YELLOWHEAD MINING INC.
Consolidated Financial Statements
December 31, 2013
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF YELLOWHEAD MINING INC.

We have audited the accompanying consolidated financial statements of Yellowhead Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2013 and fourteen months ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellowhead Mining Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the year ended December 31, 2013 and fourteen months ended December 31, 2012 in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 28, 2014

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YELLOWHEAD MINING INC.
Consolidated Statements of Financial Position
(In Canadian dollars)

	NOTES	As at December 31, 2013	As at December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	20	**$ 9,995,701**	$ 7,060,334
Accounts receivable		**9,148**	-
Mineral exploration tax credit receivable	11	**-**	1,711,785
GST/HST receivable		**15,023**	227,302
Prepaid expenses and deposits	14	**52,399**	241,620
		10,072,271	9,241,041
Non-current assets			
Property, plant and equipment	12	**2,307,098**	2,329,751
Mineral interests	13	**885,235**	885,235
Reclamation bond	13	**85,000**	85,000
Long-term deposits	14	**50,000**	50,000
		3,327,333	3,349,986
TOTAL ASSETS		**$ 13,399,604**	$ 12,591,027
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	15	**$ 349,610**	$ 1,339,083
Due to related parties	17	**22,844**	45,021
Flow-through share premium liability	18	**-**	107,070
		372,454	1,491,174
EQUITY			
Share capital	18	**58,743,984**	50,769,639
Equity reserves		**5,200,206**	4,731,684
Accumulated deficit		**(50,917,040)**	(44,401,470)
		13,027,150	11,099,853
TOTAL LIABILITIES AND EQUITY		**$ 13,399,604**	$ 12,591,027

Commitments (Note 21)

The accompanying notes are an integral part of these consolidated financial statements

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"T. Gregory Hawkins" — DIRECTOR

"Andy Graetz" — DIRECTOR

YELLOWHEAD MINING INC.

Consolidated Statements of Comprehensive Income

(In Canadian dollars)

	NOTES	Twelve months ended December 31, 2013	Fourteen months ended December 31, 2012
Administrative expenses			
Amortization		**$ 46,834**	$ 98,531
Consulting fees		**71,432**	784,275
Filing fees		**141,438**	180,121
Insurance		**40,536**	43,011
Investor relations		**294,862**	799,736
Office supplies and services		**83,133**	109,591
Professional fees		**692,489**	566,596
Rent		**121,250**	130,821
Share-based compensation	18	**468,522**	554,611
Wages and benefits		**1,718,028**	2,345,690
		3,678,524	5,612,983
Exploration and evaluation expenses	8	**2,864,792**	9,593,257
Other (income)/expense			
Interest income		**(80,124)**	(126,673)
Interest expense	16	**82,064**	-
Amortization of convertible debenture	16	**53,695**	-
Recognition of flow-through share premium	18	**(107,070)**	-
Other expenses		**23,688**	70,132
Net loss and comprehensive loss		**$ 6,515,570**	$ 15,149,699
Loss per share			
Basic and diluted	10	**$ 0.10**	$ 0.28
Weighted average number of shares outstanding			
Basic and diluted		**63,547,582**	54,168,518

The accompanying notes are an integral part of these consolidated financial statements

YELLOWHEAD MINING INC.

Consolidated Statements of Changes in Equity

(In Canadian dollars)

	Number of shares	Share capital	Equity reserves	Accumulated deficit	Total
Balances as at November 1, 2011	52,761,968	$ 43,875,032	$ 4,476,095	$ (29,251,771)	$ 19,099,356
Shares issued for:					
Private placement for cash	10,173,710	6,612,912	-	-	6,612,912
Share issue costs	-	(387,072)	-	-	(387,072)
Exercise of stock options	505,500	658,336	(293,087)	-	365,249
Exercise of warrants	8,992	10,431	(5,935)	-	4,496
Share-based compensation	-	-	554,611	-	554,611
Net loss and comprehensive loss for the period	-	-	-	(15,149,699)	(15,149,699)
Balances as at December 31, 2012	63,450,170	$ 50,769,639	$ 4,731,684	$ (44,401,470)	$ 11,099,853
Balances as at January 1, 2013	**63,450,170**	**$ 50,769,639**	**$ 4,731,684**	**$ (44,401,470)**	**$ 11,099,853**
Equity component of convertible debenture			**53,695**		**53,695**
Shares issued for:					
Conversion of convertible debenture	**35,555,556**	**7,974,345**	**(53,695)**		**7,920,650**
Share-based compensation	**-**	**-**	**468,522**	**-**	**468,522**
Net loss and comprehensive loss for the period	**-**	**-**	**-**	**(6,515,570)**	**(6,515,570)**
Balances as at December 31, 2013	**99,005,726**	**$ 58,743,984**	**$ 5,200,206**	**$ (50,917,040)**	**$ 13,027,150**

The accompanying notes are an integral part of these consolidated financial statements

YELLOWHEAD MINING INC.

Consolidated Statements of Cash Flows

(In Canadian dollars)

	NOTES	Twelve months ended December 31, 2013	Fourteen months ended December 31, 2012
Operating activities			
Net Loss for the period		**$ (6,515,570)**	$ (15,149,699)
Items not involving cash:			
Amortization of convertible debenture	16	**53,695**	-
Share-based compensation	18	**468,522**	554,611
Amortization		**46,834**	98,531
Loss on disposal of property, plant and equipment		**-**	1,589
Recognition of flow-through share premium	18	**(107,070)**	-
Changes in non-cash working capital			
Accounts receivable		**(9,148)**	-
Mineral exploration tax credit		**1,711,785**	847,398
GST/HST receivable		**212,279**	1,303,523
Prepaid expenses and deposits		**189,221**	103,479
Accounts payable and accrued liabilities		**(989,473)**	(465,055)
Due to related parties		**(22,177)**	(317,967)
Cash used in operating activities		**(4,961,102)**	(13,023,590)
Investing activities			
Acquisition of property, plant and equipment	12	**(24,181)**	(2,226,510)
Acquisition of mineral interests	13	**-**	(51,209)
Payment of reclamation bond		**-**	(10,000)
Cash used in investing activities		**(24,181)**	(2,287,719)
Financing activities			
Proceeds from issuance of convertible debenture, net of costs	16	**7,920,650**	-
Proceeds from issuance of capital stock, net of share issue costs		**-**	6,702,656
Cash provided by financing activities		**7,920,650**	6,702,656
Net increase/(decrease) in cash and cash equivalents		**2,935,367**	(8,608,653)
Cash and cash equivalents, beginning of period		**7,060,334**	15,668,987
Cash and cash equivalents, end of period		**$ 9,995,701**	$ 7,060,334

Supplemental cash flow information (Note 20)

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS

Yellowhead Mining Inc. ("Yellowhead" or the "Company") was incorporated on August 23, 2005 under the laws of British Columbia and is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties.

The Company's head office is located at 800 West Pender Street, Suite 730, Vancouver, British Columbia, V6C 2V6 and its registered and records office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

These consolidated financial statements have been prepared on a going-concern basis, which contemplates the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon receipt of all required permits, establishment of profitable operations and the Company's ability to obtain additional financing or outside participation to undertake further exploration and subsequent development of its mineral interests. The Company believes its current working capital is sufficient for the next twelve months of general and administrative activities and to maintain its mineral interests, however, additional funding will be required by the Company to complete its strategic objectives and to continue as a going concern. Given the current state of the financing market for junior mining companies there is no certainty that additional financing at terms that are acceptable to the Company will be available and an inability to obtain financing would have a direct impact on the Company's ability to continue as a going concern.

The Company's investments in mineral interests comprise a significant portion of the Company's activities. Realization of the Company's investment in these properties is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production, or from the proceeds of their disposal. The recoverability of the amounts shown for mineral interests and property, plant and equipment is dependent upon the existence of economically recoverable reserves, the ability of the Company to permit the properties, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future production or proceeds from the disposition thereof.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), effective December 31, 2013.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 28, 2014.

2. BASIS OF PRESENTATION (Continued)

(b) Basis of presentation

These financial statements are expressed in Canadian Dollars, the Company's functional currency and have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

(c) Reporting periods and comparatives

On February 20, 2012, the Company announced that it was changing its fiscal year end date from October 31st to December 31st effective for the 2012 reporting period. These consolidated annual financial statements are for the twelve months ended and as at December 31, 2013 with the comparative period being the fourteen months ended and as at December 31, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

The only subsidiary of the Company as at the date of these financial statements is the wholly-owned Harper Creek Mining Corporation based in British Columbia, Canada. All intercompany balances and transactions have been eliminated.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

(c) 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. In calculating fair value, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company. The fair value is determined by using the Black-Scholes option pricing model. At each statement of financial position date, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognised in the consolidated statement of comprehensive income with a corresponding entry against the related reserve. No expense is recognised for awards that do not ultimately vest.

(d) Interest income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Taxes

Current tax
Current tax for the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the statement of financial position date, and includes adjustments to tax payable or recoverable in respect of previous years.

Deferred tax
Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss in respect of taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and losses can be utilized, except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive income/(loss) ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources. For all periods covered by these consolidated financial statements, comprehensive loss and net loss are the same.

(g) Share capital

Common shares
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through shares
Issuance of flow-through shares represents an issue of common shares and the sale of right to tax deductions to the investors when the flow-through shares are issued. The sale of the right to tax deductions is deferred and presented as a liability in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital and liability using the residual method which means that the shares are valued at the fair value of existing shares at the time of issuance and the residual proceeds are allocated to a liability. Thereafter, as qualifying resource expenditures are incurred, these costs are expensed to exploration expense and the flow-through share premium is amortized to profit or loss.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time (before or after the end of the reporting period).

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

(h) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period if dilutive. The treasury stock method is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares of the Company at the average market price during the period. The effect is to increase the number of shares used to calculate diluted earnings per share.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, deposits held at call and certificates of deposits, money market instruments, including cashable guaranteed investment certificates with an original term to maturity of three months or less at date of purchase, and are carried at amortized cost.

(j) Mining Exploration Tax Credits

The Company qualifies for BC Mineral Exploration Tax Credits ("METC") as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred.

The Company recognizes a METC receivable and records those amounts as a recovery against exploration and evaluation expenses in the period in which recoverability can be established and the amount quantified. The amount ultimately recoverable may be different from the amount claimed once an audit by the taxation authorities is completed.

(k) Property, plant and equipment ("PPE")

Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The cost of an item of PPE includes its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with dismantling and removing the asset.

Amortization is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method or unit-of-production method over their expected useful lives as follows:

- Field camp equipment – 5 years straight-line basis
- Furniture and fixtures – 5 years straight-line basis
- Computer equipment and software – 3 years straight line basis
- Construction in progress – see below
- Mining properties – unit-of-production basis based on reserves

Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of PPE when completed and ready for its intended use at which time amortization begins based on the appropriate category of PPE.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal, determined as the difference between the net disposal proceeds and the carrying value of the asset, is recognized in the consolidated statement of comprehensive income.

Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining amortization charges. Amortization commences on the date when the asset is available for use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Mineral interests

Mineral interests include the purchase price of mineral properties and any costs incurred for mineral properties not classified as exploration and evaluation expenses. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the capitalized mineral interests for that project are capitalized as mining properties, a component of PPE.

Stripping costs
Stripping costs (also referred to as costs of removing overburden) incurred during the development of a mine are capitalized into PPE. Stripping costs incurred during the commercial production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into PPE.

Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body that the previously deferred stripping costs in an area did not give access to. When stripping activities give rise to a future economic benefit, the costs associated with these activities are capitalized into PPE. Capitalized stripping costs are depleted on a unit-of-production basis, using the estimated reserves of the ore body that becomes more accessible as a result of the stripping activity.

(m) Exploration and evaluation expenses

Exploration and evaluation expenses are comprised of costs that are directly attributable to:

- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

All exploration and evaluation expenditures are expensed until properties are determined to contain economically viable reserves. When economically viable reserves have been determined, technical feasibility has been determined and the decision to proceed with development has been approved, the subsequent costs incurred for the development of that project are capitalized as mining properties, a component of property, plant and equipment.

Development expenditures are net of the proceeds of the sale of ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as mineral interests.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability (also referred to as an asset retirement obligation) is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is amortized prospectively.

(o) Financial instruments

Financial assets
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

(p) Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available for sale
If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(r) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Critical accounting judgments and estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant areas of judgments and estimates made by management are as follows:

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.

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, 2013, the Company believes there are no indications of impairment for the carrying value of its property, plant and equipment and mineral interests.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization rates for PPE

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

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.

Decommissioning, restoration and similar liabilities

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

Initial measurement of convertible debenture

The Company was required to estimate a discount rate when determining the initial measurement of the convertible debenture and the subsequent amortization. The discount rate was estimated taking into account similar debt instruments that did not have a conversion feature.

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.

4. FUTURE ACCOUNTING POLICIES

The following new standards, amendments to standards and interpretations have been issued but are not effective for the twelve months ended December 31, 2013, all of the new and revised standards described below may be early-adopted:

IFRS 9 Financial Instruments (2009)
IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption of this standard.

IFRS 9 Financial Instruments (2010)
This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. The IASB has indefinitely postponed the mandatory adoption of this standard.

IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (2013)
A revised version of **IFRS 9** which:

- Introduces a new chapter to **IFRS 9** on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- Permits an entity to apply only the requirements introduced in **IFRS 9 (2010)** for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of **IFRS 9**, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss
- Removes the mandatory effective date of **IFRS 9 (2010)** and **IFRS 9 (2009)**, leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

This standard has no stated effective date.

4. FUTURE ACCOUNTING POLICIES (Continued)

IFRIC 21 Levies
Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The effective date for the Company of IFRIC 21 is January 1, 2014.

***Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)**
Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The effective date for the Company of these amendments is January 1, 2014.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
Amends IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The effective date for the Company of these amendments is January 1, 2014.

Annual Improvements 2010-2012 Cycle
Makes amendments to the following standards:

- **IFRS 2** — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'
- **IFRS 3** — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- **IFRS 8** — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- **IFRS 13** — Clarify that issuing **IFRS 13** and amending **IFRS 9** and **IAS 39** did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)

4. FUTURE ACCOUNTING POLICIES (Continued)

- **IAS 16** and **IAS 38** — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount

The effective date for the Company of these amendments is January 1, 2015.
Annual Improvements 2011-2013 Cycle
Makes amendments to the following standards:

- **IFRS 1** — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- **IFRS 3** — Clarify that **IFRS 3** excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- **IFRS 13** — Clarify the scope of the portfolio exception in paragraph 52

The effective date for the Company of these amendments is January 1, 2015.

(In Canadian dollars)

5. 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/HST receivable and mineral exploration tax credits receivable are excluded from financial instruments as they arise from statutory requirements imposed by the Government of Canada and the Province of British Columbia, respectively.

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

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

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

The Company's financial assets and liabilities are as follows:

	As at	
	December 31, 2013	**December 31, 2012**
Financial assets		
Loans-and-receivables		
Cash and cash equivalents	**$ 9,995,701**	$ 7,060,334
Accounts receivable	**9,148**	-
Total financial assets	**$ 10,004,849**	$ 7,060,334
Financial liabilities		
Other-financial-liabilities		
Accounts payable and accrued liabilities	**$ 349,610**	$ 1,339,083
Due to related parties	**22,844**	45,021
Total financial liabilities	**$ 372,454**	$ 1,384,104

5. FINANCIAL INSTRUMENTS (CONTINUED)

Financial Risk

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk with respect to its cash and cash equivalents; however, this is minimized as cash and cash equivalents are placed with major Canadian financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they become due.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. This is achieved by ensuring that no liabilities are incurred that the Company does not have the ability to discharge in 30 days or less. The Company also has policies in place that establish minimum working capital levels below which expenditures of the Company are reduced until the minimum working capital level is re-established.

As at December 31, 2013, the Company had cash and cash equivalents of $9,995,701 (December 31, 2012 - $7,060,334) available to settle current financial liabilities of $372,454 (December 31, 2012 - $1,384,104). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risks consist of interest rate risk, foreign currency risk and other price risk. The Company is not exposed to foreign currency risk or other price risks.

Interest rate risk
The Company's cash balance and cash equivalents are held in savings accounts and money market instruments respectively. The savings account pays interest of approximately 1% and the money market instruments pay approximately 1.45%.

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

6. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of Harper Creek and to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The Company depends on external financing to fund its activities and there can be no guarantee that external financing will be available at terms acceptable to the Company. The capital structure of the Company currently consists of common shares and stock options. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or new shares. Management reviews its capital management approach on a regular basis. There were no changes in the Company's approach to capital management and the Company is not subject to any externally imposed capital requirements.

The Company's investment policy is to hold its cash in high interest savings accounts and highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

7. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the exploration and development of the Harper Creek mineral property. The remainder of the Company's operations are part of its Corporate Office which does not earn revenues or earns revenues that are only incidental to the activities of the entity and therefore does not meet the definition of an operating segment.

Geographically the Company only operates in one jurisdiction as both the Harper Creek operating segment and the Corporate Office are located in Canada.

(In Canadian dollars)

8. EXPLORATION AND EVALUATION EXPENSES

	Twelve months ended December 31, 2013	Fourteen months ended December 31, 2012
Assaying	**$ 286,824**	$ 362,524
Camp and field supplies	**108,137**	400,630
Contract wages	**33,193**	498,493
Drilling	**1,301,801**	1,806,104
Engineering	**1,600**	1,548,114
Environmental assessment	**845,904**	3,448,611
Equipment rental	**38,839**	181,262
Geological consulting	**57,587**	14,256
Geophysical consulting	**-**	508,417
Reports, drafting and maps	**117,788**	59,064
Travel and accommodation	**-**	1,901
Mining tax adjustment (1)	**-**	651,552
Other	**73,119**	112,329
Total exploration and evaluation expenses	**$ 2,864,792**	$ 9,593,257

(1) The mining tax adjustment has been discussed in further detail in Note 11.

(In Canadian dollars)

9. INCOME TAXES

The reconciliation of income tax at Canadian statutory rates of 26% (2012 – 25.21%) with the reported taxes is as follows for the:

	Twelve Months ended December 31, 2013	Fourteen months ended December 31, 2012
Net loss for period	**$ (6,515,570)**	$ (15,149,699)
Statutory income tax rate	**26.00%**	25.21%
Expected income tax recovery	**(1,694,048)**	(3,819,888)
Items not deductible for tax	**99,480**	148,676
Change in timing differences	**(20,631)**	466,744
Effect of change in tax rates	**-**	(392,081)
Under(over) provided in prior years	**6,084**	-
Unused tax losses and tax offsets not recognized	**1,609,115**	3,596,549
Tax expense for the period	**-**	-

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets have been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	As at December 31, 2013	December 31, 2012
Non-capital losses	**$ 35,407,850**	$ 28,850,842
Mineral interests	**9,496,022**	9,496,023
Property, plant and equipment	**427,870**	381,038
Share issue cost	**1,052,635**	1,467,569
Cumulative eligible capital	**186,051**	186,051
Non-refundable income tax credits	**942,785**	942,785
Total unrecognized deferred tax assets	**$ 47,513,213**	**$ 41,324,308**

(In Canadian dollars)

9. INCOME TAXES (Continued)

The Company has non-capital losses that may be carried forward to apply against future years' income as follows:

Year of Expiry		Amount
2026	$	**264,357**
2027		**763,888**
2028		**1,811,317**
2029		**763,318**
2030		**977,786**
2031		**9,330,102**
2032		**14,916,673**
2033		**6,580,409**
Total non-capital loss carry forwards	**$**	**35,407,850**

10. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

		Twelve months ended December 31, 2013		Fourteen months ended December 31, 2012
Net loss	**$**	**6,515,570**	$	15,149,699
Weighted average number of shares		**63,547,582**		54,168,518
Basic and diluted loss per share	**$**	**0.10**	$	0.28

The basic loss per share is calculated by dividing the net loss by the weight average number of shares outstanding during the period. The diluted loss per share represents the potential dilution by outstanding stock options and warrants in the weighted average number of common shares outstanding during the period if the stock options and warrants are dilutive. All of the outstanding stock options and warrants were anti-dilutive for the twelve months ended December 31, 2013 and the fourteen months ended December 31, 2012.

11. MINERAL EXPLORATION TAX CREDIT RECEIVABLE

The Province of British Columbia has a Mineral Exploration Tax Credit ("METC"), whereby a company receives a refundable tax credit for incurring qualified mining exploration expenses. For the Company's taxation year for the twelve months ended October 31, 2011, the Company submitted a METC claim and recorded a receivable of $2,363,337 with the receivable amounts being subject to a final audit from the Canada Revenue Agency ("CRA"). The Company did not claim any BC METC for the fourteen months ended December 31, 2012 and for the twelve months ended December 31, 2013.

During the fourteen months ended December 31, 2012, the Company received the $195,846 related to the twelve months ended October 31, 2010 and determined there would be a reduction in the

(In Canadian dollars)

11. MINERAL EXPLORATION TAX CREDIT RECEIVABLE (Continued)

amount of METC received for the twelve months ended October 31, 2011 as a result of adjustments to the base used to calculate the credit and, accordingly, reduced the credit from $2,363,337 to $1,711,785 with a corresponding increase to exploration and evaluation expenditures. During the twelve months ended December 31, 2013, the Company received the $1,711,785.

12. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
Cost					
As at December 31, 2012	$ 35,260	$ 31,864	$ 437,157	$ 2,222,729	$ 2,727,010
Additions	3,674	20,507	-	-	24,181
Disposals	-	-	-	-	-
As at December 31, 2013	38,934	52,371	437,157	2,222,729	2,751,191
Accumulated depreciation					
As at December 31, 2012	15,418	8,886	372,955	-	397,259
Charge for the period	12,365	7,740	26,729	-	46,834
Disposals	-	-	-	-	-
As at December 31, 2013	27,783	16,626	399,684	-	444,093
Net book value as at December 31, 2013	**$ 11,151**	**$ 35,745**	**$ 37,473**	**$ 2,222,729**	**$ 2,307,098**

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
Cost					
As at October 31, 2011	$ 35,587	$ 30,480	$ 437,157	$ -	$ 503,224
Additions	2,397	1,384	-	2,222,729	2,226,510
Disposals	(2,724)	-	-	-	(2,724)
As at December 31, 2012	35,260	31,864	437,157	2,222,729	2,727,010
Accumulated depreciation					
As at October 31, 2011	2,411	1,451	296,000	-	299,862
Charge for the period	14,141	7,435	76,955	-	98,531
Disposals	(1,134)	-	-	-	(1,134)
As at December 31, 2012	15,418	8,886	372,955	-	397,259
Net book value as at December 31, 2012	**$ 19,842**	**$ 22,978**	**$ 64,202**	**$ 2,222,729**	**$ 2,329,751**

(In Canadian dollars)

13. MINERAL INTERESTS

		Amount
Balance as at October 31, 2011	$	834,026
Additions		51,209
Disposals		-
Balance as at December 31, 2012	$	885,235
Balance as at December 31, 2013	**$**	**885,235**

On November 3, 2011, the Company extended all 131 of its mineral tenures through to November 3, 2017.

As per current legislation in relation with the Company's exploration permit the Company is required to lodge a reclamation bond with the Government of British Columbia. As at December 31, 2013 the reclamation bond lodged was $85,000 (December 31, 2012 $85,000).

14. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses and deposits consist of the following amounts:

	As at			
		December 31, 2013		**December 31, 2012**
Prepaid insurance	**$**	**34,940**	$	33,548
Security deposits and advance payments		**17,459**		208,072
Total short term prepaid expenses and deposits		**52,399**		241,620
Rent deposit for corporate office		**50,000**		50,000
Total prepaid expenses and deposits	**$**	**102,399**	$	291,620

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2013, the Company had accounts payable and accrued liabilities of $349,610 (December 31, 2012 - $1,339,083). All accounts payable and accrued liabilities were current as at December 31, 2013.

16. CONVERTIBLE DEBENTURE

On November 19, 2013, the Company issued a convertible debenture to Matco Investments Ltd. for $8,000,000. The debenture matures on January 31, 2014 and bears 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 Yellowhead'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.

The convertible debenture is a compound financial instrument, consisting of the debt instrument and the equity conversion feature. The debt instrument was valued at amortized cost using the effective interest rate method at a discount rate of 15%. The excess of the $8,000,000 over the value assigned to the debt instrument was allocated as the fair value of the equity component of the convertible debenture. At the time of issuance, $7,946,305 was allocated to long term debt and the remaining portion of $53,695 was allocated to the equity component of the convertible debenture.

On December 30, 2013, the Company's shareholders approved the full 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 $79,350 related to the issuance and conversion of the convertible debenture have been capitalized as share issues costs in share capital.

During the twelve months ended December 31, 2013, the Company recorded interest expense of $82,065 related to the convertible debenture and amortization of the convertible debenture of $53,695.

17. RELATED PARTY TRANSACTIONS

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

- During the twelve months ended December 31, 2013, the Company paid and accrued project management fees, exploration expenses and office costs of $626,102 (December 31, 2012 - 1,045,604) to CME Consultants Inc., a contractor company whose president is a director of the Company's 100% owned subsidiary Harper Creek Mining Corp. As at December 31, 2013, the balance owing to that company was $nil (December 31, 2012 - $45,021).
- During the twelve months ended December 31, 2013, the Company paid and accrued management fees of $177,081 (December 31, 2012 - $119,166) 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. As at December 31, 2013, the balance owing to that company was $nil (December 31, 2012 - $nil).

17. RELATED PARTY TRANSACTIONS (CONTINUED)

- During the twelve months ended December 31, 2013, the Company paid interest expense of $82,065 and accrued financing costs of $22,844 (December 31, 2012 - $nil) to Matco Investments Ltd., a company whose president and CEO is a director of the Company. The interest relates to the $8,000,000 convertible debenture issued to Matco Investments Ltd. on November 19, 2013. On December 30, 2013 the debenture was converted into 35,555,556 common shares of the Company at a conversion price of $0.225 per share. As at December 31, 2013, the balance owing to that company was $22,844 (December 31, 2012 - $nil).

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

18. SHARE CAPITAL

(a) Authorized

Unlimited Class A common shares without par value

(b) Issued and outstanding

As at December 31, 2013, the Company had 99,005,726 common shares issued and outstanding (December 31, 2012 – 63,450,170).

Twelve months ended December 31, 2013
On December 30, 2013, the Company's shareholders approved the full conversion of the $8,000,000 convertible debenture previously issued to Matco Investments Ltd. The Company issued 35,555,556 common shares at a price of $0.225 per share. The Company incurred $79,350 in costs related to the issuance and conversion of the convertible debenture and these costs were capitalized as share issue costs in share capital.

Fourteen months ended December 31, 2012
During the fourteen months ended December 31, 2012, the Company issued 514,492 common shares for gross cash proceeds of $369,745 from the exercise of stock options and share purchase warrants.

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

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

Flow-through share arrangements involve resource expenditure deductions for income tax purposes which are renounced to purchasers of flow-through shares in accordance with income tax legislation. Each flow through share entitles the holder to a 100% tax deduction in respect of qualifying Canadian Exploration Expenses ("CEE") as defined in the Income Tax Act of Canada. Accordingly the Company was required to incur a total of $1,498,982 of eligible CEE by December 31, 2013 with respect to the shares issued during the fourteen months ended December 31, 2012. The Company has incurred all required expenditures in connection with these flow-through shares.

(c) Stock options

The Company implemented a new stock option plan on April 19, 2012, whereby the Board of Directors of the Company may grant directors, officers, employees, and consultants stock options to acquire common shares of the Company. Under the stock option plan, options granted are non-assignable and may be granted for a term not exceeding ten years. The plan is administered by the Board of Directors, which determines individual eligibility under the plan, the number of shares reserved underlying the options granted to each individual (not exceeding 10% of issued and outstanding shares to any insider; not exceeding 2% of the issued and outstanding shares to any consultant) and any vesting period which, pursuant to the stock option plan can be determined and imposed by the Board of Directors. The plan provides for a rolling maximum and allows the Company to issue stock options up to a maximum of 10% of the Company's issued and outstanding common shares.

The movement in the Company's stock options was as follows:

	Number of options	Weighted average exercise price
Outstanding, October 31, 2011	4,354,250	$ 1.10
Granted	1,962,500	1.22
Exercised	(505,500)	0.72
Forfeited	(355,000)	1.25
Expired	(703,750)	1.06
Outstanding, December 31, 2012	4,752,500	1.18
Granted	**2,190,000**	**0.26**
Expired	**(1,120,000)**	**1.13**
Outstanding, December 31, 2013	**5,822,500**	**$ 0.84**

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

The Company's outstanding and exercisable stock options as at December 31, 2013 are as follows:

	Outstanding		Exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining life (years)**	**Number exercisable**	**Weighted average remaining life (years)**
$0.24	1,600,000	3.97	672,664	3.22
$0.26 [(1)]	500,000	4.50	-	-
$0.60	90,000	4.12	30,000	4.12
$0.62	100,000	3.96	33,332	3.96
$1.08	750,000	1.47	750,000	1.47
$1.25	2,782,500	2.47	2,153,728	2.29
	5,822,500	**2.98**	**3,639,724**	**2.32**

(1) On July 1, 2013, the Company, in accordance with relevant TSX rules and upon approval from the TSX, granted the Company's new CEO Frank Wheatley 500,000 incentive stock options exercisable at $0.26 with a maximum term of five years. These incentive stock options do not fall within the Company's stock-option plan which limits stock options outstanding to not exceed 10% of the Company's issued and outstanding shares.

(d) Share-based compensation

During the twelve months ended December 31, 2013, the Company granted 2,190,000 stock options (December 31, 2012: 1,962,500) at a weighted average exercise price of $0.26 (December 31, 2012: $1.22). The weighted average fair value for the options granted in the twelve months ended December 31, 2013 was $0.15 (December 31, 2012: $0.57) which was estimated at the date of the grants using the Black-Scholes option pricing model using the following assumptions:

	Twelve Months Ended December 31, 2013	**Fourteen Months Ended December 31, 2012**
Risk-free interest rate	**1.75%**	1.47%
Expected dividend yield	**-**	-
Expected stock price volatility	**85%**	87%
Expected option life	**5.0 years**	4.8 years

During the twelve months ended December 31, 2013, the Company recorded share-based compensation of $468,522 (December 31, 2012: $554,611). The Company estimated a forfeiture rate of 0% (2012 – 0%) to record the share-based compensation expense for options granted in the period. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(In Canadian dollars)

18. SHARE CAPITAL (Continued)

(e) Share purchase warrants

During the twelve months ended December 31, 2013 and the fourteen months ended December 31, 2012, the Company did not issue any share purchase warrants. All of the Company's outstanding warrants expired unexercised in April 2013.

	Number of warrants	Weighted average exercise price
Outstanding, October 31, 2011	13,384,792	$ 1.78
Issued	-	-
Exercised	(8,992)	0.50
Expired	(3,841,284)	1.39
Outstanding, December 31, 2012	9,534,516	1.95
Issued	**-**	**-**
Exercised	**-**	**-**
Expired	**(9,534,516)**	**1.95**
Outstanding, December 31, 2013	**-**	**$ -**

19. KEY MANAGEMENT COMPENSATION

The remuneration of the Company's Directors and other members of key management, being the Chief Executive Officer and Chief Financial Officer, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts:

	Twelve months ended December 31, 2013	Fourteen months ended December 31, 2012
Short term benefits (1)	**$ 554,197**	$ 709,576
Share-based compensation (2)	**324,238**	374,182
Termination benefits	**-**	359,250
Total Remuneration	**$ 878,435**	$ 1,443,008

(1) Short term benefits include salaries, bonuses, management fees and directors fees.
(2) The Black-Scholes option pricing model was used to calculate the fair value of the stock options (Note 18).

(In Canadian dollars)

20. SUPPLEMENTAL CASH FLOW INFORMATION

	Twelve months ended December 31, 2013	Fourteen months ended December 31, 2012
Supplementary Information		
Interest received	**$ 78,217**	$ 126,673
Interest paid on convertible debenture	**82,065**	-
Conversion of convertible debenture [(1)]	**8,000,000**	-
Income taxes paid	**-**	-

(1) Non-cash financing transaction

	As at December 31, 2013	As at December 31, 2012
Cash and cash equivalents		
Cash	**$ 6,995,701**	$ 7,060,334
Short term money market investments	**3,000,000**	-
Total cash and cash equivalents	**$ 9,995,701**	$ 7,060,334

21. COMMITMENTS

As at December 31, 2013, the Company had the following contractual commitments:

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

Year Incurred	Amount
2014	**$ 124,200**
2015	**127,300**
2016	**86,200**
Total commitments	**$ 337,700**

22. 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 matters will not have a material effect on the consolidated financial statements of the Company.