



**YELLOWHEAD
MINING INC.**

**YELLOWHEAD MINING INC.
Management Discussion and Analysis
Year ended December 31, 2016
(Expressed in Canadian Dollars)**

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Management Discussion and Analysis
Year ended December 31, 2016
(In Canadian dollars unless otherwise stated)

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, 2016. The audited consolidated financial statements for the year ended December 31, 2016 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 March 7, 2017. Additional information of the Company is available on SEDAR at www.sedar.com.

1. HIGHLIGHTS

Key highlights for the year ended December 31, 2016 and subsequent weeks include keeping the Harper Creek Project (the “Project”) on care and maintenance due to conditions in the commodity markets and the international capital markets. For 2017, the Board of Directors continues to be of the view that it is in the best interest of all shareholders to continue to defer all expenditures on the Project until such time as more favorable commodity and capital markets present 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.

Corporate Structure

Yellowhead Mining Inc. was listed for trading on the TSX Venture Exchange (TSX-V) on November 17, 2010 under the trading symbol “YMI”. On June 11, 2012, Yellowhead Mining Inc. graduated from the TSX-V to the Toronto Stock Exchange (TSX) under the trading symbol “YMI”. On September 15, 2016 the Company was informed that the TSX was reviewing the common shares of the Company with respect to meeting the continued listing requirement of incurring a minimum of \$350,000 in expenditures on its mineral projects during the past year. On January 12, 2017 the TSX informed the Company that its common share would be delisted in early February, and on February 10, 2017, the Company made an application to the TSX-V to list its common shares on the TSX-V, as a result of the Company not being in compliance with the continuous listing requirements of the TSX and the TSX notifying the Company that its common shares would be delisted from the TSX on March 10, 2017. The Company’s application for listing on the TSX-V is subject to the Company meeting all necessary requirements and conditions of the TSX-V and the TSX-V approving the application.

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

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2. OVERVIEW (Continued)

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

Since October 1, 2015, all activities with respect to the Environmental Assessment ("EA") Application and environmental monitoring ceased and as a result the Project was placed on care and maintenance for the foreseeable future, including for 2017, 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 mid-2017, then 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 and prior to the time of restarting the EA Application for the Project. 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 a minimum of three (3) to four (4) 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.

4. HARPER CREEK PROJECT (Continued)

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 Environmental Assessment Office ("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 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.

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4. HARPER CREEK PROJECT (Continued)

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. If the Company does not provide the requested information to the BC EAO on or before March 18, 2018, then the EA Application will be deemed to have been withdrawn, and the EA Application process will have to be re-started.

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 2017, 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 mid-2017, then 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 and prior to the time of restarting the Project. 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 a minimum of three (3) to four (4) years.

5. SELECTED ANNUAL INFORMATION

	December 31, 2016	December 31, 2015	December 31, 2014
Total revenue	\$ -	\$ -	\$ -
Net loss and comprehensive loss	542,626	2,723,229	7,144,481
Basic and diluted loss per share	0.00	0.03	0.07
Total assets	3,828,439	4,636,819	7,085,515
Total liabilities	24,203	294,140	1,080,575
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.

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5. SELECTED ANNUAL INFORMATION (Continued)

The net loss for the year ended December 31, 2016 decreased \$2.18 million compared to the year ended December 31, 2015 primarily due to decreased exploration and evaluation expenses; the write-off of accounts payable; and decreased administrative costs due to the Project being on care and maintenance. 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 \$4.6 million at December 31, 2015 to \$3.8 million at December 31, 2016 primarily due to a \$0.7 million decrease in the cash balance. Total liabilities decreased \$270K due to the decreased activity in 2016 as a result of the Project being on care and maintenance and the write-off of accrued liabilities, which resulted in a gain on write-off of accounts payable of \$260K.

6. SUMMARY OF QUARTERLY RESULTS

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

Quarter Ended	2016				2015			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Administrative expenses	\$ 103	\$ 123	\$ 134	\$ 284	\$ 596	\$ 285	\$ 438	\$ 597
Exploration and maintenance expenses	66	32	43	22	22	35	309	456
Other expenses/(income)	(2)	(1)	(2)	-	(4)	1	(6)	(7)
Gain on write-off of accounts payable	(260)	-	-	-	-	-	-	-
Net loss/(gain) and comprehensive loss/(gain) for the period	(93)	154	176	306	614	321	742	1,046
Basic and diluted loss per share for the period	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$ 0.00	\$ 0.01	\$ 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, 2016 (“Q4 2016”) compared to the three months ended December 31, 2015 (“Q4 2015”)

The Company recorded a net gain of \$93K for Q4 2016, as compared to a net loss \$614K for Q4 2015. The decrease in the loss of \$7071K was attributable to the following key items:

Office supplies and services were \$4K in Q4 2016, as compared to \$9K in Q4 2015, as a result of the Harper Creek Project being placed on care and maintenance.

Professional fees were \$40K for Q4 2016 compared to \$47K for Q4 2015 due mostly to lower audit fees in Q4 2016 compared to Q4 2015. There were about \$24k of outsourced accounting and finance fees in Q4 2016 that were offset by about the same amount of legal and other professional fees in Q4 2015.

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7. RESULTS OF OPERATIONS (Continued)

Rent was \$nil in Q4 2016, as compared to \$32K in Q4 2015, as a result of the termination of the Vancouver office lease at maturity on August 31, 2016, and no additional space being rented due to the out-sourcing of accounting and finance.

Share-based compensation costs were \$nil for Q4 2016, as compared to \$2K for Q4 2015. 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 \$2K for Q4 2016, as compared to \$5K for Q4 2015. This decrease was due to a decrease in investor relations activities and travel costs by the Company in Q4 2016 as the Company reduced expenditures to conserve cash.

Wages and benefits were \$46K for Q4 2016, as compared to \$476K for Q4 2015. The Q4 2016 amount is comprised of \$46K of wages and benefits. The Q4 2015 amount is comprised of \$127K of wages and benefits and \$349K of severance payments.

The other components of administrative expenses, including consulting fees, depreciation, filing fees, and insurance, are comparable in Q4 2016 and Q4 2015.

Exploration and evaluation expenses were \$66K in Q4 2016 compared to \$22K in Q4 2015. The increase is due to property taxes being amortized monthly in 2016, whereas being expensed as a one-time payment in 2015. Additionally, there was a one-time cost of \$31K in Q4 2016 to dispose of all petroleum products on-site at the Vavenby industrial property owned by the Company for safety and environmental reasons.

Additionally, the Company recognized a gain on write-off of accounts payable during Q4 2016 of \$260K, comprised of the write-off of accrued liabilities for exploration and maintenance expenses of \$187K, for director fees of \$43K and vacation liabilities of \$30K.

Review of Year-to-Date Financial Results - Year ended December 31, 2016 ("FY 2016") compared to the year ended December 31, 2015 ("FY 2015")

The Company recorded a net loss of \$543K for FY 2016, as compared to a net loss \$2,723K for FY 2015. The decrease in the loss of \$2,180K was attributable to the following key items:

Consulting fees were \$nil for FY 2016, as compared to \$173K for FY 2015. The costs incurred in FY 2015 related to costs incurred in connection with ongoing consultation and discussions with the First Nations.

Depreciation expense and filing fees are comparable in FY 2016 and FY 2015.

Filing fees are comparable in FY 2016 and FY 2015.

Insurance was \$39K in FY 2016, as compared to \$44K in FY 2015, as a result of lower insurance premiums.

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7. RESULTS OF OPERATIONS (Continued)

Office supplies and services were \$32K in FY 2016, as compared to \$54K in FY 2015, mostly due to out-sourcing accounting and administration services.

Professional fees were \$135K for FY 2016, as compared to \$105K for FY 2015. The components in FY 2016 include: \$100K of fees for the out-sourcing of accounting and finance; \$12K of audit fees; and \$23K of legal fees for regular legal work. The components in FY 2015 include: \$21K of audit and review fees; \$64K of legal fees for regular legal work, for the 2015 Rights Offering, and for severance advice, and \$20K of other profession fees.

Rent was \$86K in FY 2016, as compared to \$127K in FY 2015. The decrease in rent is due to the termination of the Vancouver office lease at maturity on August 31, 2016, and no additional space being rented due to the out-sourcing of accounting and finance.

Share-based compensation costs were \$4K for FY 2016, as compared to \$12K for FY 2015. 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 2015 or FY 2016, and all options being fully amortized in 2016.

Travel and investor relations costs were \$12K for FY 2016, as compared to \$45K for FY 2015. This decrease of approximately \$33K was due to a decrease in investor relations activities and travel costs by the Company in FY 2016 as compared to FY 2015 as the Company reduced expenditures to conserve cash.

Wages and benefits were \$265K for FY 2016, as compared to \$1,285K for FY 2015. The FY 2016 amount is comprised of \$135K of wages and benefits and \$130K of severance payments. The FY 2015 amount is comprised of \$936K of wages and benefits and \$349K of severance payments. The overall reduction in wages and benefits is due to the reduction of staff to conserve cash.

Exploration and evaluation expenses were \$163K for FY 2016 as compared to \$823K for FY 2015. The overall decrease of \$691K is mostly due to the Harper Creek Project being on care and maintenance since October 1, 2015. Included in the FY 2016 amount is \$31K to dispose of all petroleum products on-the Vavenby industrial property owned by the Company for safety and environmental reasons.

Interest income was \$5K for FY 2016 as compared to \$19K for FY 2015. This decrease of approximately \$14K is a result of the lower cash balances in FY 2016 compared to FY 2015.

Additionally, the Company recognized a gain on write-off of accounts payable during FY 2016 of \$260K comprised of the write-off of accrued liabilities for exploration and maintenance expenses of \$187K, for director fees of \$43K, and vacation liabilities of \$30K.

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8. HARPER CREEK EXPENDITURES

As at December 31, 2016, 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, 2015	\$885,235	\$38,118,265	\$39,003,500
Assaying	-	825	825
Contract wages	-	37,894	37,894
Equipment rental	-	42,794	42,794
Reports, drafting and maps	-	500	500
Other	-	81,241	81,241
Balance, December 31, 2016	\$885,235	\$38,281,519	\$39,166,754

Further details of capitalized mineral interests and exploration and evaluation expenditures are disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2016.

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:

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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

All the Company's financial instruments are fair valued at Level 2.

The Company's financial instruments as at December 31, 2016 are as follows:

	As at	
	December 31, 2016	December 31, 2015
Financial assets		
Fair value through profit and loss		
Cash and cash equivalents	\$ 617,672	\$ 1,299,391
Loan and receivables		
Accounts receivable	-	3,802
Total financial assets	\$ 617,672	\$ 1,303,193
Financial liabilities		
Other-financial-liabilities		
Accounts payable and accrued liabilities	\$ 21,006	\$ 294,140
Due to related parties	\$ 3,197	
Total financial liabilities	\$ 24,203	\$ 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.

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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 2017. The Company believes its current working capital is sufficient for care and maintenance for the next 12 months.

On December 31, 2016, the Company had cash and cash equivalents of \$618K available to settle current liabilities of \$24K.

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 0.50%. 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, 2016 was \$611K as compared to working capital of \$1,117K at December 31, 2015, representing a decrease in working capital of \$506K. Included in working capital were cash and cash equivalents of \$617K (December 31, 2015 - \$1,299K).

(a) Financing

The Company's cash provided by financing activities for the year ended December 31, 2016 was \$nil (December 31, 2015 - \$nil).

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

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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 2017, 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.

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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, 2016, the Company had no contractual commitments. As at December 31, 2015, the company had an office lease commitment of \$37,700, which was paid throughout 2016, until the conclusion of the lease on August 31, 2016.

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) Contingencies

Due to the nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these contingency matters will not have a material effect on the consolidated financial statements of the Company.

11. RELATED PARTY TRANSACTIONS

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

- During the year ended December 31, 2016, the Company accrued and paid project exploration expenses and office costs of \$42,794 (December 31, 2015 - \$44,898) to CME Consultants Inc., a contractor company whose president is a director of the Company's 100% owned subsidiary Harper Creek. These costs have been included in exploration and evaluation expenses. As at December 31, 2016, the balance owing to that company was \$nil (December 31, 2015 - \$nil).
- During the year ended December 31, 2016, the Company accrued and paid management fees of \$nil (December 31, 2015 - \$36,450) to Twinstone Ventures Inc., a company related to the Chairman of the Board of Directors of the Company and the former interim CEO of the Company. These costs have been included in wages and benefits. As at December 31, 2016, the balance owing to that company was \$nil (December 31, 2015 - \$nil).
- During the year ended December 31, 2016, the Company accrued and paid interest expense of \$nil (December 31, 2015 - \$3,913) to Matco Capital Ltd. (Note 14). As at December 31, 2016, the balance owing to that company was \$nil (December 31, 2015 - \$nil).
- During the year ended December 31, 2016, the Company accrued and paid professional fees of \$24,875 (December 31, 2015 - \$nil) for CFO services to David McGoey Professional Corporation. These costs have been included in professional fees. As at December 31, 2016, the balance owing to that company was \$3,197 (December 31, 2015 - \$nil).

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

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Year ended December 31, 2016
(In Canadian dollars unless otherwise stated)

12. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at March 7, 2017 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 March 7, 2017.

Exercise price	Expiry date	Outstanding		Exercisable	
		Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average remaining life (years)
\$1.25	April 18, 2017	262,500	0.13	262,500	0.13
\$1.25	June 11, 2017	12,500	0.28	12,500	0.28
\$0.26	June 30, 2018	500,000	1.33	500,000	1.33
\$0.24	July 3, 2018	360,000	1.34	360,000	1.34
		1,135,000	1.05	1,135,000	1.05

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, 2016. 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.

13. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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, 2016, 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.

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.

Determination of functional currency

The Company applies judgement in assessing the functional currency of each entity consolidated in these financial statements. The functional currency of the Company and its subsidiary is measured using currency of the primary economic environment in which that entity operates.

(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.

13. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

14. DISCLOSURE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (Continued)

Company's internal controls over financial reporting was effective for the year ended December 31, 2016.

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;

16. FORWARD-LOOKING STATEMENTS (Continued)

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.

16. 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, except in accordance with applicable securities laws.