AMERICAN VANADIUM CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE SIX MONTHS ENDED AUGUST 31, 2011

Background

This management discussion and analysis ("MD&A) of financial position and results of operation for American Vanadium Corp. (the "Company" or "American Vanadium") is prepared as at October 27, 2011. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements as at and for the six months ended August 31, 2011 and with the Company's audited financial statements as at and for the years ended February 28, 2011 and 2010.

The Company's first annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), will be for the year ended February 29, 2012. In conjunction with those financial statements, the condensed consolidated interim financial statements as at and for the six months ended August 31, 2011 have been prepared in accordance with International Financial Reporting Standard 1, "First time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the IASB. Previously, the company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Unless otherwise noted, comparative information contained in this MD&A has been prepared in accordance with IFRS. The transition from Canadian GAAP to IFRS has not affected the Company's operations, strategic decisions and cash flow, but has resulted in certain accounting policy changes and adjustments to numbers previously reported under Canadian GAAP. These policy changes and adjustments are discussed under the "Changes in Accounting Policies and Transition to IFRS" section, herein.

Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

Company Overview

Headquartered in Vancouver, Canada, the Company is a junior mining company focusing on the exploration and development of vanadium resources in the United States. The Company's primary exploration property is the Gibellini Property ("Gibellini"), located in Eureka County, Nevada. In September 2011, the Company announced positive results from a feasibility study of Gibellini and an updated National Instrument 43-101 technical report has been released. Currently, the Company is conducting additional exploration programs and is seeking environmental permits to mine the Gibellini ore deposit. The Company is also in the process of evaluating the best potential alternatives for project financing.

The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "AVC".

Changes in Officers and Directors

On August 2, 2011, Ron MacDonald was appointed as a director of the Company and he was named on Vice-Chairman on August 19, 2011. On August 19, 2011, the Company also appointed John Downes as the Company's Chief Financial Officer.

Mineral Property Overview

The following mineral property overview has been reviewed and approved by Alan Branham, a member of the American Institute of Professional Geologists (CPG#10979), a Certified Professional Geologist, and a "qualified person" as that term is defined in National Instrument 43-101.

Gibellini Property, Eureka County, Nevada

The Gibellini Property is approximately 4,254 acres in area and consists of 232 unpatented lode mining claims and seven placer claims. Of the unpatented lode claims, the Company holds 100% title to 180 claims, including 17 previously leased claims that were acquired in September 2011, and leases 52 claims through on-going annual payments of $144,000. The annual payments are treated as prepayments of net smelter royalties on future mine production from the property. The Company also holds title to the seven placer claims.

American Vanadium conducted a drilling program to obtain samples for metallurgical testing and verification of historic drill data. All metallurgical test work was performed by McClelland Laboratories (McClelland), of Sparks, NV. The holes were sited and drilled north and south of the holes used for a 2008 preliminary economic assessment to obtain a spatial representation of the mineralization across Gibellini. Metallurgical analysis performed on mineral samples from Gibellini indicates that the property's unique disseminated, sedimentary deposit allows for simple, sulphuric acid heap leach processing.

Based on positive preliminary assay and metallurgical results, and favourable results from the 2008 preliminary economic assessment, the Company engaged AMEC of Sparks, Nevada to produce a feasibility study (the "Feasibility Study") and a National Instrument 43-101 compliant technical report (NI 43-101 Technical Report, Gibellini Vanadium Project, Nevada, USA by

Hanson, Orbock, Hertel and Drozd, August 31, 2011) covering the Gibellini Hill and Louie Hill deposits on the Gibellini Property (the "Technical Report"). The Feasibility Study was completed in September 2011, with the Technical Report published on SEDAR in October 2011.

As part of the work program for the Feasibility Study, the Company initiated a bulk sampling program in 2010, comprising the collection of samples from both oxide and transition vanadium zones from four different trenches on the project, and a two-phased diamond drill program. The first phase of diamond drilling obtained samples from 500 feet of core from each metallurgical types across six holes for a comprehensive metallurgical testing program. The second phase of diamond drilling resulted in geotechnical data that will provide information for design of the open pit, waste dump and access road designs.

American Vanadium and previous operators have drilled a total of 280 drill holes (51,265 ft) on Gibellini since 1946, comprising 16 core holes (4,046 ft), 169 rotary drill holes (25,077 ft; note not all drill holes have footages recorded) and 95 RC holes (22,142 ft).

The Technical Report shows that the Gibellini Hill deposit consists of:

- 120.5 million pounds of Proven and Probable vanadium pentoxide ("V_2O_5") reserves from 20.0 million tons of ore at an average grade of 0.302%;
- 131.37 million pounds of Measured and Indicated V_2O_5 resources (inclusive of Proven and Probable reserves) from 23.05 million tons of ore at an average grade of 0.285%; and
- 49.42 million pounds of Inferred V_2O_5 resources from 14.23 million tons of ore at an average grade of 0.172%.

The Technical Report shows that the Louie Hill deposit consists of:

- 41.87 million pounds of Inferred V_2O_5 resources from 7.67 million tons of ore at an average grade of 0.27%.

The Feasibility Study shows that an operating mine would have an after-tax net present value of US$170.1 million at a discount rate of 7%, and would generate an after-tax internal rate of return of 43%. Other highlights of the Feasibility Study are:

- 0.22 to 1 (waste:ore) strip ratio;
- 3.5 million tons mined per year;
- 65.9% average V_2O_5 recovery;
- 11.4 million pounds average annual V_2O_5 production;
- US$4.10 average operating cost of per pound of V_2O_5;
- US$95.5 million capital cost; and
- US$10.95 per pound average V_2O_5 selling price of over the life of mine.

The Company is performing other operational, regulatory, and environmental steps required to develop a mine at Gibellini Project. First, the Company engaged Enviroscientists, Inc. of Reno, Nevada to collect the baseline data for the environmental permitting process. This includes field studies and laboratory work for cultural, biological, spring/riparian and waste rock characterization. Second, in February 2011, the Company appointed Mike Doyle of Sparks, Nevada as Executive Vice President, Operations to develop the Gibellini Project. Mr. Doyle will direct the mining planning, construction management, environmental permitting and resource expansion programs. Third, in August 2011, the Company obtained the necessary rights for all water usage that is expected to operate a mine.

Del Rio and Hot Creek Projects, Eureka County, Nevada

In September 2010, the Company acquired mineral rights to the Del Rio Project ("Del Rio"), a vanadium project located approximately eight miles south of Gibellini. These wholly-owned mineral rights carry no royalty burden and were acquired by staking 120 unpatented lode claims on lands administered by the Bureau of Land Management. To date, work completed on Del Rio includes geologic mapping and sampling on the four square mile claim block. This work identified vanadium-bearing shale exposed at surface which is mineralized over 1800 feet (550 metres) of strike and 1200 feet (360 metres) of width. Five trenches were sampled in this target area. Mapping identified that all zones were oxidized with mineralogy that suggests targets on the Del Rio have potential for an enriched vanadium zone at depth. The oxidized zone had similar grades to the Gibellini deposit with one area containing over 1% V_2O_5 at the surface.

In 2010, a smaller vanadium prospect, Hot Creek, was also acquired by staking 18 claims south of Del Rio with vanadium bearing shale, similar in geologic setting to Gibellini. This prospect will be explored along with the Del Rio. Values up to 0.5% V_2O_5 have been found along a one kilometre long zone of favourable oxidized shale exposed along a ridge. The prospect appears to be located in a large thrust fault along the trend of Gibellini.

Financial Review

As an exploration-stage company, American Vanadium does not have any operating revenues and its accounting policy is to expense exploration and evaluation expenditures incurred until technical and economic feasibility on a specific property has been established and the Company has obtained sufficient financing to fund mine development. The Company has established the technical and economic feasibility on its primary mineral property, Gibellini, but does not have the funds required for development. As such, the Company has expensed all exploration and evaluation expenditures as incurred.

Significant financial statement balances, transactions and line items are as follows:

	August 31 2011	February 28 2011
	$	$
Balance Sheet:		
Cash	**6,825,971**	1,953,402
Total assets	**8,501,550**	3,388,505
Total long-term liabilities	**-**	-

	For the three months ended August 31		**For the six months ended August 31**	
	2011	2010	**2011**	2010
	$	$	**$**	$
Operations:				
Exploration expenses	**726,009**	518,620	**1,830,223**	605,972
Stock-based compensation	**162,962**	40,973	**552,914**	71,264
Investor relations and shareholder information	**145,341**	53,647	**329,817**	75,786
Salaries and benefits	**80,422**	40,797	**182,624**	72,876
Office and sundry	**58,118**	7,931	**72,166**	18,533
Other general and administrative expenses	**149,580**	83,583	**286,963**	134,409
Loss (gain) on short-term investments	**-**	131,991	**-**	(888,009)
Interest income	**(7,193)**	(1,288)	**(10,090)**	(1,295)
Foreign exchange gain	**(17,573)**	(40,271)	**(14,706)**	(42,468)
Net comprehensive loss	**1,297,666**	835,983	**3,229,911**	47,068
Basic and diluted loss per share	**0.05**	0.05	**0.14**	0.00

The increase in total assets from $3.4 million as at February 28, 2011 to $8.5 million as at August 31, 2011 is primarily owing to $8.3 million in net cash proceeds from private placements of the Company’s common shares, interest and the exercise of stock options and warrants. The increase in total assets from these proceeds was partially offset by $3.2 million incurred for exploration expenditures and general and administrative costs during the six months ended August 31, 2011.

Net comprehensive loss for the six months ended August 31, 2011 was $3.2 million, compared with net comprehensive loss of $47 thousand for the same period in 2010. Included in net comprehensive loss for the six months ended August 31, 2010 is a $0.9 million gain from the disposal of short-term investments. Excluding the gain on short-term investments, net comprehensive loss increased by $2.3 million from $0.9 million for the six months ended August 31, 2010 to $3.2 million for the six months ended August 31, 2011.

Contributing to the increase in net comprehensive loss, excluding the gain on short-term investments, are a $1.2 million increase in exploration expenses owing to the Feasibility Study and advanced exploration of Gibellini. Additionally, the Company incurred a $0.5 million increase in stock-based compensation, a $0.3 million increase in investor relations expense, a $0.1 increase in salaries and benefits and a $0.2 million increase in office, general and administrative costs. The increases to stock-based compensation, investor relations, salaries and benefits, and office, general and administrative expenses were incurred as the Company expanded efforts to promote Gibellini and hired additional staff in anticipation of potential mine development.

Second Quarter Results

Select expenses incurred by the Company are as follows:

	For the three months ended	
	August 31 2011	August 31 2010
	$	$
Exploration expenses	**726,009**	518,620
General expenses:		
Stock-based compensation	**162,962**	40,973
Investor relations and shareholder information	**145,341**	53,647
Salaries and benefits	**80,422**	40,797
Office and sundry	**58,118**	7,931
Office facilities and administrative costs	**43,000**	25,693
Other	**106,580**	57,890
Loss before other items	**(1,322,432)**	(745,551)
Other items:		
Foreign exchange gain	**17,573**	40,271
Interest income	**7,193**	1,288
Loss on short-term investments	**-**	(131,991)
Net comprehensive loss	**(1,297,666)**	(835,983)

The Company's net comprehensive loss for the three months ended August 31, 2011 is largely a attributed to activity on Gibellini, primarily the completion of the Feasibility Study and an increase in metallurgical testing and environmental permitting efforts. Included in exploration expenses for the quarter ended August 31, 2011 are $170 thousand in environmental permitting costs, $159 thousand for geological, office and administrative costs directly related to Gibellini, $156 thousand for metallurgical testing, $131 thousand for the completion of the Feasibility Study, and $77 thousand for exploration and property maintenance. Additionally, $33 thousand was incurred for property maintenance costs of Del Rio and Hot Creek.

Coinciding with increased activity at Gibellini, corporate-level activity has also increased during the second half of the fiscal year ended February 28, 2011 and through the three months ended August 31, 2011. Additional staff has been hired to manage the Feasibility Study, plan for potential mine development, create critical business partnerships and to fulfill the investor relations function. As a result, salaries and benefits expense increased from $41 thousand for the three months ended August 31, 2010 to $80 thousand for the same period in 2011. Likewise, stock options granted to these employees have resulted in increased stock-based compensation from $41 thousand to $163 thousand. Investor relations and shareholder information expense increased from $54 thousand for the three months ended August 31, 2010 to $145 thousand for the same period in 2011 resulting from a private placement of shares and additional communications about Gibellini. Office-related and other costs incurred have increased during the second quarter of the current year commensurate with the increases to Gibellini and corporate activities.

Financial Condition, Liquidity and Capital Resources

As at August 31, 2011, the Company's working capital was $6,709,988, including cash of $6,825,971, compared to working capital of $1,491,853 as at February 28, 2011. The increase in the Company's working capital during the six months ended August 31, 2011 is the primarily the result of the following share transactions.

In March 2011, the Company completed a brokered private placement of 2,770,250 common share units, consisting of one common share and one-half of one common share purchase warrant at a price of $1.35 per unit for gross proceeds of $3.7 million. In July 2011 and August 2011, the Company completed two non-brokered private placements for a total of 3,001,667 common share units, consisting of one common share and one-quarter of one common share purchase warrant, at a price of $1.50 per unit for gross proceeds of $4.5 million. Total transaction costs of $787 thousand were incurred for the private placements completed during the six months ended August 31, 2011, including $118 thousand in compensatory warrants issued to placement agents.

In addition to the net proceeds from the private placement, $551 thousand was received through the exercise of stock options and warrants during the six months ended August 31, 2011.

The Company has sufficient cash resources to cover administrative costs and property option payments for the coming year as well as additional exploration and feasibility-related costs for the Gibellini Project. However, additional funds will be required for the full development of a mine at Gibellini. Possible funding sources include equity or debt financing, and although the Company has been successful with its equity financings in the past, there is no assurance that future financing will be available or that financing terms will be attractive.

As of October 27, 2011, the Company has 27,368,397 common shares issued and outstanding. An additional 2,353,400 warrants are outstanding, exercisable into common shares at exercise prices ranging from $1.35 to $2.00 per share with various expiration dates, and there are 2,325,500 stock options outstanding of which 1,052,500 are currently vested and "in the money".

Summary of Quarterly Results:

For the Three Months Ended	Mineral Exploration[2]	General Expenses[3]	Stock-based Compensation	Interest Income[4]	Net Comprehensive Loss (Income)[5]	Basic and Diluted Loss (Income) Per Share
	$	$	$	$	$	$
August 31, 2011	726,009	433,461	162,962	(7,193)	1,297,666	0.05
May 31, 2011	1,104,214	438,109	389,952	(2,897)	1,932,245	0.09
February 28, 2011	1,303,304	328,484	222,167	(1,677)	1,765,591	0.09
November 30, 2010	858,870	235,415	40,296	(2,580)	1,197,625	0.06
August 31, 2010	518,620	185,958	40,973	(1,288)	835,983	0.05
May 31, 2010	87,352	115,646	30,291	(7)	(788,915)	(0.04)
February 28, 2010[1]	8,380	84,539	252,767	(12)	420,816	0.03
November 30, 2009[1]	6,013	43,982	(42,464)	(9)	(3,677,337)	(0.19)

Explanatory Notes:

1. Results for periods ending on or before February 28, 2010 are presented in accordance with Canadian GAAP while periods ending after March 1, 2010 are presented in accordance with IFRS.
2. Generally, mineral exploration has increased since the three months ended November 30, 2009, resulting in increasing net comprehensive losses. Mineral exploration has increased as the Company's exploration on Gibellini escalated to prove the property's reserves and to facilitate the Feasibility Study completed in September 2011.
3. With increasing mineral exploration, general expenses have also increased since November 30, 2009 as additional corporate-level support has been required to fund and facilitate mineral exploration. Likewise, as additional employees have been hired and stock options granted, there is a general trend to increasing stock-based compensation expense. The recovery of stock-based compensation costs for the quarter ended November 30, 2009 is due to the forfeiture of certain stock options held by a former president of the Company.
4. The Company earns interest income from funds on deposit but has no operating revenue. Interest income is dependent upon the amount of funds on deposit and interest rates paid.
5. Net and comprehensive income for the quarter ended November 30, 2009 is owing to a $3,698,631 gain on the sale of the Company's interests in a property. Partial proceeds from this disposal were received in shares, which were carried at market value with valuation gains and losses recorded in net income. A fair value gain of $1,020,000 was recorded for the three months ended May 31, 2010 resulting in positive net and comprehensive income for that quarter. These shares were disposed during the quarter ended August 31, 2010.

Transactions with Related Parties

During the six months ended August 31, 2011, the Company paid Ionic Management Corp. ("Ionic"), a company related by virtue of one director and two officers in common, $24,000 for accounting and various administrative office services provided in Canada. In addition, the Company reimburses Ionic for out of pocket direct costs incurred on behalf of the Company. Such costs include travel, postage, courier charges, printing and long distance telephone charges. Included in accounts payable and accrued liabilities as at August 31, 2011, is $7,612 payable to Ionic.

In August 2011, Ron MacDonald was appointed as a director of the Company. Subsequent to this appointment and as of August 31, 2011, the Company paid $10,000 to Cansource International

(“Cansource”) for whom Mr. MacDonald acts as president. Cansource provides the Company with market consulting services. As at August 31, 2011, a prepayment for future services of $10,000 was receivable from Cansource.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Changes to Accounting Policies and Transition to IFRS

As discussed under the heading “Background” of this MD&A, the year-ended February 29, 2012, including the interim financial statements during this year, will be the first that the Company will present in accordance with IFRS. The Company’s critical IFRS accounting policies and the impacts of the transition from Canadian GAAP to IFRS are described below.

<u>i. Critical IFRS accounting policies</u>

The Company’s accounting policies are discussed in detail in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the six months ended August 31, 2011 but the critical accounting policies are as follows:

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, 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 are classified as loans and receivables and 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. These are classified as financial liabilities measured at amortized cost using the 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.

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").

i) 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.

ii) 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 a mine.

iii) 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.

iv) 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.

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.

ii) Transition to IFRS

On March 1, 2011, the Company adopted IFRS for financial reporting purposes, using a transition date of March 1, 2010. The unaudited condensed consolidated interim financial statements as at and for the six months ended August 31, 2011, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the IASB. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The transition to IFRS necessitated certain changes to the Company's accounting policies that resulted in differences between amounts previously reported under Canadian GAAP and those reported under IFRS.

A comprehensive reconciliation between Canadian GAAP and IFRS balances is provided in Note 4 of the unaudited condensed consolidated interim financial statements as at and for the six months ended August 31, 2011, but the following table provides a summary of the IFRS changes to the Company's net income (loss) for certain prior periods:

	Three months ended August 31, 2010	**Six months ended August 31, 2010**	**Year ended February 28, 2011**
	$	$	$
Net comprehensive loss under Canadian GAAP	**827,129**	38,372	2,981,284
Increase in stock-based compensation under IFRS[i]	**8,854**	8,696	29,000
Net comprehensive loss under IFRS	**835,983**	47,068	3,010,284

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.

<u>ii) Other impacts from the transition to IFRS</u>

The transition to IFRS has only resulted in adjustments to the Corporation's accounting policies and cash flow classification, and there have been no changes to accounting systems, processes or to the Corporation's operations.

Financial Instruments and Risk Management

The Company's financial instruments are comprised of cash, amounts receivable, reclamation deposit and accounts payable and accrued liabilities, and have arisen through the normal course of operations. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

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 August 31, 2011, the Company held US$1,694,700 (February 28, 2011 - US$1,273,521). A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $169,470 foreign exchange loss (gain) based on United States dollar holdings as at August 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.

The fair value of the Company's financial instruments approximate their carrying value due to their short-term maturity. 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	6,825,971	-	-

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

The following securities are outstanding at October 27, 2011:

Common shares issued and outstanding	27,368,397
Shares issuable on the exercise of outstanding stock options	2,325,500
Shares issuable on the exercise of share purchase warrants	2,353,400
Shares contingently issuable through completion of operational milestones	500,000

Risks and Uncertainties

Exploration of mineral properties involves a high degree of risk and the successful achievement of a profitable operation cannot be assured. Costs of finding and evaluating an ore body are substantial, and may take several years to complete. The Company must overcome many risks associated with an early stage exploration property. Outstanding items to be completed include, but are not limited to, identification and quantification of a commercially viable ore body, confirmation of the Company's interest in the underlying claims and leases, completion of a feasibility study, funding of all costs related to a commercial operating venture, completion of the permitting process, detailed engineering and the procurement of a processing plant, and constructing a facility to support the property. Construction and operational risks including, but not limited to, equipment and plant performance, metallurgical, environmental, cost estimation accuracy, and workforce performance and dependability will all affect the profitability of an operating property.

External financing, primarily through the issuance of common shares will be required to fund its activities. There can be no assurance that it will be able to do so in the future.