YELLOWHEAD MINING INC.

YELLOWHEAD MINING INC.
MANAGEMENT DISCUSSION AND ANALYSIS
Year ended October 31, 2011
(Unaudited)
(Expressed in Canadian dollars)

1. HIGHLIGHTS AND OVERVIEW

Highlights

Some of the key highlights for the year ended October 31, 2011 included:

- Completed a reverse takeover of Four Points Capital Corp. and became a Tier 1 listed company on the TSX Venture exchange
- Completed a Preliminary Economic Assessment of the Harper Creek project
- Commenced a definitive Feasibility Study of the Harper Creek project
- The Application Information Requirements (Terms of Reference) was approved in October 2011
- The Environmental Assessment study at Harper Creek was significantly advanced with an ongoing comprehensive baseline study program
- Completed a bought deal private placement for gross proceeds of $24,888,716
- Diamond drilling of 15,148m. Total drilling on Harper Creek of 78,164m in 318 holes
- Completed a comprehensive program of crushing and grinding test work as the basis for a crusher and SAG/ball mill design
- Completed flotation test work on expected mill feed for the first 10 years of mine operation. Variability testing is expected to be completed by the end of January 2012
- Made several key additions to the management team

Overview

Yellowhead Mining Inc. ("Yellowhead" or the "Company") was incorporated on August 25, 2005 under the laws of British Columbia. The Company is an exploration stage company engaged in the acquisition, exploration and development of mineral properties with its focus on the exploration and development of its wholly-owned Harper Creek mineral property ("Harper Creek"), located in south central British Columbia, Canada.

The Company's shares trade on the Toronto Venture Stock Exchange ("TSX-V" or "TSX Venture") under the symbol YMI.

This Management Discussion and Analysis ("MD&A") provides information that management considers to be relevant to an assessment and understanding of the Company's financial condition as at October 31, 2011 and the results of its operations and cash flows for the fiscal year ended October 31, 2011. This discussion should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the year ended October 31, 2011 and 2010 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.

The information contained within this MD&A is current to January 25, 2012. Additional information of the Company is available on SEDAR at www.sedar.com.

Harper Creek

The Company's Harper Creek property is a copper deposit located approximately 150 km by road north-northeast of the city of Kamloops in Vavenby, B.C. The property is adjacent to the Yellowhead Highway; the Canadian National Railways transcontinental mainline, power from BC Hydro transmission lines, 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.

1. HIGHLIGHTS AND OVERVIEW (Continued)

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 on November 17, 2010 under the trading symbol YMI.

On November 18, 2010, Yellowhead Mining Inc. became a Tier 1 issuer on the TSX Venture. Tier 1 is reserved for the TSX Venture issuers with significant financial resources and at a more advanced stage. Benefits of Tier 1 status include a more favorable regulatory environment and increased opportunity for participation by institutional investors.

2. FORWARD-LOOKING STATEMENTS

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, ”intend”, ”believe”, ”anticipate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include: the inherent risks involved in the exploration and development of mineral properties; the uncertainties involved in interpreting drilling results and other geological data; metal price volatility; economic and political events affecting metal supply and demand; fluctuation in ore grade; tonnes of ore milled; the possibility of project cost overruns or unanticipated costs and expenses; uncertainties related to completion results of planned exploration and development programs on the Company’s material properties; issuance of licenses and permits; and the availability of and costs of financing needed in the future and other factors described in this discussion under the heading “Outlook”. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

3. OUTLOOK

Some of the Company's expectations for the 2012 include:

- The Company is on schedule to complete the Feasibility Study by the end of March 2012. The design basis for the study, being managed by Merit Consultants International Inc., is a conventional 70,000 tonnes per day ("tpd") open pit mine and mill which if and when developed will place it as one of the largest copper operations in British Columbia. The mine is expected to produce in excess of 1.3Mt Cu, 265,000 oz Au and 4.9Moz Ag over its projected 22+ year mine life.
- In parallel with the Feasibility Study, management of the Environmental Assessment ("EA") and geotechnical/hydrological work is being undertaken by Knight Piésold Limited ("KP"). Assistance on the collection of information needed for the EA application is being provided by Dillon Consulting Ltd., (water quality), SRK Consulting (Canada) Inc., (geochemistry) and BioteQ Environmental Technologies Inc., (water treatment), Terra Archeology (archeological) and Keystone Wildlife Research (wildlife).The EA Application is scheduled for submission in early June 2012.
- The Company completed its diamond drilling program in support the Feasibility Study that encompassed resource in-fill, geomechanical for pit slope design, tailings dam and facilities foundation design and condemnation drilling. 4,725m of step-out drilling was completed before the program ended in December 2011. The Company is expecting to release a resource update prior to completion of the Feasibility Study.
- Consultation with the First Nations and local communities is ongoing.
- Beginning in June 2011, the Company rolled out an intensive investor relations program designed to raise the Company's profile among investors in North America, Europe and Asia. In order to finance the development of Harper Creek, the Company is exploring financing options, including but not limited to: strategic investors and/or partnerships, project and equipment financing and off-take agreements.
- The Company will continue a step-out drilling campaign in late spring in order to expand the Company's resource base.
- With the completion of the purchase of the Weyerhaeuser property in Vavenby the Company plans to use the property for concentrate rail load-out as the property has an approximately 1,880m rail siding connecting to the Canadian National Railway's transcontinental line that passes through Vavenby.

4. CORPORATE ACTIVITY

On November 9, 2010, the Company closed a private placement for 2,437,863 units at $1.08 per unit for gross proceeds of $2,632,892. Each unit consists of one common share of the Company and one-half on one share purchase warrant. Each full warrant entitles the holder to purchase a share of the Company for $1.40 until November 9, 2012. Finder fees of $153,013 were paid to accredited finders together with 118,931 finders' warrants with a strike price of $1.08 per common share and a term of 2 years from the date of issue.

On April 5, 2011, the Company closed its bought deal private placement, including the partial exercise of the over-allotment option (the "Offering"). Under the Offering, the Company issued an aggregate of 14,129,655 units of the Company at a price of $1.45 per unit for gross proceeds of $20,488,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant, with each whole warrant exercise able for an additional common share of the Company at a price of $2.00 per share for a period of 24 months following the closing.

4. CORPORATE ACTIVITY (Continued)

On April 15, 2011, the Company closed the remaining portion of the over-allotment option previously granted to the syndicate of underwriters led by Canaccord Genuity Corp. and including Clarus Securities Inc., Jennings Capital Inc. and Stonecap Securities Inc. (collectively, the "Underwriters"). Pursuant to the over-allotment option, the Underwriters elected to purchase the remaining 1,740,345 units of the Company at a price of $1.45 per unit for gross proceeds of $2,523,500.

On April 15, 2011, pursuant to a pre-emptive right granted by the Company to Anthill Resources Ltd. ("Anthill"), Anthill elected to subscribe for 1,294,632 units under an offering by the Company at a price of $1.45 per unit for gross proceeds of $1,877,216.

On May 11, 2011, the Company announced the appointment of Alastair Tiver, P. Eng., as Vice President, Operations of the Company effective May 16, 2011.

On May 19, 2011, at the Company's Annual General Meeting and Special Meeting of the Shareholders (the "AGM"), Christopher O. Naas was added to the Board of Directors. Mr. Naas had been a director of the wholly owned subsidiary of the company, Harper Creek Mining Corp. and was formerly a director of Yellowhead Mining Inc. as a private company. Subsequent to the AGM, the Board exercised its right to increase the number of Directors to seven and appointed Morgan Li as a Director. Mr. Li was also a former director of Harper Creek Mining Corp. Under the Company's articles the Board is permitted to increase the number of board members during the year but the Company is required to ratify the increase at the next AGM.

On June 1, 2011, the Company announced the appointment of Charlene Higgins, MSc, PhD, as Vice President, Environment, Community & First Nations Relations of the Company.

On October 21, 2011, the Company announced that the British Columbia Environmental Assessment Office ("EAO") has approved the Application Information Requirements ("AIR") for Harper Creek. The AIR, or Terms of Reference, specifies the information that must be contained in the Application for an Environmental Assessment Certificate.

On November 7, 2011, the Company completed the purchase of the former Weyerhaeuser Company Ltd. sawmill property about 2.5km west of Vavenby, B.C. for $2,150,000. The property comprises approximately 79.3 hectares and has an approximately 1,880 metre rail siding, connecting to the Canadian National Railway's transcontinental main line that passes through Vavenby. The rail load-out will be located approximately 25 km by road from the Harper Creek project mill site.

On January 4, 2012, the Company announced the appointment of Saurabh Handa, CA, as Chief Financial Officer of the Company. Mr. Handa replaces Robert L. J. Harper who will remain with the Company through a transition period to the end of January as Chief Financial Officer and continue thereafter as a consultant.

5. MINERAL PROPERTIES

The Company's Harper Creek property is a copper deposit located approximately 150 km by road north-northeast of the city of Kamloops in Vavenby, B.C. The property is adjacent to the Yellowhead Highway; the Canadian National Railways transcontinental mainline, power from BC Hydro transmission lines, 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.

5. MINERAL PROPERTIES (Continued)

Mineral Tenures

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. On November 3, 2011, the Company extended all 131 of its mineral tenures through to Nov 3, 2017 for total cash cost of $51,210.

The Company's 131 mineral tenures were acquired as follows:

- The Company has acquired a 100% interest in 18 mineral tenures from Callingham Ltd. 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.
- 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.
- The Company acquired 6 contiguous mineral tenures from Argent Resources Ltd. 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.
- On October 31, 2006, the Company completed the purchase of 7 mineral tenures for $55,000 from an individual.
- During the year ended October 31, 2006, the Company staked 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, staked 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, staked an additional 4 contiguous tenures totaling 1,621 hectares at a cost of $978.

In November 2011, the Company paid an additionally $10,000 for a reclamation bond.

Exploration

Prior to acquisition by the Company, historical exploration was conducted at Harper Creek by a Noranda/US Steel joint venture and American Comstock. The historic drilling conducted on the property was:

- 1967 to 1973 – Noranda/US Steel drilled a total of 168 holes for a total of 26,445m
- 1996 – American Comstock drilled 8 holes for a total of 2,847m

5. MINERAL PROPERTIES (Continued)

From 2006 – 2010 the Company drilled and additional 86 holes for a total of 33,724m.

Diamond drilling on the property for the 2011 drilling program was completed in December 2011. Fifty six holes were drilled for a total of 15,148m. Drilling included:

- Resource confirmation: 33 holes for a total of 8,191m
- Condemnation: 8 holes for a total of 1,791m
- Resource expansion: 11 holes for a total of 4,725m
- Metallurgical sampling: 4 holes for a total of 441m

To date Harper Creek drilling has totaled 318 holes for a total of 78,164m

Assaying of the holes is ongoing and is anticipated to be complete by the end of January 2012. Preliminary results have added significantly to our confidence in the development of the Resource and have encouraged us to continue a program designed to determine the extent to which the ore body extends further to the East and North.

The field program and its management have been contracted to CME Consultants Inc., a geological consulting firm whose President is a director of the Company.

Core Resampling

All re-logging and assaying of the old (Noranda and US Steel) cores has been completed. A total of 140 were re-logged including 36 historical holes drilled by Noranda and US Steel which historically, under Noranda and US Steel, was only analysed for copper. In order to establish gold and silver values for these holes, Yellowhead, through CME Consultants Inc., re-logged and re-assayed these historical cores using multi-elements by total digestion ICP-ES and fire assay with an AA finish.

In September 2011 an application to extend the Company's existing exploration permit to December 31, 2014 was submitted.

Preliminary Economic Assessment

On March 8, 2011 the Company announced the results of a Preliminary Economic Assessment ("PEA") of the Harper Creek. 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 is available at www.sedar.com.

Some of the highlights of the PEA included:

- 22 year project life at a milling rate of 70,000 tonnes per day. Development capital costs are estimated at C$759 million in Q4 2010 dollars, including contingency. Mine site operating costs were estimated at US$1.19/lb, before concentrate transportation and smelting/refining costs. Total operating costs were estimated at US$1.52/lb. The breakeven copper price including initial, sustaining and replacement capital (IRR=0%) is determined to be US$1.94/lb Cu using US$1,058 for gold and US$16.57 for silver.
- The NPV of the project at a discount rate of 8% assuming a long term copper and gold price of US$2.66 per lb and US1,058 per oz amounts to US$598 Million
- The Project is estimated to produce a total of 2.857 billion pounds of copper, 265 thousand ounces of gold and 4.87 million ounces of silver contained in concentrate.
- Open pit mining would continue at a rate of 25.55 million tonnes ("Mt") of mineral inventory per year for approximately 17 years. Life-of-mine ("LOM") stripping ratio after reprocessing of stockpiled material is 0.88:1. A total of 15Mt of waste rock will be stripped during preproduction. Most of this waste rock will be used for the tailings starter dam and for other construction activities.

5. MINERAL PROPERTIES (Continued)

- At a 0.20% Cu cut-off grade (a) the Measured Resource amounts to 89.99Mt @ 0.30% Cu, 0.033g/t Au & 1.18g/t Ag; (b) the Indicated Resource amounts to 442.07Mt @ 0.31% Cu, 0.032g/t Au & 1.06g/t Ag. The total Measured and Indicated Resource amounts to for a total of 532.06Mt @ 0.31% Cu, 0.032g/t Au & 1.08g/t Ag containing 3.6Blb of in situ copper, 544koz Au and 18.5Moz Ag. The Inferred Resource amounts to 117.24Mt @ 0.29% Cu, 0.032g/t Au & 1.32g/t Ag or 0.7Blb of in situ copper.
- Total mining inventory was determined by pit optimization runs using a Lerchs Grossmann algorithm to determine “optimum” net present value of mineral processed and was estimated to be 552.8Mt @ 0.272% Cu, 0.029g/t Au and 0.997g/t Ag at a 0.13% Cu cut-off.
- Life of Mine operating costs are estimated as follows: mining $1.21/t of material moved or $2.52/t milled (including stockpile re-handling); milling $4.01/t milled; G&A and surface services $0.69/t milled for a total of $7.22/t milled or $1.40/lb Cu.
- Over the project life it is estimated that an additional C$481million in sustaining and replacement capital is required, of which approximately $200 million is for incrementally raising the tailings dam.

The base case design rate is 70,000 tonnes per day throughput based on large scale open pit mining equipment and a single line crush/SAG mill and ball mill circuit followed by flotation. Concentrate will be dewatered on site and trucked approximately 25km to a load out facility in Vavenby. Concentrate is expected to be transported by rail to the port of Vancouver, a distance of 450km, for shipment to offshore smelters.

Feasibility Study

In April 2011, the Company commenced work on the Feasibility Study managed by Merit Consultants International Inc. To date, approximately 85% of the work in support of the Feasibility Study has been completed with the remaining work scheduled for completion by the end of March 2012. The Feasibility Study team includes Allnorth Consultants Limited (formerly 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).

Drilling results from the 2011 drilling program have been incorporated into the resource model which forms the basis for the Feasibility Study. Mine planning including pit optimization, mine design and scheduling have been completed

The geotechnical site investigations including geomechanical and geotechnical drilling and seismic refraction work for pit and tailings dam design were completed in October 2011. A total of 3,724m was drilled comprising 2,424m of geomechanical drilling in 7 holes and 1,300m of geotechnical drilling in 24 holes. 7,000m of seismic survey lines were completed at the plant site and tailings management facility. Sampling and analysis for metal leaching and acid rock drainage characterization has been completed

Metallurgical test work is being finalized at G&T Metallurgical Services Inc. ("G&T") laboratory in Kamloops, B.C. Flotation test work on the master composite has been completed and variability test work on individual lithologies is ongoing. Results to date support the previously reported Cu recoveries of 89.6% @ a 26.3% concentrate grade at a primary grind size of 80% passing 180µm. In addition, approximately 7.4Kg of concentrate has been generated for ongoing testing by prospective smelters

Process engineering including design criteria, flow-sheets, equipment sizing and drawings have been completed.

The Tailings Management Facility (“TMF”) Design has been developed for the Starter Embankment (first 1.5 years of operations), and ongoing embankment raises are being finalized in conjunction with the mine plan.

(Expressed in Canadian dollars)

5. MINERAL PROPERTIES (Continued)

The site water management features, including the non-PAG waste rock dump seepage collection pond, the TMF seepage collection pond, the operations TMF diversion system north of the PAG waste rock dump and the pit dewatering system are being developed

Capital and operating costs are currently under review

Environmental Assessment

The British Columbia Environmental Assessment Office ("EAO") approved the Application Information Requirements ("AIR") for the Harper Creek. The AIR, or Terms of Reference, was developed to meet the purposes of the environmental assessment pursuant to both the *BC Environmental Assessment Act* (BCEAA) and the *Canadian Environmental Assessment Act* (CEAA). The AIR specifies the information that must be contained in the Application for an Environmental Assessment Certificate.

Environmental baseline studies will continue through Q1 2012. Environmental monitoring will continue for the life of the project.

In 2007, the Company initiated water quality and fisheries inventory work. Comprehensive water, archaeology, wildlife, fisheries inventories and other baseline studies were started in 2011 and are expected to be completed by Q2 2012.

The Environmental Assessment process is being led by Knight Piesold with support by specialist consultants including Keystone Wildlife Research Ltd., Dillon Consulting Limited, and TerraArcheology.

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

Representatives of the local and First Nations communities were recruited to provide input and assist these specialists with the environmental baseline studies.

Mineral Properties Expenditures

As at October 31, 2011 a summary of the Company’s mineral property expenditures at Harper Creek are as follows:

Balance, October 31, 2010	$10,905,163
Net Additions	9,708,247
Balance, October 31, 2011	**$20,613,410**

Further details of expenditures are disclosed in Note7 of the October 31, 2011 audited financial statements.

The Company is prepared to advance exploration and development on the property with the goal of completing a definitive feasibility study.

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.

6. SELECTED ANNUAL INFORMATION

The following table presents financial information for the years ended October 31, 2011, October 31, 2010 and October 31, 2009.

	October 31, 2011	2010	2009
Loss for the year	$4,643,798	$1,549,566	$921,474
Loss per share, basic and diluted	$0.10	$0.06	$0.04
Total assets	$40,970,865	$16,394,531	$11,041,217
Total non-current financial liabilities	$Nil	$Nil	$Nil
Cash dividends declared	$Nil	$Nil	$Nil

7. SUMMARY OF QUARTERLY RESULTS

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

	2011				2010			
Quarter Ended	**Oct 31**	**Jul 31**	**Apr 30**	**Jan 31**	**Oct 31**	**Jul 31**	**Apr 30**	**Jan 31**
Expenses	$882	$1,423	$1,817	$678	$1,051	$616	$138	$186
Interest income	(65)	(55)	(22)	(14)	(9)	1	-	(30)
Income tax expense/(recovery)	-	-	-	-	(403)	-	-	-
Net Loss for the period	817	1,368	1,795	664	639	617	138	156
Basic and diluted loss per share	$0.02	$0.03	$0.05	$0.02	$0.03	$0.02	$0.01	$0.01

The Company's changes in financial results on a quarter or quarter basis are due primarily to fluctuations in the level of activity of project development, investor relations and administration. The Company has continued to develop the technical and economic feasibility of Harper Creek and the increased expenditures by the Company reflect this development.

8. 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.

Three Months Ended October 31, 2011

The Company recorded a net loss of $816,546 for the three months ended October 31, 2011, as compared to $639,922 during the same period in the previous year. The increase in the loss is attributable to the following major items.

Investor relations, travel and promotion costs increased to $305,374 for the three months ended October 31, 2011 as compared to $118,302 for the same period in the previous year. The Company significantly increased its investor relations activities for the three months ended October 31, 2011 as a result of its fund raising activities and general investor relations campaigns.

Wages and benefits, including management fees increased to $333,594 for the three months ended October 31, 2011 as compared to $161,040 for the same period in the previous year. This increase relates to the ramp up of the Company's management team.

8. RESULTS OF OPERATIONS (Continued)

Consulting fees increased to $271,208 for the three months ended October 31, 2011 as compared to $17,139 for the same period in the previous year. Included in these fees are costs associated with the socio-economic review and community consultation process as the Company continues its permitting process for Harper Creek.

Year Ended October 31, 2011

The Company recorded a net loss of $4,643,798 for the year ended October 31, 2011, as compared to a net loss $1,549,566 for the year ended October 31, 2010. The increase in the loss is attributable to the following major items.

Stock based compensation increased to $1,876,638 for the year ended October 31, 2011 as compared to $1,087,330 for the year ended October 31, 2010. This increase relates to both increased stock options issued by the Company as the management team has expanded and due to fluctuations in the value assigned to individual option grants calculated using a Black-Scholes model.

Investor relations, travel and promotion costs increased to $879,140 for the year ended October 31, 2011 as compared to $185,240 for the year ended October 31, 2010. The Company significantly increased its investor relations activities for the year ended October 31, 2011 as a result of its fund raising activities and general investor relations campaigns.

Wages and benefits increased to $861,102 for the year ended October 31, 2011 as compared to $348,350 for the year ended October 31, 2010. This increase relates to the ramp up of the Company's management team.

Consulting fees increased to $460,741 for the year ended October 31, 2011 as compared to $24,339 for the year ended October 31, 2010. Included in these fees are costs associated with the socio-economic review and community consultation process as the Company continues its permitting process for Harper Creek.

Professional fees increased from $366,762 for the year ended October 31, 2011 as compared to $197,797 for the year ended October 31, 2010. The increase in professional fees is associated primarily with fees incurred during the private placements completed by the Company during the year end October 31, 2011 and the Reverse Takeover of Four Points Capital Corporation completed in November 2010.

Filing fees for the Company were $104,011 for the year ended October 31, 2011 as compared to $7,500 for the year ended October 31, 2010. The Company was a private corporation in prior financial periods and with the conversion to a publicly listed corporation incurred additional filing fees.

Interest income for the Company was $156,463 for the year ended October 31, 2011 as compared to $38,557 in the prior year. This increase is attributable to a higher average cash balance as the Company completed some financing activities during the year ended October 31, 2011.

In the year ended October 31, 2010 the Company has a future income tax recovery of $403,051 as compared to $nil for the year ended October 31, 2011. In 2010 the Company reversed a future income tax liability that was recorded in 2009 at which point the future income tax balance was $nil. As at October 31, 2011 the Company does not expect any future tax impact related to timing differences to be more likely than not to be realized and therefore has not accrued any future income tax assets or recorded a corresponding tax recovery.

9. LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital as at October 31, 2011 was $17,936,968 as compared to working capital of $4,925,431 at October 31, 2010, representing an increase in working capital of $13,011,537. Included in working capital were cash and cash equivalents of $15,668,987 (2010 - $4,734,825).

Financing

The Company's cash provided by financing activities for the year ended October 31, 2011 was $25,490,217 primarily as a result of two private placements completed by the Company during the year which are discussed below.

Private Placement – November 2010

Beginning November 3, 2010 and concluding on November 9, 2010, the Company accepted subscriptions for 2,437,863 units comprising one common share and one-half of one common share purchase warrant each for gross proceeds of $2,632,892. Each full warrant entitles the holder to purchase a share of the Company for $1.40 for a period not to exceed 2 years from the date of issue. The Company retained the right to force the conversion of these warrants should the trading price of the Company's shares on a recognized exchange exceed $1.90 for a period of 10 consecutive trading days. Proceeds of $475,250 were received prior to October 31, 2010, and are included as share subscriptions received. Additional finders' fees of $153,013 were paid to accredited finders together with 118,931 finders' warrants with a strike price of $1.08 per common share and a term of 2 years from the date of issue.

Private Placement – April 2011

On April 5, 2011, the Company closed its bought deal private placement, including the partial exercise of the over-allotment option (the "Offering"). Under the Offering, the Company issued an aggregate of 14,129,655 units of the Company at a price of $1.45 per unit for gross proceeds of $20,488,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant, with each whole warrant exercisable for an additional common share of the Company at a price of $2.00 per share for a period of 24 months following the closing.

The Underwriters received a total cash commission of 6% of the gross proceeds of the Offering and were issued a total of 847,779 underwriter's warrants (the "Underwriter's Warrants"). Each Underwriter's Warrant entitles the holder thereof to purchase one Common Share at a price of $1.45 per Common Share prior to April 5, 2013.

On April 15, 2011, the Company closed the remaining portion of the over-allotment option previously granted to the syndicate of underwriters led by Canaccord Genuity Corp. and including Clarus Securities Inc., Jennings Capital Inc. and Stonecap Securities Inc. (collectively, the "Underwriters"). Pursuant to the over-allotment option, the Underwriters elected to purchase the remaining 1,740,345 units of the Company at a price of $1.45 per unit for gross proceeds of $2,523,500 (the "Option"). The Option was made available as part of the bought deal private placement announced on March 14, 2011.

On April 15, 2011, pursuant to a pre-emptive right granted by the Company to Anthill Resources Ltd. ("Anthill"), Anthill elected to subscribe for 1,294,632 units under an offering by the Company at a price of $1.45 per unit for gross proceeds of $1,877,216.

The Underwriters received a total cash commission of 6% of the gross proceeds of the Option and 3% on the gross proceeds of the Anthill subscription and were issued a total of 104,421 underwriter's warrants (the "Underwriter's Warrants"). Each Underwriter's Warrant entitles the holder thereof to purchase one Common Share at a price of $1.45 per Common Share prior to April 15, 2013.

In total, the Company has issued 17,164,632 units of the Company pursuant to the bought deal private placement and the Anthill subscription (together, the "Offering") for total gross proceeds of $24,888,716 to the Company.

(Expressed in Canadian dollars)

9. LIQUIDITY AND CAPITAL RESOURCES (Continued)

Use of Proceeds

The Company plans to use the net proceeds from the financings above to carry out the following activities:

- Feasibility Study at Harper Creek
- Environmental Assessment
- General exploration, development and acquisition activities
- Working capital, general and administrative expenses and other general corporate purposes

To date, the Company's actual use of such proceeds has not varied from the anticipated use of proceeds set out above.

Capital Resources

The Company's focus for the next fiscal year and going forward is the advancement and development of Harper Creek. The major expenses that will be incurred by the Company in the next 12 months will be costs associated with drilling, completion of a Feasibility Study, the Environment Assessment process and detailed engineering. The Company believes its current working capital is sufficient to complete the definitive Feasibility Study and to advance its permitting process.

If adequate funds are not available when required, the Company may at the discretion of management delay, scale back or eliminate various programs. In the future the Company may receive additional funds through the exercise of common share warrants and stock options. The Company may also seek to raise additional funds in the future through the sale of additional common shares either as a private placement or via a common stock offering, seeking a strategic partnership or through the debt markets. The requirement for additional funds will be driven by favorable results as the Company advances Harper Creek.

Although the Company has successfully raised capital in the past, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that future additional financing will be available to the Company at terms it finds acceptable.

Commitments

As at October 31, 2011, the Company had the following contractual commitments:

2012	$110,600
2013	113,600
2014	116,700
2015	119,700
2016	101,900
Total commitments	$562,500

The commitment is related to minimum rental payments for the Company's office space in downtown Vancouver. The lease was effective September 1, 2011 and concludes on August 31, 2016.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

Proposed Transactions

The Company has no proposed transactions.

10. FINANCIAL INSTRUMENTS

As at October 31, 2011, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities and due to related parties. The mineral exploration tax credits receivable and HST receivable are excluded from financial instruments as they arise from statutory requirements imposed by Government of Canada and the Province of British Columbia.

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

The carrying values of cash, 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.

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.

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.

Market Risk

Market risks consist of interest rate risk, foreign currency risk and other price risk. The Company is exposed to interest rate risk through its cash balances which are held in a savings account paying 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.

The Company is not exposed to foreign currency risk or other price risks.

11. RELATED PARTY TRANSACTIONS

Transactions with related parties for the year ended October 31, 2011, totalled $5,121,518 (2010 - $934,522) and are detailed below:

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).

(Expressed in Canadian dollars)

11. RELATED PARTY TRANSACTIONS (Continued)

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).

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).

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).

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 occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at January 25, 2012, the Company had 52,927,469 common shares issued and outstanding.

The Company has the following stock options that are outstanding and exercisable as at January 25, 2012:

	Outstanding		Exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average remaining life (years)**
$0.75	390,000	0.13	390,000	0.13
$1.00	825,000	2.13	825,000	2.13
$1.08	950,000	3.73	950,000	3.73
$1.25	2,273,750	4.25	1,888,125	4.27
$1.30	10,000	4.25	10,000	4.25
	4,448,750	**3.39**	**4,063,125**	**3.31**

(Expressed in Canadian dollars)

12. OUTSTANDING SHARE DATA (Continued)

The Company also has the following warrants that are outstanding as at January 25, 2012:

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	**1.03 years**	

13. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles ("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 tax credits receivable, 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. While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows.

14. CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is presented in Note 2 to the consolidated financial statements for the year ended October 31, 2011.

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 consolidated financial statements and financial position.

The carrying value of expenditures incurred in a development stage company like Yellowhead is subject to an impairment evaluation. All of the expenditures incurred to date on Harper Creek 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.

Change in Accounting Policy

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.

14. CRITICAL ACCOUNTING POLICIES (Continued)

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.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of November 1, 2011 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 is assessing what the implementation of IFRS will have on its consolidated financial statements through, among other things, review of IFRS standards currently in place and reviewing the impact on the Company's current accounting policies. The changes from Canadian GAAP to IFRS will have a significant impact on the Company's consolidated financial statements, and there can be no assurances that the impact will not be adverse.

The transition will become necessary with the fiscal quarter beginning November 1, 2011 with the initial report to occur with the financial results for the three months ending on January 31, 2012. During this period the Company will have made a determination of the elections which will be appropriate for the Company.

The Company has also ensured that key individuals involved in its financial reporting processes, and moving forward, the implementation of IFRS, have receive adequate training in IFRS and it has been determined that the Company has sufficient expertise in IFRS to complete the upcoming transition.

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. 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.

14. CRITICAL ACCOUNTING POLICIES (Continued)

Accounting Policies Impacted:

The detailed analysis of the accounting policies impacted by the IFRS convergence will be completed during this fiscal quarter. 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 consolidated 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 of 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.

Share based payments (IFRS 2):
Under IFRS, the Company will be required to estimate a forfeiture rate for any stock option grants and reduce the stock based compensation based on the estimated forfeiture rate. Furthermore, once the option grants are fully vested the Company will be required to do an adjustment for the actual forfeiture rate versus the initial estimate. Unlike IFRS, Canadian GAAP allows the Company to adjust stock based compensation when forfeitures occur. This difference is not expected to have a material impact on the Company.

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.

Exploration Expenditures:
On transition to IFRS the Company intends to elect to change to its accounting policy for the treatment of exploration expenditures to a policy of expensing all exploration expenditures, so as to align itself with policies applied by other comparable companies at a similar stage in the mining industry. This will result in the resource property interests decreasing by $19.7 million for the year ended October 31, 2011 and $10.1 million for year ended October 31, 2010. As a result there will be in a change in net loss by $9.6 million for the year ended October 31, 2011.

Business Combinations:
On transition, the reverse take-over transaction will be accounted for at fair value. Under Canadian GAAP, EIC 10 allowed the acquisition of Four Points to be valued at the carrying amount of the net assets. However, under IFRS, there is no such guidance, accordingly, the acquisition will be accounted for at fair value, and the difference between fair value and the net assets acquired will be expensed as a listing fee. The Company is in the process of quantifying the impact of this change.

Information systems:
The accounting processes of the Company are not expected to change and the Company expects that no historical data will have to be regenerated to comply with some of the choices to be made under IFRS1.

15. 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 National Instrument 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 could 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.

16. 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. For a detailed discussion of the risk factors associated with the Company please consult the risk factors section of the Company’s Annual Information Form filed on January 25, 2012 and available on www.sedar.com.