YELLOWHEAD MINING INC.
Management Discussion and Analysis
Year ended December 31, 2015
(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 year ended December 31, 2015. The audited consolidated financial statements for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("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 January 27, 2016. Additional information of the Company is available on SEDAR at www.sedar.com.

1. HIGHLIGHTS

Key highlights for the year ended December 31, 2015 and subsequent weeks include:

- Acceptance of an application ("EA Application") for an environmental assessment certificate ("EA Certificate") for the Harper Creek Project (the"Project") by the British Columbia Environmental Assessment Office ("BC EAO") for formal review, with the 180 day application review period ("EA Review") commencing on January 28, 2015

- Response to comments from the BC EAO and the Canadian environmental assessment agency ("CEA Agency"), together with members of the Working Group, on the EA Application

- Suspension of the EA Review in order to provide sufficient time for the Company to provide the additional information requested by the BC EAO relating to the conclusions and recommendations of the Independent Expert Report on the Mount Polley Tailing Storage Facility Breach for its relevance and applicability to the Project

- Successful completion of a rights offering to the Company's shareholders, pursuant to which the Company issued a total of 24,751,431 common shares at a price of $0.045 per share for gross proceeds of $1,113,814

- Cessation of all activities with respect to the EA Application and environmental monitoring, and placing the Project on care and maintenance for the foreseeable future, including for 2016, as a result of the Board of Directors concluding that, in light of current conditions in the commodity markets and the international capital markets, it was in the best interest of all shareholders to defer all expenditures on the Project until such time as more favorable commodity and capital markets presented themselves

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 the Project, which is located in the Thompson-Nicola area of British Columbia, Canada. The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol YMI.

Corporate Structure

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".

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

Harper Creek Project

The Project is 100% owned by the Company and is a copper-gold-silver deposit located approximately 150km by road north-northeast of the city of Kamloops near the town of Vavenby, B.C. The property is 15km east of the community of Clearwater and adjacent to the Yellowhead Highway, the Canadian National Railway's transcontinental mainline and 12km from the BC Hydro power sub-station in the town of Vavenby. The Project was originally explored by Noranda and US Steel during the 1960's and 1970's. The Project is comprised of 131 mineral tenures covering 42,636 hectares and on January 31, 2014 the Company extended all 131 of its mineral tenures through to November 3, 2024.

The 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 dated July 31, 2014 (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

3. OUTLOOK

On October 1, 2015, all activities with respect to the EA Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance for the foreseeable future, including for 2016, as a result of the Board of Directors concluding that, in light of current conditions in the commodity markets and the international capital markets, it was in the best interests of all of the shareholders to defer any additional expenditures on the Project until such time as more favourable commodity and capital markets presented themselves.

3. OUTLOOK (Continued)

If development of the Project were to restart after 2016, it is likely that the EA Application process will have to be restarted, including the collection of a fresh set of two years of continuous environmental baseline data, followed by the preparation of a new EA Application incorporating such fresh environmental baseline data. This assumes no material design changes are required to be made to the Project as a result of the Mount Polley Tailings Facility Storage Breach Report (the "Report") or as a result of the introduction of additional rules and regulations relating to the development of mining projects in Canada, during the period of care and maintenance. The minimum time frame required to restart the EA Application process, assuming no design changes, and including the collection and incorporation of fresh baseline environmental data into a new EA Application, would be three (3) years.

4. HARPER CREEK PROJECT

The Project is a proposed 70,000 tonnes-per-day open pit copper mine with a 28 year mine life, located in the Thompson – Nicola region of British Columbia near Vavenby. Typically, the Project would have a four year development period, with the initial two years focused on environmental and construction permitting, and the second two years dedicated to construction. This assumes that there is sufficient environmental baseline data collection to support the initiation of the environmental permitting process. If developed, the Project would provide up to 600 jobs during construction and up to 450 permanent jobs during operations.

Environmental Permitting

Pre-Application Phase

In January 2014, the Company initiated an update and revision of the EA Application for an EA Certificate to include and reflect both additional baseline data collected during 2013-2014, as well as to address the deficiencies and comments raised by the BC EAO after the submission of the original EA Application in 2013. The update and revision included updated baseline reports, effects assessments, and proposed mitigation measures, as well as a suite of environmental management plans designed to cover all phases of operations from pre-construction, through construction, operations, closure and reclamation.

The EA Application met the requirements of an environmental assessment pursuant to both the BC Environmental Assessment Act ("BCEAA") and the Canadian Environmental Assessment Act ("CEAA").

Application Review Phase

The Company submitted the EA Application to the BC EAO on November 10, 2014. This marked the start of the 30-day screening process led by the BC EAO and the Working Group established by the BC EAO. On December 11, 2014, the BC EAO advised the Company that the EA Application had been accepted into review and the 180 EA Review would commence once the Company responded to a number of screening comments from the BC EAO and the Working Group. On January 28, 2015 the BC EAO advised the Company that the EA Review had been initiated. The public, First Nations, Provincial and Federal regulators included in the Working Group would be involved during the EA

4. HARPER CREEK PROJECT (Continued)

Review. Beginning in early March 2015, the Company started to receive comments from the BC EAO on the EA Application and the Company commenced the process of responding to such comments.

Following completion of the EA Review, the EA Application is referred to the Federal and Provincial governments for a final decision on granting an EA Certificate.

Impact of the Mount Polley Report

On January 30, 2015, the Report was issued, and concluded that the root cause of the Mount Polley tailings dam failure was a design flaw. The Report also made a number of recommendations which the BC Provincial Government has adopted.

Following release of the Report, the Company received correspondence from the Ministry of Energy and Mines (MEM) and the Director of the BC EAO requesting the Company to provide additional information and undertake additional work as a consequence of the Report. This additional information and work includes a review of the design of the tailings management facility for the Project to consider options to reduce excess water storage, to update mitigation strategies, to update the effects assessment for the EA Application and to provide a summary report by a Qualified Professional on how the recommendations of the Mount Polley Report were considered for the Project. These requests for additional information and work required an extension to the Review Period.

Therefore, in order to allow time to provide the additional information and undertake the additional work required as a consequence of the Report, including an updated assessment of alternatives for undertaking the Project with respect to options for tailings management that considers technology, siting and water balance, the Company requested a timeline suspension to the EA Review, which was granted on June 30, 2015.

Care and Maintenance Program

On October 1, 2015, all activities with respect to the EA Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance for the foreseeable future, including for 2016, as a result of the Board of Directors concluding that, in light of current conditions in the commodity markets and the international capital markets, it was in the best interests of all of the shareholders to defer any additional expenditures on the Project until such time as more favourable commodity and capital markets presented themselves.

If development of the Project were to restart after 2016, it is likely that the EA Application process will have to be restarted, including the collection of a fresh set of two years of continuous environmental baseline data, followed by the preparation of a new EA Application incorporating such fresh environmental baseline data. This assumes no material design changes are required to be made to the Project as a result of the Report, or as a result of the introduction of additional rules and regulations relating to the development of mining projects, during the period of care and maintenance. The minimum time frame required to restart the EA Application process, assuming no design changes, and including the collection and incorporation of fresh baseline environmental data into a new EA Application, would be three (3) years.

5. SELECTED ANNUAL INFORMATION

	December 31, 2015	December 31, 2014	December 31, 2013
Total revenue	**$ -**	$ -	$ -
Net loss and comprehensive loss	**2,723,229**	7,144,481	6,515,570
Basic and diluted loss per share	**0.03**	0.07	0.10
Total assets	**4,636,819**	7,085,515	13,399,604
Total liabilities	**294,140**	1,080,575	372,454
Total non-current liabilities	**-**	-	-
Dividends paid	**-**	-	-

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 the Project through development and ultimately into production, and costs associated with the maintenance of a publicly listed entity.

The net loss for the year ended December 31, 2015 decreased compared to the year ended December 31, 2014 primarily due to decreased exploration and evaluation expenses. During the year ended December 31, 2015, the Company entered into the Review phase and the Company commenced responding to comments on the EA Application. On October 1, 2015, all activities with respect to the EA Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance. During the year ended December 31, 2014 the Company incurred costs to update, restructure and rewrite the EA Application. Total assets decreased from $7.1 million at December 31, 2014 to $4.6 million at December 31, 2015 primarily due to a $2.4 million decrease in the cash balance. Total liabilities decreased $786K due to the decreased activity in 2015 as the Company reduced expenditures on technical consultants.

6. SUMMARY OF QUARTERLY RESULTS

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

	2015				2014			
Quarter Ended	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**
Administrative expenses	$ 596	$ 285	$ 438	$ 597	$ 633	$ 435	$ 502	$ 525
Exploration and evaluation expenses	22	35	309	456	1,149	1,612	1,454	918
Other expenses/(income)	(4)	1	(6)	(7)	(18)	(19)	(18)	(28)
Net loss and comprehensive loss for the period	614	321	742	1,046	1,764	2,028	1,937	1,415
Basic and diluted loss per share for the period	$ 0.00	$ 0.00	$ 0.01	$ 0.01	$ 0.02	$ 0.02	$ 0.02	$ 0.01

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, administration and travel and investor relations.

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, 2015 ("Q4 2015") compared to the three months ended December 31, 2014 ("Q4 2014")

The Company recorded a net loss of $614K for Q4 2015, as compared to a net loss $1,764K for Q4 2014. The decrease in the loss of $1,150K was attributable to the following key items:

Consulting fees were $nil for Q4 2015 compared to $174K for Q4 2014. In Q4 2014 the Company paid $174K for consulting fees related to costs incurred in connection with ongoing negotiations with the First Nations for the completion of a long term Impact Benefits Agreement and costs associated with the socio-economic review and community consultation process.

Professional fees were $47K for Q4 2015 compared to $38K for Q4 2014. There were higher professional fees in 2015 compared to 2014 as the Company pursued financing in 2015. This was offset by lower accounting fees in Q4 2015 compared to Q4 2014.

Share-based compensation costs were $2K for Q4 2015, as compared to $15K for Q4 2014. Share-based compensation is a non-cash charge based on various factors including number of options granted, vesting schedules of options granted and black-scholes valuations of options granted. Due to the number of factors involved, share-based compensation costs will fluctuate from period to period.

Travel and investor relations costs were $5K for Q4 2015, as compared to $31K for Q4 2014. This decrease of $26K was due to a decrease in investor relations activities and travel costs by the Company in Q4 2015 as compared to Q4 2014 as the Company reduced expenditures to conserve cash.

Wages and benefits were $476K for Q4 2015, as compared to $308K for Q4 2014. This increase of approximately $168K was due to severance payments of $349K paid out in Q4 2015. This was partially offset by salary reductions for some Company officers and fewer employees in Q4 2015 compared to Q4 2014.

The principal reason for the decrease in the net loss is the lower exploration and evaluation expenses in Q4 2015 compared to Q4 2014. Exploration and evaluation expenses were $22K for Q4 2015, as compared to $1,149K for Q4 2014. In Q4 2014, the Company incurred costs related to the update of the EA Application for the Project. Expenditures on the EA Application were lower in Q4 2015 as the Company ceased all activities with respect to the EA Application and environmental monitoring on October 1, 2015. Environmental assessment costs decreased from $1,086K in Q4 2014 to $187 in Q4 2015.

7. RESULTS OF OPERATIONS (Continued)

Review of Year-to-Date Financial Results – Year ended December 31, 2015 ("FY 2015") compared to the year ended December 31, 2014 ("FY 2014")

The Company recorded a net loss of $2,723K for FY 2015, as compared to a net loss $7,144K for FY 2014. The decrease in the loss of $4,421K was attributable to the following key items:

Consulting fees were $173K for FY 2015, as compared to $183K for FY 2014. The costs incurred in both FY 2015 and FY 2014 related to costs incurred in connection with ongoing consultation and discussions with the First Nations.

Professional fees were $105K for FY 2015, as compared to $121K for FY 2014. This decrease of approximately $16K was due to lower accounting fees. FY 2014 included accounting fees related to the review of the feasibility model and an auditor review of the second and third quarter. These costs were not incurred in FY 2015.

Share-based compensation costs were $12K for FY 2015, as compared to $122K for FY 2014. Share-based compensation is a non-cash charge based on various factors including number of options granted, vesting schedules of options granted and black-scholes valuations of options granted. The decrease in the share based compensation costs is primarily related to the fact that the Company did not grant any new options in FY 2014 or FY 2015.

Travel and investor relations costs were $45K for FY 2015, as compared to $118K for FY 2014. This decrease of approximately $73K was due to a decrease in investor relations activities and travel costs by the Company in FY 2015 as compared to FY 2014 as the Company reduced expenditures to conserve cash.

Wages and benefits were $1,285K for FY 2015, as compared to $1,227K for FY 2014. This increase of approximately $58K was due to severance payments of $349K in FY 2015. This was partially offset by a reduction in salaries by some officers in FY 2015 and fewer employees and directors in FY 2015 compared to FY 2014.

Exploration and evaluation expenses were $823K for FY 2015 as compared to $5,133K for FY 2014. The 2015 expenses mainly related to the review process for the EA Application and the 2014 expenses related to the update of both the feasibility study and the EA Application for the Project. Expenditures on the EA Application were lower in FY 2015 as compared to FY 2014 as the Company reviewed and responded to comments from the EAO, CEA Agency, First Nations and the Public on the EA Application, utilized fewer technical consultants than in the initial preparation of the EA Application in order to conserve cash and then on October 1, 2015 ceased all activities with respect to the EA Application and environmental monitoring.

Interest income was $19K for FY 2015 as compared to $88K for FY 2014. This decrease of approximately $69K is a result of the lower cash balances in FY 2015 compared to FY 2014.

(In Canadian dollars unless otherwise stated)

8. HARPER CREEK EXPENDITURES

As at December 31, 2015, a summary of the Company's mineral property expenditures at the Project is as follows:

	Capitalized mineral interests	Exploration and evaluation expenses	Total expenditures on Harper Creek
Balance, December 31, 2014	$ 885,235	$ 37,295,480	$ 38,180,715
Assaying	-	15,766	15,766
Camp and field supplies	-	1,083	1,083
Contract wages	-	24,585	24,585
Environmental assessment	-	667,758	667,758
Equipment rental	-	41,499	41,499
Reports, drafting and maps	-	2,507	2,507
Other	-	69,587	69,587
Balance, December 31, 2015	**$ 885,235**	**$38,118,265**	**$39,003,500**

Further details of capitalized mineral interests (Note 12) and exploration and evaluation expenditures (Note 8) are disclosed in the Company's audited consolidated financial statements as at and for the year ended December 31, 2015.

9. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

The Company has designated its cash and cash equivalents and accounts receivable as loans-and-receivables; and accounts payable and accrued liabilities and due to related parties as other-financial-liabilities.

GST receivable is excluded from financial instruments as it arises from statutory requirements imposed by the Government of Canada.

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

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

9. FINANCIAL INSTRUMENTS (Continued)

- 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, 2015 are as follows:

	As at December 31, 2015
Financial assets	
Loans-and-receivables	
Cash and cash equivalents	**$ 1,299,391**
Accounts receivable	**3,802**
Total financial assets	**$ 1,303,193**
Financial liabilities	
Other-financial-liabilities	
Accounts payable and accrued liabilities	**$ 294,140**
Total financial liabilities	**$ 294,140**

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 and accounts receivable; 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.

9. FINANCIAL INSTRUMENTS (Continued)

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. 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. During the three months ended June 30, 2015, the Company reached minimum working capital levels and reduced expenditures accordingly. On October 1, 2015, all activities with respect to the EA Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance for the foreseeable future, including for 2016. The Company believes its current working capital is sufficient for care and maintenance for the next 12 months.

On December 31, 2015, the Company had cash and cash equivalents of $1,299K available to settle current liabilities of $294K.

All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market Risk

Market risks consist of interest rate risk, foreign currency risk and other price risk.

The Company’s cash and cash equivalent balance is held in savings accounts which pays interest of approximately 0.90%. The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

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 currently exposed to significant 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, 2015 was $1,117K as compared to working capital of $2,693K at December 31, 2014, representing a decrease in working capital of $1,576K. Included in working capital were cash and cash equivalents of $1,299K (December 31, 2014 - $3,685K).

(a) Financing

The Company’s cash provided by financing activities for the year ended December 31, 2015 was $1,049K (December 31, 2014 - $nil).

The most recent financings completed by the Company are set out below:

10. LIQUIDITY AND CAPITAL RESOURCES (Continued)

Rights Offering – September 2015

Rights Offering
On September 30, 2015, the Company issued a total of 24,751,431 common shares under the rights offering announced on August 21, 2015 at an exercise price of $0.045 per share for gross proceeds of $1,114K. A total of 14,035,706 common shares were issued under the basic subscription privilege and a total of 10,715,725 common shares were issued under the additional subscription privilege. The Company incurred costs of $65K related to the rights offering and share issuance and these costs were capitalized as share issue costs in share capital. The net proceeds for the offering were $1,049K.

Use of Proceeds
- General corporate and working capital purposes, and
- Repay the bridge loan.

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

Bridge Loan –August 2015

Bridge Loan
On August 4, 2015 the Company announced that its board of directors subject to regulatory and legal approvals had approved a bridge loan. The $500K bridge loan was a secured loan at an interest rate of 10% per annum maturing on December 31, 2015. The loan was provided by Matco Capital Ltd., a company whose president and CEO is a director of the Company. The Company granted security by the way of a general security agreement on all of the assets and undertaking of the Company, including the shares of its subsidiary Harper Creek Mining Corporation.

The Company received an advance of $300K under the bridge loan on August 14, 2015 and repaid the principal amount of $300K together with all accrued interest of $4K on September 30, 2015.

Use of Proceeds
- General corporate and working capital 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)

Convertible Debenture – November 2013

Convertible Debenture
On November 19, 2013, the Company issued a convertible debenture to Matco Investments Ltd. ("Matco") for $8 million. The debenture matured on January 31, 2014 and bore interest at a rate of 9% per annum, calculated and payable monthly in arrears. The debenture was secured by a first ranking security interest on all of the Company's property and assets. All security was to be released and discharged on the earlier of: 1) the automatic conversion of the convertible debenture, and 2) repayment of the convertible debenture together with accrued interest. The full conversion of the convertible debenture into 35,555,556 common shares of the Company at a price of $0.225 per share was subject to shareholder approval.

On December 30, 2013, the Company's shareholders approved the full automatic conversion of the convertible debenture into 35,555,556 common shares of the Company at a conversion price of $0.225 per share. Costs of $79K related to the issuance and conversion of the convertible debenture were capitalized as share issues costs in share capital.

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

- Complete the environmental assessment process for the Project, and
- 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

On October 1, 2015, all activities with respect to the EA Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance for the foreseeable future, including for 2016, as a result of the Board of Directors concluding that, in light of current conditions in the commodity markets and the international capital markets, it was in the best interests of all of the shareholders to defer any additional expenditures on the Project until such time as more favourable commodity and capital markets presented themselves.

The Company believes its current working capital is sufficient for care and maintenance for the next 12 months.

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. The Company 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. During Q2 2015, the Company reached minimum working capital levels and reduced expenditures accordingly. 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 share offering, seeking a strategic partnership or through the debt markets.

(In Canadian dollars unless otherwise stated)

10. LIQUIDITY AND CAPITAL RESOURCES (Continued)

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 on terms it finds acceptable or at all.

(c) Commitments

As at December 31, 2015 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 to the conclusion of the lease period are approximately as follows:

Year Incurred	Amount
2016	**$ 37,700**
Total commitments	**$ 37,700**

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.

11. RELATED PARTY TRANSACTIONS

Transactions with related parties for the year ended December 31, 2015 are detailed below:

- During the year ended December 31, 2015, the Company paid and accrued project management fees, exploration expenses and rental costs of $45K (December 31, 2014- $65K) to CME Consultants Inc. ("CME"), a contractor company whose president is a director of the Company's 100% owned subsidiary Harper Creek Mining Corp. As at December 31, 2015, the balance owing to CME was $nil.

- During the year ended December 31, 2015, the Company paid and accrued management fees of $36K (December 31, 2014 - $54K) to Twinstone Ventures Inc. ("Twinstone"), a company related to the Chairman of the Board of Directors of the Company. As at December 31, 2015, the balance owing to Twinstone was $nil.

(In Canadian dollars unless otherwise stated)

11. RELATED PARTY TRANSACTIONS (Continued)

- During the year ended December 31, 2015, the Company paid and accrued interest expense of $4K (December 31, 2014 - $nil) to Matco Capital Ltd. a company whose president and CEO is a director of the Company. On July 31, 2015 Matco Capital Ltd. provided a secured bridge loan of $500K at an interest rate of 10% per annum maturing on December 31, 2015. The Company was advanced $300K on August 14, 2015 and repaid $300K plus accrued interest of $4K to Matco Capital Ltd. on September 30, 2015. As at December 31, 2015, the balance owing to that company was $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 January 27, 2016 the Company had 123,757,157 common shares issued and outstanding.

The Company has the following stock options that are outstanding and exercisable as at January 27, 2016.

	Outstanding		Exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average remaining life (years)**
$0.24	640,000	1.72	640,000	1.72
$0.26	500,000	2.42	333,333	2.42
$0.60	30,000	2.05	30,000	2.05
$1.08	100,000	0.01	100,000	0.01
$1.25	1,255,000	0.51	1,255,000	0.51
	2,525,000	**1.19**	**2,358,333**	**1.10**

13. 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. The Company's significant accounting policies are presented in Note 3 of the audited annual consolidated financial statements for the year ended December 31, 2015. 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, 2015, 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

13. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

statement of financial position and the amount of other tax losses and temporary differences not yet recognized.

Going Concern
The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year as they fall due, involves judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

(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.

Depreciation rates and useful life for PPE
Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation 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 depreciation charges. Depreciation commences on the date when the asset is available for use.

14. DISCLOSURE AND 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.

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 disclosure controls and procedures and 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 (COSO 2013)*. Based on the evaluation of the design and operating effectiveness of the Company's internal controls over financial reporting, the CEO and the CFO concluded that the Company's internal controls over financial reporting was effective for the year ended December 31, 2015.

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.

15. 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 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.

16. 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.

17. FORWARD-LOOKING STATEMENTS (Continued)

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.