



AMERICAN VANADIUM CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE TEN MONTHS ENDED DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
American Vanadium Corp.

We have audited the accompanying consolidated financial statements of American Vanadium Corp., which comprise the consolidated balance sheets as at December 31, 2011, February 28, 2011 and March 1, 2010 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the ten month period ended December 31, 2011 and for the year ended February 28, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of American Vanadium Corp. as at December 31, 2011, February 28, 2011 and March 1, 2010 and its financial performance and its cash flows for the ten month period ended December 31, 2011 and for the year ended February 28, 2011 in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about American Vanadium Corp.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 24, 2012

AMERICAN VANADIUM CORP.
CONSOLIDATED BALANCE SHEETS
IN CANADIAN DOLLARS

| | December 31 | February 28 | March 1 |
|--|--------------------|-------------|-------------|
| | 2011 | 2011 | 2010 |
| | \$ | \$ | \$ |
| | | Note 4 | Note 4 |
| ASSETS | | | |
| Current assets | | | |
| Cash | 4,245,438 | 1,953,402 | 1,076,988 |
| Amounts receivable | 128,656 | 38,972 | 9,764 |
| Income tax receivable | 267,971 | 165,138 | - |
| Prepaid expenses (Note 9) | 101,695 | 88,140 | 367 |
| Deferred engineering management expense and deposit (Note 7) | 1,079,390 | - | - |
| Deferred financing costs | - | 117,845 | - |
| Short-term investments (Note 5) | - | - | 3,000,000 |
| | 5,823,150 | 2,363,497 | 4,087,119 |
| Equipment (Note 6) | 49,455 | 14,727 | 18,100 |
| Reclamation deposit | 85,720 | 52,154 | 43,893 |
| Mineral properties (Note 7) | 1,535,943 | 958,127 | 696,833 |
| | 7,494,268 | 3,388,505 | 4,845,945 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities (Note 9) | 784,883 | 871,644 | 71,981 |
| Income tax payable | - | - | 499,938 |
| | 784,883 | 871,644 | 571,919 |
| Shareholders' equity | | | |
| Share capital (Note 8) | 14,058,111 | 6,349,922 | 5,343,455 |
| Contributed surplus | 2,339,450 | 964,670 | 718,018 |
| Deficit | (9,688,176) | (4,797,731) | (1,787,447) |
| | 6,709,385 | 2,516,861 | 4,274,026 |
| | 7,494,268 | 3,388,505 | 4,845,945 |

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 15)

Events after the reporting period (Note 16)

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.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
IN CANADIAN DOLLARS

| | For the ten months ended December 31 | For the twelve months ended February 28 |
|--|---|---|
| | 2011 | 2011 |
| | \$ | \$ |
| | | Note 4 |
| Exploration and evaluation expenses (Note 7) | 2,582,938 | 2,768,146 |
| General and administrative expenses: | | |
| Stock-based compensation | 781,370 | 333,727 |
| Salaries and benefits (Note 9) | 514,135 | 216,780 |
| Investor relations and shareholder information | 337,164 | 236,110 |
| Consulting (Note 9) | 270,262 | 45,918 |
| Travel | 228,046 | 90,697 |
| Office facilities and administrative services (Note 9) | 144,221 | 104,882 |
| Audit and legal | 110,407 | 84,511 |
| Office and sundry | 88,889 | 55,083 |
| Transfer agent, listing and filing fees | 40,633 | 24,504 |
| Amortization | 12,869 | 7,018 |
| | 2,527,996 | 1,199,230 |
| Loss before other items | (5,110,934) | (3,967,376) |
| Other items: | | |
| Foreign exchange gain (loss) | 106,811 | (111,775) |
| Interest income | 18,678 | 5,552 |
| Gain on short-term investments (Note 5) | - | 888,009 |
| | 125,489 | 781,786 |
| Loss before income taxes | (4,985,445) | (3,185,590) |
| Current income tax recovery (Note 11) | 95,000 | 175,306 |
| Net comprehensive loss | (4,890,445) | (3,010,284) |
| Basic and diluted loss per share (Note 14) | (0.20) | (0.16) |

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

AMERICAN VANADIUM CORP.CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN CANADIAN DOLLARS

| | Share Capital | Contributed Surplus | Deficit | Total |
|---|--------------------------|--------------------------------|--------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Balance, March 1, 2010 (Note 4) | 5,343,455 | 718,018 | (1,787,447) | 4,274,026 |
| Exercise of warrants | 802,142 | - | - | 802,142 |
| Exercise of stock options | 204,325 | (87,075) | - | 117,250 |
| Stock-based compensation | - | 333,727 | - | 333,727 |
| Net comprehensive loss for the period | - | - | (3,010,284) | (3,010,284) |
| Balance, February 28, 2011 (Note 4) | 6,349,922 | 964,670 | (4,797,731) | 2,516,861 |
| Private placements, net of share issuance costs | 6,919,555 | 651,526 | - | 7,571,081 |
| Exercise of warrants | 466,666 | - | - | 466,666 |
| Exercise of stock options | 141,968 | (58,116) | - | 83,852 |
| Shares issued for water rights (Note 7) | 67,500 | - | - | 67,500 |
| Shares issued for claims acquisition (Note 7) | 33,750 | - | - | 33,750 |
| Performance shares (Note 8) | 78,750 | - | - | 78,750 |
| Stock-based compensation | - | 781,370 | - | 781,370 |
| Net comprehensive loss for the period | - | - | (4,890,445) | (4,890,445) |
| Balance, December 31, 2011 | 14,058,111 | 2,339,450 | (9,688,176) | 6,709,385 |

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

AMERICAN VANADIUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS

| | For the ten months ended December 31 | For the twelve months ended February 28 |
|--|---|---|
| | 2011 | 2011 |
| | \$ | \$ |
| | | Note 4 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net comprehensive loss | (4,890,445) | (3,010,284) |
| Items not involving cash: | | |
| Stock-based compensation | 781,370 | 333,727 |
| Salaries and benefits settled by issuance of shares | 78,750 | - |
| Amortization | 12,869 | 7,018 |
| Unrealized foreign exchange loss | - | 3,382 |
| Gain on short-term investments | - | (888,009) |
| Changes in non-cash working capital balances: | | |
| Deferred engineering management expense and deposit | (816,125) | |
| Amounts receivable | (89,684) | (29,208) |
| Accounts payable and accrued liabilities | (350,026) | 799,663 |
| Prepaid expenses | (13,555) | (87,773) |
| Income tax receivable | (102,833) | (665,076) |
| Non-operating (income) expenses: | | |
| Interest income | (18,678) | (5,552) |
| Net cash used in operating activities | (5,408,357) | (3,542,112) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Mineral property acquisition costs | (476,566) | (261,294) |
| Purchase of equipment | (47,597) | (3,645) |
| Increase in reclamation deposit | (33,566) | (11,643) |
| Interest income | 18,678 | 5,552 |
| Proceeds from sale of short-term investments | - | 3,888,009 |
| Net cash (used in) provided by investing activities | (539,051) | 3,616,979 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of shares, net of issuance costs | 8,239,444 | 919,392 |
| Deferred financing costs | - | (117,845) |
| Net cash provided by financing activities | 8,239,444 | 801,547 |
| Change in cash for the period | 2,292,036 | 876,414 |
| Cash, beginning of period | 1,953,402 | 1,076,988 |
| Cash, end of period | 4,245,438 | 1,953,402 |

Supplemental Cash Flow Information

Non-cash investing activities

During the ten months ended December 31, 2011, the water and mineral rights were acquired through the issuance of common shares valued at \$101,250, recorded in mineral properties as an acquisition cost. There were no non-cash investing activities during the year ended February 28, 2011.

Non-cash financing activities

During the ten months ended December 31, 2011, the Company issued 217,858 share purchase warrants valued at \$117,900 for agent's and finder's fees related to various private placements of common shares. This amount has been recorded as a transaction cost, reducing the value of shareholders' equity. There were no non-cash financing activities during the year ended February 28, 2011.

Income taxes and interest paid

No amounts were paid for income tax or interest during the ten months ended December 31, 2011 or the twelve months ended February 28, 2011.

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

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 property and has completed a feasibility study on the property. Pending, among other factors, successful supply arrangements, the availability of sufficient financing, regulatory approval, all of which are uncertain, the Company plans to 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.

The Company’s shares trade on the TSX-Venture Exchange (the “Exchange”) under the symbol “AVC.”

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Change in financial year

In October 2011, the Company announced that it would change its financial year-end from February 28 to December 31 in order to align its financial reporting with its operational and budgeting cycles. The current period ended December 31, 2011 is a 10-month period, while the comparative period ended February 28, 2011 is a 12-month period. Consequently, current and prior period balances may not be fully comparable.

The Company did not issue condensed consolidated interim financial statements as at and for the nine months ended November 30, 2011.

Statement of compliance

These financial statements are the Company’s first audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). As such, they have been prepared in accordance with International Financial Reporting Standard 1, “First time Adoption of International Financial Reporting Standards.” 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”).

Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in Note 3.

These consolidated 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 consolidated financial statements were authorized by the Board of Directors on April 24, 2012.

Going concern

These consolidated 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.

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 December 31, 2011, the Company maintained a working capital surplus of \$5,038,267 and had \$6,709,385 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 ten months ended December 31, 2011. These policies have been applied consistently to all periods presented in these consolidated financial statements, with an IFRS transition date of March 1, 2010, unless otherwise indicated.

Basis of consolidation

These consolidated financial statements include the assets, liabilities, income 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 consolidated financial statements have been measured on an historical cost basis, except for cash and 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.

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 are recorded at amortized cost less any impairment. Short-term investments included equity holdings in other companies and were measured at fair value through profit or 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.

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 12 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 expenses

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.

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 financing cost until such time as the shares are issued. When shares are issued, the deferred financing cost is recognized as a reduction of the net proceeds from the share issuance. If no shares are issued, these deferred financing costs are recognized as a component of comprehensive loss.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current period 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.

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.

As at December 31, 2011, the Company has no known environmental reclamation commitments.

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, as well as to external consultants. 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 share capital.

(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 consolidated 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.

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.

iii. 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 matters 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.

iv. 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. 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 for reporting periods beginning on or after 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.

ii. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39, Financial Instruments: Recognition and Measurement, and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for reporting periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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.

iii. IFRS 10 Consolidated Financial Statements ("IFRS 10")

In May 2011, the IASB released IFRS 10, which replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a Company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect the application of this standard to have an impact on its financial statements.

iv. IFRS 11 Joint Arrangements ("IFRS 11")

In May 2011, the IASB released IFRS 11, which supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in jointly controlled entities. IFRS 11 will be effective for reporting periods beginning on January 1, 2013, with earlier application permitted. The Company does not expect the application of this standard to have an impact on its financial statements.

v. IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)

In May 2011, the IASB released IFRS 12, which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect the application of this standard to have an impact on its financial statements.

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

In May 2011, the IASB released IFRS 13, Fair Value Measurement. IFRS 13 is expected to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

vii. 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.

viii. IAS 28 Investments in Associates and Joint Ventures (“IAS 28”)

IAS 28, which was amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures, eliminating a previously available alternative method for accounting for these investments. The amended IAS 28 is effective for reporting periods beginning on or after January 1, 2013. Earlier application is permitted. The Company does not expect the application of this amended standard to have an impact on its financial statements.

4. FIRST-TIME ADOPTION OF IFRS

These are the Company’s first consolidated financial statements that have been prepared in accordance with IFRS. Comparative information as at March 1, 2010 (the “Transition Date”) and subsequent comparative periods in these financial statements have been prepared using a consistent and retrospective application of IFRS accounting policies, although IFRS 1 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.

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Reconciliations from Canadian GAAP to IFRS

Consolidated balance sheet as at March 1, 2010 (IFRS transition date)

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

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Consolidated balance sheet as at February 28, 2011

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

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Consolidated statement of comprehensive loss for the year ended February 28, 2011

| | Canadian GAAP | Adjustment Reference | Adjustment | IFRS |
|---|--------------------------|-------------------------|------------|--------------------|
| | \$ | | \$ | \$ |
| Exploration and evaluation expenses | 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 |
| | 1,170,230 | | 29,000 | 1,199,230 |
| 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 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.

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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 a \$888,009 gain on sale was recorded.

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 | - | 6,479 | 41,118 | 47,597 |
| Balance, December 31, 2011 | 28,680 | 12,918 | 41,118 | 82,716 |
| 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 | 4,299 | 2,204 | 6,366 | 12,869 |
| Balance, December 31, 2011 | 22,640 | 4,255 | 6,366 | 33,261 |
| Carrying value | | | | |
| March 1, 2010 | 16,253 | 1,847 | - | 18,100 |
| February 28, 2011 | 10,339 | 4,388 | - | 14,727 |
| December 31, 2011 | 6,040 | 8,663 | 34,752 | 49,455 |

7. MINERAL PROPERTIES

Acquisition costs

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

| | Gibellini | Del Rio | Hot Creek | Total |
|--------------------------------|------------------|---------------|--------------|------------------|
| | \$ | \$ | \$ | \$ |
| 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 | 577,816 | - | - | 577,816 |
| As at December 31, 2011 | 1,487,089 | 39,683 | 9,171 | 1,535,943 |

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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 difficulties in determining the 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 and evaluation expenses

During the ten months ended December 31, 2011, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | Gibellini | Del Rio | Hot Creek | Total |
|--|------------------|----------------|------------------|------------------|
| | \$ | \$ | \$ | \$ |
| General | 445,134 | 11,647 | 454 | 457,235 |
| Property maintenance | 60,229 | 17,861 | 2,666 | 80,756 |
| Metallurgy | 310,534 | 2,882 | 3,509 | 316,925 |
| Engineering | 21,368 | 290 | 586 | 22,244 |
| Geotechnical | 111,406 | 2,529 | - | 113,935 |
| Power | 17,367 | - | - | 17,367 |
| Water | 5,419 | - | - | 5,419 |
| Environmental permitting | 520,843 | 308 | - | 521,151 |
| Exploration | 37,348 | 1,707 | 927 | 39,982 |
| Feasibility | 975,268 | - | - | 975,268 |
| Engineering, procurement and construction management | 32,656 | - | - | 32,656 |
| | 2,537,572 | 37,224 | 8,142 | 2,582,938 |

During the twelve months ended February 28, 2011, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | Gibellini | Del Rio | Hot Creek | Total |
|--------------------------|------------------|----------------|------------------|------------------|
| | \$ | \$ | \$ | \$ |
| General | 320,249 | 3,294 | 413 | 323,956 |
| Property maintenance | 41,376 | 15,791 | - | 57,167 |
| Drilling and trenching | 444,314 | - | - | 444,314 |
| Metallurgy | 172,631 | - | - | 172,631 |
| Engineering | 70,149 | - | - | 70,149 |
| Geotechnical | 15,040 | - | - | 15,040 |
| Power | 18,517 | - | - | 18,517 |
| Water | 444,157 | - | - | 444,157 |
| Environmental permitting | 331,736 | - | - | 331,736 |
| Exploration | 75,511 | 32,135 | - | 107,646 |
| Feasibility | 782,833 | - | - | 782,833 |
| | 2,716,513 | 51,220 | 413 | 2,768,146 |

Summary of properties

- a) Gibellini Property, Nevada, U.S.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 40 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 December 31, 2011, the Company has paid a total of US\$510,000 in these advance royalty payments, including US\$90,000 paid during the ten months ended December 31, 2011.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 12 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 an escalating series of annual payments, which will be credited against any future production royalties payable. As of December 31, 2011, the Company has paid a total of US\$95,000 in these advance royalty payments, of which US\$24,000 was paid in the ten months ended December 31, 2011; 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 was required to pay US\$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. As of December 31, 2011, the Company paid a total of US\$60,000 for these advance royalty payments, including US\$15,000 during the ten months ended December 31, 2011. During the ten months ended December 31, 2011, the Company acquired full ownership of these claims for a cash payment of US\$50,000 and the issuance of 25,000 of its common shares valued at \$33,750, thereby eliminating future advance royalty payments.

During the ten months ended December 31, 2011, the Company has acquired an additional 183 unpatented lode claims and seven placer claims through the staking process.

During the ten months ended December 31, 2011, the Company obtained various rights to water required for production from the Gibellini Property. Consideration for these rights included a cash payment of US\$295,000 and 50,000 common shares in the Company valued at \$67,500.

b) Del Rio Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Engineering, procurement and construction management

During the ten months ended December 31, 2011, the Company entered into an agreement with an independent contractor who will manage various phases of the development of a mine on the Gibellini Property. These phases include mine engineering, asset and service procurement, and mine construction. As at December 31, 2011, the contractor has commenced a basic engineering phase.

On the commencement of the basic engineering phase, the Company paid a US\$559,936 deposit, and 17 monthly payments totalling US\$2,799,679 are required throughout the phase. These payments and the deposit have been recorded on the consolidated balance sheet as a deferred engineering management expense and deposit when paid or accrued, which is then recognized on a percentage-of-completion basis over the duration of the phase.

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During the ten months ended December 31, 2011, changes to the deferred engineering management expense and deposit balance are as follows:

| | Amount |
|---|------------------|
| | \$ |
| Balance, February 28, 2011 | - |
| Deposit paid | 569,150 |
| Monthly installments paid or accrued | 542,896 |
| Expense recognized for percentage-of-completion achievement | (32,656) |
| Balance, December 31, 2011 | 1,079,390 |

8. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

| | Number of | Amount |
|---|----------------------|-------------------|
| | Common Shares | \$ |
| Outstanding, March 1, 2010 | 17,938,815 | 5,343,455 |
| Issued on exercise of warrants | 2,008,999 | 802,141 |
| Issued on exercise of stock options | 320,000 | 204,326 |
| Outstanding, February 28, 2011 | 20,267,814 | 6,349,922 |
| Issued through private placement, net of share issuance costs | 5,771,917 | 6,919,555 |
| Issued on exercise of warrants | 1,166,666 | 466,666 |
| Issued on exercise of stock options | 87,000 | 141,968 |
| Issued for water rights (Note 7) | 50,000 | 67,500 |
| Issued for mineral claims (Note 7) | 25,000 | 33,750 |
| Issued on achievement of performance targets | 75,000 | 78,750 |
| Outstanding, December 31, 2011 | 27,443,397 | 14,058,111 |

Private placements

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share 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 until September 22, 2012. The full value of these units is attributed to the value of the common shares. An additional 193,918 agent's warrants were issued as part of this private placement with a fair value of \$109,668. 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 \$577,641.

On July 15, 2011, the Company completed a non-brokered private placement of 2,334,667 common share units at a price of \$1.50 per unit for gross proceeds of \$3,502,001. Each unit consists of one common share and one-

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quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of \$2.00 until January 15, 2013. The value of these units has been bifurcated between common shares at a value of \$1.34 per share and warrants at a value of \$0.16 per one-quarter warrant. An additional 23,940 finder's warrants were issued as part of this private placement with a fair value of \$8,232. Each finder's warrant entitles the holder to purchase one common share at a price of \$2.00 per common share until July 15, 2012. Transaction costs for the private placement, which include the fair value of finder's warrants, cash commissions, and legal and other fees, totalled \$211,516.

On August 31, 2011, the Company completed a non-brokered private placement of 667,000 common share units at a price of \$1.50 per unit for gross proceeds of \$1,000,500. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of \$2.00 until February 28, 2013. The value of these units has been bifurcated between common shares at a value of \$1.26 per share and warrants at a value of \$0.24 per one-quarter warrant.

Performance shares

During the ten months ended December 31, 2011, the Company entered into an arrangement whereby up to 500,000 of its common shares could be issued in four tranches to an officer of the Company upon meeting various milestones for the development of the Gibellini property. During the ten months ended December 31, 2011, the first milestone was met and 75,000 of these shares valued at \$78,750 were issued. The performance conditions for the issuance of the remaining shares are discussed in Note 15.

Warrants

Changes to the balance of warrants outstanding are as follows:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Fair Value |
|---|-----------------------|------------------------------------|--------------------------------|
| | | \$ | \$ |
| Outstanding, March 1, 2010 | 3,245,665 | 0.40 | - |
| Warrants exercised | (2,008,999) | 0.40 | - |
| Warrants expired | (70,000) | 0.40 | - |
| Outstanding, February 28, 2011 | 1,166,666 | 0.40 | - |
| Warrants exercised | (1,166,666) | 0.40 | - |
| Warrants issued as part of common share units | 2,135,542 | 1.97 | 0.25 |
| Warrants issued as agent's and finder's fees | 217,858 | 1.42 | 0.54 |
| Outstanding, December 31, 2011 | 2,353,400 | 1.92 | 0.28 |

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model. On a weighted average basis, the following Black-Scholes model inputs have been used to value these warrants: a one-year expected life; 107.50% expected volatility; a 1.64% risk-free rate and a dividend yield of nil.

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

| Expiry date | Exercise Price | Number of Warrants Outstanding and Exercisable |
|--------------------|----------------|--|
| | \$ | |
| March 22, 2012 | 1.35 | 193,918 |
| July 15, 2012 | 2.00 | 23,940 |
| September 22, 2012 | 1.95 | 1,385,125 |
| January 15, 2013 | 2.00 | 583,667 |
| February 28, 2013 | 2.00 | 166,750 |
| | | 2,353,400 |

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 requirements of the Exchange, 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. Stock option transactions and the number of stock options outstanding are summarized as follows:

| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Fair Value |
|---------------------------------------|-------------------------|---------------------------------|-----------------------------|
| | | \$ | \$ |
| Outstanding, March 1, 2010 | 1,440,000 | 0.48 | 0.34 |
| Options granted | 717,500 | 0.98 | 0.73 |
| Options exercised | (320,000) | 0.37 | 0.27 |
| Outstanding, February 28, 2011 | 1,837,500 | 0.69 | 0.51 |
| Options granted | 575,000 | 1.47 | 1.09 |
| Options exercised | (87,000) | 0.96 | 0.67 |
| Outstanding, December 31, 2011 | 2,325,500 | 0.88 | 0.64 |

The fair values of the stock options granted during the ten months ended December 31, 2011 and year ended February 28, 2011 have 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 ten months ended December 31, 2011 | For the year ended February 28, 2011 |
|---------------------------------|--|--------------------------------------|
| Risk-free interest rate | 1.86 % | 2.35 % |
| Annual dividends | - | - |
| Expected stock price volatility | 129.44% | 102.67% |
| Expected forfeiture rate | 26.88% | - |
| Expected life | 2.95 years | 5 years |

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

| Expiry date | Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|-------------------|----------------|----------------------------------|-------------------------------------|
| | \$ | | |
| February 12, 2013 | 1.30 | 138,000 | 138,000 |
| 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 | 50,000 |
| November 2, 2015 | 0.70 | 275,000 | 275,000 |
| December 13, 2015 | 1.00 | 60,000 | 60,000 |
| December 29, 2015 | 1.05 | 75,000 | 55,000 |
| December 31, 2015 | 1.14 | 50,000 | 50,000 |
| February 4, 2016 | 1.55 | 50,000 | 50,000 |
| February 7, 2016 | 1.56 | 100,000 | 100,000 |
| March 7, 2016 | 1.50 | 25,000 | 25,000 |
| March 23, 2016 | 1.53 | 300,000 | 150,000 |
| April 29, 2016 | 1.64 | 75,000 | 56,250 |
| July 19, 2016 | 1.34 | 100,000 | - |
| August 2, 2016 | 1.25 | 50,000 | 12,500 |
| August 12, 2016 | 1.19 | 25,000 | 6,250 |
| | | 2,325,500 | 1,880,500 |

9. RELATED PARTY TRANSACTIONS

During the ten months ended December 31, 2011, a \$45,000 (twelve months ended February 28, 2011 - \$48,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which \$12,290 (February 28, 2011 - \$6,382 and March 1, 2010 - \$4,568) is included in accounts payable and accrued liabilities.

During the ten months ended December 31, 2011, a \$100,000 expense (twelve months ended February 28, 2011 - \$nil) was recorded for consulting services provided by a company jointly controlled by a director of the Company. Included in accounts payable and accrued liabilities at December 31, 2011 is \$43,448 (February 28, 2011 - \$11,200 and March 1, 2010 - \$Nil) payable to this related company. Additionally, 400,000 stock options were granted to this entity during the ten months ended December 31, 2011 with \$358,528 being recorded in stock-based compensation for the period.

Included in prepaid expenses is \$10,000 (February 28, 2011 - \$10,000, March 1, 2010 - \$nil) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities is a total of \$3,496 (February 28, 2011 - \$5,651, March 1, 2010 - \$nil) owing to this officer.

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.

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In addition to the aforementioned related party transactions, salaries and benefits and other compensation earned directly by key members of the Company's management are as follows:

| | For the Ten Months Ended December 31, 2011 | For the Twelve Months Ended February 28, 2011 |
|-------------------------------------|---|--|
| | \$ | \$ |
| Salaries and benefits | 126,227 | 126,580 |
| Consulting fees | 122,000 | 11,500 |
| Stock-based compensation recognized | 217,363 | 147,424 |
| Total compensation | 465,590 | 285,504 |

10. SEGMENTED INFORMATION

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

| | Net Comprehensive Loss for | |
|-------------------------------------|---|--|
| | For the Ten Months Ended December 31, 2011 | For the Twelve Months Ended February 28, 2011 |
| | \$ | \$ |
| Canada | 2,385,962 | 308,699 |
| United States | 2,504,483 | 2,701,585 |
| Total net comprehensive loss | 4,890,445 | 3,010,284 |

| | Total Assets as at | | |
|---------------------|-----------------------------|-----------------------------|-------------------------|
| | December 31 2011 | February 28 2011 | March 1 2010 |
| | \$ | \$ | \$ |
| Canada | 3,507,763 | 2,008,127 | 3,657,470 |
| United States | 3,986,505 | 1,380,378 | 1,188,475 |
| Total assets | 7,494,268 | 3,388,505 | 4,845,945 |

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11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | For the Ten Months Ended December 31, 2011 | For the Twelve Months Ended February 28, 2011 |
|---|---|--|
| | \$ | \$ |
| Accounting loss before income taxes | (4,985,445) | (3,185,590) |
| Income tax recovery at statutory tax rates | (1,321,000) | (897,000) |
| Impact of different foreign statutory tax rates on earnings of subsidiaries | (195,000) | (36,000) |
| Non-deductible expenditures and non-taxable revenues | 213,000 | (25,000) |
| Share issue costs | (178,000) | - |
| Changes in unrecognized deductible temporary differences | 1,376,000 | 879,000 |
| Other | 10,000 | (96,306) |
| Total income tax recovery | (95,000) | (175,306) |

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of deferred tax assets that have not been set up are as follows:

| | December 31 2011 | February 28 2011 |
|------------------------------------|-----------------------------|---------------------|
| | \$ | \$ |
| Deferred tax assets: | | |
| Share issue costs | 139,000 | 21,000 |
| Non-capital losses | 759,000 | 265,000 |
| Capital assets | 7,000 | 3,000 |
| Mineral properties | 1,858,000 | 1,098,000 |
| Total deferred tax assets | 2,763,000 | 1,387,000 |
| Deferred tax assets not recognized | (2,763,000) | (1,387,000) |
| Net deferred tax assets | - | - |

The significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statements of financial position are as follows:

| | December 31 2011 | February 28 2011 |
|--------------------|-----------------------------|---------------------|
| | \$ | \$ |
| Share issue costs | 557,000 | 82,000 |
| Non-capital losses | 2,981,000 | 1,059,000 |
| Capital assets | 19,000 | 10,000 |
| CEC | 1,000 | - |
| Mineral properties | 5,465,000 | 3,230,000 |

Non-capital losses, if not utilized expire in or prior to 2032. Tax balances are subject to review and potential adjustments by tax authorities.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2011, the Company's financial instruments are comprised of cash, amounts receivable, income tax receivable, reclamation deposit and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy, described in Note 3, as follows:

| | Level 1 | Level 2 | Level 3 |
|------|----------------|----------------|----------------|
| | \$ | \$ | \$ |
| Cash | 4,245,438 | - | - |

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument 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 December 31, 2011, the Company held \$1,638,060 (February 28, 2011 - \$1,273,521; March 1, 2010 - \$421,478) in United States dollars. A prolonged \$0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a \$163,806 foreign exchange loss (gain) based on United States dollar holdings as at December 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 which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

13. 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 ten months ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

14. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the ten months ended December 31, 2011 and twelve months ended February 28, 2011 are as follows:

| | For the Ten Months Ended December 31, 2011 | For the Twelve Months Ended February 28, 2011 |
|---|---|--|
| Net loss (numerator) | \$(4,890,445) | \$(3,010,284) |
| Basic and diluted weighted average number of common shares outstanding (denominator) | 25,019,086 | 18,922,375 |
| Basic and diluted loss per share | \$(0.20) | \$(0.16) |

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

15. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

| Nature of payment | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------|---------------|-------------|-------------|-------------|-------------|
| Engineering management ¹ | US\$1,813,128 | US\$453,282 | - | - | - |
| Mineral rights ² | US\$144,000 | US\$144,000 | US\$144,000 | US\$144,000 | US\$144,000 |
| Office lease | Cdn\$108,936 | - | - | - | - |

¹ As described in Note 7, the Company has commenced a basic engineering phase under a mine engineering, procurement and construction management agreement. The Company is not committed to undertaking further phases under the agreement.

² As described in Note 7, the Company is making NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments.

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As discussed in Note 8, 425,000 of the Company's shares are issuable upon meeting various milestones for the development of the Gibellini property. Although the timing and number of shares that will be issued under this arrangement is unknown, the issuance of these shares is contingent on the following events:

| Contingent Event | Number of Shares Issuable |
|---|----------------------------------|
| Project permitting | 75,000 |
| Design and construction of mine leach pad | 100,000 |
| Economic production | 250,000 |
| | 425,000 |

As the events that would result in the issuance of these shares has not occurred, no provision for their payment has been recorded.

16. EVENTS AFTER THE REPORTING PERIOD

In April 2012, the Company entered into an employment agreement with its Vice President, Environmental. Pursuant to the terms of the agreement, 100,000 stock options- vesting over one year and expiring five years from the date of grant- were granted with an exercise price of \$0.70, 100,000 of the Company's common shares were issued as a bonus upon signing the agreement, and 300,000 common shares are issuable upon meeting certain milestones regarding the environmental permitting and development of the Gibellini property.



AMERICAN VANADIUM CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE TEN MONTHS ENDED DECEMBER 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 April 24, 2012. This MD&A should be read in conjunction with the Company’s audited consolidated financial statements as at and for the ten months ended December 31, 2011.

Change in financial year

In October 2011, the Company announced that it would change its financial year-end from February 28 to December 31 in order to align its financial reporting with its operational and budgeting cycles. The current period ended December 31, 2011 is a 10-month period, while the comparative period ended February 28, 2011 is a 12-month period. Consequently, current and prior period balances may not be fully comparable.

The Company did not issue condensed consolidated interim financial statements as at and for the nine months ended November 30, 2011.

Compliance with IFRS

The audited consolidated financial statements for the ten months ended December 31, 2011 are the Company’s first to be prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). As such, they have been prepared in accordance with IFRS1, “First time Adoption of International Financial Reporting Standards.” 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”).

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 results from a feasibility study of Gibellini and an updated National Instrument 43-101 technical report was released in October 2011.

Currently, the Company is focusing its operational resources on three primary initiatives:

1. Obtaining environmental permits required to mine the Gibellini ore deposit;
2. Evaluating the highest value uses for vanadium, including grid-scale energy storage; and
3. Securing short and long-term financing for operating and project requirements.

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 as Vice-Chairman on August 19, 2011 and as Executive Chairman of the Board of Directors on January 25, 2012. On August 19, 2011, the Company appointed John Downes as the Company's Chief Financial Officer. On April 2, 2012, the Company appointed Ron Espell to the position of Vice President, Environmental.

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 252 unpatented lode mining claims and seven placer claims. Of the unpatented lode claims, the Company holds 100% title to 200 claims, including 37 claims acquired in the ten months ended December 31, 2011. The remaining 52 claims are leased through on-going payments of US\$144,000, annually. These 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.

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 released in October 2011.

As part of the work program for the Feasibility Study, the Company completed 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 ("V₂O₅") reserves from 20.0 million tons of ore at an average grade of 0.302%;
- 131.37 million pounds of Measured and Indicated V₂O₅ 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 V₂O₅ 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 V₂O₅ 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 V₂O₅ recovery;
- 11.4 million pounds average annual V₂O₅ production;
- US\$4.10 average operating cost of per pound of V₂O₅;
- US\$95.5 million capital cost; and
- US\$10.95 per pound average V₂O₅ selling price of over the life of mine.

In addition to the completion of the Feasibility Study, the following operational, regulatory, and environmental steps have been during and subsequent to the ten months ended December 31, 2011 in order to advance the Gibellini Project towards development:

1. In August 2011, the Company obtained the necessary rights for all water usage that is required to operate a mine.
2. In November 2011, the Company awarded Scotia International of Nevada, Inc. a contract to manage the basic and detailed engineering, procurement and construction processes required during to develop a mine. To date, basic engineering work has commenced under the scope of this agreement.
3. In April 2012, Mr. Ron Espell was appointed Vice President, Environmental. Mr. Espell will lead the initial environmental permitting of the Gibellini Project, as well as ongoing environmental management

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.

Selected Annual Information

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 continues to recognize an expense for all exploration and evaluation expenditures as incurred.

To date, the Company has not earned any revenues from vanadium sales, has not declared any cash dividends, and has not held any long-term debt.

Selected annual information is as follows:

| | December 31 2011 | February 28 2011 | March 1 2010 |
|---|--|--|-------------------|
| | \$ | \$ | \$ |
| Balance Sheet: | | | |
| Cash | 4,245,438 | 1,953,402 | 1,076,988 |
| Total assets | 7,494,268 | 3,388,505 | 4,845,945 |
| | For the ten months ended December 31 2011 | For the twelve months ended February 28 | |
| | 2011 | 2011 | 2010 ¹ |
| | \$ | \$ | \$ |
| Operations: | | | |
| Net comprehensive loss (income) | 4,890,445 | 3,010,284 | (2,430,165) |
| Basic and diluted loss (income) per share | 0.20 | 0.16 | (0.15) |

¹ Information for the twelve months ended February 28, 2010 is prepared in accordance with Canadian GAAP. Balance sheet and operations information for all other periods is prepared in accordance with IFRS.

Total assets

The increase in total assets from \$3.4 million as at February 28, 2011 to \$7.5 million as at December 31, 2011 is primarily owing to \$8.2 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 \$4.2 million in on cash expenditures for mineral exploration and evaluation, as well as for general and administrative purposes during the ten months ended December 31, 2011.

Total assets decreased from \$4.8 million as at March 1, 2010 to \$3.4 million as at February 28, 2011 as a result of \$3.1 million on cash expenditures for mineral exploration and evaluation, as well as for general and administrative purposes during the twelve months ended February 28, 2011. The impact of these expenditures was partially offset by a \$0.9 million gain from the sale of short-term investments and \$0.8 million in proceeds from the exercise of warrants and stock options.

Net comprehensive loss (income)

Net comprehensive loss for the ten months ended December 31, 2011 was \$4.9 million, compared with net comprehensive loss of \$3.0 million for the twelve months ended February 28, 2011. The increase in net comprehensive loss is owing to expenses for the completion of the feasibility study for Gibellini in the ten months ended December 31, 2011, as well as a general increase in corporate activity as the project advances. This increased corporate activity includes:

- additional corporate staffing, which resulted in increases to salaries and benefits, as well as stock-based compensation for options granted;
- consulting and travel costs incurred to identify and assess potential business partners and markets for vanadium;

- investor relations and shareholder information costs incurred to identify and evaluate potential sources of financing, and to support existing shareholders; and
- general office and administrative costs.

Generally, corporate and property-related costs also increased during the twelve months ended February 28, 2011 compared with the same period for 2010. These cost increases were incurred as the Company increased its exploration and evaluation activities and commenced the Feasibility Study for Gibellini. The increase in these costs during the twelve months ended February 28, 2011 were partially offset by a \$0.9 million gain from short-term investments, which were disposed of during the year. A \$3.7 million gain was recorded on the sale of certain mineral properties.

Results of Operations

Select expenses incurred by the Company are as follows:

| | For the ten months ended December 31 2011 | For the twelve months ended February 28 2011 |
|--|--|---|
| | \$ | \$ |
| Exploration and evaluation expenses | 2,582,938 | 2,768,146 |
| General and administrative expenses: | | |
| Stock-based compensation | 781,370 | 333,727 |
| Salaries and benefits | 514,135 | 216,780 |
| Investor relations and shareholder information | 337,164 | 236,110 |
| Consulting | 270,262 | 45,918 |
| Travel | 228,046 | 90,697 |
| Office facilities and administrative costs | 144,221 | 104,882 |
| Office and sundry | 88,889 | 55,083 |
| Other | 163,909 | 116,033 |
| Loss before other items | (5,110,934) | (3,967,376) |
| Other items: | | |
| Foreign exchange gain (loss) | 106,811 | (111,775) |
| Interest income | 18,678 | 5,552 |
| Loss on short-term investments | - | 888,009 |
| Loss before income taxes | (4,985,445) | (3,185,590) |
| Current income tax recovery | 95,000 | 175,306 |
| Net comprehensive loss | (4,890,445) | (3,010,284) |

The Company's net comprehensive loss for the ten months ended December 31, 2011 is largely 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 ten-month period are \$975 thousand for the completion of the Feasibility Study, \$521 thousand in environmental permitting costs, \$445 thousand for office and administrative costs directly related to Gibellini, \$311 thousand for metallurgical testing, \$175 thousand for exploration, basic engineering and property maintenance, and \$111 thousand for geotechnical

costs. Additionally, \$45 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 throughout the ten months ended December 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 \$217 thousand for the twelve months ended February 28, 2011 to \$514 thousand for the ten months ended December 31, 2011. Likewise, stock options granted to these employees have resulted in increased stock-based compensation from \$334 thousand to \$781 thousand.

Investor relations and shareholder information expense increased from \$236 thousand to \$337 thousand, owing to costs indirectly related to private placements of shares and additional communications about Gibellini.

Consulting expenses increased from \$46 thousand for the twelve months ended February 28, 2011 to \$270 thousand for the ten months ended December 31, 2011, and travel costs increased from \$91 thousand to \$228 thousand for the same period. These increases are related to the development of international industry relationships and to identify and evaluate potential future markets for vanadium.

Office-related and other expenses have also increased during the ten months ended December 31, 2011, commensurate with the increases to Gibellini and corporate activities.

Financial Condition, Liquidity and Capital Resources

As at December 31, 2011, the Company's working capital was \$5,038,267, including cash of \$4,245,438, compared to working capital of \$1,491,853 as at February 28, 2011. The increase in the Company's working capital during the ten months ended December 31, 2011 is 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 these private placements, including \$118 thousand in compensatory warrants issued to placement agents.

In addition to the net proceeds from these private placements, \$551 thousand was received through the exercise of stock options and warrants during the ten months ended December 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 April 24, 2012, the Company has 27,543,397 common shares issued and outstanding. An additional 2,159,482 warrants are outstanding, exercisable into common shares at exercise prices ranging from \$1.95 to \$2.00 per share with various expiration dates, and there are 2,540,500 stock options outstanding of which 912,500 are currently vested and “in the money”.

Summary of Quarterly Results:

| For the Three or Four Months Ended | Exploration and Evaluation ³ | General Expenses ⁴ | Stock-based Compensation ⁴ | Interest Income ⁵ | Net Comprehensive Loss (Income) ⁶ | Basic and Diluted Loss (Income) Per Share |
|------------------------------------|---|-------------------------------|---------------------------------------|------------------------------|--|---|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| December 31, 2011 ¹ | 752,715 | 875,056 | 228,456 | (8,588) | 1,660,534 | 0.06 |
| 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 ² | 8,380 | 84,539 | 252,767 | (12) | 420,816 | 0.03 |

Explanatory Notes:

1. Due to its change in financial year-end from February 28 to December 31, the Company did not issue results for the three months ended November 30, 2011. Instead, the period ended December 31, 2011 is a four-month period.
2. 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.
3. Generally, exploration and evaluation costs have increased since the three months ended November 30, 2009. 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.

Exploration and evaluation costs for the four months ended December 31, 2011 primarily relate to \$234 thousand for environmental permitting, \$120 thousand for metallurgical testing, \$111 thousand for geotechnical work and \$288 thousand for office and other site costs, completion of the Feasibility Study and sundry items.

4. With increasing mineral exploration, general expenses have also increased since November 30, 2010 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.

For the four months ended December 31, 2011, general expenses included \$331 thousand in salaries and benefits, which itself included a bonus settled through the issuance of common shares valued at \$79 thousand upon completion of the feasibility study. Also included in general expenses for this period are \$163 thousand in consulting and \$184 thousand in travel costs, related to the development of industry relationships and potential markets for vanadium, internationally. Stock-based compensation for the four months ended December 31, 2011 increased from the previous quarter as a result of stock options granted during the period to new employees.

5. 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.
6. Net comprehensive income for the three months ended May 30, 2010 includes a valuation gain of \$1,020,000 on shares held as short-term investments. These shares were disposed during the quarter ended August 31, 2010, so subsequent net comprehensive losses are related to exploration and evaluation costs, general expenses and stock-based compensation.

Transactions with Related Parties

During the ten months ended December 31, 2011, a \$45,000 (twelve months ended February 28, 2011 - \$48,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which \$12,290 (February 28, 2011 - \$6,382 and March 1, 2010 - \$4,568) is included in accounts payable and accrued liabilities.

During the ten months ended December 31, 2011, a \$100,000 expense (twelve months ended February 28, 2011 - \$nil) was recorded for consulting services provided by a company jointly controlled by a director of the Company. Included in accounts payable and accrued liabilities at December 31, 2011 is \$43,448 (February 28, 2011 - \$11,200 and March 1, 2010 - \$nil) payable to this related company. Additionally, 400,000 stock options were granted to this entity during the ten months ended December 31, 2011 with \$358,528 being recorded in stock-based compensation for the period.

Included in prepaid expenses is \$10,000 (February 28, 2011 - \$10,000, March 1, 2010 - \$nil) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities is a total of \$3,496 (February 28, 2011 - \$5,651, March 1, 2010 - \$nil) owing to this officer.

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.

In addition to the aforementioned related party transactions, salaries and benefits and other compensation earned by directly by key members of the Company's management are as follows:

| | For the Ten Months Ended December 31, 2011 | For the Twelve Months Ended February 28, 2011 |
|-------------------------------------|---|--|
| | \$ | \$ |
| Salaries and benefits | 126,227 | 126,580 |
| Consulting fees | 122,000 | 11,500 |
| Stock-based compensation recognized | 217,363 | 147,424 |
| Total compensation | 465,590 | 285,504 |

Changes to Accounting Policies and Transition to IFRS

As discussed under the heading "Background" of this MD&A, the Company's audited consolidated financial statements for the ten months ended December 31, 2011 are the Company's first to be prepared 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.

i. Critical IFRS accounting policies

The Company's accounting policies are discussed in detail in Note 3 of the audited consolidated financial statements as at and for the ten months ended December 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, 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 or 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 comprehensive (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 comprehensive loss.

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 audited consolidated financial statements as at and for the ten months ended December 31, 2011, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. 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 audited consolidated financial statements as at and for the ten months ended December 31, 2011, but the following table provides a summary of the IFRS changes to the Company's net loss for the twelve months ended February 28, 2011:

| | Year ended February 28, 2011 |
|--|---|
| | \$ |
| Net comprehensive loss under Canadian GAAP | 2,981,284 |
| Increase in stock-based compensation under IFRS ¹ | 29,000 |
| Net comprehensive loss under IFRS | 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.

ii) Other impacts from the transition to IFRS

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, income tax 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

A portion of the Company's expenses are incurred in United States dollars and financial instrument 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 December 31, 2011, the Company held \$1,638,060 (February 28, 2011 - \$1,273,521; March 1, 2010 - \$421,478) in United States dollars. A prolonged \$0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a \$163,806 foreign exchange loss (gain) based on United States dollar holdings as at December 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 | 4,245,438 | - | - |

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

The following securities are outstanding at April 24, 2012:

| | |
|---|------------|
| Common shares issued and outstanding | 27,543,397 |
| Shares issuable on the exercise of outstanding stock options | 2,540,500 |
| Shares issuable on the exercise of share purchase warrants | 2,159,482 |
| Shares contingently issuable through completion of operational milestones | 725,000 |

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.