



FORM 51-102-F1 Management Discussion & Analysis For the Period Ending July 31, 2011

**YELLOWHEAD MINING INC.**  
**Management Discussion & Analysis**  
**FORM 51-102-F1**  
**For the Period Ending**  
**July 31, 2011**

*This report contains assumptions, estimates, and other forward-looking statements regarding future events. Such forward-looking statements involve inherent risks and uncertainties and are subject to factors, many of which are beyond the Company's control that may cause actual results or performance to differ materially from those currently anticipated in such statements. Important factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements include among others metal price volatility, economic and political events affecting metal supply and demand, fluctuations in ore grade, tonnes of ore milled, geological, technical, mining or processing problems*

*Readers are cautioned not to put undue reliance on these forward looking statements.*

**Yellowhead Mining Inc.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Three and Nine Month Period ended July 31, 2011**

**September 23, 2011**

**Background:**

This Management Discussion and Analysis (“MD&A”) provides information that management considers to be relevant to an assessment and understanding of Yellowhead Mining Inc.’s (“Yellowhead”, “YMI”, or the “Company”) financial condition as at July 31, 2011 and the results of its operations and cash flows for the Three and Nine month period ended July 31, 2011 and follows the requirements of National Instrument 51-102 (“NI 51-102”).

This discussion should be read in conjunction with the Company’s interim unaudited consolidated financial statements and the related notes for the period ended July 31, 2011 which have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts included therein and in this MD&A are expressed in Canadian Dollars unless otherwise noted.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company’s board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board’s audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com) and to review general information including reports and maps on the Company’s website at [www.yellowheadmining.com](http://www.yellowheadmining.com).

The information contained within this MD&A is current to September 23, 2011.

**Company Overview:**

Yellowhead’s principal business activity is the exploration and development of its wholly-owned Harper Creek mineral property, located in south central British Columbia, Canada.

Harper Creek Property, Vavenby, B.C.

The Company’s Harper Creek property is a copper deposit located approximately 150 km by road north-northeast of the city of Kamloops. The property is adjacent to the Yellowhead Highway, the Canadian National Railway’s transcontinental mainline, power from BC Hydro transmission lines and the town-sites at Vavenby and Clearwater. The property had been explored by Noranda and US Steel in the 1960’s and 1970’s. The data and a significant portion of the drill core from this period have been recovered by the Company.

The Company has a total of 131 mineral tenures covering 42,636 hectares at Harper Creek in Kamloops Mining Division of British Columbia. The area of active exploration and proposed development comprises 9,000 hectares which extends from the area of historical exploration by both Noranda and US Steel and their successors.

Corporate Structure

The Company was a private, non-reporting, issuer in the provinces of British Columbia, Alberta and Ontario as at October 31, 2010, but became a wholly owned subsidiary of the Capital Pool Company, Four Points Capital Corporation, upon its amalgamation with 0887988 B.C. Ltd. on November 10, 2010.

Following its amalgamation, the “old” Yellowhead Mining Inc. was renamed the Harper Creek Mining Corporation and the “old” Four Points Capital Corporation became the “new” Yellowhead Mining Inc. In the

future, both the financial statements and the Management Discussion and Analysis will be reported for Yellowhead Mining Inc., the consolidation of the “new” Yellowhead Mining Inc. with its wholly owned subsidiary, the Harper Creek Mining Corporation.

The “new” Yellowhead Mining Inc. was listed for trading on the TSX Venture Exchange on November 17, 2010 under the trading symbol “YMI” and became a Tier 1 issuer on November 18, 2010.

### Corporate Developments

On March 8, 2011, the Company published the results of the Preliminary Economic Assessment (“PEA”) of the Harper Creek Project (the “Project”). This included an updated resource estimate that included estimates for both gold and silver. This report was filed on SEDAR on April 1, 2011 and was fully discussed in the Company’s MD&A dated June 29, 2011.

### **Significant Events, Transactions and Activities on Mineral Properties**

#### *Capital transactions:*

The Company’s MD&A dated June 29, 2011 covered in considerable detail the capital transactions which occurred between the beginning of its current fiscal year on November 1, 2010 and the end of its second quarter on April 30, 2011.

In the period since November 1, 2010:

In summary, the company completed a private placement of 2,437,863 units comprising one common share and ½ share purchase warrant for gross proceeds of \$2,632,892 in November 2010 (the “November Private Placement”) and a second private placement of 15,870,000 units comprising one common share and ½ share purchase warrant for gross proceeds \$23,011,500 in April (the “April Private Placement”).

Concurrently with the closing of the April Private Placement, Anthill Resources Limited exercised its right to maintain its percentage holding and acquired a further 1,294,632 units for gross proceeds of \$1,877,716.

Finders’ fees of \$153,013 and 118,931 finders’ warrants with a \$1.08 strike price and a 2 year term were issued in connection with the November Private Placement.

The Underwriters (Canaccord Genuity Corp., Clarus Securities Inc., Jennings Capital Inc. and Stonecap Securities Inc.) received aggregate compensation of \$1.4 million plus 952,200 agent’s warrants with a strike price of \$1.45, maturing in April 2013, for the April Private Placement.

In addition to the two private placements, between February 28 and June 30, 30,592 common shares were issued pursuant to the exercise of agent’s options with a strike price of \$0.50 for net proceeds of \$15,296. On February 28, 15,000 common shares were issued pursuant to the exercise of warrants with a strike price of \$1.40 for net proceeds of \$21,000.

On March 3, 24,000 shares were issued pursuant to the exercise of stock options priced at \$0.50 for gross proceeds of \$12,000. Between April 29 and May 31, 350,000 common shares were issued pursuant to the exercise of stock options priced at \$0.40 per share for gross proceeds of \$140,000.

Subsequent to the end of the quarter, on August 12, 31,500 stock options were exercised at \$0.50 for net proceeds of \$15,750.

### **Outlook**

- The Company is applying the funds it raised to advancing its Harper Creek copper-gold-silver Project through feasibility and permitting.
- The management of the Feasibility Study was awarded to Merit Consultants International Inc. ("Merit") after a competitive bid process. Merit will provide overall management and coordination of the consultants, schedule, capital costs, infrastructure, and implementation planning. Merit, a Vancouver-based firm, has extensive engineering, cost estimating and construction management experience with large copper projects in British Columbia and Internationally.
- The Feasibility Study commenced in April, 2011 and is scheduled for completion by the end of 1Q 2012. Assuming a positive feasibility study and successful financing, Yellowhead's goal is to have the project in production by the end of 2014.
- The Feasibility Study is based on the design criteria developed in the Preliminary Economic Assessment Report which proposes processing 70,000 tonnes per day of mill feed and producing a copper concentrate containing an average of 132 million pounds copper per year plus gold and silver.
- The Feasibility Study team includes Axxent Engineering Ltd., (mill design and general engineering services); Hinz, A Rockwell Automation Company, (electrical, instrumentation, process control services); Laurion Inc., (process design criteria plus management of the metallurgical test work being performed by G&T Metallurgical Services Ltd.); Nilsson Mine Services Ltd., (mine design); and GeoSim Services Inc., (resource estimation).
- In parallel with the feasibility study, Yellowhead has awarded management of the Environmental Assessment ("EA") and geotechnical/hydrological work to Knight Piésold Limited ("KP"). Dillon Consulting Limited will continue to support the EA with the ongoing collection of baseline data. Further assistance on the EA will be provided by SRK Consulting (Canada) Inc., (geochemistry) and BioteQ Environmental Technologies Inc., (water treatment), Terra Archeology (archeological) and Keystone Wildlife Research (wildlife). The EA is scheduled for submission end of 1Q 2012.
- The Company is continuing its drilling program designed to expand and upgrade the NI 43-101 compliant resources. A total of 20,000 metres is planned for completion by end of fiscal 2011, including geotechnical, condemnation and step out drilling designed to expand the resource.
- Consultation with the First Nations and local communities is ongoing.
- Beginning in June, the Company rolled out an intensive investor relations program designed to raise the Company's profile among investors in North America, Europe and Asia.
- The Company has begun investigating various structures for project financing.

#### *Management Team:*

#### **Senior staff appointments**

The appointments of Alastair Tiver to the position of Vice President Operations, Charlene Higgins to the position of Vice President Environment, Community & First Nations, and Darlene Lynch to the position of Manager, Corporate Administration were documented in our June 29, 2011 MD&A.

Since that report, Darlene Lynch has been appointed Corporate Secretary.

#### *Mineral Property:*

#### **Diamond Drilling**

Diamond drilling commenced on the property on June 29. The program is being managed by CME Consultants Inc. with drilling services being provided by Atlas Drilling Ltd. For the three months ended July 31, 4,090 m had been drilled.

No new drill results have been available for release since June 29, the date of the Company's last MD&A.

### Update on Historical Core Resampling

All relogging and assaying of the old (Noranda and US Steel) core has been completed.

No new results have been available for release since June 29, 2011, the date of the Company's last MD&A.

### Resource Update

The results of our ongoing work will be reported in a Resource Update which will form part of the Feasibility Study currently underway. This is expected before year end.

All YMI drill core has been analyzed for 30 elements including gold and silver which, when combined with the re-analysis data of historical core, is expected to support the inclusion of gold and silver in future resource estimates.

### Feasibility Study

The Preliminary Economic Assessment (the "PEA") was filed on SEDAR on April 1, 2011.

The conclusions of the PEA are well documented in our MD&A dated June 29, 2011. Both the MD&A and the PEA are filed on [www.sedar.com](http://www.sedar.com).

In April 2011, work began on the Feasibility Study.

This program includes geotechnical and hydrological holes for pit and tailings dam design, foundation testing, large diameter holes for metallurgical samples for detailed test work, condemnation holes and infill and step out drilling.

Due to the late spring and slow snow melt, the drilling program was delayed. It started at the end of June and has largely been completed with the results of the drilling now being documented and analysed. The field program consisting of drill supervision, core-logging, and camp management and maintenance has been contracted to CME Consultants Inc., a geological consulting firm whose President is a director of the Company.

Our Mines Permit for exploration has been extended to December 31, 2011.

A new notice of work and supporting applications has been filed with the Mines Ministry which will cover activities beyond the end of this year.

On February 12, 2011, YMI extended all 131 of its claims covering 42,636.484 ha through to November 3, 2014.

No new reclamation bonds were required during the period.

### The Environmental Assessment

On June 1, 2011, the BC Environmental Assessment Office (the "BCEAO") held an open house in Clearwater, BC to present the Harper Creek project to the local and First Nations communities. Representatives from the Canadian Environmental Assessment Agency ("CEAA") were also in attendance to explain the Federal environmental assessment process. The Open House was very well attended. The Company made three separate presentations on the project over an eight-hour period that commenced at 12PM.

Baseline studies to support the Environmental Assessment Report are ongoing and build on the program that began in 2007, and include water quality, climate, fisheries, wildlife, archeological and cultural resources. These environmental baseline studies will continue through 2011.

On June 30, the first public comment period on the draft Application Information Requirements (the "dAIR") closed. There were only three responses from the public and First Nations. These are posted on the

BCEAO website. Responses to these comments, along with comments from the federal and provincial agencies, will be incorporated into the final Application Information Requirement document.

Archaeology inventories and assessment study started in July and is expected to be completed by end of October, weather permitting.

The Environmental Assessment process is led by Knight Piesold with support from specialized consultants including Keystone Wildlife Research Ltd., Dillon Consulting Limited, and Terra Archeology.

Laurie McNeil and Associates is conducting the socio-economic impact assessment and review of the project.

Representatives of the local First Nations communities are supporting the field activities of the various consultants conducting the baseline studies.

Members of the Working Group led by BCEAO including, CEAA, First Nations, the public and other provincial and federal departments involved in the environmental assessment and harmonized review toured the site on August 17, 2011. A "Working Group" meeting was held the next day to review comments and revisions to the dAIR and to propose any additional items considered necessary to satisfy the Working Group.

It is expected that the BCEAO will approve and formally issue the the final Application Information Requirements document in October 2011.

### Mineral Properties Expenditures

As at July 31, 2011 a summary of the Company's mineral property expenditures is as follows:

	<b>Harper Creek</b>
Balance, October 31, 2010	\$ 10,905,163
Net Additions	6,617,520
Balance, April 30, 2011	\$ 17,522,683

Further details of expenditures are disclosed in Note 6 of the July 31, 2011 unaudited interim consolidated financial statements.

The Company is advancing exploration and development on the property with the goal of completing a definitive feasibility study over the next 9 months.

Plans are well advanced and contracts in place for additional geological field work, metallurgical testing, environmental baseline studies and archaeological and traditional use studies.

The Company's exploration work to date indicates the potential for expansion of mineralization in several zones within the primary project area of 9,000 ha.

### **Corporate Development**

The company has an active marketing program to potential strategic investors, project financiers and advisors who may assist with the project's financing and development. A number of confidentiality agreements were completed in the quarter. An active program is anticipated in this area in the fall, with several meetings scheduled in China, Japan and Korea.

### **Investor Relations:**

Expenditures for conferences made in the quarter included payments for the company's planned attendance at the Global China Financial Forum in Toronto on September 25, 2011, the China Mining Show in Tianjin November 6-8, 2011, and the Mines & Money conference in London UK on December 6 and 7, 2011.

A road show was conducted in London, Zurich, Geneva and Paris in late June to introduce the Company to institutional investors.

In order to increase the retail stockbroker and investor awareness of Yellowhead Mining Inc., the Company engaged Renmark Financial Communications to arrange a series of presentations to groups across North America. The program commenced July 1, 2011. Subsequent to quarter-end, presentations on the Company and the Harper Creek Project were conducted in New York, Boston, Calgary, Edmonton, Victoria and Vancouver. Further presentations have been scheduled for Ottawa, London ON and Toronto. It is anticipated that Winnipeg, Montreal, Quebec City and Halifax will be covered by year end.

A group of analysts and key institutional shareholders conducted a site visit in July.

### Selected Annual Information:

The following table presents financial information for the years ended October 31, 2010, October 31, 2009, and October 31, 2008.

Description	October 31		
	2010	2009	2008
Loss for the year	\$1,549,566	\$921,474	\$241,381
Loss per share	\$0.06	\$0.04	\$0.01
Total assets	\$16,394,531	\$11,041,217	\$11,781,878

### Selected Quarterly Financial Information

Amounts are expressed in thousands of Canadian dollars, except per-share amounts.

	31JUL11	30APR11	31JAN11	31OCT10	31JUL10	30APR10	31JAN10	31Oct09
Current Assets	24,630	27,407	5,920	5,345	276	585	787	887
Resource Property Interests	17,523	13,701	12,271	10,905	10,663	10,069	9,979	9,935
Other Assets	211	108	126	145	163	182	200	219
<b>Total Assets</b>	<b>42,364</b>	<b>41,216</b>	<b>18,217</b>	<b>16,395</b>	<b>11,102</b>	<b>10,836</b>	<b>10,966</b>	<b>11,041</b>
Current liabilities	2,502	508	570	419	272	145	137	55
Other liabilities	0	0	0	0	403	403	403	403
Shareholders' equity	39,862	40,708	17,747	15,976	10,427	10,288	10,426	10,583
<b>Total liabilities and shareholders' equity</b>	<b>42,364</b>	<b>41,216</b>	<b>18,317</b>	<b>16,395</b>	<b>11,102</b>	<b>10,836</b>	<b>10,966</b>	<b>11,041</b>
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Expenses:</b>								
General & Admin	912	527	488	467	88	119	167	110
Amortization	20	18	18	18	19	19	19	19
Interest Expense	0	0	0	0	0	0	0	nil
Interest Income	(55)	(22)	(14)	(9)	(1)	0	(30)	nil
Income tax (Recovery)	0	0	0	(403)	0	0	0	168
Stock based compensation	430	1,271	172	578	509	0	0	30
<b>Loss(Income) for the period</b>	<b>1,367</b>	<b>1,795</b>	<b>664</b>	<b>651</b>	<b>617</b>	<b>138</b>	<b>156</b>	<b>326</b>
Loss (Income)per share - basic	0.03	0.05	0.02	0.03	0.02	0.01	0.01	0.01

### Results of Operations

The operating results of exploration companies can fluctuate significantly from period to period. Being in the exploration stage, the Company has no revenue from operations.

***Cash flows for the 3 and 9 months ended July 31, 2011 compared to the 3 and 9 months ended July 31, 2010:***

During the 3 month period ended July 31, 2011 the Company had cash outflow of \$3,519,632 versus a cash inflow for the 9 month period of \$18,420,657 respectively (July 31, 2010 – overall cash decrease of \$242,571 and an increase of \$116,459 respectively).

During the 3 and 9 month periods ended July 31, 2011 the Company had cash outflows to resource property expenditures of \$1,767,672 and \$4,434,093 respectively compared to cash outflows of \$30,509 and \$108,000 respectively in the 3 and 9 months ended July 31, 2010. All sums reported here net out the accounts payable and accrued expenses incurred in resource property interests disclosed in the Note 10 to the July 31, 2011 unaudited consolidated financial statements.

During the 3 and 9 month periods ended July 31, 2011, the Company had an outflow of \$1,720,907 and an outflow of \$2,793,094 from operating activities (which excludes investment and financial activities, covered later) respectively (July 31, 2010 outflow of \$105,808 and inflow of \$542,691 respectively).

During the 9 month period ended July 31, 2011, the Company raised an aggregate of \$25,489,032 from private placements, net of financing costs of \$1,659,731. Also during this period, the Company completed its reverse acquisition of Four Points Capital Inc., which resulted in a cash inflow of \$261,292.

There were no proceeds from the issuance of shares in either of the 3 and 9 months ended July 31, 2010.

***Net Loss for the 3 and 9 month period ended July 31, 2011 compared to the 3 and 9 month periods ended July 31, 2010.***

During the 3 and 9 month periods ended July 31, 2011 the Company incurred an overall net loss of \$1,367,722 and \$3,827,252 respectively (July 31, 2010 - \$615,298 and \$909,644 respectively).

Significantly, stock based compensation represented \$430,039 and \$1,873,291 of these amounts in the 3 and 9 months ended July 31, 2011. Stock based compensation totalling \$509,080 was recorded in periods ended July 31, 2010. The stock based compensation related to the grant of share purchase options to management, directors and advisors following the completion of the private placements in April, 2011 and additions to management in June, 2011. The stock based compensation which occurred in 2010 was also related to the strengthening of the management team.

In the 3 and 9 month periods ended July 31, 2011, the Company had other non-cash charges for amortization of \$19,848 and \$56,311 compared to \$18,685 and \$56,197 respectively for those periods in 2010.

The Company incurred administrative expenses net of the non-cash charges identified above of \$972,927 and \$1,988,856 respectively during the 3 and 9 months ended July 31, 2011 (July 31, 2010 - \$88,399 and \$363,143, respectively).

The Company continued to significantly increase investor relations, travel and promotion expense as a result of the need to support its status as a publicly traded company and to prepare for future financings. These expenses were \$226,730 and \$573,766 in the 3 and 9 months ended July 31, 2011 compared to \$6,555 and \$66,938, respectively, for the same periods in 2010.

Management fees were \$118,800 and \$367,300 for the 3 and 9 month period ended July 31, 2011 compared to \$61,050 and \$175,650 for the 3 and 9 month periods ended July 31, 2010, reflecting the additions to our management team. Beginning June 1, 2011, two contractors who had provided professional services to the Company were hired as executives of the Company, joining Alastair Tiver, Charlene Higgins and Darlene Lynch as employees. As a result, the Company recorded Salary and Wages expense in the 3 months ending July 31, 2011 of \$160,208 compared to Nil in prior periods.



Professional fees increased significantly during the period to \$297,404 for the 3 months ended July 31, and \$494,735 for the 9 months ended July 31, 2011 compared to \$6,349 and \$75,898 respectively in those same periods in 2010. Virtually all of the increase can be accounted for by activities associated the private placement which closed immediately preceding the Reverse Takeover of Four Points Capital Corporation, the initial listing on the TSX Venture exchange and the subsequent Private Placements. These are non-recurring expenditures at least until the next financing rounds.

Consulting fees also recorded a significant increase to \$120,794 for 3 months and \$189,533 for 9 months ended July 31, 2011 compared to \$2,525 and \$7,200 respectively for these periods a year earlier. Included in these fees are costs associated with the socio-economic review process and community consultation.

During the 3 and 9 month period ended July 31, 2011 the Company recorded interest income totalling \$55,425 and \$91,206, respectively (July 31, 2010 \$866 and \$31,242 respectively).

In addition to project development and exploration expenses which have fixed budgets, YMI's cash operating expenses for salaries, professional fees, investor relations costs and general office expenses have increased to approximately \$900,000 per quarter.

### **Liquidity and Capital Resources**

On July 31, 2011, the Company had cash of \$23,155,482 (October 31, 2010 - \$4,734,825).

These funds are held in High Interest Savings Accounts ("HISA") and bankers' acceptances at a major Canadian chartered bank. The bankers' acceptance matured in August and the funds were consolidated into the HISA.

The Company working capital of \$22,128,393 as at July 31, 2011 compared to working capital of \$4,925,431 as at October 31, 2010.

Cash flow is monitored daily and reported monthly.

During the three and nine months ended July 31, 2011 the Company had an operating cash expense rate, excluding project development expenses, of approximately \$300,000 and \$200,000 respectively per month, up substantially from \$30,000 and \$40,000 respectively per month for the three and nine months ended July 31, 2010.

The Company's focus for the remainder of the year, and going forward, is advancing the development of the Project. The Company's forecasted cash expenditures for next 12 months is approximately \$11.8 million, the majority of which will be incurred in drilling, completion of a Feasibility Study, the Environmental Assessment process and detailed engineering.

The Company believes that it has sufficient funds on hand to complete the definitive Feasibility Study and to advance through the permitting process.

If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs.

### **Capital Resources**

At July 31, 2011, the Company had the following capital resources and claims against capital resources:

## Current capital resources

<b>Unrestricted Cash</b>		<b>23,155,482</b>
HST rebate receivable		846,875
Deposits with suppliers		432,227
Mineral exploration tax credit receivable		195,846
	<b>Subtotal</b>	<b>24,630,434</b>
<b>Amounts due for payment</b>		<b>(2,502,041)</b>
	<b>Subtotal</b>	<b>22,128,393</b>
<b>Claims against capital</b>		
Feasibility Study		6,200,000
Environmental Assessment and Community Relations		2,600,000
Corporate Development and Investor Relations		1,000,000
General and Administrative Expenses		1,980,000
	<b>Subtotal</b>	<b>11,780,000</b>
<b>Excess Capital Resources</b>		<b>10,348,393</b>

The budget for the advancement of the project through April 30, 2012 including the Feasibility Study, the Environmental Assessment and permitting process, Corporate Development as well as General and Administrative expenses was approved at a board meeting held on July 7, 2011.

The ongoing capital commitments are as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long term debt	Nil				
Capital Lease Obligations	Nil				
Operating Leases	Nil				
Purchase Obligations	Nil				
Other Long Term Obligations	\$584K	\$92K	\$230K	\$242K	\$20K
Total Contractual Obligations	\$584K				

This long term obligation arose when the Company entered into an agreement to rent office space in downtown Vancouver with occupancy commencing on July 1, 2011 and the lease to begin on September 1, 2011 and conclude August 31, 2016.

## Transactions with Related Parties

Transactions with related parties totalled \$1,287,250 and \$3,765,168 for the three and nine months ended July 31, 2011 compared to \$114,186 and \$328,432 respectively for the three and nine months ended July 31, 2010, as detailed below:

- 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 totaling \$16,363 and \$63,671 respectively to Andreas Consulting Inc. a company controlled by an officer and director of the Company. On August 1, 2011, this principal became an employee of the Company and remains a director.
- During the three and nine months ended July 31, 2011, the Company paid or accrued management fees of \$8,500 and \$59,500 respectively (July 31, 2010 - \$18,000 and \$54,000 respectively) to Elissa Cristall Galleries Ltd., a company related to an officer of the Company.
- 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.

The above transactions are in the normal course of operations, with terms that are similar to those with unrelated parties and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

### **Change in Board of Directors**

At the Company's Annual General Meeting and Special Meeting of Shareholders (the "AGM") held on May 19, 2011, Christopher O. Naas was added to the Board of Directors. Mr. Naas had been a director of the wholly owned subsidiary company, the Harper Creek Mining Corp and was formerly a director of Yellowhead Mining Inc. as a private company.

Immediately following the AGM, Mr. Morgan Li, also formerly a director of the Harper Creek Mining Corp. was also appointed to the Board by Consent resolution.

This brought the total number of directors of the Corporation to seven.

### **Capital Lease Obligations**

The Company has no outstanding Capital Lease Obligations.

### **Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements.

### **Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash, short term bankers' acceptances and bank term deposits, receivables from government agencies, accounts payable and accrued liabilities.

The terms are fully disclosed in the Company's financial statements. It is management's opinion that the Company is not exposed to significant currency, credit or interest rate risks from its financial instruments. The fair value is the carrying value unless otherwise noted.

The Company follows the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments - Recognition and Measurement", which established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading or available-for-sale categories. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

The Company adopted the CICA Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation" which provides users with information to evaluate the significance of the financial instruments of the entity's financial position and performances, nature and extent of risks arising from financial instrument, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

### Critical Accounting Policies

A summary of significant accounting policies is presented in Note 3 to the audited financial statements for the year ended October 31, 2010.

Preparing financial statements in accordance with GAAP requires management to make certain judgements and estimates. Changes to these judgements and estimates could have a material effect of the Company's financial statements and results of operations and cash flows.

The carrying value of expenditures incurred in a development stage company like YMI is subject to an impairment evaluation. All of the expenditures incurred to date on the Company's Harper Creek Property have been capitalized. It is management's opinion that the estimated cash flows expected to result from the future use of the property and its eventual disposition will exceed its carrying amounts.

### International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS standards effective November 1, 2011 to be in line with its October 31 year-end and will be required to restate, for comparative purposes, amounts reported by the Company for its year ended October 31, 2011.

#### Approach:

There are five phases that will be followed to ensure compliance with IFRS as follows: (1) identification of key accounting issues (2) analysis of accounting standards (3) determination of accounting policies (4) implementation and (5) post implementation review. The implementation team consists of the Company's auditors and internal resources. The implementation team will report through the CFO to the Audit Committee on the progress towards IFRS convergence.

#### Training:

Members of the Company's finance department have taken steps to become proficient in IFRS, including participating in a number of IFRS training sessions.

#### Accounting Policies Impacted:

The detailed analysis of the accounting policies impacted by the IFRS convergence will be completed during this fiscal quarter. IFRS requires more disclosure. Based on an analysis of expected accounting differences conducted so far, the following is a non-exhaustive list of the IFRS accounting policies that could have a potential impact on the financial statements of the Company:

#### First Time Adoption (IFRS 1):

IFRS 1 provides guidelines to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- Optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- Mandatory exemptions to retrospective application of certain IFRS standards.

Additionally, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items

due to the transition to IFRS.

Impairment (IAS36, IAS 6):

IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss). IFRS requires reversal of impairment losses where previous adverse circumstances have changed; this is prohibited under Canadian GAAP. Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU"). At present, Yellowhead has only one potential CGU, the Harper Creek Project.

Mineral property interests, exploration and evaluation costs (IFRS 6)

Under IFRS, the Company would be required to develop an accounting policy to specifically and consistently identify which expenditures on exploration and evaluation activities will be recorded as assets. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment. Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

Information systems:

The accounting processes of the Company are currently simple and no major challenges are expected. The Company expects that no historical data will have to be regenerated to comply with some of the choices to be made under IFRS1.

The Company will perform its accounting under Canadian GAAP for the fiscal year ending October 2011.

It will be required to generate dual financial statements under IFRS for this period so that it has the comparatives available at the changeover date.

IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), sets forth guidance for the initial adoption of IFRS. Starting November 1, 2011, the Company will restate its comparative fiscal 2011 financial statements for annual and interim periods to be consistent with IFRS. In addition, the Company will reconcile equity and net loss for fiscal 2011 GAAP amounts to the restated 2011 IFRS amounts. IFRS 1 generally requires that first time adopters retrospectively apply all IFRS standards and interpretations in effect as at the first annual reporting date. IFRS 1 also provides for certain mandatory exceptions and optional exemptions to this general principle.

Changes to estimates previously made are not permitted. The estimates previously made by the Company under GAAP will not be revised for application of IFRS except where necessary to reflect any changes resulting from differences in accounting policies.

During the balance of the Company's current fiscal year, through October 31, 2011, management in consultation with the Company's auditors and as advised by the audit committee will specifically direct its attention to changes in reporting the Basis of Consolidation, the reporting of Mineral Exploration Expenses, Incomes Taxes, the Impairment of Assets, Asset Retirement Obligations and Share-Based Payments.

IFRS Impact on the Organization:

The conversion to IFRS will impact the way the Company presents its financial results.

The first financial statements to be prepared using IFRS (i.e., interim financial statements for the three months ending January 31, 2012) will be required to include notes disclosing transition information and full disclosure of all new IFRS policies.

The financial reporting impact of the transition is expected to be minimal.

The Company will continue to ensure that key individuals involved in its financial reporting processes and the implementation of IFRS receive adequate training in IFRS. This process has been ongoing since fiscal year 2008.

## **Accounting Estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates relate to determination of environmental obligations, recoverability of resource property interests, rates of amortization, accrued liabilities, determination of variables used in the calculation of stock-based compensation and the determination of valuation allowance for future tax assets and mineral exploration tax credit. While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows.

## **Proposed Transactions**

The Company has terminated its consideration of a proposal for the acquisition of an industrial site in the Township of Vavenby and is not actively considering any other transactions.

## **Disclosure of Contractual Obligations**

As part of its agreement with Yellowhead for the purchase of the private placement on September 7, 2010, Anthill Resources Limited ("Anthill") retains the right to participate in future qualified equity financing ("QEF") in order to maintain its interest at 15%.

Following the April Private Placement, Anthill exercised its right to participate in the QEF as provided for under the agreement, thereby maintaining this right.

There are no other contractual obligations.

## **Disclosure Controls and Internal Controls over Financial Reporting**

The Company has evaluated its internal controls over financial reporting and believes that as of the report date, its systems of internal controls over financial reporting as defined under MI 52-109 is sufficiently designed and maintained to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Certain weaknesses in its system are apparent. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in smaller companies. As a consequence of this situation:

1. It is not feasible to achieve the complete segregation of duties; and
2. The Company does not have full competency "in house" in complex areas of financial accounting such as taxation.

The Company believes these weaknesses are mitigated by:

1. the nature and present level of activities and transactions within the Company being readily transparent;
2. the review of the Company's financial statements by senior management and the audit committee of the board of directors;
3. the assistance and advice rendered by the Company's independent auditors; and
4. the active participation of senior management in monitoring financial reporting.

Nevertheless, these mitigating factors cannot eliminate the possibility that a material misstatement will occur as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A cost effective system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance the objectives of the internal controls over financial reporting are achieved.

## **Risk Factors**

Yellowhead is engaged in mineral exploration and development activities which, by their nature, are speculative due to the high risk nature of the business and the present stage of the development of the

Harper Creek Project. Any investment in the common shares of Yellowhead should be considered a highly speculative investment due to the nature of the Company's business. Such risk factors could materially affect Yellowhead's future financial results and could cause actual results and events to differ materially from those described in forward looking statements and forward looking information relating to Yellowhead or the business, property or financial results, any of which could cause investors to lose part or all of their investment in Yellowhead.

### Outstanding Share Data

Common shares, stock options and share purchase warrants issued and outstanding as at the quarter end are described in detail in Note 8 to the unaudited Consolidated Financial Statements for the three and nine months ended July 31, 2011 and as is current to the date of this report:

	Number of <u>Shares</u>	Cash <u>Consideration</u>	Exercise <u>Price</u>	Expiry <u>Date</u>
Issued and Outstanding	<u>52,761,968</u>	\$ 47,541,322		
	Number of <u>Options</u>			
	55,500		\$0.50	Nov 08,2011
	500,000		\$0.75	Mar 11, 2012
	50,000		\$1.00	July 22, 2012
	200,000		\$1.00	Oct 20, 2012
	50,000		\$1.00	Nov 11, 2012
	150,000		\$1.00	Nov 17, 2013
	375,000		\$1.00	June 15, 2015
	750,000		\$1.08	Sept 21, 2015
	3,750		\$1.08	Dec 13, 2015
	100,000		\$1.08	Jan 10, 2016
	100,000		\$1.08	Jan 30, 2016
	1,501,250		\$1.25	April 18, 2016
	10,000		\$1.30	April 24, 2016
	<u>512,500</u>		\$1.25	June 5, 2016
Total Options	<u>4,358,000</u>		\$1.02	(weighted average)
	Number of <u>Warrants</u>			
	9,408		\$0.50	March 29, 2012
	118,931		\$1.08	November 6,2012
	2,518,004		\$1.40	September 7, 2012
	1,203,933		\$1.40	November 6, 2012
	952,200		\$1.45	April 5, 2013
	<u>8,582,316</u>		\$2.00	April 5, 2013
Total Warrants	<u>13,384,792</u>			
Fully Diluted	<u>70,504,760</u>			

On behalf of the Board,

Ian Smith.  
Chief Executive Officer

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