



**YELLOWHEAD  
MINING INC.**

**YELLOWHEAD MINING INC.**  
**Condensed Consolidated Interim Financial Statements**  
**March 31, 2014**  
(Unaudited)  
(Expressed in Canadian Dollars)

**YELLOWHEAD MINING INC.**  
**Condensed Consolidated Interim Statement of Financial Position**  
*(Unaudited)*  
*(In Canadian dollars)*

	NOTES	As at	
		March 31, 2014	December 31, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	\$ 8,382,215	\$ 9,995,701
Accounts receivable		5,265	9,148
GST receivable		27,878	15,023
Prepaid expenses and deposits		388,187	52,399
		<b>8,803,545</b>	10,072,271
<b>Non-current assets</b>			
Property, plant and equipment	6	2,322,841	2,307,098
Mineral interests	7	885,235	885,235
Reclamation bond	7	85,000	85,000
Long-term deposits		50,000	50,000
		<b>3,343,076</b>	3,327,333
<b>TOTAL ASSETS</b>		<b>\$ 12,146,621</b>	\$ 13,399,604
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 461,251	\$ 349,610
Due to related parties	9	17,546	22,844
		<b>478,797</b>	372,454
<b>EQUITY</b>			
Share capital	8	58,743,984	58,743,984
Equity reserves		5,256,332	5,200,206
Accumulated deficit		(52,332,492)	(50,917,040)
		<b>11,667,824</b>	13,027,150
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 12,146,621</b>	\$ 13,399,604

**Commitments (Note 11)**

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

**APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:**

*"T. Gregory Hawkins"*

DIRECTOR

*"Andy Graetz"*

DIRECTOR

# YELLOWHEAD MINING INC.

## Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

(In Canadian dollars)

		Three months ended March 31, 2014	Three months ended March 31, 2013
	<b>NOTES</b>		
<b>Administrative expenses</b>			
Amortization		\$ 11,783	\$ 15,212
Consulting fees		7,636	35,224
Filing fees		26,218	72,122
Insurance		10,482	10,064
Investor relations		18,305	83,385
Office supplies and services		15,984	20,594
Professional fees		25,323	206,693
Rent		32,806	32,227
Share-based compensation	8	56,126	111,252
Wages and benefits		314,270	397,662
		<b>518,933</b>	984,435
Exploration and evaluation expenses	5	918,286	1,955,528
<b>Other (income)/expense</b>			
Interest income		(28,969)	(35,427)
Recognition of flow-through share premium		-	(107,070)
Other expenses		7,202	13,422
<b>Net loss and comprehensive loss</b>		<b>\$ 1,415,452</b>	<b>\$ 2,810,888</b>
<b>Loss per share</b>			
Basic and diluted		\$ 0.01	\$ 0.04
<b>Weighted average number of shares outstanding</b>			
Basic and diluted		99,005,726	63,450,170

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

## YELLOWHEAD MINING INC.

### Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(In Canadian dollars)

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	Number of shares	Share capital	Equity reserves	Accumulated deficit	Total
<b>Balances as at January 1, 2013</b>	63,450,170	\$ 50,769,639	\$ 4,731,684	\$ (44,401,470)	\$ 11,099,853
Share-based compensation	-	-	111,252	-	111,252
Net loss and comprehensive loss for the period	-	-	-	(2,810,888)	(2,810,888)
<b>Balances as at March 31, 2013</b>	63,450,170	\$ 50,769,639	\$ 4,842,936	\$ (47,212,358)	\$ 8,400,217
<hr/>					
<b>Balances as at January 1, 2014</b>	99,005,726	\$ 58,743,984	\$ 5,200,206	\$ (50,917,040)	\$ 13,027,150
Share-based compensation	-	-	56,126	-	56,126
Net loss and comprehensive loss for the period	-	-	-	(1,415,452)	(1,415,452)
<b>Balances as at March 31, 2014</b>	99,005,726	\$ 58,743,984	\$ 5,256,332	\$ (52,332,492)	\$ 11,667,824

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

# YELLOWHEAD MINING INC.

## Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)

(In Canadian dollars)

		Three months ended March 31, 2014	Three months ended March 31, 2013
	NOTES		
<b>Operating activities</b>			
Net Loss for the period		\$ (1,415,452)	\$ (2,810,888)
Items not involving cash:			
Share-based compensation	8	56,126	111,252
Amortization		11,783	15,212
Recognition of flow-through share premium		-	(107,070)
Changes in non-cash working capital			
Accounts receivable		3,883	-
Mineral exploration tax credit		-	1,711,785
GST receivable		(12,855)	(118,226)
Prepaid expenses and deposits		(335,788)	150,177
Accounts payable and accrued liabilities		111,641	(966,928)
Due to related parties		(5,298)	29,462
<b>Cash used in operating activities</b>		<b>(1,585,960)</b>	<b>(1,985,224)</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	6	(27,526)	-
<b>Cash used in investing activities</b>		<b>(27,526)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,613,486)</b>	<b>(1,985,224)</b>
Cash and cash equivalents, beginning of period		9,995,701	7,060,334
<b>Cash and cash equivalents, end of period</b>		<b>\$ 8,382,215</b>	<b>\$ 5,075,110</b>

### Supplemental cash flow information (Note 10)

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

# **YELLOWHEAD MINING INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

**Three months ended March 31, 2014**

*(Unaudited)*

*(In Canadian dollars)*

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### **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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

#### **(b) Basis of presentation**

The accounting policies used in the preparation of these condensed consolidated interim financial statements are the same as those applied in the Company's most recent consolidated annual financial statements for the twelve months ended December 31, 2013. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated annual financial statements for the twelve months ended December 31, 2013.

# **YELLOWHEAD MINING INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

**Three months ended March 31, 2014**

*(Unaudited)*

*(In Canadian dollars)*

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### **2. BASIS OF PRESENTATION (Continued)**

These condensed consolidated interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 7, 2014.

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary Harper Creek Mining Corporation ("Harper Creek").

#### **(c) Critical accounting judgements and estimates.**

The preparation of the condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Note 3 of the Company's consolidated financial statements for the twelve months ended December 31, 2013 contains a discussion of the Company's critical accounting judgements and estimates.

# YELLOWHEAD MINING INC.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

### 3. 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 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 instruments as at March 31, 2014 are as follows:

	As at	
	March 31 2014	December 31, 2013
<b>Financial assets</b>		
Loans-and-receivables		
Cash and cash equivalents	\$ 8,382,215	\$ 9,995,701
Accounts receivable	5,265	9,148
<b>Total financial assets</b>	<b>\$ 8,387,480</b>	<b>\$ 10,004,849</b>
<b>Financial liabilities</b>		
Other-financial-liabilities		
Accounts payable and accrued liabilities	\$ 461,251	\$ 349,610
Due to related parties	17,546	22,844
<b>Total financial liabilities</b>	<b>\$ 478,797</b>	<b>\$ 372,454</b>



# **YELLOWHEAD MINING INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

**Three months ended March 31, 2014**

*(Unaudited)*

*(In Canadian dollars)*

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### **3. 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 March 31, 2014 the Company had cash and cash equivalents of \$8,382,215 (December 31, 2013 - \$9,995,701) available to settle current liabilities of \$478,797 (December 31, 2013 - \$372,454). 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 1.42%.

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

# YELLOWHEAD MINING INC.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

### 4. 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.

### 5. EXPLORATION AND EVALUATION EXPENSES

	Three months ended	
	March 31,	
	2014	2013
Assaying	\$ 6,225	\$ 197,101
Camp and field supplies	-	100,184
Contract wages	3,046	18,980
Drilling	-	1,274,179
Engineering	197,159	-
Environmental assessment	664,524	289,597
Equipment rental	9,895	9,000
Geological consulting	-	45,006
Reports, drafting and maps	33,074	14,124
Other	4,363	7,357
<b>Total exploration and evaluation</b>	<b>\$ 918,286</b>	<b>\$ 1,955,528</b>

## YELLOWHEAD MINING INC.

### Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

#### 6. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
<b>Cost</b>					
As at December 31, 2013	\$ 38,934	\$ 52,371	\$ 437,157	\$ 2,222,729	\$ 2,751,191
Additions	27,526	-	-	-	27,526
Disposals	-	-	-	-	-
As at March 31, 2014	66,460	52,371	437,157	2,222,729	2,778,717
<b>Accumulated depreciation</b>					
As at December 31, 2013	27,783	16,626	399,684	-	\$ 444,093
Charge for the period	5,538	2,619	3,626	-	11,783
Disposals	-	-	-	-	-
As at March 31, 2014	33,321	19,245	403,310	-	455,876
<b>Net book value as at March 31, 2014</b>	<b>\$ 33,139</b>	<b>\$ 33,126</b>	<b>\$ 33,847</b>	<b>\$ 2,222,729</b>	<b>\$ 2,322,841</b>

	Computer equipment and software	Furniture and fixtures	Field camp equipment	Land	Total
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Net book value as at December 31, 2013</b>	<b>\$ 11,151</b>	<b>\$ 35,745</b>	<b>\$ 37,473</b>	<b>\$ 2,222,729</b>	<b>\$ 2,307,098</b>

#### 7. MINERAL INTERESTS

The Company had mineral interests of \$885,235 as at March 31, 2014 and December 31, 2013. On January 31, 2014 the Company extended all 131 of its mineral tenures through to November 3, 2024.

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 March 31, 2014 the reclamation bond lodged was \$85,000 (December 31, 2013 - \$85,000).

# YELLOWHEAD MINING INC.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

### 8. SHARE CAPITAL

#### (a) Authorized

Unlimited Class A common shares without par value

#### (b) Issued and outstanding

At March 31, 2014, the Company had 99,005,726 common shares issued and outstanding (December 31, 2013 – 99,005,726).

#### *Three months ended March 31, 2014*

During the three months ended March 31, 2014, the Company did not issue any common shares.

#### *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.

#### (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 for the three months ended March 31, 2014 was as follows:

	Number of options	Weighted average exercise price
<b>Outstanding, December 31, 2012</b>	4,752,500	\$ 1.18
Granted	2,190,000	0.26
Expired	(1,120,000)	1.13
<b>Outstanding, December 31, 2013</b>	5,822,500	0.84
Forfeited	<b>(33,332)</b>	<b>1.25</b>
Expired	<b>(233,668)</b>	<b>0.83</b>
<b>Outstanding, March 31, 2014</b>	<b>5,555,500</b>	<b>\$ 0.84</b>

# YELLOWHEAD MINING INC.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

### 8. SHARE CAPITAL (Continued)

The Company's outstanding and exercisable stock options as at March 31, 2014 are as follows:

Exercise price	Outstanding		Exercisable	
	Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average remaining life (years)
\$0.24	1,503,000	3.64	575,664	3.27
\$0.26	500,000	4.25	-	-
\$0.60	90,000	1.30	60,000	1.30
\$0.62	100,000	3.72	41,665	3.72
\$1.08	750,000	1.29	750,000	1.29
\$1.25	2,612,500	2.15	2,124,764	2.05
	<b>5,555,500</b>	<b>2.64</b>	<b>3,552,093</b>	<b>2.09</b>

#### (d) Share-based compensation

During the three months ended March 31, 2014, the Company did not grant any stock options (March 31, 2013 - 90,000 at a weighted average exercise price of \$0.60). The weighted average fair value for the options granted in the three months ended March 31, 2013 was \$0.41 which was estimated at the date of the grants using the Black-Scholes option pricing model using the following assumptions:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Risk-free interest rate	-	1.47%
Expected dividend yield	-	-
Expected stock price volatility	-	87%
Expected option life	-	5.0 years

During the three months ended March 31, 2014, the Company recorded share-based compensation of \$56,126 (March 31, 2013 - \$111,252). The Company estimated a forfeiture rate of 0% to record the share-based compensation expense for options granted in the period ended March 31, 2013. 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.

# YELLOWHEAD MINING INC.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

### 9. RELATED PARTY TRANSACTIONS

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

- During the three months ended March 31, 2014, the Company paid and accrued project management fees, exploration expenses and office costs of \$25,076 (March 31, 2013 - \$510,568) 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 March 31, 2014, the balance owing to that company was \$12,821 (December 31, 2013- \$nil).
- During the three months ended March 31, 2014, the Company paid and accrued management fees of \$13,500 (March 31, 2013 - \$66,249) to Twinstone Ventures Inc., a company related to the Chairman of the Board of Directors of the Company and former interim CEO of the Company. As at March 31, 2014, the balance owing to that company was \$4,725 (December 31, 2013 - \$nil).

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

### 10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended	
	March 31,	
	2014	2013
<b>Supplementary Information</b>		
Interest received	\$ 25,611	\$ 35,427
Income taxes paid	-	-

The Company did not have any non-cash financing or investing activities for the three months ended March 31, 2014 and March 31, 2013.

	As at	
	March 31,	December 31,
	2014	2013
<b>Cash and cash equivalents</b>		
Cash	\$ 5,375,060	\$ 6,995,701
Short term money market investments	3,007,155	3,000,000
<b>Total cash and cash equivalents</b>	<b>\$ 8,382,215</b>	<b>\$ 9,995,701</b>

## YELLOWHEAD MINING INC.

### Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014

(Unaudited)

(In Canadian dollars)

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#### 11. COMMITMENTS

As at March 31, 2014, 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 to the conclusion of the lease are approximately as follows:

<b>Year Incurred</b>	<b>Amount</b>
2014	93,400
2015	127,300
2016	86,200
<b>Total commitments</b>	<b>\$ 306,900</b>

#### 12. 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 condensed consolidated interim financial statements of the Company.