YELLOWHEAD MINING INC.

YELLOWHEAD MINING INC.
Management Discussion and Analysis
Fourteen months ended December 31, 2012
(Expressed in Canadian Dollars)

This Management Discussion and Analysis ("MD&A") of Yellowhead Mining Inc. should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fourteen months ended December 31, 2012. Commencing November 1, 2011, the Company started reporting under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its annual consolidated financial statements under Canadian Generally Accepted Accounting Principles ("GAAP"). The audited consolidated financial statements for the fourteen months ended December 31, 2012 have been prepared in accordance with IFRS and the comparative information for the twelve months ended October 31, 2011 and as at October 31, 2011 and November 1, 2010 has been restated under IFRS (see Note 22 of the audited consolidated financial statements for reconciliations from GAAP to IFRS). 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 March 28, 2013. Additional information of the Company is available on SEDAR at www.sedar.com.

1. HIGHLIGHTS

Key highlights for the fourteen months ended December 31, 2012 and subsequent weeks include:

- Detailed NI 43-101 compliant amended feasibility study was completed and filed on March 29, 2012 and restated and amended as of January 25, 2013.
- Released an updated Resource estimate with Measured and Indicated Resources at a 0.2% copper cut-off grade are estimated as: Copper – 5.3 Billion pounds, Gold – 838,600 ounces and Silver – 34 Million ounces.
- Purchased a former Weyerhaeuser Company Ltd. sawmill property which has a 1,880m rail siding connecting to the Canada National Railway's transcontinental mainline. This property will be used for a rail load-out facility located 25km by road from the Harper Creek project mill site, as a staging area during construction and for a mine administration office.
- The Environmental Assessment study at Harper Creek was advanced with the completion of a comprehensive baseline study program. The application will be filed in the second quarter of 2013.
- Changed the financial year end from October 31 to December 31 effective for the 2012 financial year.
- Adopted a shareholder rights plan to ensure the fair treatment of all shareholders in the event of a takeover bid or change of control.
- Common shares began trading on the Toronto Stock Exchange ("TSX") main board, previously listed on the TSX Venture board.
- Common shares began trading on the OTCQX International marketplace ("OTCQX").
- Completed a non-brokered private placement of 8,032,307 common shares of the Company at an issue price of $0.65 per common share for gross proceeds of $5,221,000 and 2,141,403 flow-through common shares of the Company at an issue price of $0.70 per flow-through common shares for gross proceeds of $1,498,982.
- Engaged Evercore Group L.L.C. to provide financing advisory services and to assist in the evaluation of strategic partnership and financing alternatives for Harper Creek.

2. OVERVIEW

Yellowhead Mining Inc. ("Yellowhead" or the "Company") was incorporated on August 23, 2005 under the laws of British Columbia. The Company is a development stage company engaged in the acquisition, exploration and development of mineral properties with its focus on the development of its wholly-owned Harper Creek mineral property ("Harper Creek"), which is located in south central British Columbia, Canada. The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol YMI and on the OTCQX International marketplace under the symbol YHMGF.

Harper Creek

The Company's Harper Creek property is 100% owned by the Company and is a copper-gold-silver deposit located approximately 150 km by road north-northeast of the city of Kamloops in Vavenby, B.C. The property envelops the Yellowhead Highway; the Canadian National Railways transcontinental mainline, power from BC Hydro transmission lines in Vavenby is 15km east of the community of 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 the Kamloops Mining Division of British Columbia. The area of active exploration and proposed development comprises 9,000 hectares which extends from the area of historical exploration by both Noranda and US Steel and their successors.

Corporate Structure

The Company was a private, non-reporting, issuer in the provinces of British Columbia, Alberta and Ontario 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 9, 2010. Following its amalgamation, the "old" Yellowhead Mining Inc. was renamed to 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 June 11, 2012, Yellowhead Mining Inc. graduated from the TSX Venture to the TSX under the trading symbol "YMI". The TSX is the largest stock exchange in Canada and serves the senior equity market.

On August 23, 2012, the Company's common shares commenced trading in the United States on the OTCQX International marketplace under the symbol "YHMGF". The OTCQX is the premier marketplace on OTC Markets Group's highly visible electronic trading venue in the U.S. and the OTCQX International tier is designed for non-U.S. companies listed on qualified international stock exchanges.

Additional disclosures pertaining to the Company's filings, technical reports, management information circulars, annual information forms, material change reports, press releases and other information is available on SEDAR at www.sedar.com.

3. OUTLOOK

Some of the Company's expectations and planned activities for 2013 and beyond include:

- Exploring financing options in order to finance the development of Harper Creek, including but not limited to: strategic investors and/or partnerships, project and equipment financing stock offerings and off-take agreements.
- Submission of the Company's Environmental Assessment application for Harper Creek in the second quarter of 2013, the Company plans to continue the process of environmental permitting through 2013.
- Preparation and submission of the Company's applications for a British Columbia Mines Act Permit for Harper Creek.
- Ongoing consultation with the First Nations and local communities to address any potential environmental and socio-economic impacts of Harper Creek and the Company's mitigation strategies.
- Continued negotiations with the local First Nations working towards conclusion of a long term Benefits Agreement.
- Continued exploration activities to better define the resource/reserve at Harper Creek.

4. CORPORATE ACTIVITY

Key corporate developments for the Company for the fourteen months ended December 31, 2012 and subsequent weeks are discussed below.

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 total consideration including transaction costs of $2,222,729. 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.

On February 20, 2012, the Company announced that it was prospectively changing its fiscal year end date from October 31st to December 31st. In accordance with relevant legislation the Company prepared condensed consolidated interim financial statements for the periods ending and as at December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012 for the current fiscal year. The Company's annual financial statements are for the fourteen months ended December 31, 2012.

On March 16, 2012, the Company adopted a shareholder rights plan to ensure the fair treatment of all Yellowhead shareholders during any takeover bid for the Company's outstanding shares or other transactions that would involve a change in control. The plan was effective immediately and was approved by the shareholders of the Company at the annual general and special meeting of shareholders held on April 19, 2012.

4. CORPORATE ACTIVITY (Continued)

On April 20, 2012, the Company announced the following changes to its Board of Directors. Christopher Naas did not stand for re-election as a director at the Company's annual general meeting but will remain as a director for Harper Creek Mining Corp., a 100% owned subsidiary of Yellowhead Mining Inc.

On May 1, 2012, the Company appointed Beverly A. Bartlett as a director for Yellowhead Mining Inc. to fill a casual vacancy on the Board of Directors.

On June 8, 2012, the Company announced that effective the start of trading on June 11, 2012, the common shares of Yellowhead Mining Inc. began trading on the TSX. Concurrent with the TSX listing, the Company's common shares were de-listed from the TSX Venture Exchange.

On July 3, 2012, the Company announced the following changes to its Board of Directors. Dr. Morgan (Gongbo) Li resigned from the Board of Directors effective June 29, 2012 to pursue other endeavours. Mr. Ming An Fu has been appointed to the Board of Directors effective July 3, 2012. Mr. Fu is the President of Anthill Resources Ltd., which is a significant shareholder of the Company.

On August 23, 2012, the Company's common shares commenced trading in the United States on the OTCQX International marketplace under the symbol "YHMGF". The OTCQX is the premier marketplace on OTC Markets Group's highly visible electronic trading venue in the U.S. and the OTCQX International tier is designed for non-U.S. companies listed on qualified international stock exchanges. Stifel, Nicolaus & Company, Inc. will serve as the Company's Principal American Liaison ("PAL") on OTCQX, responsible for providing guidance on OTCQX requirements and U.S. securities laws. Yellowhead expects to benefit from its trading on the OTCQX International by gaining greater exposure, accessibility and liquidity in the United States.

On October 18, 2012, the Company announced that its Board of Directors had appointed Gregory Hawkins, current Chairman of the Board of the Company, to also fill the role of Interim Chief Executive Officer replacing Mr. Ian Smith, the outgoing President and Chief Executive Officer. The Board is taking steps to fill the position of Chief Executive Officer.

On December 7, 2012, the Company announced that it had commenced a 11,000m in-fill drill program aimed at upgrading the category of resources within the pit area and allowing for more detailed mine planning and potential exploration benefits.

On December 18, 2012, the Company announced that Mr. Ian Smith resigned from the Board of Directors of the Company.

In December 2012, the Company completed a non-brokered private placement and issued 8,032,307 common shares at a price of $0.65 per share for gross cash proceeds of $5,221,000 and 2,141,403 flow-through common shares at a price of $0.70 per share for gross cash proceeds of $1,498,982.

4. CORPORATE ACTIVITY (Continued)

On February 5, 2013, the Company announced that it had restated and amended the Company's Harper Creek feasibility study dated and filed on SEDAR on March 29, 2012 and restated and amended as of January 25, 2013 (the "Feasibility Study"). The Feasibility Study shows an estimated after-tax NPV_8 of $465.3 million with an IRR of 17.0% for a 28 year project life at a milling rate of 70,000 tonnes per day, based on long-term metal prices of US$2.50/lb Copper ("Cu"), US$1,250/oz Gold ("Au") and US$20/oz Silver ("Ag") and a US$:Cdn$ exchange rate of 0.86:1. The project as designed is expected to produce a total of 3.63 billion pounds of copper, 372,000 ounces of gold and 14 million ounces of silver contained in concentrate.

On February 12, 2013, the Company announced that it had engaged Evercore Group L.L.C. ("Evercore") to provide financing advisory services and to assist in evaluating strategic partnership and financing alternatives in connection with the Company's Harper Creek project.

5. SELECTED ANNUAL INFORMATION (1)

	December 31, 2012	October 31, 2011	October 31, 2010
Total revenue	**$ -**	$ -	$ -
Net loss and comprehensive loss	**15,149,699**	15,476,816	1,549,566
Basic and diluted loss per share	**0.28**	0.34	0.06
Total assets	**12,591,027**	21,266,482	16,394,531
Total liabilities	**1,491,174**	2,167,126	419,159
Total non-current liabilities	**-**	-	-
Dividends paid	**-**	-	-

(1) The Company's annual financial results as at and for the fourteen months ended December 31, 2012 and twelve months ended October 31, 2011 have been prepared in accordance with IFRS. As the Company's transition date to IFRS was November 1, 2010, the summarized annual financial results as at and for the twelve months ended October 31, 2010, have not been restated and have been prepared in accordance with GAAP

The Company is still at the development stage and therefore does not earn any revenues. The majority of costs incurred by the Company at this stage are costs associated with moving its Harper Creek project towards development and ultimately into production and costs associated with the maintenance of a publicly listed entity.

Commencing November 1, 2011 and with a transition date of November 1, 2010, the Company started reporting under IFRS, previously the Company had reported under GAAP. On transition to IFRS the Company elected to change its accounting policy for the treatment of evaluation and exploration expenses to expensing all evaluation and exploration expenses as incurred. Previously, under GAAP the Company's policy was to capitalize all evaluation and exploration expenditures. The result of this change as at and for the periods ended December 31, 2012 and October 31, 2011 as compared as at and to the period ended October 31, 2010, is an increase in net loss and comprehensive loss and a decrease in total assets (See Note 22 of the Company's audited consolidated financial statements for full details of the Company's transition to IFRS).

6. SUMMARY OF QUARTERLY RESULTS (1)

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

	2012				2011	2011			
Quarter Ended	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**31-Oct**	**31-Jul**	**30-Apr**	**31-Jan**
Administrative expenses	$1,881	$ 908	$1,139	$ 994	$ 691	$ 878	$1,423	$1,816	$ 679
Evaluation and exploration expenses	2,845	2,093	913	1,520	2,222	3,091	3,822	1,367	1,362
Other expenses/(income)	(11)	(14)	6	(13)	(25)	(62)	(55)	(21)	1,177
Net loss and comprehensive loss for the period	4,715	2,987	2,058	2,501	2,888	3,907	5,190	3,162	3,218
Basic and diluted loss per share for the period	$ 0.08	$ 0.06	$ 0.04	$ 0.05	$ 0.05	$ 0.07	$ 0.13	$ 0.09	$ 0.10

(1) Due to the Company's prospective change in fiscal year end from October 31, 2012 to December 31, 2012, the period ended December 31, 2011 is two months long and all other disclosed periods are three months long.

The Company's changes in financial results on a quarter by 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 expenditures by the Company reflect this development.

7. RESULTS OF OPERATIONS

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

Review of Quarterly Financial Results – Three months ended December 31, 2012 ("Q4 2012") compared to the three months ended September 30, 2012 ("Q3 2012")

The Company recorded a net loss of $4,715,125 for Q4 2012, as compared to a net loss $2,986,299 for Q3 2012. The increase in the loss of $1,728,826 was attributable to the following key items:

Consulting fees were $445,665 for Q4 2012, as compared to $11,153 for Q3 2012. This increase of $434,512 was related to approximately $400K that was paid to BC Hydro in Q4 2012 for an Identification Phase study for upgrading power to the North Thompson Valley that was being partially funded by the Company, there were no costs incurred for these studies in Q3 2012. Another difference in consulting fees was related to costs incurred in connection with ongoing negotiations with the First Nations for the completion of a long-term Benefits Agreement, these costs were approximately $47K higher in Q4 2012, as compared to Q3 2012.

Investor relations costs were $79,315 for Q4 2012, as compared to $139,316 for Q3 2012. This decrease of $60,001 was due to a decrease in investor relations activities and travel costs by the Company in Q4 2012 as compared to Q3 2012, the majority of investor relations costs are non-recurring and therefore these costs vary with the level of investor relations activity by the Company.

Professional fees were $253,270 for Q4 2012, as compared to $131,189 for Q3 2012. This increase of $122,081 was due to two main factors. First, the Company incurred approximately $112K more legal costs in Q4 2012 as compared to Q3 2012 due to additional corporate matters requiring legal costs to be incurred in Q4 2012. Second, the accounting and audit fees were approximately $34K higher in Q4 2012 as compared to Q3 2012 due to higher costs associated with an audit of the Company's annual financial statements as compared to a review of the Company's quarterly financial statements.

Wages and benefits were $870,589 for Q4 2012, as compared to $353,698 for Q3 2012. This increase of $516,891 was due to three main factors. First, approximately $284K was related to severance payments to the former CEO which were incurred in Q4, 2012. Second, the Company accrued annual bonuses of approximately $202K in Q4 2012 which were not accrued in Q3 2012. Third, the Company incurred director fees of approximately $18K in Q4 2012 and no director fees had been paid in prior periods.

Evaluation and exploration expenses were $2,884,723 for Q4 2012, as compared to $2,092,890 for Q3 2012. This increase of $751,833 was due to a three main factors. First, the Company recognized an adjustment of approximately $652K in Q4 2012 as a result of an audit by the Canada Revenue Agency ("CRA") related to the Province of British Columbia's Mineral Exploration Tax Credit ("METC") program (Note 12 of the consolidated financial statements has additional discussion on this amount). Second, the Company spent approximately $717K in Q4 2012 related to an in-fill drilling program which was announced and started in Q4 2012, there were no costs associated with this program in Q3 2012. Third, the Company incurred approximately $596K less in costs related to mine permitting in Q4 2012 as compared to Q3 2012, the costs associated with mine permitting are non-recurring costs and therefore the amount of spending on these activities will vary from quarter to quarter.

7. RESULTS OF OPERATIONS (Continued)

Review of Annual Financial Results – Fourteen months ended December 31, 2012 compared to the twelve months ended October 31, 2011

The Company recorded a net loss of $15,149,699 for fourteen months ended December 31, 2012 ("FY 2012"), as compared to a net loss $15,476,816 for the twelve months ended October 31, 2011 ("FY 2011"). The decrease in the loss is attributable to the following major items:

Consulting fees were $784,275 for FY 2012, as compared to $460,741 for FY 2011. This increase of $323,534 was due to three main factors. First, in FY 2012 the Company expensed approximately $599K for various studies related to BC Hydro and there were no such costs in FY 2011. Second, the Company spent approximately $59K more in FY 2012 as compared to FY 2011 related to costs incurred in connection with ongoing negotiations with the First Nations for the completion of a long-term Benefits Agreement. Third, the Company had approximately $335K less in consulting costs in FY 2012 as compared to FY 2011 related to costs associated with the socio-economic review and community consultation process.

Filing fees were $180,121 for FY 2012, as compared to $104,011 for FY 2011. This increase of $76,110 was related to the fact that in FY 2012 the Company graduated to the TSX main board from the TSX Venture board and the Company's shares began trading on the OTCQX, both of which caused the Company to incur increased filing fees.

Investor relations costs were $799,736 for FY 2012, as compared to $879,140 for FY 2011. This decrease of $79,404 was due to a decrease in investor relations activities and travel costs by the Company in FY 2012 as compared to FY 2011, the majority of investor relations costs are non-recurring and therefore these costs vary with the level of investor relations activity by the Company.

Professional fees were $566,596 for FY 2012, as compared to $366,762 for FY 2011. This increase of $199,834 was due to two main factors. First, the Company incurred approximately $177K more advisory costs in FY 2012 as compared to FY 2011 related to various financing and marketing initiatives undertaken by the Company in FY 2012. Second, accounting and audit fees were approximately $25K higher in FY 2012 as compared to FY 2011 as the Company started to publish reviewed quarterly financial statements in FY 2012 which was not done in FY 2011.

Rent costs were $130,821 for FY 2012, as compared to $44,480 for FY 2011. This increase of $86,341 was due to the fact that the Company moved to a new office space in September 2011 and therefore only incurred higher rent costs for two months of FY 2011 and incurred the higher rent costs for all of FY 2012.

Share-based compensation costs were $554,611 for FY 2012, as compared to $1,876,638 for FY 2011. This decrease of $1,322,024 was related to fewer options being granted in FY 2012 as compared to FY 2011 and due to longer vesting periods for options being granted in FY 2012 as compared to FY 2011. The longer vesting periods in FY 2012 causes the total expense related to each grant to be expensed over a longer period of time in correlation with the vesting period.

Share issue costs on reverse take-over were $nil for FY 2012, as compared to $1,190,813, for FY 2011. These costs were associated with the Company's reverse take-over of Four Points which is discussed in Note 5 of the Company's audited consolidated financial statements.

8. PROJECT REVIEW – HARPER CREEK

The Company's Harper Creek property is a copper-gold-silver 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.

(a) Highlights

The Company completed an independent detailed NI 43-101 compliant amended feasibility study for Harper Creek which was completed and filed on March 29, 2012 and restated and amended on January 25, 2013 (the "Feasibility Study"). The NI 43-101 compliant technical report for the Feasibility Study is available on SEDAR at www.sedar.com.

Some highlights of the project discussed in the Feasibility Study are:

- The project's estimated pre-tax Net Present Value @ 8% discount rate ("NPV_8") is $749.7 million with an Internal Rate of Return ("IRR") of 20.2% and the estimated after-tax NPV_8 is $465.3 million with an IRR of 17.0%;
- The Feasibility Study was based on long-term metal price projections of US$2.50/lb Cu, US$1,250/oz Au and US$20/oz Ag, and a US$:Cdn$ exchange rate of 0.86:1;
- The project is estimated to have a 28 year mine life at a milling rate of 70,000 tonnes per day ("tpd") (25.55Mt/y);
- Capital costs are estimated at $838.95 million +/- 15% in Q4 2011 dollars, including contingency of $76.4 million;
- Life of Mine ("LOM") onsite cash operating costs, net of precious metal credits, are estimated at US$0.95/lb Cu (US$0.80/lb for the first 5 years) and total onsite and offsite cash cost (net of precious metal credits) are estimated at US$1.56/lb Cu;
- LOM stripping ratio is estimated at 0.81:1; and
- Sustaining capital over the project life is estimated at $305.1 million.

(b) Mineral Tenures

The Company has a total of 131 mineral tenures covering 42,636 hectares at Harper Creek in the 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 November 3, 2017 for total cash cost of $51,209.

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

- 61 mineral tenures were acquired in 2006 from various parties for total cash consideration of $65,000 and by the issuance of a total of 6,100,000 common shares of the Company which at the time of issuance had a deemed value of $100,000.
- 70 mineral tenures were staked by the Company between 2006 and 2010 for total cash consideration of $14,741.

8. PROJECT REVIEW – HARPER CREEK (Continued)

The Company's Harper Creek project is subject to net smelter returns ("NSR") royalties for production from certain mineral tenures as follows:

- A 3% NSR capped at $2.5 million, subject to an inflation adjustment from July 2010, related to 31 mineral tenures acquired from Cygnus Mines Ltd., a subsidiary of US Steel Corp. Based on the Feasibility Study, this NSR will be extinguished in the first year of operations.
- A 2.5% NSR to Xstrata related to 6 mineral tenures. Based on the Feasibility Study, this equates to approximately 1.5 million tonnes of ore which is expected to be mined beginning in year sixteen of the mine plan.

(c) 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

From 2006 – 2010 the Company drilled an additional 97 holes for a total of 33,725m.

In 2011 the Company drilled an additional 88 holes for a total of 19,142m.

In 2012, the Company had two separate drilling programs. Initially the Company conducted a diamond drilling program on the property to support mine permitting which was completed in October 2012. As part of this program the Company drilled an additional 46 holes for a total of 1,061m. Drilling included:

- Geotechnical: 8 holes for a total of 443m
- Hydrogeological: 10 holes for a total of 360m
- Soil Sampling: 28 holes for 258m

The Company also had an in-fill drilling program that was initiated in November 2012 and is ongoing as at the date of this MD&A. As at December 31, 2012, the in-fill drilling program had completed 13 holes for a total of 4,000m.

To date total drilling at Harper Creek has totaled 420 holes for a total of 87,220m of which 319 holes and 79,935m was related to resource confirmation holes and the remaining 101 holes and 7,285m was related to hydrogeological, geotechnical, soil sampling and condemnation holes.

In September 2011 an application to extend the Company's existing exploration permit to December 31, 2014, was submitted and approved by the Ministry of Energy and Mines in June 2012. A further amendment was submitted in July 2012 to extend the proposed work area and this amendment was approved in September 2012.

The Company's exploration work to date indicates the potential for expansion of mineralization to the east, north and at depth. The Company intends to investigate these potential extensions in the future.

(In Canadian dollars unless otherwise stated)

8. PROJECT REVIEW – HARPER CREEK (Continued)

(d) Harper Creek Expenditures

As at December 31, 2012, a summary of the Company's mineral property expenditures at Harper Creek are as follows:

	Capitalized Mineral interests	Evaluation and exploration expenses	Total expenditures on Harper Creek
Balance, October 31, 2011	$ 834,026	$ 19,704,383	$ 20,538,409
Net Additions	51,209	9,593,257	9,644,466
Balance, December 31, 2012	$ 885,235	$ 29,297,640	$ 30,182,875

Further details of capitalized mineral interests (Note 14) and evaluation and exploration expenditures (Note 9) are disclosed in the Company's consolidated financial statements as at and for the fourteen months ended December 31, 2012.

(e) Reserves and Resources

Details of the methodology used to estimate Reserves and Resources are available in the Company's Feasibility Study dated and filed by the Company on SEDAR on March 29, 2012 and restated and amended as of January 25, 2013.

Reserves Estimate
The NI 43-101 compliant mineable Reserves for Harper Creek reported using a 0.14% copper cut-off grade ("COG") and based on the Feasibility Study are estimated as follows:

	Reserves				Contained Metal		
	Ktonnes	Cu %	Au g/t	Ag g/t	Cu (M lbs)	Au (K oz)	Ag (K oz)
Proven	401.2	0.272	0.031	1.15	2,404.6	402.3	14,785.0
Probable	303.2	0.248	0.027	1.13	1,659.9	260.3	11,026.2
Totals	**704.4**	**0.262**	**0.029**	**1.14**	**4,064.5**	**662.6**	**25,811.2**

Resource Estimate
The NI 43-101 compliant mineral Resources for Harper Creek reporting using a 0.2% COG and an effective date of December 20, 2011 are estimated as follows:

Measured + Indicated								Inferred						
COG % Cu	Ktonnes	Cu %	Au (g/t)	Ag (g/t)	Cu (B lbs)	Au (K oz)	Ag (K oz)	Ktonnes	Cu %	Au (g/t)	Ag (g/t)	Cu (B lbs)	Au (K oz)	Ag (K oz)
0.1	1,518,997	0.23	0.027	1.1	7.63	1,318.6	53,720.5	155,251	0.22	0.027	1.1	0.75	134.8	5,490.6
0.2	**814,997**	**0.29**	**0.032**	**1.3**	**5.26**	**838.6**	**34,063.6**	**80,169**	**0.30**	**0.033**	**1.4**	**0.53**	**85.1**	**3,608.5**
0.3	294,637	0.39	0.042	1.5	2.50	397.9	14,209.2	31,635	0.39	0.037	1.5	0.27	37.6	1,525.6
0.4	101,391	0.48	0.054	1.7	1.06	176.0	5,541.6	11,360	0.47	0.044	1.8	0.12	16.1	657.4
0.5	30,612	0.58	0.071	2.0	0.39	69.9	1,968.4	3,017	0.57	0.054	2.0	0.04	5.2	194.0

8. PROJECT REVIEW – HARPER CREEK (Continued)

(f) Project Update

Below are updates on various aspects of Harper Creek and how the project is progressing in each of those areas:

First Nations Benefits Agreement
The Company has been engaged in a dialogue with local First Nations since 2006. The Company has been in discussions regarding a Benefits Agreement ("BA") with local First Nations since 2011. The purpose of the BA is to offer economic benefits, business, employment and capacity-building opportunities providing long-term sustainable benefits for the communities. The Company has also offered to support the development of community businesses, and provide employment and capacity building opportunities associated with the development and operations of the Harper Creek project to other local First Nations. The Company is committed to developing effective partnerships and good working relationships with local First Nations based on mutual respect, open communications and sharing of information. BA negotiations are on-going. The Company intends to have a BA in place by the end of 2013.

Environmental Permitting
On October 21, 2011, the British Columbia Environmental Assessment Office ("EAO") approved the Application Information Requirements ("AIR") for 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 ("EA) Certificate.

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 continued through 2012. Environmental monitoring will continue for the life of the project.

In 2011, the Company signed a General Services Agreement with the Simpcw First Nation and Adams Lake Indian Band to support their involvement in the collection of baseline information for the EA Application. Representatives of the local First Nations communities coordinated and led the archeology work, and were involved on field crews collecting environmental baseline information. In 2011, members of the First Nations spent over 340 person-days on field crews collecting baseline data. In 2012, members of the First Nations spent over 390 person-days on the collection of baseline data. In 2012, the Simpcw First Nation also completed a Traditional Use Study of the mine site area.

Over the last six years the Company has established over 1,100 records of contacts with the local First Nations. Over the last two years the Company has met over fifty times with local First Nations, and held several meetings with other stakeholders to discuss the development of the Harper Creek project, and address concerns raised. First Nations have also participated in all of the EAO Working Group meetings regarding the Harper Creek project. Working group meetings and consultations with First Nations will continue through the EA Application review phase. The Company also organized three Open Houses to inform and update local communities and stakeholders on the EA process and development of the Harper Creek project.

8. PROJECT REVIEW – HARPER CREEK (Continued)

As at December 31, 2012, the Company has spent a total of $4,503,396 for costs related to the EA process. The Company plans on submitting its formal EA Application to the EAO in the second quarter of 2013. Following submission, the next step for the Company's EA application will be a 30-day screening process led by the EAO and EAO Working Group to assess the completeness of the EA Application against the AIR. If accepted for review, the EA Application will enter the 180-day review phase. The public, First Nations, provincial and federal regulators on the EAO Working Group will be involved in the EA Application review phase. Following the review phase the EA application goes to the Federal and Provincial governments for a final decision.

Mine Permitting

The Company is in the process of putting together all the information that will be required for Harper Creek's Major Mines Act Permit ("Mine Permit") which will allow for both construction of the mine as well as operation of the mine after the completion of the construction phase. The Company's Mine Permit application will require a detailed mine plan including particulars of the design, construction, operation and closure of Harper Creek, a conceptual final reclamation plan for the closure of mining operations and any other relevant information required by the British Columbia Ministry for Energy, Mines and Natural Gas. The Harper Creek EA certificate will also be a pre-requisite for the Company's Mine Permit.

The Company plans to submit a completed application to the British Columbia Ministry for Energy, Mines and Natural Gas in the second-half of 2013 and anticipates final receipt of an approved Mine Permit a few months after the receipt of the Harper Creek EA certificate.

Project Financing

On February 12, 2013, the Company announced that it had engaged Evercore Group L.L.C. to provide financing advisory services and to assist in evaluating strategic partnership and financing alternatives in connection with the Harper Creek. Evercore will assist the Company in conducting a global search to explore all different available alternatives that will allow the Company to finance the development of Harper Creek including and not limited to strategic investors and/or partnerships, project and equipment financing and off-take agreements.

Infrastructure – Rail Load-out

On November 7, 2011, the Company completed the purchase of the former Weyerhaeuser Company Ltd. sawmill property about 2.5km west of the town Vavenby. 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 from the Harper Creek project mill site using existing roads and infrastructure. The existing rail siding will not require any additional permitting and in order to complete a rail load-out facility the Company will only be required to put in switches at both ends of the rail siding and pour a concrete pad for the load-out area.

In addition to the rail siding the property also contains an administration building which the Company plans to use during operations as well as a few old warehouses which could potentially be used as staging areas during the construction phase.

8. PROJECT REVIEW – HARPER CREEK (Continued)

Infrastructure – BC Hydro

The Company will need to build a 12km power line to connect Harper Creek to the sub-station in the town of Vavenby. There is sufficient power available on the line for the Company's needs during the construction phase, however, an upgrade to the North Thompson Valley grid will be required before the start of operations at Harper Creek. The upgraded transmission line will also provide improved reliability of power to existing customers within the North Thompson Valley and provide capacity for expansion to the existing industrial base.

The Company has been in discussions with BC Hydro since early 2011 about the upgrade to the North Thompson Valley. Based on the Company's most recent conversations with BC Hydro the anticipated in-service date for the upgraded power will be Q4 2016. The Company continues to work with BC Hydro and other stakeholders including local community leaders and other industrial groups to ensure that adequate and more reliable power is brought to the North Thompson Valley in a timely manner.

9. FINANCIAL INSTRUMENTS

Designation and valuation of 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 because of the short-term maturity of these financial instruments.

The following tables summarizes the designation of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable:

- Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 of the hierarchy includes inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 includes inputs for the asset or liability that are not based on observable market data.

The Company does not have any financial instruments included in Level 1, 2 and 3.

The Company's financial instruments as at December 31, 2012 are as follows:

	As at December 31, 2012
Financial assets	
Loans-and-receivables	
Cash and cash equivalents	**$ 7,060,334**
Total financial assets	**$ 7,060,334**
Financial liabilities	
Other-financial-liabilities	
Accounts payable and accrued liabilities	**$ 1,339,083**
Due to related parties	**45,021**
Total financial liabilities	**$ 1,384,104**

9. FINANCIAL INSTRUMENTS (Continued)

The financial risk arising from the Company's operations are credit risk, liquidity risk and market risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and how the Company minimizes these risks are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(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. This is achieved by ensuring that no liabilities are incurred that the Company does not have the ability to discharge in 30 days or less. The Company also has policies in place that establish minimum working capital levels below which expenditures of the Company are reduced until the minimum working capital level is re-established.

As at December 31, 2012, the Company had cash and cash equivalents of $7,060,334 available to settle current financial liabilities of $1,384,104. 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.

Interest rate risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its cash and cash equivalent balances which are held in savings accounts paying interest of approximately 1%. The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities and a change in market interest rates would have an immaterial effect on the Company's financial position.

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. All of the Company's financial assets and the majority of the Company's financial liabilities are denominated in Canadian Dollars and therefore the Company is not exposed to foreign currency risk. Other price risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in market prices other than from interest rate and foreign currency risk. The Company is not exposed to other price risk.

10. LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital as at December 31, 2012 was $7,749,867 as compared to working capital of $17,936,968 at October 31, 2011, representing a decrease in working capital of $10,187,101. Included in working capital were cash and cash equivalents of $7,060,334 (October 31, 2011 - $15,668,987).

(a) Financing

The Company's cash provided by financing activities for the fourteen months ended December 31, 2012 was $6,702,656. Of this amount $6,332,911 was as a result of a private placement completed in December 2012. The remaining $369,745 was as a result of the exercise of 505,500 stock options and 8,992 share purchase warrants. For the twelve months ended October 31, 2011, the Company's cash provided by financing activities was $25,490,217 primarily related to private placements completed on November 9, 2010 and April 15, 2011 as well as the exercise of 405,500 stock options and 45,592 share purchase warrants.

As at December 31, 2012, the Company had completed three private placements discussed below:

(i) Private Placement – November 2010

Placement
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.

Use of Proceeds
The above financing was concluded before the Company's qualifying transaction to become a publicly listed entity. The Company planned to use the net proceeds from the financing above to carry out the following activities:

- Completion of a qualifying transaction (the Company's shares began trading on the TSX Venture Exchange on November 17, 2010)
- General exploration, development and acquisition activities
- Working capital, general and administrative expenses and other general corporate purposes

The Company's actual use of such proceeds did not vary from the anticipated use of proceeds set out above.

10. LIQUIDITY AND CAPITAL RESOURCES (Continued)

(ii) Private Placement – April 2011

Placement

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.

Use of Proceeds

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

- Feasibility Study at Harper Creek (completed and filed March 29, 2012 and restated and amended as of January 25, 2013)
- Environmental Assessment at Harper Creek (application to be filed in the second quarter of 2013 and the permitting process is ongoing)
- General exploration, development and acquisition activities (a major acquisition was the purchase of a former Weyerhaeuser site outside of Vavenby to be used as a rail load-out)
- 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.

10. LIQUIDITY AND CAPITAL RESOURCES (Continued)

(iii) Private Placement – December 2012

Placement
On October 31, 2012, the Company announced plans to complete a non-brokered private placement of up to a maximum of 13,000,000 common shares of the Company. Concluding on December 27, 2012, the Company issued 8,032,307 common shares at a price of $0.65 per share for gross cash proceeds of $5,221,000 and paid finder's fees associated with this placement of $261,050. The Company also issued 2,141,403 flow-through common shares at a price of $0.70 per share for gross cash proceeds of $1,498,982. Share capital was reduced by the premium attributed to the flow-through shares of $0.05 per share or $107,070 and the Company paid finder's fees associated with this flow-through placement of $83,449. The Company also incurred legal costs of $42,572 with relation to the private placement of the common shares and flow-through shares which was treated as share issue costs.

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

- An in-fill drilling program of up to 11,000m of drilling. Pursuant to a side-letter signed with a major investor in this placement the Company is required to spend approximately $3 million on an in-fill drilling program. 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.

(b) 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 twelve months will be costs associated with the Environment Assessment process, the Mine Permitting process, drilling, general and administrative activities, deposits for long-lead items and detail engineering. Following the completion of the private placement completed by the Company in December 2012, the Company believes its current working capital is sufficient for general and administrative activities and to complete the in-fill drilling program, however, additional funding will be required by the Company to finance the development of Harper Creek.

If adequate funds are not available when required, the Company may, based on the Company's cash position, 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.

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 or at all.

(In Canadian dollars unless otherwise stated)

10. LIQUIDITY AND CAPITAL RESOURCES (Continued)

(c) Commitments

As at December 31, 2012, the Company had the following contractual commitments:

Rental Commitments
The Company has commitments related to the minimum rental and operating expenses payments for the Company's office space in downtown Vancouver. The lease was effective September 1, 2011 and concludes on August 31, 2016. These commitments in each of the next four years to the conclusion of the lease period are approximately as follows:

Year Incurred	Amount
2013	**$ 118,400**
2014	**121,400**
2015	**124,400**
2016	**84,300**
Total commitments	**$ 448,500**

In-fill Drilling Commitment
As part of the private placement announced by the Company in October 2012 and completed in December 2012, the Company entered into an agreement with a major investor in this placement to spend approximately $3 million on an in-fill drilling campaign. As at December 31, 2012 the Company had incurred approximately $717K related to the in-fill drilling commitment, the remaining amount will be incurred in the first half of 2013.

Flow-through Commitments
The Company entered into flow-through share subscription agreements during the fourteen months ended December 31, 2012, whereby it agreed to renounce to investors a total of $1,498,982 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2012. The Company is committed to incur the expenditures on or before December 31, 2013. The Company is required to pay Part XII.6 tax (approximately 1% per month) on the unspent amount between February 28, 2013 and December 31, 2013. As at February 28, 2013 the Company had incurred approximately $1.44M of qualifying expenses associated with the flow-through share subscriptions.

Capital Expenditure Commitments
The Company does not currently have any capital expenditure commitments.

(d) Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

(e) Proposed Transactions

The Company has no proposed transactions.

(In Canadian dollars unless otherwise stated)

11. RELATED PARTY TRANSACTIONS

Transactions with related parties for the fourteen months ended December 31, 2012 are detailed below:

- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $nil (October 31, 2011 - $138,300) to Andreas Consulting Inc., a company controlled by the former CEO of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).
- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $nil (October 31, 2011 - $74,200) to Handford Management Ltd., a company controlled by an officer of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).
- During the fourteen months ended December 31, 2012, the Company paid and accrued project management fees, exploration expenses and office costs of $1,045,604 (October 31, 2011 - $4,469,170) to CME Consultants Inc., a contractor company whose president is a director of the Company's 100% owned subsidiary Harper Creek Mining Corp. As at December 31, 2012, the balance owing to that company was $45,021 (October 31, 2011 - $362,988).
- During the fourteen months ended December 31, 2012, the Company paid and accrued management fees of $119,166 (October 31, 2011 - $90,000) to Twinstone Ventures Inc., a company related to the current interim CEO and Chairman of the Board of Directors of the Company. As at December 31, 2012, the balance owing to that company was $nil (October 31, 2011 - $nil).

These transactions, occurring in the normal course of operations are measured at the estimated fair value of the services provided or goods received.

12. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at March 28, 2013, the Company had 63,450,170 common shares issued and outstanding.

The Company has the following stock options that are outstanding and exercisable as at March 28, 2013:

	Outstanding		Exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average remaining life (years)**
$0.60	90,000	4.88	30,000	4.88
$0.62	100,000	4.73	8,333	4.73
$1.00	525,000	0.58	525,000	0.58
$1.08	750,000	2.19	750,000	2.19
$1.25	3,377,500	3.10	2,383,112	2.72
	4,842,500	**2.75**	**3,696,445**	**2.33**

(In Canadian dollars unless otherwise stated)

12. OUTSTANDING SHARE DATA (Continued)

The Company also has the following warrants that are outstanding as at March 28, 2013, all remaining warrants expire on April 5, 2013.

Exercise price	Number of warrants	Weighted average remaining life (years)
Share purchase warrants		
$2.00	8,582,316	0.02
Agents warrants		
$1.45	952,200	0.02
	9,534,516	**0.02**

13. ACCOUNTING POLICIES AND FIRST-TIME ADOPTION OF IFRS

The Company's significant accounting policies have been disclosed in Note 3 of the Company's consolidated financial statements for the fourteen months ended December 31, 2012.

First-time Adoption of IFRS
In February 2008, the Canadian Accounting Standards Board mandated the adoption of IFRS effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 for Canadian publicly accountable profit-orientated enterprises.

The Company has prepared its consolidated financial statements in accordance with IFRS as issued by IASB. The Company adopted IFRS in accordance with IFRS 1 – *First-time Adoption of International Financial Standards* ("IFRS 1") with a transition date of November 1, 2010 and the Company's consolidated financial statements have been prepared in accordance with IFRS standards and interpretations effective as at December 31, 2012.

On transition to IFRS the Company had two major adjustments to previously reported figures under GAAP. First, the Company elected to change 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 resulted in the mineral interests decreasing by $19,704,383 as at October 31, 2011 and $10,062,179 as at November 1, 2010. Second, the Company's treatment of the reverse take-over of Four Points was different under IFRS versus Canadian GAAP which resulted in and additional $1,094,183 being added to share capital, $96,630 being added to equity reserves and $1,190,813 added to expenses for the year ended October 31, 2011.

Details of the major differences and adjustments required for the conversion to IFRS from GAAP are detailed in Note 22 of the Company's consolidated financial statements for the fourteen months ended December 31, 2012.

14. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company's management is required to make judgements in the process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of consolidated financial statements in accordance with IFRS requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

(a) Critical Judgements in Applying Accounting Policies

Impairment of property, plant and equipment and mineral interests
Assets or cash generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property plant and equipment and mineral interests. External sources of information considered are changes in the Company's economic, legal and regulatory environment which it does not control but affect the recoverability of its mining assets. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

If any indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

As at December 31, 2012, the Company believes there are no indications of impairment for the carrying value of its property plant and equipment and mineral interests.

Taxation
The provision for income taxes and composition of income tax assets and liabilities requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized in the statement of financial position.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, and other capital management transactions. The application of income tax legislation also requires judgments. These judgments and assumptions are subject to risk and uncertainty, therefore there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized.

14. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Mining exploration tax credits

The Company is entitled to refundable tax credits on qualified mining exploration expenses incurred in the province of British Columbia. Management's judgment is applied in determining whether the mining exploration expenses are eligible for claiming such credits. Those benefits are recognized when the Company estimates that it has reasonable assurance that the tax credits will be realized. Upon review of the mining exploration tax credit claim by the Canada Revenue Agency, any adjustments to the estimate made by the Company are recorded in the period of the tax assessment.

(b) Critical Estimates in Applying Accounting Policies

Estimated reserves, resources and exploration potential

Reserves are estimates of the amount of product that can be extracted from the Company's properties, considering both economic and legal factors. Calculating reserves and estimates requires decisions on assumptions about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, prices and exchange rates. Estimating the quantity and/or grade of reserves require the analysis of drilling samples and other geological data. Estimates of reserves may change from period to period as the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations. Changes in reported reserves may affect the Company financial position.

Fair value of share-based compensation

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statement of comprehensive income and credited to the related reserve account, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest. The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price, expected volatility and expected life of the options. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Amortization rates for PPE

Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method or unit-of-production method over their expected useful lives. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining amortization charges. Amortization commences on the date when the asset is available for use.

Decommissioning, restoration and similar liabilities

Decommissioning and restoration obligation provisions represents management's best estimate of the present value of the future costs. Significant estimates and assumptions are made in determining the amount of obligations provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible disturbance; and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditures differing from the amounts currently provided.

15. INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Prior to June 11, 2012, the Company was a TSX Venture Issuer and made no assessment relating to the establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109. During the fourteen months ended December 31, 2012, the Company established and modified various internal controls over financial reporting. The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal controls over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on its evaluation, management has concluded that internal controls over financial reporting were effective as at December 31, 2012, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the consolidated financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 most recent Annual Information Form filed on SEDAR at www.sedar.com.

17. FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company including but not limited to statements with respect to the Company's plans or future financial or operating performance; the estimation of mineral reserves and resources; the realization of mineral reserve estimates; conclusions of economic assessments of projects; the timing and amount of estimated future production; future capital expenditures; costs and timing of the development of deposits; success of exploration activities; permitting time lines; requirements for additional capital; sources and timing of additional financing; realization of unused tax benefits; and the future price of gold, silver and copper. The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "plan", "project", "intend", "anticipate," "believe," "estimate," "expect", "budget", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of Yellowhead Mining Inc. to differ materially from those expressed in, or implied by, these statements. These uncertainties are factors that include but are not limited to risks related to the current global financial condition; the inherent risks involved in the exploration and development of mineral properties; the uncertainties involved in interpreting drilling results and other geological data; uncertainties related to completion results of planned exploration and development programs on the Company's material properties; metal price volatility; economic and political events affecting metal supply and demand; fluctuation in ore grade or recovery rates; fluctuations in tonnes of ore milled; possible variations in mineral resources; the possibility of project cost overruns or unanticipated costs and expenses; issuance of licenses and permits; the availability of and costs of financing needed in the future; increases in market prices of mining consumables and capital equipment; accidents; labour disputes; title disputes; claims and limitations on insurance coverage; delays in obtaining governmental approvals; changes in national and local government regulation of mining operations; and changes in tax rules and regulations. Although Yellowhead Mining Inc. has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking, there may be other factors that cause actual results to differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

Forward-looking statements are made as of the date hereof and accordingly are subject to change after such date. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans. Yellowhead Mining Inc. does not undertake to update any forward-looking statements that are included in this document if circumstances, management's estimates or management's expectations change, expect in accordance with applicable securities laws.