

AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE THREE MONTHS ENDED MAY 31, 2011

Management's Comments on Unaudited Financial Statements

The accompanying unaudited interim consolidated financial statements of American Vanadium Corp. (the "Company") as at and for the three months ended May 31, 2011 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
IN CANADIAN DOLLARS (UNAUDITED)

	May 31, 2011	February 28, 2011	March 1, 2010
ASSETS			
Current			
Cash	\$ 3,231,834	\$ 1,953,402	\$ 1,076,988
Amounts receivable	63,341	38,972	9,764
Income tax receivable	164,662	165,138	-
Prepaid expenses	120,661	88,140	367
Short-term investments (Note 5)	-	-	3,000,000
Deferred financing costs	-	117,845	-
	<u>3,580,498</u>	<u>2,363,497</u>	<u>4,087,119</u>
Equipment (Note 6)	52,477	14,727	18,100
Reclamation deposit	52,004	52,154	43,893
Mineral properties (Note 7)	<u>1,002,389</u>	<u>958,127</u>	<u>696,833</u>
	<u>\$ 4,687,368</u>	<u>\$ 3,388,505</u>	<u>\$ 4,845,945</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 372,686	\$ 871,644	\$ 71,981
Income tax payable	-	-	499,938
	<u>372,686</u>	<u>871,644</u>	<u>571,919</u>
Shareholders' equity			
Share capital (Note 8)	9,737,447	6,349,922	5,343,455
Contributed surplus (Note 8)	1,307,211	964,670	718,018
Deficit	<u>(6,729,976)</u>	<u>(4,797,731)</u>	<u>(1,787,447)</u>
	<u>4,314,682</u>	<u>2,516,861</u>	<u>4,274,026</u>
	<u>\$ 4,687,368</u>	<u>\$ 3,388,505</u>	<u>\$ 4,845,945</u>

Going concern (Note 2)

Subsequent events (Note 14)

On behalf of the Board:

Signed: "William Radvak"

Director

Signed: "Brian E. Bayley"

Director

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

AMERICAN VANADIUM CORP.CONDENSED CONSOLIDATED INTERIM STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
IN CANADIAN DOLLARS (UNAUDITED)

	For the three months ended May 31,	
	2011	2010
Exploration expenditures (Note 7)	\$ 1,104,214	\$ 87,352
Expenses		
Stock-based compensation (Note 8)	389,952	30,291
Investor relations and shareholder information	184,476	22,139
Salaries and benefits	102,202	27,493
Office facilities and administrative services	42,476	24,211
Travel	33,041	8,335
Consulting	32,400	5,106
Transfer agent, listing and filing fees	19,749	1,876
Office and sundry	14,048	10,602
Audit and legal	5,748	14,258
Amortization	3,969	1,626
	828,061	145,937
Loss before other items	(1,932,275)	(233,289)
Other items		
Foreign exchange (loss) gain	(2,867)	2,197
Interest income	2,897	7
Unrealized gain on short-term investments (Note 5)	-	1,020,000
Net (loss) income and comprehensive (loss) income	\$ (1,932,245)	\$ 788,915
Basic and diluted (loss) earnings per share (Note 13)	\$ (0.09)	\$ 0.04

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

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
IN CANADIAN DOLLARS (UNAUDITED)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, March 1, 2010	\$ 5,343,455	\$ 718,018	\$(1,787,447)	\$ 4,274,026
Exercise of warrants, net of share issuance costs	78,541	-	-	78,541
Stock-based compensation	-	30,291	-	30,291
Net income for the period	-	-	788,915	788,915
Balance, May 31, 2010	5,421,996	748,309	(998,532)	5,171,773
Exercise of warrants	723,600	-	-	723,600
Exercise of stock options	204,326	(87,075)	-	117,251
Stock-based compensation	-	303,436	-	303,436
Net loss for the period	-	-	(3,799,199)	(3,799,199)
Balance, February 28, 2011	6,349,922	964,670	(4,797,731)	2,516,861
Private placement, net of share issuance costs	3,271,865	-	-	3,271,865
Exercise of stock options	115,660	(47,411)	-	68,249
Stock-based compensation	-	389,952	-	389,952
Net loss for the period	-	-	(1,932,245)	(1,932,245)
Balance, May 31, 2011	\$ 9,737,447	\$ 1,307,211	\$(6,729,976)	\$ 4,314,682

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

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS (UNAUDITED)

	For the three months ended May 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (1,932,245)	\$ 788,915
Items not involving cash:		
Stock-based compensation	389,952	30,291
Unrealized foreign exchange loss	625	-
Amortization	3,969	1,626
Unrealized gain on short-term investments	-	(1,020,000)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	(503,971)	27,321
Prepaid expenses	(32,521)	(49,241)
Amounts receivable	(24,369)	(2,741)
Current income tax payable	-	(356,218)
Non-operating (income) expenses:		
Interest income	<u>(2,897)</u>	<u>(7)</u>
Net cash used in operating activities	<u><u>(2,101,457)</u></u>	<u><u>(580,054)</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	(44,262)	(46,542)
Purchase of equipment	(41,719)	-
Interest income	2,897	7
Increase in reclamation deposit	<u>-</u>	<u>(5,167)</u>
Net cash used in investing activities	<u><u>(83,084)</u></u>	<u><u>(51,702)</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	<u>3,462,973</u>	<u>78,541</u>
Net cash provided by financing activities	<u><u>3,462,973</u></u>	<u><u>78,541</u></u>
Change in cash for the period	1,278,432	(553,215)
Cash, beginning of period	<u>1,953,402</u>	<u>1,076,988</u>
Cash, end of period	<u>\$ 3,231,834</u>	<u>\$ 523,773</u>

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

AMERICAN VANADIUM CORP.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

1. NATURE OF OPERATIONS

American Vanadium Corp. (the “Company”) (formerly Rocky Mountain Resources Corp.), incorporated under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mineral properties, with a strategic focus on vanadium properties in the State of Nevada. The Company is currently exploring its Gibellini project and has commenced studies of the project’s technical feasibility. Pending, among other factors, successful technical feasibility results, the availability of sufficient financing, regulatory approval, all of which are uncertain, the Company could develop and/or operate a mine in the future.

To reflect its focus on vanadium properties, the Company’s name was changed from Rocky Mountain Resources Corp. to American Vanadium Corp. in January 2011. The address of the Company’s principal place of business is Suite #1028, 550 Burrard Street, Vancouver, British Columbia.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements, including comparative periods, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These are the Company’s first financial statements that have been prepared under IFRS, and have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and are covered by International Financial Reporting Standard 1, First-Time Adoption of IFRS (“IFRS 1”). The recognition and measurement of certain balances and transactions, as well as certain disclosures in these financial statements may differ from the financial statements previously reported under Canadian generally accepted accounting principles (“Canadian GAAP”). These financial statements should be read in conjunction with the Company’s audited annual consolidated statements for the year ended February 28, 2011.

These financial statements are prepared using IFRSs in effect as at March 1, 2010. Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in Note 3. However, as new IFRS pronouncements and interpretations are issued by the IASB, the actual accounting standards and policies adopted as at February 29, 2012 may differ from those used herein.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc., a wholly-owned subsidiary of the Company.

These financial statements were authorized by the Board of Directors on August 19, 2011.

Going concern

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term.

As at May 31, 2011, the Company maintained a working capital surplus of \$3,207,812 and had \$4,314,682 in shareholders equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has adopted for its consolidated financial statements for the year ended February 29, 2012. These policies have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS consolidated statement of financial position as at March 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

Basis of consolidation

These financial statements include the assets, liabilities, revenues and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement

The balances in these financial statements have been measured on an historical cost basis, except for short-term investments which are measured at fair value.

Foreign currency translation

The functional currency, the primary currency in which an entity operates, is determined for the Company and its consolidated subsidiary, American Vanadium US Inc. Balances and transactions that are currencies other than an entity's functional currency are translated as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect on the balance sheet date.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at the balance sheet date.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of net (loss) income in the period in which they occur.

The functional currency of the Company and American Vanadium US Inc is the Canadian dollar, which is also the presentation currency of these financial statements.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss," "loans and receivables," "available-for-sale," "held-to-maturity," or "financial liabilities measured at amortized cost" as follows:

i) Financial assets

Financial assets comprise cash, amounts receivable, income tax receivable, short-term investments and reclamation deposits. Cash comprises liquid balances held at large Canadian and U.S. banks and is measured at fair value through profit and loss. Amounts receivable and income tax receivable are classified as loans and receivables and

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
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are recorded at amortized cost less any impairment. Short-term investments include equity holdings in other companies and are measured at fair value through profit and loss. Reclamation deposits are designated for various operational or environmental reclamation purposes and are classified as held-to-maturity.

ii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities and income tax payable. These are classified as financial liabilities measured at amortized cost using effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

Assets and liabilities measured at fair value are further categorized in a fair value hierarchy based on the inputs used to determine their fair value. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 11 for fair value hierarchy classifications.

Reclamation deposits

Regardless of whether an actual liability for the reclamation of mineral properties exists, the Company classifies amounts deposited with environmental agencies or amounts held as security for potential reclamation liabilities separately from cash.

Equipment

Equipment is recorded at cost less accumulated amortization. Cost includes the purchase price of the equipment and the directly related costs to transport or prepare the equipment for its intended use. Amortization is provided on a straight-line basis over three to five years, which represents the estimated useful lives of the assets.

Mineral properties

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash generating units ("CGUs").

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

Exploration and evaluation costs

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been identified are recorded as an expense in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop and operate a mine or to market the mineral rights.

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FOR THE THREE MONTHS ENDED MAY 31, 2011**

Development costs

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties, regardless of the development stage, are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the CGU to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. 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 for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be subsequently reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of net (loss) income when identified.

Deferred financing costs

Expenditures directly related to share issuances are recorded as a deferred-cost asset until such time as the shares are issued. At this point, the deferred-cost asset is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred costs are recognized as a component of net (loss) income.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current year at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

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Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

Stock-based compensation

The Company recognizes a stock-based compensation charge in operations for stock options granted to employees, officers and directors of the Company. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in contributed surplus. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Warrants

Warrants issued by the Company typically accompany an issuance of shares in the Company, and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the warrants is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of stand-alone shares; the fair value attributed to warrants is recorded as a component of contributed surplus. When warrants are exercised, the fair value of the exercised warrants is reclassified to capital stock.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of shares outstanding during the period. Diluted earnings per share, which reflects the dilutive effect of options, warrants and other convertible instruments, is calculated using the treasury stock method. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i. Mineral properties

The measurement, depletion and impairment of mineral properties are based on various judgments and estimates. These include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties.

The Company has engaged a recognized engineering firm to conduct its feasibility study for the Gibellini property, but differences between actual reserves, mineral pricing and costs could adversely affect the feasibility or carrying value of this property.

ii. Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

ii. Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matter that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

iii. Stock-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and share purchase warrants granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

Future changes in accounting standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its financial statements:

i. IAS 12 Income Taxes ("IAS 12")

IAS 12 was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The company is currently evaluating the impact of this amendment to IAS 12 on its consolidated financial statements.

ii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective as of

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
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July 1, 2011. The Company is currently evaluating the impact of these amendments to IFRS 7 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

iii. IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and is the first step to replace current IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements, but the impact, if any, is not expected to be significant.

iv. IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation—Special Purpose Entities” and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

v. IFRS 13 Fair Value Measurements (“IFRS 13”)

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. FIRST-TIME ADOPTION OF IFRS

These are the Company’s first financial statements prepared in accordance with IFRS. IFRS 1 requires the presentation of comparative information as at March 1, 2010 (the “transition date”) and subsequent comparative periods under IFRS, as well as the consistent and retrospective application of IFRS accounting policies, although this standard provides mandatory exceptions and optional exemptions to the retrospective application of IFRS for certain areas. Additionally, IFRS 1 requires the Company to reconcile certain balances previously reported under Canadian GAAP to their IFRS balances reported herein.

IFRS 1 mandatory exceptions and optional exemptions

i. Stock-based compensation

In accordance with IFRS 1, the Company has elected to apply the requirements of IFRS 2, Share-based payment, only to unvested stock options outstanding as at March 1, 2010.

ii. Estimates

Where the application of IFRS has required management to make estimates that were not previously required under Canadian GAAP, such estimates were made based on information available as at the dates to which the estimates relate, and do not incorporate the benefit of hindsight.

AMERICAN VANADIUM CORP.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**Reconciliations from Canadian GAAP to IFRS***Consolidated balance sheet as at March 1, 2010*

	Canadian GAAP	Adjustment Reference	Adjustment	IFRS
ASSETS				
Current				
Cash	\$ 1,076,988		\$ -	\$ 1,076,988
Accounts receivable	9,764		-	9,764
Prepaid expenses	367		-	367
Short-term investments	<u>3,000,000</u>		<u>-</u>	<u>3,000,000</u>
	4,087,119		-	4,087,119
Equipment	18,100		-	18,100
Reclamation deposit	43,893		-	43,893
Mineral properties	<u>696,833</u>		<u>-</u>	<u>696,833</u>
	\$ 4,845,945		\$ -	\$ 4,845,945
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	\$ 71,981		\$ -	\$ 71,981
Income tax payable	<u>499,938</u>		<u>-</u>	<u>499,938</u>
	<u>571,919</u>		<u>-</u>	<u>571,919</u>
Shareholders' equity				
Share capital	5,343,455		-	5,343,455
Contributed surplus	699,571	i.	18,447	718,018
Deficit	<u>(1,769,000)</u>	i.	<u>(18,447)</u>	<u>(1,787,447)</u>
	<u>4,274,026</u>		<u>-</u>	<u>4,274,026</u>
	\$ 4,845,945		\$ -	\$ 4,845,945

AMERICAN VANADIUM CORP.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011*Consolidated balance sheet as at May 31, 2010*

	Canadian GAAP	Adjustment Reference	Adjustment	IFRS
ASSETS				
Current				
Cash	\$ 523,773		\$ -	\$ 523,773
Accounts receivable	12,505		-	12,505
Prepaid expenses	49,608		-	49,608
Short-term investments	<u>4,020,000</u>		<u>-</u>	<u>4,020,000</u>
	4,605,886		-	4,605,886
Equipment	16,474		-	16,474
Reclamation deposit	49,060		-	49,060
Mineral properties	<u>743,375</u>		<u>-</u>	<u>743,375</u>
	\$ 5,414,795		\$ -	\$ 5,414,795
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	\$ 99,302		\$ -	\$ 99,302
Income tax payable	<u>143,720</u>		<u>-</u>	<u>143,720</u>
	<u>243,022</u>		<u>-</u>	<u>243,022</u>
Shareholders' equity				
Share capital	5,421,996		-	5,421,996
Contributed surplus	730,020	i.	18,289	748,309
Deficit	<u>(980,243)</u>	i.	<u>(18,289)</u>	<u>(998,532)</u>
	<u>5,171,773</u>		<u>-</u>	<u>5,171,773</u>
	\$ 5,414,795		\$ -	\$ 5,414,795

AMERICAN VANADIUM CORP.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011*Consolidated balance sheet as at February 28, 2011*

	Canadian GAAP	Adjustment Reference	Adjustment	IFRS
ASSETS				
Current				
Cash	\$ 1,953,402		\$ -	\$ 1,953,402
Accounts receivable	38,972		-	38,972
Income tax receivable	165,138		-	165,138
Prepaid expenses	88,140		-	88,140
Deferred financing costs	<u>117,845</u>		<u>-</u>	<u>117,845</u>
	2,363,497		-	2,363,497
Equipment	14,727		-	14,727
Reclamation deposit	52,154		-	52,154
Mineral properties	<u>958,127</u>		<u>-</u>	<u>958,127</u>
	\$ 3,388,505		\$ -	\$ 3,388,505
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	\$ <u>871,644</u>		\$ -	\$ <u>871,644</u>
	<u>871,644</u>		<u>-</u>	<u>871,644</u>
Shareholders' equity				
Share capital	6,349,922		-	6,349,922
Contributed surplus	917,223	i.	47,447	964,670
Deficit	<u>(4,750,284)</u>	i.	<u>(47,447)</u>	<u>(4,797,731)</u>
	<u>2,516,861</u>		<u>-</u>	<u>2,516,861</u>
	\$ 3,388,505		\$ -	\$ 3,388,505

AMERICAN VANADIUM CORP.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011*Consolidated statement of income and comprehensive income for the three months ended May 31, 2010*

	Canadian GAAP	Adjustment Reference	Adjustment	IFRS
Exploration expenditures	\$ 87,352		-	\$ 87,352
Expenses				
Stock-based compensation	30,449	i.	(158)	30,291
Investor relations and shareholder information	22,139		-	22,139
Salaries and benefits	27,493		-	27,493
Office facilities and administrative services	24,211		-	24,211
Travel	8,335		-	8,335
Consulting	5,106		-	5,106
Transfer agent, listing and filing fees	1,876		-	1,876
Office and sundry	10,602		-	10,602
Audit and legal	14,258		-	14,258
Amortization	<u>1,626</u>		-	<u>1,626</u>
Loss before other items	(233,447)		(158)	(233,289)
Other items				
Foreign exchange gain	2,197		-	2,197
Interest income	7		-	7
Unrealized gain on short-term investments	<u>1,020,000</u>		-	<u>1,020,000</u>
Total comprehensive income	\$ 788,757		158	\$ 788,915

AMERICAN VANADIUM CORP.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011*Consolidated statement of loss and comprehensive loss for the year ended February 28, 2011*

	Canadian GAAP	Adjustment Reference	Adjustment	IFRS
Exploration expenditures	\$ 2,768,146		-	\$ 2,768,146
Expenses				
Stock-based compensation	304,727	i.	29,000	333,727
Investor relations and shareholder information	236,110		-	236,110
Salaries and benefits	216,780		-	216,780
Office facilities and administrative services	104,882		-	104,882
Travel	90,697		-	90,697
Audit and legal	84,511		-	84,511
Office and sundry	55,083		-	55,083
Consulting	45,918		-	45,918
Transfer agent, listing and filing fees	24,504		-	24,504
Amortization	7,018		-	7,018
Loss before other items	(3,938,376)		29,000	(3,967,376)
Other items				
Foreign exchange loss	(111,775)		-	(111,775)
Interest income	5,552		-	5,552
Gain on short-term investments	888,009		-	888,009
Loss before income taxes	(3,156,590)		(29,000)	(3,185,590)
Current income tax recovery	175,306			175,306
Net loss and comprehensive loss	\$ (2,981,284)		(29,000)	\$ (3,010,284)

Adjustment references

i. Stock-based compensation

Under Canadian GAAP, the Company recognized an expense for the fair value of stock options granted on a straight-line basis over the options' vesting periods. The fair value of stock options granted did not include a factor for estimated option forfeitures, but rather an expense reversal was recognized for actual forfeitures.

Under IFRS, the Company recognizes an expense for the fair value of stock options on a graded basis over the options' vesting periods. Generally, this will result in a greater portion of the overall fair value being recognized in the early portion of the vesting period under IFRS than under Canadian GAAP. Further, when determining the fair value of stock options granted, the Company includes a factor for estimated future option forfeitures based on historical forfeiture rates.

Statement of cash flows

Under Canadian GAAP, the Company presented interest payments received as cash flows from operating activities. Under IFRS, the Company has presented interest payments received as cash flows from financing activities. Aside from the impact of this reclassification, there have been no changes to the total operating, investing or financing cash flows under IFRS for periods previously reported under Canadian GAAP.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011****5. SHORT-TERM INVESTMENTS**

As at March 1, 2010, the Company held 6,000,000 common shares of Stonegate Agricom Ltd., which were valued at \$3,000,000. During the year ended February 28, 2011, the Company sold these shares for gross proceeds of \$3,888,009 and recorded a gain on sale of \$888,009.

6. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
Cost				
Balance, March 1, 2010	\$ 28,680	\$ 2,794	\$ -	\$ 31,474
Additions	-	3,645	-	3,645
Balance, February 28, 2011	28,680	6,439	-	35,119
Additions	-	601	41,118	41,719
Balance, May 31, 2011	28,680	7,040	41,118	76,838
Accumulated amortization				
Balance, March 1, 2010	12,427	947	-	13,374
Additions	5,914	1,104	-	7,018
Balance, February 28, 2011	18,341	2,051	-	20,392
Additions	1,429	494	2,046	3,969
Balance, May 31, 2011	19,770	2,545	2,046	24,361
Carrying value				
March 1, 2010	16,253	1,847	-	18,100
February 28, 2011	10,339	4,388	-	14,727
May 31, 2011	\$ 8,910	\$ 4,495	\$ 39,072	\$ 52,477

7. MINERAL PROPERTIES**Acquisition costs**

As at May 31, 2011 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
Acquisition costs:				
As at March 1, 2010	\$ 696,833	\$ -	\$ -	\$ 696,833
Additions	212,440	39,683	9,171	261,294
As at February 28, 2011	909,273	39,683	9,171	958,127
Additions	44,262	-	-	44,263
As at May 31, 2011	\$ 953,535	\$ 39,683	\$ 9,171	\$ 1,002,389

The Company has capitalized, rather than expensed, property acquisition costs on the basis that holding title to the related properties allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to the difficulties of determining the

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Exploration expenditures

Exploration expenditures are charged to operations in the period incurred. During the three months ended May 31, 2011, exploration expenditures on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
Exploration expenditures				
General	\$ 139,204	\$ 4,379	\$ -	\$ 143,583
Property maintenance	7,641	-	-	7,641
Metallurgy	34,126	221	-	34,347
Engineering	14,917	290	-	15,207
Water	1,584	-	-	1,584
Environmental permitting	115,713	-	-	115,713
Exploration	11,151	-	-	11,151
Feasibility	<u>774,988</u>	<u>-</u>	<u>-</u>	<u>774,988</u>
	<u>\$1,099,324</u>	<u>\$ 4,890</u>	<u>\$ -</u>	<u>\$ 1,104,214</u>

During the three months ended May 31, 2010, exploration expenditures on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
Exploration expenditures				
General	\$ 38,945	\$ -	\$ -	\$ 38,945
Property maintenance	2,692	-	-	2,692
Drilling and trenching	19,350	-	-	19,350
Metallurgy	5,367	-	-	5,367
Engineering	5,854	-	-	5,854
Water	2,432	-	-	2,432
Environmental permitting	11,480	-	-	11,480
Exploration	<u>1,232</u>	<u>-</u>	<u>-</u>	<u>1,232</u>
	<u>\$ 87,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,352</u>

Summary of propertiesa) **Gibellini Property, Nevada, U.S.**

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 41 unpatented lode mining claims, paying US\$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US\$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US\$30,000, quarterly, and such payments are credited against any future production royalties payable. As of May 31, 2011 the Company has paid a total of US\$450,000 in these advance royalty payments, including US\$30,000 paid during the three months ended May 31, 2011.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire four unpatented lode mining claims, paying US\$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US\$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay escalating series of annual payments, which will be credited against any future production royalties payable. As of May 31, 2011, the Company has paid a total of US\$71,000 in these advance royalty payments, and remaining payments are US\$24,000, annually. Further, the Company has the option to purchase these claims for a total purchase price of US\$1,000,000.

During the year ended February 28, 2008, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US\$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay a production royalty of 2.5% of NSR of all mineral substances produced from the claims. The Company must make annual payments of \$15,000, which will be credited against any future production royalties payable. As of May 31, 2011, the Company has paid a total of US\$60,000 for these advance royalty payments, including US\$15,000 during the three months ended May 31, 2011. Further, the Company has the option to purchase these claims for a total purchase price of US\$1,000,000.

8. SHAREHOLDERS' EQUITY**Share capital***Authorized*

Unlimited number of common voting shares with no par value

Issued and outstanding

	Number of Common Shares	Amount
Outstanding, March 1, 2010	17,938,815	\$ 5,343,455
Issued through the exercise of warrants, net of transaction costs	2,008,999	802,141
Issued through the exercise of stock options	<u>320,000</u>	<u>204,326</u>
Outstanding, February 28, 2011	20,267,814	6,349,922
Issued through private placement, net of transaction costs	2,770,250	3,271,865
Issued through exercise of stock options	<u>75,000</u>	<u>115,660</u>
Outstanding, May 31, 2011	<u>23,113,064</u>	<u>\$ 9,737,447</u>

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share purchase units at a price of \$1.35 per unit for gross proceeds of \$3,739,838. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.95 per common share until September 22, 2012. An additional 193,918 agent's warrants were issued as part of this private placement. Each agent's warrant entitles the holder to purchase one common share at a price of \$1.35 per common share until March 22, 2012. Transaction costs for the private placement, which include the fair value of agent's warrants, cash commissions, and legal and other fees totalled \$467,973.

Subsequent to May 31, 2011, the Corporation issued 2,334,667 common shares through a private placement and another 500,000 shares have been contingently issued to an executive of the Company. These transactions are further discussed in Note 14.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011****Warrants**

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, March 1, 2010	3,245,665	\$ 0.40
Warrants exercised	(2,008,999)	0.40
Warrants expired	<u>(70,000)</u>	<u>0.40</u>
Outstanding, February 28, 2011	1,166,666	0.40
Warrants issued through private placement of common share purchase units	1,385,125	1.95
Agent's warrants issued	<u>193,918</u>	<u>1.35</u>
Outstanding, May 31, 2011	2,745,709	\$ 1.25

The fair value of agent's warrants is \$0.57 per warrant, based on the Black-Scholes option pricing model using a one-year expected life, 108.83% expected volatility, a 1.66% risk free rate and a dividend yield of nil.

The following warrants were outstanding and exercisable at May 31, 2011:

Expiry date	Exercise Price	Number of Warrants Outstanding	Number of Warrants Exercisable
August 26, 2011	\$ 0.40	1,166,666	1,166,666
March 22, 2012	\$ 1.35	193,918	193,918
September 22, 2012	\$ 1.95	<u>1,385,125</u>	<u>1,385,125</u>
		<u>2,745,709</u>	<u>2,745,709</u>

As disclosed in Note 14, an additional 607,607 warrants, including Finder's warrants, were issued as part of a private placement subsequent to May 31, 2011.

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding, March 1, 2010	1,440,000	\$ 0.48
Options granted	717,500	0.98
Options exercised	<u>(320,000)</u>	<u>0.37</u>
Outstanding, February 28, 2011	1,837,500	0.69
Options granted	400,000	1.55
Options exercised	<u>(75,000)</u>	<u>0.91</u>
Outstanding, May 31, 2011	2,162,500	\$ 0.84

The fair value of the stock options granted during the three months ended May 31, 2011 has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the three months ended May 31, 2011	For the year ended February 28, 2011
Risk-free interest rate	1.98 %	2.35 %
Annual dividends	-	-
Expected stock price volatility	128.89%	102.67%
Expected forfeiture rate	28.31%	-
Expected life	2.81years	5 years

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

The following incentive stock options were outstanding and exercisable at May 31, 2011:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
February 28, 2012	\$ 1.50	25,000	6,250
February 12, 2013	1.30	150,000	150,000
December 17, 2013	0.40	25,000	25,000
January 21, 2015	0.35	887,500	787,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	37,500
November 2, 2015	0.70	275,000	137,500
December 13, 2015	1.00	60,000	30,000
December 29, 2015	1.05	75,000	55,000
December 31, 2015	1.14	50,000	25,000
February 4, 2016	1.55	50,000	25,000
February 7, 2016	1.56	100,000	50,000
March 23, 2016	1.53	300,000	-
April 29, 2016	\$ 1.64	75,000	18,750
		<u>2,162,500</u>	<u>1,387,500</u>

9. RELATED PARTY TRANSACTIONS

During the three months ended May 31, 2011, \$12,000 (2010 - \$12,000) was paid or accrued to a company with a director and two officers in common, for office facilities and administrative services. Included in accounts payable and accrued liabilities at May 31, 2011 is \$6,370 (2010 - \$4,725) payable to this related company. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011****10. SEGMENTED INFORMATION**

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	For the three months ended May 31, 2011		
	Canada	United States	Total
Net loss and comprehensive loss	\$ (834,504)	\$ (1,097,741)	\$ (1,932,245)
Equipment	3,363	49,114	52,447
Mineral Properties	-	1,002,389	1,002,389
Total assets	\$ 2,959,941	\$ 1,727,427	\$ 4,687,368

	For the three months ended May 31, 2010		
	Canada	United States	Total
Net income (loss) and comprehensive income (loss)	\$ 903,910	\$ (114,995)	\$ 788,915
Equipment	-	16,474	16,474
Mineral Properties	-	743,375	743,375
Total assets	\$ 4,446,639	\$ 968,156	\$ 5,414,795

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at May 31, 2011, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposit and accounts payable and accrued liabilities. The fair value of cash, amounts receivable, reclamation deposit and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Cash	\$ 3,231,834	\$ -	\$ -

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. A portion of the Company's expenses are incurred in United States dollars and certain cash balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and as at February 28, 2011, cash totalling \$2,483,518 (2010 - \$118,437) was held in United States dollars on a consolidated level, of which \$401,247 was held by the foreign subsidiary.

AMERICAN VANADIUM CORP.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011**

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts, management considers the interest rate risk to be limited.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended February 28, 2011. The Company is not subject to externally imposed capital requirements.

AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2011****13. (LOSS) EARNINGS PER SHARE**

Reconciliations of the numerators and the denominators in the basic and diluted earnings (loss) per share computations for the three months ended May 31, 2011 and 2010 are summarized as follows:

For the three months ended May 31, 2011			
	Net loss (numerator)	Weighted Average Shares Outstanding (denominator)	Per Share Amount
Net loss	(\$ 1,932,245)	-	-
Basic and diluted loss per share	(\$ 1,932,245)	22,397,678	\$ (0.09)

For the three months ended May 31, 2010			
	Income (numerator)	Weighted Average Shares Outstanding (denominator)	Per Share Amount
Net income	\$ 788,915	-	-
Basic earnings per share	\$ 788,915	18,012,728	\$ 0.04
Effect of dilutive securities			
Warrants	-	1,275,755	-
Stock options	-	546,752	-
Diluted earnings per share	\$ 788,915	19,835,235	\$ 0.04

14. SUBSEQUENT EVENTS

On July 18, 2011, the Company closed a brokered private placement for 2,334,667 Units at \$1.50 per Unit for proceeds, net of cash transaction costs, of \$3,358,361. Each Unit is comprised of one common share of the Company and a one-quarter share purchase warrant. One share purchase warrant allows the holder to purchase an additional common share of the Company at \$2.00 per share for a period of 18 months. Finders' fees on the private placement included 23,940 Finder's warrants. Each Finder's warrant is exercisable at \$2.00 per share for a period of 12 months.

On August 8, 2011, the Company approved the issuance of 500,000 common shares in Company to an executive of the Company. The actual issuance of these shares is contingent on the executive meeting certain performance milestones linked to the completion of a feasibility study and achieving economic production at the Company's Gibellini Project.