Notice**

**Notice of No Auditor Review of the Interim Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Yellowhead Mining Inc. (“Yellowhead” or the “Company”) for the three and nine months ended July 31, 2011 and 2010 have been prepared by management and have not been the subject of a review by Yellowhead’s independent auditors.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Yellowhead Mining Inc. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles and are the responsibility of the management of the Company. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management who believe the financial statements are free of material misstatement and present fairly, in all material respects, the financial position of the Company at July 31, 2011 and October 31, 2010 and the results of its operations and its cash flows for the three and nine months ended July 31, 2011 and 2010.

*"Ian Smith"*

\_\_\_\_\_  
Ian Smith  
CEO

*"Robert L. J. Harper"*

\_\_\_\_\_  
Robert L. J. Harper  
CFO

Vancouver, British Columbia  
September 23, 2011

**YELLOWHEAD MINING INC.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Canadian Dollars)**  
**Unaudited - Prepared by Management**

	July 31, 2011	October 31, 2010 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 23,155,482	\$ 4,734,825
HST receivable	846,879	87,778
Mineral exploration tax credit receivable	195,846	195,846
Prepaid expenses	432,227	326,141
	24,630,434	5,344,590
<b>Resource Property Interests</b> (note 6)	17,522,683	10,905,163
<b>Equipment</b> (note 7)	210,796	144,778
	\$ 42,363,913	\$ 16,394,531
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,993,820	\$ 87,853
Due to related parties (note 9)	508,221	331,306
	2,502,041	419,159
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 8)	42,849,193	17,338,694
<b>Share Subscriptions Received</b>	0	475,250
<b>Contributed Surplus</b> (note 8(b))	4,552,708	1,874,205
<b>Deficit</b>	(7,540,029)	(3,712,777)
	39,861,872	15,975,372
	\$ 42,363,913	\$ 16,394,531

Commitment (note 11)  
Subsequent Event (note 12)

**Approved on behalf of the Directors:**

*"Ian Smith"*  
.....  
Director

*"Andy Graetz"*  
.....  
Director

See notes to interim consolidated financial statements.

**YELLOWHEAD MINING INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations and Deficit**  
**(Canadian Dollars)**  
**Unaudited – Prepared by Management**

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
<b>Expenses</b>				
Stock-based compensation	\$ 430,039	\$ 509,080	\$ 1,873,291	\$ 509,080
Investor relations, travel and promotion	226,730	6,555	573,766	66,938
Management fees	118,800	61,050	367,300	175,650
Professional Fees	297,404	6,349	494,735	75,898
Salary	160,208	0	160,208	0
Filing fees	4,640	0	103,511	0
Consulting fees	120,794	2,525	189,533	7,200
Office supplies and services	37,743	6,941	79,697	22,422
Amortization	19,848	18,685	56,311	56,197
Insurance	6,608	4,979	19,531	15,035
Licenses and Permits	0	0	500	0
Taxes and Penalties	0	0	75	0
<b>Loss Before Other Items</b>	1,422,814	616,164	3,918,458	928,420
Interest income	(55,092)	(866)	(91,206)	(31,242)
Flow-through share cost	0	0	0	12,466
<b>Net Loss and Comprehensive Loss for Period</b>	1,367,722	615,298	3,827,252	909,644
<b>Deficit, Beginning of Period</b>	6,172,307	2,457,557	3,712,777	2,163,211
<b>Deficit, End of Period</b>	\$ 7,540,029	\$ 3,072,855	\$ 7,540,029	\$ 3,072,855
<b>Loss Per Share</b>	\$ 0.03	\$ 0.02	\$ 0.11	\$ 0.03
<b>Weighted Average Number of Shares Outstanding</b>	39,695,100	26,162,375	34,424,755	26,162,375

See notes to interim consolidated financial statements.

**YELLOWHEAD MINING INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**(Canadian Dollars)**  
**Unaudited – Prepared by Management**

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
<b>Operating Activities</b>				
Net Loss	\$ (1,367,722)	\$ (615,298)	\$ (3,827,252)	\$ (909,644)
Items not involving cash				
Stock based compensation	430,039	509,080	1,873,291	509,080
Amortization	19,848	18,685	56,311	56,197
	(917,835)	(87,533)	(1,897,650)	(344,367)
Changes in non-cash working capital				
Prepaid expenses	(195,964)	2,748	(106,086)	(2,748)
Mineral exploration tax credit	0	131,415	0	800,376
Due to related parties	(9,516)	64,411	(36,299)	72,833
Accounts payable and accrued liabilities	(50,054)	(565)	1,796	23,931
HST receivable	(547,538)	(4,668)	(754,855)	(7,334)
	(803,072)	193,341	(895,444)	887,058
<b>Cash Provided by (Used in) Operating Activities</b>	(1,720,907)	105,808	(2,793,094)	542,691
<b>Investing Activities</b>				
Cash from amalgamation of Four Points (note 2)	0	0	261,292	0
Equipment	(122,329)	0	(122,329)	0
Property acquisition	0	(500,616)	(66,042)	(500,978)
Resource property expenditures	(1,767,672)	(30,509)	(4,434,093)	(108,000)
<b>Cash Used in Investing Activities</b>	(1,890,001)	(531,125)	(4,361,172)	(608,978)
<b>Financing Activities</b>				
Advances to contractor	0	(22,904)	0	(22,904)
Shares issued for cash	91,285	205,650	27,234,654	205,650
Share issuance costs	0	0	(1,659,731)	0
<b>Cash Provided by Financing Activities</b>	91,285	182,746	25,574,923	182,746
<b>Inflow (Outflow) of Cash and Cash Equivalents</b>	(3,519,623)	(242,571)	18,420,657	116,459
<b>Cash and Cash Equivalents, Beginning of Period</b>	26,675,105	439,284	4,734,825	80,254
<b>Cash and Cash Equivalents, End of Period</b>	\$ 23,155,482	\$ 196,713	\$ 23,155,842	\$ 196,713
<b>Cash and Cash Equivalents consist of</b>				
Cash	\$ 21,409,175	\$ 196,713	\$ 21,409,175	\$ 196,713
Banker's acceptance	1,746,307	0	1,746,307	0
	\$ 23,155,482	\$ 196,713	\$ 23,155,482	\$ 196,713
Supplemental disclosure of cash flow information (note 10)				

See notes to interim consolidated financial statements.

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**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Yellowhead Mining Inc. was incorporated on August 23, 2005 under the laws of British Columbia and is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties.

On November 10, 2010, the Company completed a reverse acquisition as further described in note 2.

These financial statements have been prepared on a going-concern basis, which contemplates the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company will require additional financing or outside participation to undertake further exploration and subsequent development of its mineral property interests. Future operations of the Company are dependent on its ability to raise additional equity financing and the attainment of profitable operations.

The Company's investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future production or proceeds from the disposition thereof.

**2. REVERSE TAKE-OVER**

On November 10, 2010, Four Points Capital Corp. ("Four Points") completed the amalgamation (the "Amalgamation") of its wholly owned subsidiary, 0887988 B.C. Ltd., with Yellowhead Mining Inc. ("Former Yellowhead"). The resulting amalgamated entity will continue operations as Harper Creek Mining Corporation. Under the agreement, the shareholders of Former Yellowhead exchanged all their issued and outstanding shares on a one-for-one basis for shares of Four Points. Upon completion, Four Points changed its name to Yellowhead Mining Inc. ("New Yellowhead").

As a result of the transaction, the former shareholders of Former Yellowhead owned in excess of 50% of the outstanding shares of New Yellowhead. The transaction will be accounted for as a continuity of interests with the continuing company a continuation of Former Yellowhead, including the presentation of Former Yellowhead's comparative figures. New Yellowhead is the resulting legal parent and accounting subsidiary and Harper Creek is the accounting parent and 100% owned legal subsidiary.

On November 17, 2010, pursuant to the closing of the Amalgamation, the Company's common shares were listed for trading on the TSX-V under the symbol "YMI", under the name Yellowhead Mining Inc.

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**2. REVERSE TAKE-OVER (Continued)**

The fair value of the net assets of Four Points that were acquired was as follows:

Cash	\$	261,292
HST receivable		4,245
Net assets acquired	\$	265,537
		Amount
Capital stock of accounting subsidiary acquired in RTO	\$	289,804
Excess of book value of shares over fair value of net assets acquired		(24,267)
Amount allocated to share capital	\$	265,537

**3. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim financial statements have been prepared in accordance with accounting policies generally accepted (“GAAP”) in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. These unaudited financial statements should be read in conjunction with the Company’s audited financial statements including the notes thereto for the year ended October 31, 2010.

The accounting policies followed by the Company are set out in note 2 to the audited financial statements for the year ended October 31, 2010 and have been consistently followed in the preparation of these financial statements.

*Change in Accounting Policy*

**Business Combinations**

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

Effective November 1, 2010, the Company early adopted these standards.

## **YELLOWHEAD MINING INC.**

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**Notes to Interim Consolidated Financial Statements**

**For the Three and Nine month periods Ended July 31, 2011 and 2010**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### *Future Accounting Changes*

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the convergence of Canadian GAAP with IFRS for publicly-listed companies to use IFRS, effective for the Company for interim and annual financial statements beginning on November 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for interim periods and for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS is expected to be minimal.

### **4. FINANCIAL INSTRUMENTS**

The Company has designated its cash and cash equivalents as held for trading; and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

HST receivable consists of HST input tax credits. HST receivable and mineral exploration tax credits receivable are excluded from financial instruments as they arise from statutory requirements imposed by the Government of Canada and the Province of British Columbia, respectively.

The carrying values of cash and cash equivalents, accounts payable and accrued liabilities, and due to related parties approximate their fair values because of the short-term maturity of these financial instruments.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk with respect to its cash and cash equivalents; however, this is minimized as cash and cash equivalents are placed with major Canadian financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they become due.



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**Notes to Interim Consolidated Financial Statements**

**For the Three and Nine month periods Ended July 31, 2011 and 2010**

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### **4. FINANCIAL INSTRUMENTS (Continued)**

(b) Liquidity risk (continued)

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. On July 31, 2011, the Company had cash and cash equivalents of \$23,155,482 (October 31, 2010 - \$4,734,825) available to settle current liabilities of \$2,502,041 (October 31, 2010 - \$419,159). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risks consist of interest rate risk, foreign currency risk and other price risk. The Company is not exposed to foreign currency risk or other price risks.

*Interest rate risk*

As part of cash and cash equivalents, the Company holds one banker's acceptance, with maturity value of \$1,750,000. The maturity date and interest rate on the banker's acceptance is August 15, 2011 (1.13%).

The remainder of the Company's cash balances is held in a High Interest Savings Account which pays interest of approximately 1.20%.

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

### **5. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its resource property interests and to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares. Management reviews its capital management approach on a regular basis. There were no changes in the Company's approach to capital management and the Company is not subject to any externally imposed capital requirements.

The Company's investment policy is to hold its cash in High Interest Savings Accounts and highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

**YELLOWHEAD MINING INC.****(An Exploration Stage Company)****Notes to Interim Consolidated Financial Statements****For the Three and Nine month periods Ended July 31, 2011 and 2010****(Canadian Dollars)****Unaudited – Prepared by Management****6. RESOURCE PROPERTY INTERESTS**

As at the fiscal quarter ended July 31, 2011 and year ended October 31, 2010 expenditures incurred on the mineral properties are as follows:

Harper Creek	Nine Months Ended July 31, 2011		Year Ended October 31, 2010	
Opening balance	\$	10,905,163	\$	9,934,467
Additions during period				
Engineering		480,738		0
Acquisition costs		66,042		500,978
Exploration costs				
Drilling		1,634,291		0
Contract wages		1,090,348		137,924
Equipment rental		388,787		22,140
Assays		423,707		116,098
Camp and field supplies		487,295		92,734
Geological consulting		386,943		81,181
Geophysical consulting		805,353		2,140
Reports, drafting and maps		11,009		69,759
Environmental assessment		830,447		12,745
Travel and accommodation		12,555		4,668
		6,070,740		665,564
Total additions during period		6,617,520		1,166,542
Mineral exploration tax credits		0		(195,846)
Net change during period		6,617,520		970,696
Closing balance	\$	17,522,683	\$	10,905,163

The Company has a total of 131 mineral tenures covering 42,636.484 ha at Harper Creek in the Kamloops Mining Division of British Columbia.

The Company exercised its option to acquire 31 mineral claims and now holds a 100% interest in the property. The Optionor has retained a 3% net smelter returns royalty capped at \$3,000,000, less the advance royalty payment of \$500,000 made on July 30, 2010, which will be adjusted for inflation after July 31, 2010.

The Company also holds six contiguous mineral tenures which are subject to a back in right to acquire a 50% interest by a cash payment of \$100,000 plus two times the pre-feasibility study expenditures. If the back in right is not exercised, these tenures will be subject to a 2.5% net smelter returns royalty.

All other mineral tenures claimed by the Company are free of encumbrances.

**YELLOWHEAD MINING INC.****(An Exploration Stage Company)****Notes to Interim Consolidated Financial Statements****For the Three and Nine month periods Ended July 31, 2011 and 2010****(Canadian Dollars)****Unaudited – Prepared by Management****7. EQUIPMENT**

	<b>July 31, 2011</b>			<b>Year Ended October 31, 2010</b>
	Cost	Accumulated Amortization	Net	Net
Computer equipment	\$ 31,197	\$ 9,859	\$ 21,338	\$ 0
Furniture and equipment	27,540	688	26,852	0
Field camp	437,157	274,551	162,606	\$ 144,778
	<b>\$ 495,894</b>	<b>\$ 285,099</b>	<b>\$ 210,796</b>	<b>\$ 144,778</b>

**8. CAPITAL STOCK**

(a) Authorized  
Unlimited Class A common shares without par value

(b) Issued

	Number of Shares	Amount	Contributed Surplus
Balance, October 31, 2009	26,162,375	\$ 11,920,897	\$ 824,971
Issued during the year			
Private placements, for cash	5,036,007	5,438,888	0
Share issue costs	0	(219,187)	0
Exercise of stock options	400,000	198,096	(38,096)
Stock based compensation	0	0	1,087,330
Balance, October 31, 2010	31,598,382	\$ 17,338,694	\$ 1,874,205
Issued during the period			
Conversion of Four Points shares (note 2)	1,110,000	265,537	0
Private placements, for cash	19,602,495	27,521,608	0
Share issue cost	0	(2,498,277)	838,546
Shares issued on exercise of warrants	45,592	36,296	0
Shares issued on exercise of options	374,000	185,335	(33,334)
Stock based compensation	0	0	1,873,291
Balance, July 31, 2011	52,730,469	\$ 42,849,193	\$ 4,552,708

## **YELLOWHEAD MINING INC.**

**(An Exploration Stage Company)**

**Notes to Interim Consolidated Financial Statements**

**For the Three and Nine month periods Ended July 31, 2011 and 2010**

**(Canadian Dollars)**

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### **8. CAPITAL STOCK (Continued)**

#### **(b) Issued (continued)**

During the year ended October 31, 2010, the Company issued:

- 5,036,007 units pursuant to a private placement at \$1.08 for gross proceeds of \$5,438,888. Each unit comprised one common share and one-half of one share purchase warrant which will entitle the holder to purchase an additional common share at \$1.40 until September 7, 2012. Finder's fees and other share issue costs associated with this placement amounted to \$217,555 and \$1,632, respectively.
- 400,000 common shares at a price of \$0.40 per share pursuant to the exercise of stock options for net proceeds of \$160,000.

During the nine month period ending July 31, 2011, the Company issued:

- 2,437,863 units pursuant to a private placement at \$1.08 per unit for gross proceeds of \$2,632,892. Each unit comprised one common share and one-half of one share purchase warrant which will entitle the holder to purchase an additional common share at \$1.40 until November 9, 2012. Finder's fees and other share issue costs associated with this placement amounted to \$224,371. Included in share issue costs was the fair value of non-cash costs totaling \$71,358 for 118,931 agent's warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.95%, expected volatility of 105%, expected life of 2 years and an expected dividend yield of 0%.
- 17,164,632 units pursuant to a private placement at \$1.45 per unit for gross proceeds of \$24,888,716. Each unit comprised one common share and one-half of one share purchase warrant which will entitle the holder to purchase an additional common share at \$2.00 until April 5, 2013. Finder's fees and other share issue costs associated with this placement amounted to \$2,273,906. Included in share issue costs was the fair value of non-cash costs totaling \$767,188 for 952,200 agent's warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.95%, expected volatility of 105%, expected life of 2 years and an expected dividend yield of 0%.
- 30,592 common shares at a price of \$0.50 per share were issued pursuant to exercise of agents' options at \$0.50 for net proceeds of \$15,296 and 15,000 common shares at a price of \$1.40 per share pursuant to the exercise of warrants for net proceeds of \$21,000. 24,000 common shares at a price of \$0.50 per share were issued pursuant to the exercise of stock options for net proceeds of \$12,000 and 350,000 common shares at a price of \$0.40 per share pursuant to the exercise of stock options for net proceeds of \$140,000.

**YELLOWHEAD MINING INC.****(An Exploration Stage Company)****Notes to Interim Consolidated Financial Statements****For the Three and Nine month periods Ended July 31, 2011 and 2010****(Canadian Dollars)****Unaudited – Prepared by Management****8. CAPITAL STOCK (Continued)****(c) Stock options**

The Company has a stock option plan whereby the Company may grant directors, officers, employees and consultants options to acquire up to 10% of the Company's issued and outstanding common shares. The exercise price of each option is equal to or higher than the market price of the Company's common shares at the date of the grant. Vesting of stock options is determined at the discretion of the Board of Directors at the time the options are granted.

At July 31, 2011, the Company had stock options outstanding for the purchase of 4,394,500 common shares with an average remaining contractual life of 3.7 years, with all stock options expiring between November 9, 2011 and June 6, 2016.

	Number	Weighted Average Exercise Price
Outstanding, October 31, 2008	1,975,000	\$ 0.62
Granted	150,000	1.00
Exercised	(100,000)	0.40
Forfeited, cancelled, or expired	(250,000)	0.71
Outstanding, October 31, 2009	1,775,000	\$ 0.67
Granted	1,400,000	1.04
Exercised	(400,000)	0.40
Forfeited, cancelled, or expired	(50,000)	0.71
Outstanding, October 31, 2010	2,725,000	\$ 0.90
Granted	2,232,500	1.23
Granted on the acquisition of Four Points (note 2)	111,000	0.50
Forfeited	(300,000)	0.98
Exercised	(374,000)	0.41
Outstanding, July 31, 2011	4,394,500	\$ 1.02
Exercisable, July 31, 2011	4,167,000	\$ 1.02

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**8. CAPITAL STOCK (Continued)**

At July 31, 2011, outstanding incentive stock options were as follows:

Expiry Date	Number of Options	Exercise Price
November 9, 2011	87,000	\$0.50
March 12, 2012	500,000	\$ 0.75
July 23, 2012	50,000	\$ 1.00
October 21, 2012	200,000	\$ 1.00
November 30, 2012	50,000	\$ 1.00
November 18, 2013	150,000	\$ 1.00
June 16, 2015	375,000	\$1.00
September 23, 2015	750,000	\$1.08
December 14, 2015	5,000	\$1.08
January 11, 2016	100,000	\$1.08
January 31, 2016	100,000	\$1.08
April 19, 2016	1,505,000	\$1.25
April 26, 2016	10,000	\$1.30
June 6, 2016	512,500	\$1.25
	4,394,500	
Weighted average remaining life	3.66 years	

(d) Stock based compensation

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model. Stock-based compensation expense of \$1,873,291 (2010 - \$509,080) for the nine months ended July 31, 2011 was calculated for vested options based on the following weighted average assumptions:

	July 31, 2011	July 31, 2010
Risk-free interest rate	2.95%	2.53%
Expected dividend yield	0.00	0.00
Expected stock price volatility	105.00%	91.72%
Expected option life in years	5.00	5.00

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

The amounts recorded as stock-based compensation is for grants to directors, officers, employees and consultants.

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**For the Three and Nine month periods Ended July 31, 2011 and 2010**  
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**8. CAPITAL STOCK (Continued)**

(e) Share purchase warrants

	July 31, 2011		October 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	2,518,004	\$ 1.40	0	\$ 0.00
Granted	10,872,380	\$ 1.93	2,518,004	\$ 1.40
Granted on acquisition of Four Points (note 2)	40,000	\$ 0.50	0	0
Exercised	(45,592)	\$ 0.80	0	\$ 0.00
Outstanding and exercisable, end of period	13,384,792	\$ 1.78	2,518,004	\$ 1.40

The following warrants are outstanding at July 31, 2011 and October 31, 2010:

Expiry Date	Exercise Price	Number of Warrants	
		At July 31, 2011	At October 31, 2010
September 7, 2012	\$ 1.40	2,518,004	2,518,004
November 9, 2012	\$ 1.40	1,203,933	0
April 5, 2013	\$ 2.00	8,582,316	0
Agent's Warrants: March 29, 2012	\$ 0.50	9,408	0
Agent's Warrants November 9, 2012	\$ 1.08	118,931	0
Agent's Warrants: April 5, 2013	\$ 1.45	952,200	0
		13,384,792	2,518,004
Weighted average life of warrants outstanding		1.54 years	1.36 years

**9. RELATED PARTY TRANSACTIONS**

Related party transactions not disclosed elsewhere in these financial statements are as follows:

- (a) During the three and nine months ended July 31, 2011, the Company paid or accrued management fees of \$60,000 and \$138,300 respectively (July 31, 2010 - \$Nil) and reimbursed out-of-pocket expenses totalling \$16,363 and \$63,671 respectively to Andreas Consulting Inc. a company controlled by an officer and director of the Company.

## YELLOWHEAD MINING INC.

(An Exploration Stage Company)

### Notes to Interim Consolidated Financial Statements

For the Three and Nine month periods Ended July 31, 2011 and 2010

(Canadian Dollars)

Unaudited – Prepared by Management

#### 9. RELATED PARTY TRANSACTIONS

- (b) During the three and nine months ended July 31, 2011, the Company paid or accrued management fees of \$25,500 and \$51,000 respectively (July 31, 2010 - \$18,000 and \$54,000 respectively) to Elissa Cristall Galleries Ltd., a company related to an officer of the Company.
- (c) During the three and nine months ended July 31, 2011, the Company paid or accrued management fees of \$10,600 and \$74,200 respectively (July 31, 2010 - \$31,800 and \$95,400 respectively) and reimbursed out-of-pocket expenses totalling \$33,140 and \$62,738 respectively to Handford Management Ltd., a company controlled by an officer of the Company.
- (d) During the three and nine months ended July 31, 2010, the Company paid or accrued project management fees, exploration expenses and office costs of \$1,136,147 and \$3,299,259 respectively (July 31, 2010 - \$53,136 and \$152,782 respectively) to CME Consultants Inc., a contractor company whose president is a director of the Company. A further \$100,000 deposit was advanced during the period as an advance payment on work to be done. As at July 31, 2011, there was a balance owing to CME Consultants of \$508,221 for services provided and work on the Harper Creek Project.
- (e) During the three and nine months ended July 31, 2011 the Company paid or accrued \$22,500 and \$67,500 respectively (July 31, 2010 - \$11,250 and \$26,250 respectively) in project management fees to Twinstone Ventures Inc., a company related to a director of the Company.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Three months Ended July 31		Nine months Ended July 31	
	2011	2010	2011	2010
<b>Supplementary Information</b>				
Interest received	\$ 21,766	\$ 866	\$ 35,773	\$ 31,242
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0
<b>Non-Cash Financing and Investing Activities</b>				
Due to related party for investment in resource property interests	\$ 508,221	\$ 49,392	\$ 508,221	\$ 49,392
Accounts payable for investment in resource property interests	\$ 1,956,121	\$ 102,416	\$ 1,956,121	\$ 102,416



## **YELLOWHEAD MINING INC.**

**(An Exploration Stage Company)**

**Notes to Interim Consolidated Financial Statements**

**For the Three and Nine month periods Ended July 31, 2011 and 2010**

**(Canadian Dollars)**

**Unaudited – Prepared by Management**

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### **11. COMMITMENT**

The Company is committed to minimum rental payments for office premises aggregating approximately \$584,026 over the terms of a lease expiring in 2016.

Commitments in each of the next five years are approximately as follows:

2011	\$ 18,454
2012	111,230
2013	114,271
2014	117,312
2015 and thereafter	222,759

### **12. SUBSEQUENT EVENT**

On August 12, 2011, 31,500 share purchase options were exercised for net proceeds of \$15,750.