YELLOWHEAD MINING INC.

YELLOWHEAD MINING INC.
(An Exploration Stage Company)
Consolidated Financial Statements
Years ended October 31, 2011 and 2010

(Expressed in Canadian Dollars)

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 consolidated 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 consolidated 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 and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

"Ian Smith"
Ian Smith
CEO

"Saurabh Handa"
Saurabh Handa
CFO

Vancouver, British Columbia
January 20, 2012

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF YELLOWHEAD MINING INC.
(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Yellowhead Mining Inc. (an exploration stage company), which comprise the consolidated balance sheets as at October 31, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellowhead Mining Inc. as at October 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
January 20, 2012

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YELLOWHEAD MINING INC.
(An Exploration Stage Company)
Consolidated Balance Sheets
As at October 31, 2011 and 2010
(In Canadian dollars)

		Oct 31, 2011		Oct 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents (note 6)	$	15,668,987	$	4,734,825
Mineral exploration tax credit receivable		2,559,183		195,846
HST receivable		1,530,825		87,778
Prepaid expenses		345,099		326,141
		20,104,094		5,344,590
Non-current assets				
Resource property interests (note 7)		20,613,410		10,905,163
Equipment (note 8)		203,361		144,778
Deposits		50,000		-
		20,866,771		11,049,941
Total assets	**$**	**40,970,865**	**$**	**16,394,531**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	1,804,138	$	87,853
Due to related parties (note 11)		362,988		331,306
		2,167,126		419,159
SHAREHOLDERS' EQUITY				
Capital stock (note 9)		42,780,849		17,338,694
Share subscriptions received		-		475,250
Contributed surplus		4,379,465		1,874,205
Deficit		(8,356,575)		(3,712,777)
		38,803,739		15,975,372
Total shareholders' equity and liabilities	**$**	**40,970,865**	**$**	**16,394,531**

Commitment (note 13)
Subsequent events (note 14)

See accompanying notes to consolidated financial statements

Approved on behalf of the Directors:

"T. Gregory Hawkins"
....
T. Gregory Hawkins, Director

"David Dickens"
....
David Dickens, Director

YELLOWHEAD MINING INC.
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
For the years ended October 31, 2011 and 2010
(In Canadian dollars)

		Year ended Oct 31, 2011		Year ended Oct 31, 2010
Expenses				
Stock-based compensation (note 9)	$	1,876,638	$	1,087,330
Investor relations, travel and promotion		879,140		185,240
Wages and benefits		861,102		348,350
Consulting fees		460,741		24,339
Professional fees		366,762		197,797
Filing fees		104,011		7,500
Office supplies and services		98,624		18,814
Amortization		80,006		74,508
Rent		44,480		6,840
Insurance		24,133		20,014
Licenses and permits		500		7,164
Other expenses		4,124		13,278
Loss before other item and future income tax		**4,800,261**		**1,991,174**
Interest income		(156,463)		(38,557)
Loss before future income tax		**4,643,798**		**1,952,617**
Future income tax recovery (note 10)		-		(403,051)
Net loss and comprehensive loss	**$**	**4,643,798**	**$**	**1,549,566**
Loss per share				
Basic and diluted	$	0.10	$	0.06
Weighted average number of shares outstanding				
Basic and diluted		44,974,574		27,013,319

See accompanying notes to consolidated financial statements

YELLOWHEAD MINING INC.
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity
For the years ended October 31, 2011 and 2010
(In Canadian dollars)

	Common shares	Capital stock	Share subscription received	Contributed surplus	Deficit	Total
Balance at Nov 1, 2009	26,162,375	$ 11,920,897	$ -	$ 824,971	$ (2,163,211)	$ 10,582,657
Net loss for the year	-	-	-	-	(1,549,566)	(1,549,566)
Private placements, for cash	5,036,007	5,438,888	-	-	-	5,438,888
Share issue costs	-	(219,187)	-	-	-	(219,187)
Exercise of stock options	400,000	198,096	-	(38,096)	-	160,000
Stock-based compensation	-	-	-	1,087,330	-	1,087,330
Share subscription received	-	-	475,250	-	-	475,250
Balance at Oct 31, 2010	**31,598,382**	**17,338,694**	**475,250**	**1,874,205**	**(3,712,777)**	**15,975,372**
Net loss for the year	-	-	-	-	(4,643,798)	(4,643,798)
Four Points shares (note 3)	1,110,000	105,310	-	-	-	105,310
Adjustment for subscription receivable	-	-	(475,250)	-	-	(475,250)
Private placements, for cash	19,602,495	27,521,608	-	-	-	27,521,608
Share issue costs	-	(2,428,389)	-	668,202	-	(1,760,187)
Exercise of stock options (note 9)	405,500	207,330	-	(39,580)	-	167,750
Exercise of share warrants (note 9)	45,592	36,296	-	-	-	36,296
Stock-based compensation (note 9)	-	-	-	1,876,638	-	1,876,638
Balance at Oct 31, 2011	**52,761,969**	**$ 42,780,849**	**$ -**	**$ 4,379,465**	**$ (8,356,575)**	**$ 38,803,739**

See accompanying notes to consolidated financial statements

YELLOWHEAD MINING INC.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the years ended October 31, 2011 and 2010
(In Canadian dollars)

		Year ended Oct 31, 2011		Year ended Oct 31, 2010
Operating activities				
Net loss	$	(4,643,798)	$	(1,549,566)
Items not involving cash				
Stock-based compensation (note 9)		1,876,638		1,087,330
Amortization (note 7)		80,006		74,508
Future income tax recovery (note 10)		-		(403,051)
Changes in non-cash working capital				
HST receivable		(1,438,802)		(80,944)
Prepaid expenses		(18,958)		(326,141)
Accounts payable and accrued liabilities		282,675		34,308
Due to related parties		(36,299)		14,932
Cash used in operating activities		**(3,898,538)**		**(1,148,624)**
Investing activities				
Resource property expenditures		(10,569,993)		(852,132)
Equipment acquisition costs (note 8)		(138,589)		-
Deposits		(50,000)		-
Cash received upon acquisition of Four Points (net of transaction costs)		101,065		-
Mineral exploration tax credit received		-		800,376
Cash used in investing activities		**(10,657,517)**		**(51,756)**
Financing activities				
Proceeds from issuance of capital stock, net of share issuance costs		25,490,217		5,379,701
Share subscriptions received		-		475,250
Cash provided by financing activities		**25,490,217**		**5,854,951**
Net increase in cash and cash equivalents		**10,934,162**		**4,654,571**
Cash and cash equivalents, beginning of year		4,734,825		80,254
Cash and cash equivalents, end of year	**$**	**15,668,987**	**$**	**4,734,825**

Supplemental disclosure of cash flow information (note 12)

See accompanying notes to consolidated financial statements

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Yellowhead Mining Inc. (the "Company" or "Yellowhead") 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 resource properties.

On November 10, 2010, the Company completed a reverse acquisition as further described in note 3.

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 resource 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 resource property interests 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 property interests 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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following:

(a) Cash and cash equivalents

Cash and cash equivalents consists of cash, term deposits and banker's acceptances with maturities of less than 90 days from the date of acquisition.

(b) Mineral exploration tax credit

The Company accrues provincial mineral exploration tax credits based on management's best estimate according to its interpretation of current legislation. Such claims are subject to review by taxation authorities and, therefore, the amount ultimately received could be materially different than the amount recorded. Tax credits are recorded using the cost reduction method and, accordingly, are included as a reduction of resource property interests.

(c) Resource property interests

The Company defers all costs related to resource property interests on a property-by-property basis. Such costs include resource property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of resource property mineralization has been determined and resource property interests are either developed or are allowed to lapse. All deferred resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time, the Company may acquire or dispose of a resource property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Resource property interests (Continued)

Option payments are recorded as property costs or recoveries when the payments are made or received. When recoveries exceed the carrying amount of the property interest, the excess is recognized in operations.

(d) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization of equipment is calculated on the straight-line basis at the following annual rates:

Furniture and equipment	- 5 years
Field camp equipment	- 5 years
Computer equipment and software	- 3 years

Additions during the year are amortized at one-half the annual rate.

(e) Interest Income

The Company recognizes interest income on its cash and cash equivalents on an accrual basis at the stated rates over the term to maturity.

(f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(g) Asset retirement obligations (“ARO”)

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a unit-of-production method over the life of the proven reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. The Company assessed its mineral properties, and based upon such assessments, there were no known material AROs as at October 31, 2011 and 2010.

(h) Accounting for equity units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced or issued, and any excess is allocated to warrants.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or resource property interests, with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(j) Loss per share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of the options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Diluted loss per share is the same as basic loss per share when the effects of various conversions and exercise of options and warrants would be anti-dilutive.

(k) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 areas requiring the use of management estimates relate to determination of environmental obligations, recoverability of tax credits receivable, recoverability of resource property interests, rates of amortization, accounts payable and accrued liabilities, determination of variables used in the calculation of stock-based compensation, valuation allowance related to future tax assets and mineral exploration tax credit. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(l) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in operations. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants 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.

(n) Future accounting changes

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed the convergence of Canadian generally accepted accounting principles 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. The Company has evaluated the impact of the conversion on the Company's consolidated financial statements and an analysis is presented in note 14 of the Company's Management Discussion and Analysis filed concurrently with these financial statements.

3. 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 ("Harper Creek"). 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-Venture Exchange under the symbol "YMI", under the name Yellowhead Mining Inc.

Upon the conversion of the Four Points shares, 1,110,000 shares of Yellowhead were issued with a fair value of $265,537. In addition 111,000 stock options and 40,000 share purchase warrants were issued with an exercise price of $0.50.

(In Canadian dollars)

3. REVERSE TAKE-OVER (CONTINUED)

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

Net assets acquired:		
Cash	$	261,292
HST receivable		4,245
		265,537
Less transaction costs		(160,227)
Amount allocated to capital stock	**$**	**105,310**

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 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 due to 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.

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 October 31, 2011, the Company had cash and cash equivalents of $15,668,987 (2010 - $4,734,825) available to settle current liabilities of $2,167,126 (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 risk.

Interest rate risk

The Company's cash balance is held in a 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.

(In Canadian dollars)

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.

6. CASH AND CASH EQUIVALENTS

		Oct 31, 2011		Oct 31, 2010
Cash	$	15,668,987	$	239,964
Money market instruments and banker's acceptances		-		4,494,861
	$	**15,668,987**	**$**	**4,734,825**

7. RESOURCE PROPERTY INTERESTS

Realization of assets

The investment in and expenditures on resource property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, obtaining permits, satisfaction of governmental requirements and possible aboriginal claims, attainment of successful production from the properties or from the proceeds of their disposal.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

(In Canadian dollars)

7. RESOURCE PROPERTY INTERESTS (CONTINUED)

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the property may be diminished or negated.

Title to resource properties

Although the Company has taken steps to verify the title to resource property interests in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, the procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

As at October 31, 2011 and 2010, the expenditures incurred on the Company's mineral property, Harper Creek, are as follows:

		Oct 31, 2011		Oct 31, 2010
Opening balance	**$**	**10,905,163**	**$**	**9,934,467**
Additions during year:				
Engineering		1,278,417		-
Acquisition costs		66,042		500,978
Exploration costs				
Drilling		2,999,088		81,181
Contract wages		1,964,645		137,924
Geophysical consulting		1,861,126		2,140
Environmental assessment		1,297,448		12,745
Camp and field supplies		819,685		92,734
Assays		742,739		116,098
Equipment rental		597,736		61,198
Geological consulting		397,371		87,117
Reports, drafting and maps		27,207		69,759
Travel and accommodation		20,080		4,668
Total additions during year		12,071,584		1,166,542
Mineral exploration tax credits		(2,363,337)		(195,846)
Net change during year		9,708,247		970,696
Closing balance	**$**	**20,613,410**	**$**	**10,905,163**

The Company has a total of 131 mineral tenures covering 42,636.5 hectares at Harper Creek in the Kamloops Mining Division of British Columbia.

(a) Acquisition from Callingham Limited

The Company has acquired a 100% interest in 18 mineral tenures. The Company exercised the option on May 18, 2006 by the issuance of 5,000,000 common shares of the Company valued at $50,000.

7. RESOURCE PROPERTY INTERESTS (CONTINUED)

(b) Option from CM Resources Limited and Property Holder

The Company entered into an option with CM Resources Limited to acquire a 100% interest in 30 mineral tenures owned by an unrelated third party (the "Property Holder").

The Company exercised the option on May 18, 2006 by the issuance of 1,000,000 common shares of the Company valued at $10,000.

The Company exercised its underlying option with the Property Holder to acquire a 100% interest in the property following payment of all of the $10,000 annual payments due July 30 in each and every year through 2009 and made the option payment of $500,000 as a royalty advance on July 30, 2010. Title to these mineral tenures was transferred to the Company following this payment. The optionor has retained a 3% net smelter returns royalty capped at $3,000,000, to be adjusted for inflation, which has been registered on title.

(c) Acquisition from Argent Resources Ltd.

The Company acquired 6 contiguous mineral tenures 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. In addition, a 2.5% net smelter returns royalty will apply to production from these tenures. During the year ended October 31, 2006, the Company issued 100,000 shares at a deemed value then of $40,000 and paid $10,000 in cash.

(d) Acquisition from an individual

On October 31, 2006, the Company completed the purchase of 7 mineral tenures for $55,000.

(e) Staking

During the year ended October 31, 2006, the Company acquired 59 mineral tenures at a cost of $11,109. These mineral tenures are contiguous with other mineral tenures at Harper Creek. In addition, four existing contiguous mineral tenures were transferred to the Company from a director of the Company for payment of $732, representing the director’s cost of acquisition. These mineral tenures were amended in August 2007 to release seven claims and renew 52 mineral tenures at a cost of $11,380, and four mineral tenures were abandoned.

During the year ended October 31, 2008, the Company, through the Project Manager as agent, claimed an additional 14 contiguous tenures totaling 6,312 hectares at a cost of $2,654.

During the year ended October 31, 2010, the Company, through its Project Manager as agent, claimed an additional 4 contiguous tenures totaling 1,621 hectares at a cost of $978.

During the year ended October 31, 2011, the Company extended all 131 of its claims covering 42,636.5 hectares through to November 3, 2014 for total cash cost of $59,663.

(In Canadian dollars)

8. EQUIPMENT

	Oct 31, 2011		
	Cost	Accumulated Amortization	Net
Computer equipment	$ 35,586	$ 2,411	$ 33,175
Furniture and equipment	30,480	1,451	29,029
Field camp equipment	437,157	296,000	141,157
	$ 503,223	**$ 299,862**	**$ 203,361**

	Oct 31, 2010		
	Cost	Accumulated Amortization	Net
Computer equipment	$ 8,931	$ 8,931	$ -
Field camp equipment	364,634	219,856	144,778
	$ 373,565	**$ 228,787**	**$ 144,778**

9. CAPITAL STOCK

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

(b) Issued

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; each warrant entitling 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 $219,187.

- 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 year ended October 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; each warrant entitling 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 $207,240. Included in share issue costs was the fair value of non-cash costs totaling $54,227 for 118,931 agent warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.42%, expected volatility of 77%, expected life of 2 years and an expected dividend yield of 0%.

(In Canadian dollars)

9. CAPITAL STOCK (CONTINUED)

(b) Issued (Continued)

- 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; each warrant entitling 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 $2,221,149. Included in share issue costs was the fair value of non-cash costs totaling $613,975 for 952,200 agent warrants, which was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.86%, expected volatility of 77%, expected life of 2 years and an expected dividend yield of 0%.

- 30,592 common shares at a price of $0.50 per share pursuant to exercise of agent warrants 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.

- 55,500 common shares at a price of $0.50 per share pursuant to the exercise of stock options for net proceeds of $27,750 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.

- Included in share capital were 11,674,075 shares held in escrow; 5,837,038 shares were released on November 17, 2011, with the remainder to be released on May 17, 2012.

(c) Stock options

The Company implemented a new stock option plan on April 11, 2011, 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 October 31, 2011, the Company had stock options outstanding for the purchase of 4,354,250 common shares with an average remaining contractual life of 2.77 years, with all stock options expiring between November 9, 2011 and June 6, 2016.

	Number of options	Weighted average exercise price ($)
Outstanding, Nov 1, 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, Nov 1, 2010	**2,725,000**	**0.90**
Granted	2,232,500	1.23
Granted on the acquisition of Four Points (note 3)	111,000	0.50
Forfeited or expired	(308,750)	0.98
Exercised	(405,500)	0.41
Outstanding, Oct 31, 2011	**4,354,250**	**1.10**
Exercisable, Oct 31, 2011	**4,228,625**	**1.09**

(In Canadian dollars)

9. CAPITAL STOCK (CONTINUED)

(c) Stock options (Continued)

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

	Outstanding		Exercisable	
Exercise price	**Number outstanding as at October 31, 2011**	**Weighted average remaining life (years)**	**Number exercisable as at October 31, 2011**	**Weighted average remaining life (years)**
$0.50	55,500	0.02	55,500	0.02
$0.75	500,000	0.36	500,000	0.36
$1.00	825,000	2.37	825,000	2.37
$1.08	950,000	3.97	950,000	3.97
$1.25	2,013,750	4.50	1,888,125	4.50
$1.30	10,000	4.49	10,000	4.49
	4,354,250	**3.45**	**4,228,625**	**3.42**

(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 $1,876,638 (2010 - $1,087,330) for the year ended October 31, 2011 was calculated for vested options based on the following weighted average assumptions:

	Oct 31, 2011	Oct 31, 2010
Risk-free interest rate	2.55%	2.53%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	93.23%	91.72%
Expected option life	5 years	5 years

The weighted average grant date fair value of options granted during the year is $0.79. Stock-based compensation for the year is attributed to the following expense accounts: investor relations - $8,406 (2010 - $nil), consulting - $449,721 (2010 - $38,833), wages - $840,600 (2010 - $nil) and management fees - $577,911 (2010 - $1,048,497).

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.

(e) Share purchase warrants

	Number of warrants	Weighted average exercise price ($)
Outstanding, Nov 1, 2009	-	-
Granted	2,518,004	1.40
Outstanding, Nov 1, 2010	**2,518,004**	**1.40**
Issued	10,872,380	1.87
Granted on the acquisition of Four Points (note 3)	40,000	0.50
Exercised	(45,592)	0.80
Outstanding, Oct 31, 2011	**13,384,792**	**1.78**

(In Canadian dollars)

9. CAPITAL STOCK (CONTINUED)

(e) Share purchase warrants (Continued)

The following warrants are outstanding as at October 31, 2011:

Expiry Date	**Number of options**	**Exercise price ($)**
September 7, 2012	2,518,004	1.40
November 9, 2012	1,203,933	1.40
April 5, 2013	8,582,316	2.00
Agent warrants: March 29, 2012	9,408	0.50
Agent warrants: November 9, 2012	118,931	1.08
Agent warrants: April 5, 2013	952,200	1.45
	13,384,792	
Weighted average remaining life	**1.28 years**	

10. INCOME TAXES

As at October 31, 2011, the Company has non-capital losses of approximately $13,045,800 that may be applied against future income for Canadian income tax purposes. The potential income tax benefits of these losses have not been recorded in these financial statements. The losses expire as follows:

2015	$	62,700
2026		264,300
2027		763,900
2028		1,811,300
2029		763,300
2030		933,400
2031		8,446,900
	$	**13,045,800**

The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates of 28.50% (2010 – 28.75%) to income tax expense is:

		Oct 31, 2011		**Oct 31, 2010**
Income tax benefit computed at Canadian statutory rates	$	(1,323,482)	$	(445,500)
Non-deductible items		13,078		198,421
Effect of change in tax rate		325,896		44,706
Effect of change in timing differences		(1,269,018)		(707,023)
Change in valuation allowance		2,253,526		506,345
Future income tax (recovery)	**$**	**-**	**$**	**(403,051)**

(In Canadian dollars)

10. INCOME TAXES (CONTINUED)

Significant components of the Company's future tax assets and liabilities, after applying expected corporate income tax rates, are as follows:

		Oct 31, 2011		Oct 31, 2010
		25%		25%
Future income tax assets				
Non-capital losses carried forward	$	3,261,480	$	1,143,655
Non-refundable mining tax credits		1,152,070		543,368
Share issue costs		421,808		79,719
Equipment and other		117,769		50,625
Future income tax assets before valuation allowance		**4,953,127**		**1,817,367**
Valuation allowance		(2,889,266)		(635,740)
Future income tax assets, net of valuation allowance		**2,063,861**		**1,181,627**
Resource property interest		(2,063,861)		(1,181,627)
Net future income tax liability	**$**	**-**	**$**	**-**

11. RELATED PARTY TRANSACTIONS

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

(a) During the year ended October 31, 2011, the Company paid and accrued management fees totalling $138,300 (2010 - $46,640) and reimbursed out-of-pocket expenses of $111,032 (2010 - $15,617) to Andreas Consulting Inc., a company controlled by an officer and director of the Company. As at October 31, 2011, the balance owing to that company was $nil (2010 - $nil).

(b) During the year ended October 31, 2011, the Company paid and accrued management fees totalling $59,500 (2010 - $77,000) to Elissa Cristall Galleries Ltd., a company related to an officer of the Company. As at October 31, 2011, the balance owing to that company was $nil (2010 - $nil).

(c) During the year ended October 31, 2011, the Company paid and accrued management fees totalling $74,200 (2010 - $127,200) and reimbursed out-of-pocket expenses of $179,316 (2010 - $96,028) to Handford Management Ltd., a company controlled by an officer of the Company. As at October 31, 2011, the balance owing to that company was $nil (2010 - $nil).

(d) During the year ended October 31, 2011, the Company paid and accrued project management fees, exploration expenses and office costs totalling $4,469,170 (2010 - $523,287) to CME Consultants Inc., a contractor company whose president is a director of the Company. As at October 31, 2011, the balance owing to that company was $362,988 (2010 - $331,306).

(e) During the year ended October 31, 2011 the Company paid and accrued $90,000 (2010 - $48,750) in project management fees to Twinstone Ventures Inc., a company related to a director of the Company. As at October 31, 2011, the balance owing to that company was $nil (2010 - $nil).

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.

(In Canadian dollars)

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

		Year ended Oct 31, 2011		Year ended Oct 31, 2010
Supplementary Information				
Interest received	$	156,463	$	38,557
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-
Non-cash investing activities				
Due to related party for investment in resource property interest	$	362,988	$	295,007
Accounts payable for investment in resource property interest	$	1,485,560	$	51,950

13. COMMITMENT

The Company is committed to minimum rental payments for office premises aggregating approximately $562,500 over the terms of a lease expiring in 2016.

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

2012	$	110,600
2013	$	113,600
2014	$	116,700
2015	$	119,700
2016	$	101,900

14. SUBSEQUENT EVENTS

On November 7, 2011, the Company acquired the former Weyerhaeuser Company Ltd. sawmill property in Vavenby for a purchase price of $2,150,000.

Subsequent to October 31, 2011, 165,000 of stock options were exercised for net proceeds of $110,250.