



**AMERICAN VANADIUM CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**AS AT AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

### **Management's Comments on Unaudited Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") as at and for the nine months ended September 30, 2014 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

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

	September 30	December 31
	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	228,500	1,460,897
Amounts receivable	96,278	49,479
Prepaid expenses (Notes 4,8)	675,162	123,101
<b>Total current assets</b>	<b>999,940</b>	<b>1,633,477</b>
Equipment and deposits on equipment (Note 5)	913,621	142,580
Reclamation deposit	172,876	148,393
Mineral properties (Note 6)	2,153,562	1,917,284
<b>Total assets</b>	<b>4,239,999</b>	<b>3,841,734</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	1,668,440	1,490,661
<b>Total liabilities</b>	<b>1,668,440</b>	<b>1,490,661</b>
<b>Shareholders' equity</b>		
Share capital (Note 7)	29,080,557	24,097,538
Equity reserves	3,920,603	3,493,384
Deficit	(30,429,601)	(25,239,849)
<b>Total shareholders' equity</b>	<b>2,571,559</b>	<b>2,351,073</b>
<b>Total liabilities and shareholders' equity</b>	<b>4,239,999</b>	<b>3,841,734</b>

**Basis of presentation and continuance of operations (Note 2)**

**Commitments and contingencies (Note 13)**

**Events subsequent to the reporting period (Note 14)**

**On behalf of the Board:**

*Signed: "William Radvak"* Director

*Signed: "Brian E. Bayley"* Director

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

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Exploration and evaluation expenses</b> (Note 6)	<b>(679,919)</b>	(772,633)	<b>(2,097,322)</b>	(2,646,368)
<b>General and administrative expenses:</b>				
Salaries and benefits	354,847	185,230	1,086,016	570,362
Consulting (Note 8)	256,264	160,971	676,396	407,730
Stock-based compensation (Note 7)	147,438	29,690	566,995	47,457
Travel	87,313	47,810	215,959	140,246
Office facilities and administrative services (Note 8)	51,930	50,430	154,291	145,213
Office and sundry	38,335	23,409	100,546	76,389
Audit and legal	26,775	22,516	60,236	93,058
Transfer agent, listing and filing fees	17,904	12,284	57,518	47,888
Investor relations and shareholder information	7,366	38,542	84,828	115,177
Amortization	5,424	7,942	22,662	22,747
<b>Total general and administrative expenses</b>	<b>(993,596)</b>	(578,824)	<b>(3,025,447)</b>	(1,666,267)
Foreign exchange gain (loss)	8,418	10,985	(73,710)	31,386
Interest income	1,116	199	6,727	1,350
<b>Loss before income taxes</b>	<b>(1,663,981)</b>	(1,340,273)	<b>(5,189,752)</b>	(4,279,899)
<b>Current income tax recovery</b>	<b>-</b>	7,458	<b>-</b>	7,458
<b>Net comprehensive loss</b>	<b>(1,663,981)</b>	(1,332,815)	<b>(5,189,752)</b>	(4,272,441)
<b>Basic and diluted loss per share</b> (Note 12)	<b>(0.03)</b>	(0.04)	<b>(0.09)</b>	(0.12)

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

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

	<b>Share Capital</b>	<b>Equity Reserves</b>	<b>Deficit</b>	<b>Total</b>
	\$	\$	\$	\$
Balance, December 31, 2012	17,461,187	2,876,809	(16,960,304)	3,377,692
Private placements, net of share issuance costs	4,744,704	277,943	-	5,022,647
Exercise of stock options	56,151	(18,875)	-	37,276
Stock-based compensation	-	47,457	-	47,457
Net comprehensive loss for the period	-	-	(4,272,441)	(4,272,441)
Balance, September 30, 2013	22,262,042	3,183,334	(21,232,745)	4,212,631
Private placements, net of share issuance costs	1,702,496	3,105	-	1,705,601
Stock-based compensation	133,000	306,945	-	439,945
Net comprehensive loss for the period	-	-	(4,007,104)	(4,007,104)
Balance, December 31, 2013	24,097,538	3,493,384	(25,239,849)	2,351,073
Private placements, net of share issuance costs	4,822,920	12,043	-	4,834,963
Exercise of warrants	9,674	(1,394)	-	8,280
Stock-based compensation	150,425	416,570	-	566,995
Net comprehensive loss for the period	-	-	(5,189,752)	(5,189,752)
<b>Balance, September 30, 2014</b>	<b>29,080,557</b>	<b>3,920,603</b>	<b>(30,429,601)</b>	<b>2,571,559</b>

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

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

	<b>Nine Months Ended September 30 2014</b>	Nine Months Ended September 30 2013
	\$	\$
<b>CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
Net comprehensive loss	(5,189,752)	(4,272,441)
Items not involving cash:		
Stock-based compensation	566,995	47,457
Amortization	22,662	22,747
Unrealized foreign exchange gain	(57)	(24,790)
Write-off of water rights	-	390,338
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	(675,686)	665,386
Prepaid expenses	(443,169)	(109,000)
Amounts receivable	6,473	10,279
Income tax receivable	-	102,035
Non-operating income:		
Interest income	(6,727)	(1,350)
<b>Net cash used in operating activities</b>	<b>(5,719,261)</b>	<b>(3,169,339)</b>
<b>CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>		
Payments for mineral properties	(236,278)	(199,248)
Purchase of equipment	(117,847)	(10,668)
Payments for reclamation deposit	(8,981)	-
Interest income	6,727	1,151
<b>Net cash used in by investing activities</b>	<b>(356,379)</b>	<b>(208,765)</b>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares, net of issuance costs	4,843,243	5,059,920
<b>Net cash provided by financing activities</b>	<b>4,843,243</b>	<b>5,059,920</b>
<b>Change in cash for the period</b>	<b>(1,232,397)</b>	<b>1,681,816</b>
<b>Cash, beginning of period</b>	<b>1,460,897</b>	<b>1,716,318</b>
<b>Cash, end of period</b>	<b>228,500</b>	<b>3,398,134</b>

**Non-cash investing and financing activities:**

- Cash flows (used in) provided by investing activities for the nine months ended September 30, 2014 excludes an increase of \$728,321 in accrued equipment payments that is included in accounts payable and accrued liabilities as at September 30, 2014 and an increase of \$52,465 in equipment grants receivable that is included in amounts receivable as at September 30, 2014.
- Cash flows provided by (used in) financing activities for the nine months ended September 30, 2014 excludes \$12,043 in share issuance costs that were settled through the issuance of warrants.

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

## **AMERICAN VANADIUM CORP.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

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### **1. NATURE OF OPERATIONS**

American Vanadium Corp. (the “Company”), incorporated under the *Canada Business Corporations Act*, is the Master Sales Agent in North America for the CellCube vanadium redox flow energy system (“CellCube”), produced by Gildemeister Energy Solutions, Cellstrom GmbH (“Gildemeister”) of Germany. The CellCube is a commercially available vanadium flow battery capable of delivering long-duration energy storage for a broad range of applications, such as renewable energy integration and the reduction of demand charge tariffs levied by utilities.

The Company is integrating the CellCube sales opportunity with its Gibellini Property (“Gibellini”), a vanadium deposit located in Eureka County, Nevada and the development of a metallurgical process to create vanadium electrolyte for use in vanadium flow battery installations.

The address of the Company’s principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the “Exchange”) under the symbol “AVC” and are quoted on the OTCQX under the symbol “AVCVF”.

### **2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS**

#### **Statement of compliance**

These unaudited condensed consolidated interim financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013.

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

These consolidated financial statements were authorized by the Board of Directors on November 25, 2014.

#### **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 incorporation. 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 marketing Gildemeister’s CellCube vanadium redox flow batteries, which may provide some operating cash flow, but as this activity is still in a start-up phase and no firm sales have been made, the Company is solely dependent upon its ability to raise funds in capital markets to meet its operating requirements and to finance the permitting and development of Gibellini.

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 consolidated 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. Based on

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these factors, there is a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

As at September 30, 2014, the Company had a working capital deficit of \$668,500 (December 31, 2013 - \$142,816 surplus) and had \$2,571,559 (December 31, 2013 - \$2,351,073) in shareholders' equity.

**3. SIGNIFICANT ACCOUNTING POLICIES**

With the exception of a new accounting policy to address the receipt of government grants, as described under the heading "Government grants", herein, and the mandatory adoption of new IFRS, which are described under the heading "Adoption of new IFRS", these unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgment, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

**Basis of consolidation**

These consolidated financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

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 and presentation currency**

The balances in these consolidated financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

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

**Government grants**

From time to time, the Company may receive grants from governments or government agencies towards the purchase and installation of demonstration CellCube units. When the Company has performed requisite activities and it is probable that these grants will be received, the Company accrues the grants receivable with the offset being recorded as a reduction to the cost base for installations that it records as assets, and as income for other installations.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
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**Adoption of new IFRS**

The Company adopted the following new IFRS that became effective for fiscal years starting on January 1, 2014, which did not have a significant impact on the Company's financial results:

IAS 32, "*Financial Instruments: Presentation*"

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities.

**Future changes in accounting policies**

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

i. IFRS 2, "*Share-based Payment*"

IFRS 2 is amended to clarify the definition of vesting conditions. This accounting policy applies to share-based payment transactions for which the grant date is on or after July 1, 2014.

ii. IFRS 3, "*Business Combinations*"

IFRS 3 is amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iii. IFRS 8, "*Operating Segments*"

IFRS 8 is amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iv. IFRS 9, "*Financial Instruments*"

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

v. IFRS 16, "*Property, Plant and Equipment and IFRS 38, Intangible Assets*"

IFRS 16 and IFRS 38 are amended to classify how gross carrying amount and accumulated depreciation or amortization are treated where an entity uses the revaluation model. These amendments are effective for fiscal years beginning on or after July 1, 2014.

vi. IFRS 24, "*Related Party Transactions*"

IFRS 24 is amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

**AMERICAN VANADIUM CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**4. PREPAID EXPENSES**

Changes to the balance of prepaid expenses for the nine months ended September 30, 2014 are as follows:

	<b>Amount</b>
	<b>\$</b>
Balance, December 31, 2013	123,101
Net change in expense advances and rental and other deposits	759
Prepayment for CellCube testing	108,420
Advances towards future CellCube sales	442,882
<b>Balance, September 30, 2014</b>	<b>675,162</b>

During the nine months ended September 30, 2014, the Company paid \$108,420 for testing that will be conducted on a CellCube unit at a U.S. Department of Energy's National Renewable Energy Laboratory facility located in Golden, Colorado. Testing commenced in the fourth quarter of 2014, and the prepaid balance will be reduced for actual test costs incurred.

During the nine months ended September 30, 2014, the Company made advance orders for future CellCube sales, making a \$338,512 non-refundable advance and accruing an additional \$104,370. These amounts will be recoverable to the Company upon future commercial sales.

**5. EQUIPMENT AND DEPOSITS ON EQUIPMENT**

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

	<b>Field Equipment</b>	<b>Office Equipment</b>	<b>Vehicles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>				
Balance, December 31, 2013	41,655	62,086	41,118	144,859
Additions	-	1,736	-	1,736
<b>Balance, September 30, 2014</b>	<b>41,655</b>	<b>63,822</b>	<b>41,118</b>	<b>146,595</b>
<b>Accumulated amortization</b>				
Balance, December 31, 2013	38,317	19,517	28,626	86,460
Additions	3,338	13,101	6,223	22,662
<b>Balance, September 30, 2014</b>	<b>41,655</b>	<b>32,618</b>	<b>34,849</b>	<b>109,122</b>
<b>Carrying value</b>				
December 31, 2013	3,338	42,569	12,492	58,399
<b>September 30, 2014</b>	<b>-</b>	<b>31,204</b>	<b>6,269</b>	<b>37,473</b>

*Deposits on equipment*

In addition to the equipment balances above, as at September 30, 2014, the Company has paid or accrued a total of \$876,148 for instalments towards CellCube units which will be held by the Company for demonstration purposes, with the possibility of future resale. Of this amount, \$116,111 was paid and \$728,321 has been accrued during the nine months ended September 30, 2014, partially offset by a \$52,465 reduction for government grants receivable. An additional \$84,181 was paid during the year ended December 31, 2013. This

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amount is classified as a deposit on equipment until such time as this equipment is operating, at which point it will be reclassified as equipment and will be subject to amortization.

**6. MINERAL PROPERTIES**

**Summary of properties**

a) Gibellini Property, Nevada, U.S.

In March 2006, 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 September 30, 2014, the Company has paid a total of US\$840,000 in these advance royalty payments, including US\$90,000 paid during the nine months ended September 30, 2014.

In December 2006, 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 September 30, 2014, the Company has paid a total of US\$143,000 in these advance royalty payments, of which none were paid in the nine months ended September 30, 2014; 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.

In April 2007, 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. In 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, in addition to US\$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

In 2011, the Company staked 180 unpatented lode claims and seven placer claims and in 2012 an additional 196 unpatented lode claims were staked.

For the year ended December 31, 2013 the Company paid US\$231,090 in towards to water lease agreements, one of which was cancelled during 2013 for an additional payment of US\$100,000 and an agreement to pay a further US\$25,000 in each of 2014 and 2015. As a result of the cancellation, \$390,338 in related capitalized costs from previous periods related to the cancelled well was written-off from the mineral property balance and an expense of \$531,033 was incurred for the year ended December 31, 2013, comprising the amount written-off, the cancellation payments paid or accrued, and legal fees incurred for the cancellation. The Company pays annual fees of US\$125,000 for its remaining water rights; the payment required for 2014 was paid during the nine months ended September 30, 2014.

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

In 2010, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

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

In 2010, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

**Acquisition costs**

As at September 30, 2014 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights. Changes to these carrying values are as follows:

	<b>Gibellini</b>	<b>Del Rio</b>	<b>Hot Creek</b>	<b>Total</b>
	\$	\$	\$	\$
As at December 31, 2013	1,868,430	39,683	9,171	1,917,284
Additions	236,278	-	-	236,278
<b>As at September 30, 2014</b>	<b>2,104,708</b>	<b>39,683</b>	<b>9,171</b>	<b>2,153,562</b>

The Company has capitalized, rather than expensed, payments for mineral and related water rights on the basis that holding title to the related properties and water rights allows the Company to 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.

**Exploration and evaluation expenses**

During the nine months ended September 30, 2014, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	<b>Gibellini</b>	<b>Del Rio</b>	<b>Hot Creek</b>	<b>Total</b>
	\$	\$	\$	\$
Environmental permitting	682,445	-	-	682,445
Engineering, procurement and construction management	129,586	-	-	129,586
Metallurgy	527,362	-	-	527,362
General	194,635	-	-	194,635
Property maintenance	90,504	19,864	3,204	113,572
Engineering	117,347	-	-	117,347
Labour and benefits	132,447	-	-	132,447
Leach pad design	92,550	-	-	92,550
Satellite office	82,027	-	-	82,027
Geotechnical	15,485	-	-	15,485
Drilling and trenching	1,826	-	-	1,826
Feasibility	8,040	-	-	8,040
	<b>2,074,254</b>	<b>19,864</b>	<b>3,204</b>	<b>2,097,322</b>

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During the nine months ended September 30, 2013, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	<b>Gibellini</b>	<b>Del Rio</b>	<b>Hot Creek</b>	<b>Total</b>
	\$	\$	\$	\$
Environmental permitting	817,342	-	-	817,342
Engineering, procurement and construction management	638,959	-	-	638,959
Metallurgy	576,431	-	-	576,431
Water	390,338	-	-	390,338
General	157,642	-	-	157,642
Property maintenance	68,563	19,443	2,824	90,830
Engineering	61,375	-	-	61,375
Power	51,235	-	-	51,235
Geotechnical	32,012	-	-	32,012
Drilling and trenching	2,575	-	-	2,575
Feasibility	(172,371)	-	-	(172,371)
	<b>2,624,101</b>	<b>19,443</b>	<b>2,824</b>	<b>2,646,368</b>

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

Unlimited number of common voting shares with no par value.

*Issued and outstanding*

	<b>Number of Common Shares</b>	<b>Amount \$</b>
Outstanding, January 1, 2013	33,524,250	17,461,187
Issued through private placements, net of share issuance costs	13,267,698	6,447,200
Issued on exercise of stock options	53,250	56,151
Issuance of bonus shares and vesting of performance shares	325,000	133,000
Outstanding, December 31, 2013	47,170,198	24,097,538
Issued through private placements, net of share issuance costs	12,500,000	4,822,920
Issuance of bonus and performance shares	347,500	150,425
Issued on exercise of warrants	13,800	9,674
<b>Outstanding, September 30, 2014</b>	<b>60,031,498</b>	<b>29,080,557</b>

*Private placements*

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of \$0.70 per unit for gross proceeds of \$1,125,388. 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 an additional common share at a price of \$1.20 until April 11, 2014. The value of these units has been bifurcated between common shares at a value of \$0.58 per share and warrants at a value of \$0.12 per one-half warrant. An additional 840 agent's warrants were issued as part of this private placement with a fair value of \$93. Each agent's warrant entitles the holder to purchase one common share at a price of \$1.20 per common

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share until April 11, 2014. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled \$14,075.

On September 30, 2013, the Company completed the first of two tranches of a non-brokered private placement. Under this tranche, the Company issued 8,130,000 common share units at a price of \$0.50 per unit for gross proceeds of \$4,065,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at \$0.60 and one-half of one common share purchase warrant exercisable at \$0.80. Each whole \$0.60 warrant entitles the holder to purchase an additional common share at a price of \$0.60 until March 30, 2014, which was subsequently extended until September 30, 2014, and each whole \$0.80 warrant entitles the holder to purchase an additional common share at a price of \$0.80 until September 30, 2015. The value of these units has been bifurcated between common shares at a value of \$0.49 per share with the residual value of \$0.01 being attributed to the warrants. Agents for the private placement received 23,100 of the \$0.60 warrants and 23,100 of the \$0.80 warrants with a combined fair value of \$3,628. Transaction costs for this tranche, which include warrant and cash commissions, and legal and other fees, totalled \$154,663.

On November 4, 2013, the Company completed the second tranche of the September 30, 2013 non-brokered private placement. Under the second tranche, the Company issued 3,530,000 common share units at a price of \$0.50 per unit for gross proceeds of \$1,765,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at \$0.60 and one-half of one common share purchase warrant exercisable at \$0.80. Each whole \$0.60 warrant entitles the holder to purchase an additional common share at a price of \$0.60 until May 4, 2014, which was subsequently extended until November 4, 2014, and each whole \$0.80 warrant entitles the holder to purchase an additional common share at a price of \$0.80 until November 4, 2015. The full value of these units is attributed to the value of the common shares. Agents for the private placement received 16,800 of the \$0.60 warrants and 16,800 of the \$0.80 warrants with a combined fair value of \$3,104. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled \$59,400.

On March 6, 2014, the Company completed the first tranche of a non-brokered private placement of 10,000,000 common share units at a price of \$0.40 per unit for gross proceeds of \$4,000,000. Each unit consisted of one common share and one-half 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 \$0.60 until March 6, 2016. The full value of these units is attributed to the value of the common shares. Transaction costs for this tranche, which include legal and other fees, totalled \$90,580.

On May 8, 2014, the Company completed the second tranche of the private placement for an additional 2,500,000 common share units at a price of \$0.40 per unit for gross proceeds of \$1,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant for the second tranche entitles the holder to purchase an additional common share at a price of \$0.60 until May 8, 2016. The full value of these units is attributed to the value of the common shares. An additional 93,375 warrants with a fair value of \$12,043 were granted to agents for the second tranche. Transaction costs for this tranche, which include the value of agents' warrants, legal fees, and exchange and other fees, totalled \$87,251.

*Restricted share units ("RSUs")*

The Company has an RSU plan, adopted in fiscal 2013, allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient's benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company's issued and outstanding number of common shares. The Company may grant, subject to

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Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

During the year ended December 31, 2013, the Company issued 200,000 RSUs to an employee of the Company. These RSUs will vest in tranches as certain environmental permitting and mine development milestones for Gibellini are achieved. No RSUs have vested as at September 30, 2014 and no expense has been recognized for the potential achievement of vesting conditions.

*Bonus and performance shares*

Subject to any required shareholder or regulatory approvals, the Company may, outside the RSU plan, grant bonus or performance shares to employees or consultants. These shares may be issued unconditionally (“Bonus Shares”), or may be issued subject to meeting certain performance or retention criteria (“Performance Shares”). For Bonus Shares, an expense is recorded on their grant date equivalent to the prevailing fair market value of the shares. For Performance Shares, an expense is recorded for the grant date fair market value those shares expected to be earned, which is recognized ratably over their anticipated vesting period. The expense recognized for Performance Shares and Bonus Shares results in a corresponding increase to the Company’s equity reserves, which is then reclassified to share capital on actual issuance of the related earned shares.

Changes to the balance of unvested Performance Shares are as follows:

	<b>Bonus Shares</b>	<b>Performance Shares</b>	
	<b>Number of Shares</b>	<b>Number of Unvested Shares</b>	<b>Number of Vested Shares</b>
Outstanding, January 1, 2013	-	725,000	-
Bonus and Performance Share awards granted	-	560,000	-
Performance Shares vested	-	(325,000)	325,000
Shares issued	-	-	(325,000)
Outstanding, December 31, 2013	-	960,000	-
Bonus and Performance Share awards granted	150,000	550,000	-
Performance Shares vested	-	(310,000)	310,000
Shares issued	(100,000)	-	(247,500)
<b>Outstanding, September 30, 2014</b>	<b>50,000<sup>1</sup></b>	<b>1,200,000<sup>2</sup></b>	<b>62,500<sup>1</sup></b>

<sup>1</sup> As at September 30, 2014, there are 112,500 Bonus Shares and Performance Shares issuable to certain employees of the Company and are not subject to any further performance or retention conditions, but whose release is scheduled throughout 2014, and equity reserves as at September 30, 2014 includes \$53,750 related to these shares. The Company issued 87,500 of these shares subsequent to September 30, 2014,

<sup>2</sup> As at September 30, 2014, there are 1,200,000 Performance Shares outstanding whose release is subject to certain performance or retention conditions being fulfilled. The Company has recognized an expense of \$90,811 for the nine months ended September 30, 2014, with the same amount being recorded in equity reserves as at September 30, 2014 related to those shares which are considered highly likely to vest.

The combined expense recognized for Bonus Shares and Performance Shares during the nine months ended September 30, 2014 is \$294,986, which has been recorded in stock based compensation expense. Corresponding amounts of \$144,561 and \$150,425 been recorded in equity reserves for unissued shares and in share capital for shares issued, respectively.

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The performance milestones for the issuance of unvested Performance Shares outstanding as at September 30, 2014 are as follows:

<b>Performance Milestone</b>	<b>Number of Shares Issuable</b>
Earlier of December 31, 2014 and project permitting for the Gibellini property.	100,000
Earlier of December 31, 2015 and completion of detailed engineering and revised feasibility study for the Gibellini property.	75,000
Earlier of December 31, 2015 and completion of the leaching pad for the Gibellini property.	75,000
Earlier of December 31, 2016 and commencement of heap leaching process on the Gibellini property.	100,000
Earlier of December 31, 2016 and economic production on the Gibellini property.	75,000
Earlier of December 31, 2017 and economic production on the Gibellini property.	125,000
On employment retention to December 31, 2017	100,000
Various strategic and financing initiatives	550,000
<b>Total</b>	<b>1,200,000</b>

**Warrants**

Changes to the balance of warrants outstanding are as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b> \$	<b>Weighted Average Fair Value</b> \$	<b>Weighted Average Remaining Life</b> (Years)
Outstanding, January 1, 2013	3,780,087	1.20	0.21	
Warrants expired	(2,167,160)	1.35	0.26	
Warrants issued as part of common share units	12,463,848	0.73	0.02	
Warrants issued as agents, and finders' fees	80,640	0.71	0.08	
Outstanding, December 31, 2013	14,157,415	0.76	0.04	
Warrants issued as part of common share units	6,250,000	0.60	-	
Warrants issued as agents' and finders' fees	93,375	0.60	0.13	
Warrants exercised	(13,800)	0.60	0.10	
Warrants expired	(6,508,715)	0.77	0.07	
<b>Outstanding, September 30, 2014</b>	<b>13,978,275</b>	<b>0.68</b>	<b>0.00</b>	<b>1.1</b>

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.

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The fair value of agents' and finders' warrants issued on a stand-alone basis is determined using the Black-Scholes option-pricing model. Inputs to the Black-Sholes option-pricing for these warrants are as follows:

	<b>For the nine months ended September 30, 2014</b>	For the year ended December 31, 2013
Risk-free interest rate	<b>1.07%</b>	1.55%
Dividend yield	<b>0%</b>	0%
Expected stock price volatility	<b>64.61%</b>	73.06%
Expected life	<b>1.15 years</b>	1 year

The following warrants were outstanding and exercisable as at September 30, 2014:

<b>Expiry date</b>	<b>Exercise Price</b>	<b>Number of Warrants Outstanding and Exercisable</b>
	\$	
November 4, 2014	0.60	1,765,000*
September 30, 2015	0.80	4,088,100
November 4, 2015	0.80	1,781,800
March 6, 2016	0.60	5,000,000
May 8, 2016	0.60	1,343,375
		<b>13,978,275</b>

\* Subsequent to September 30, 2014, these warrants expired, unexercised.

**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 five 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:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Fair Value</b>	<b>Weighted Average Remaining Life</b>
		\$	\$	(Years)
Outstanding, January 1, 2013	2,555,500	0.84	0.58	
Options granted	1,575,000	0.63	0.29	
Options exercised	(53,250)	0.70	0.36	
Options cancelled or forfeited	(188,000)	1.22	0.82	
Outstanding, December 31, 2013	3,889,250	0.73	0.45	2.8
Options granted	1,080,000	0.60	0.27	
Options cancelled or forfeited	(696,750)	1.14	0.78	
<b>September 30, 2014</b>	<b>4,272,500</b>	<b>0.63</b>	<b>0.35</b>	<b>2.9</b>

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The fair values of the stock options granted during were estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	<b>For the nine months ended September 30, 2014</b>	For the year ended December 31, 2013
Risk-free interest rate	<b>1.16%</b>	1.26%
Dividend yield	<b>0%</b>	0%
Expected stock price volatility	<b>80.20%</b>	79.60%
Expected forfeiture rate	<b>16.63%</b>	18.79%
Expected life	<b>2.96 years</b>	2.93 years

The following incentive stock options were outstanding and exercisable at September 30, 2014:

<b>Expiry date</b>	<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>
	\$		
January 21, 2015	0.35	687,500	687,500
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	10,000	10,000
December 29, 2015	1.05	15,000	15,000
December 31, 2015	1.14	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
May 26, 2016	0.60	100,000	25,000
August 2, 2016	0.60	50,000	50,000
February 6, 2017	0.77	65,000	65,000
April 3, 2017	0.70	100,000	100,000
April 12, 2017	0.74	50,000	50,000
June 15, 2017	0.74	250,000	250,000
January 7, 2018	0.90	30,000	30,000
August 26, 2018	0.70	210,000	210,000
November 4, 2018	0.60	1,145,000	1,070,000
December 2, 2018	0.60	40,000	20,000
April 29, 2019	0.60	110,000	27,500
May 27, 2019	0.60	30,000	7,500
May 30, 2019	0.60	250,000	250,000
July 10, 2019	0.60	200,000	50,000
August 8, 2019	0.60	200,000	50,000
August 26, 2019	0.60	40,000	-
September 8, 2019	0.60	150,000	-
		<b>4,272,500</b>	<b>3,507,500</b>

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**8. RELATED PARTY TRANSACTIONS**

During the nine months ended September 30, 2014, a \$58,500 (2013 - \$58,500) expense was recorded for office facilities, corporate and administrative services provided by a Ionic Management Corp. (“Ionic”), a company jointly controlled by Brian Bayley, a director of the Company. Additionally, \$41,000, recorded as share issuance costs, was paid to Ionic for fees related to a private placement of common shares in the nine months ended September 30, 2014 (2013 - \$nil). As at September 30, 2014, \$14,405 is included in accounts payable and accrued liabilities (December 31, 2013 - \$8,891) for amounts owing to Ionic.

During the nine months ended September 30, 2014, a \$60,000 consulting expense (2013 - \$135,000) was recorded for services provided by Cansource International Ltd., a company jointly controlled by Ron MacDonald, a former director of the Company who resigned during the period. Included in accounts payable and accrued liabilities at September 30, 2014 is \$nil (December 31, 2013 – credit balance of \$15,750) with this related company.

Included in prepaid expenses as at September 30, 2014 is \$10,000 (December 31, 2013 - \$10,000) advanced to Bill Radvak, 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 as at September 30, 2014 is \$15,000 (December 31, 2013 - \$8,271) owing to this officer for travel expense claims.

Included in accounts payable and accrued liabilities as at September 30, 2014 is \$20,417 (December 31, 2013 - \$15,200) owing to Mike Doyle, the Executive VP, Operations; and \$4,994 (December 31, 2013 - \$4,057) owing to Ron Espell, the VP, Environmental.

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.

**9. SEGMENTED INFORMATION**

The Company operates in two reportable segments:

1. Mineral property acquisition and exploration, which includes assets and expenses related to the Company’s mineral properties, such as acquisitions costs, permitting, metallurgical work, engineering and related labour; and
2. The sale of CellCube energy storage systems, which includes the purchase of demonstration systems, sales and marketing costs and related labour.

While these two segments are integrated, they are managed separately and have distinct assets, expenses and staff.

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A break-down of the two operating segments, which excludes shared corporate-level assets and costs, is as follows:

	<b>Net Comprehensive Loss*</b>	
	<b>For the Nine Months Ended September 30, 2014</b>	<b>For the Nine Months Ended September 30, 2013</b>
	\$	\$
Mineral acquisition and exploration	2,097,322	2,646,368
CellCube energy storage systems	327,442	-

\* Neither operating segment has earned any revenues as of September 30, 2014, so net comprehensive loss includes only segment expenses.

	<b>Non-current, Non-financial Assets as at</b>	
	<b>September 30 2014</b>	<b>December 31 2013</b>
	\$	\$
Mineral acquisition and exploration	2,170,093	1,933,114
CellCube energy storage systems	876,147	84,181

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2014, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits 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. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

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.

Financial instruments measured at fair value on the balance sheet as at September 30, 2014 are summarized in levels of fair value hierarchy as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$
Cash	228,500	-	-

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.

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As at September 30, 2014, the Company held \$111,027, in net financial liabilities denominated 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 an \$11,103 foreign exchange gain (loss) based on United States dollar denominated net financial liabilities as at September 30, 2014. The Company has not hedged its exposure to currency fluctuations as at September 30, 2014

*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 monitors cash flow projections to determine its future financing needs, but additional financing is required for the Company to settle its existing obligations.

*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.

**11. CAPITAL MANAGEMENT**

The Company manages its capital structure, which comprises the components of shareholders' equity, 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 nine months ended September 30, 2014. The Company is not subject to externally imposed capital requirements.

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**12. LOSS PER SHARE**

The numerators and denominators of basic and diluted loss per share for the three and nine months ended September 30, 2014 and 2013 are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2014</b>	September 30, 2013	<b>September 30, 2014</b>	September 30, 2013
Net loss - numerator	<b>\$1,663,981</b>	\$1,332,815	<b>\$5,189,752</b>	\$4,272,441
Basic and diluted weighted average number of common shares outstanding - denominator	<b>60,029,596</b>	35,185,198	<b>56,346,141</b>	34,460,862
Basic and diluted loss per share	<b>\$0.03</b>	\$0.04	<b>\$0.09</b>	\$0.12

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.

**13. COMMITMENTS AND CONTINGENCIES**

The Company is committed to the following expenditures, which have not been recorded in accounts payable and accrued liabilities as at September 30, 2014:

<b>Nature of payment</b>	<b>Remainder of</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Mineral rights <sup>1</sup>	US\$54,000	US\$144,000	US\$144,000	US\$144,000	US\$144,000
Water rights <sup>2</sup>	-	US\$125,000	US\$125,000	US\$125,000	US\$125,000
Equipment <sup>3</sup>	-	EUR239,269	-	-	-
Office lease	Cdn\$35,204	Cdn\$140,816	Cdn\$140,816	-	-

<sup>1.</sup> As described in Note 5, the Company makes 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. While not contractually committed to further payments, the Company considers these to be constructive commitments.

<sup>2.</sup> As described in Note 5, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments.

<sup>3.</sup> As described in Note 4, the Company made instalment payments towards the purchase of equipment. Remaining instalments totalling of 658,810 Euros are expected in 2014. It is anticipated that the Company will receive a total of US\$559,941 in grants in 2014 – 2016 to offset some of these instalment payments of which \$46,798 has been recorded in accounts receivable as at September 30, 2014, but no anticipated receipts have been netted against committed payments.

**14. EVENTS SUBSEQUENT TO THE REPORTING DATE**

On October 14, 2014, the Company announced a non-brokered private placement of up to \$2,000,000 of share units at a price of \$0.40 per unit. Each unit comprises one common share and one half of a share purchase warrant; each whole warrant is exercisable for an additional common share at a price of \$0.60 for 18 months. As of the date of approval of these financial statements, the Company has received \$500,000 in subscription receipts for this placement, but has not yet formally closed the placement or issued any units.