AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE SIX MONTHS ENDED JUNE 30, 2016

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 six months ended June 30, 2016 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

	June 30	December 31
	2016	2015
	$	$
ASSETS		
Current assets		
Cash	**30,736**	180,076
Amounts receivable	**9,776**	3,240
Prepaid expenses (Note 4)	**917**	6,417
Total current assets	**41,429**	189,733
Reclamation deposit	**40,140**	37,385
Mineral properties (Note 6)	**1**	1
Total assets	**81,570**	227,119
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 5 and 9)	**5,230,236**	5,334,451
Shareholder loan (Note 7)	**201,090**	200,000
Total liabilities	**5,431,326**	5,534,451
Shareholders' deficiency		
Share capital (Note 8)	**30,478,198**	30,398,693
Subscription receipts (Note 8)	**-**	64,427
Equity reserves	**3,905,996**	3,905,391
Deficit	**(39,733,950)**	(39,675,843)
Total shareholders' deficiency	**(5,349,756)**	(5,307,332)
Total liabilities and shareholders' deficiency	**81,570**	227,119

Basis of presentation and continuance of operations (Note 2)

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 INCOME (LOSS) (UNAUDITED)
IN CANADIAN DOLLARS

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
	$	$	**$**	$
Exploration and evaluation (expenses) recovery (Note 6)	**(204)**	(70,109)	**4,763**	(248,737)
General and administrative expenses (recoveries):				
Salaries and benefits (Note 9)	**50,002**	54,877	**100,286**	250,063
Office facilities and administrative services (Note 9)	**19,825**	40,013	**39,325**	81,543
Investor relations and shareholder information	**8,196**	7,813	**8,827**	13,732
Audit and legal	**8,175**	1,831	**30,375**	10,993
Office and sundry	**6,057**	(354)	**9,123**	51,547
Transfer agent, listing and filing fees	**5,292**	8,648	**12,701**	23,173
CellCube shipping and storage (Note 5)	**841**	-	**41,764**	-
Interest on shareholder loan (Note 7)	**498**	-	**1,090**	-
Consulting	**-**	36,302	**88,044**	104,037
Travel	**-**	-	**5,308**	9,062
Stock-based compensation (Note 8)	**-**	49,792	**605**	(39,411)
Amortization (Note 5)	**-**	5,790	**-**	9,699
Total general and administrative expenses	**(98,045)**	(204,712)	**(337,286)**	(514,438)
Foreign exchange gain (loss)	**89,320**	9,523	**240,026**	(55,670)
Gain on write-off of accounts payable and accrued liabilities	**24,381**	-	**34,381**	-
Interest income	**52**	28	**171**	102
Gain on sale of equipment	**-**	-	**-**	19,313
Net comprehensive income (loss)	**14,663**	(265,270)	**(58,107)**	(799,430)
Basic and diluted income (loss) per share (Note 12)	**0.00**	(0.00)	**(0.00)**	(0.01)

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

	Share Capital	Subscription Receipts	Equity Reserves	Deficit	Total
	$	$	$	$	$
Balance, December 31, 2014	30,100,545	-	3,939,532	(35,803,390)	(1,763,313)
Private placements, net of share issuance costs	203,095	-	-	-	203,095
Shares issued for settlement of accounts payable	93,648	-	-	-	93,648
Shares issued on termination of consulting contract	2,400	-	-	-	2,400
Stock-based compensation	-	-	(39,411)	-	(39,411)
Net comprehensive loss for the period	-	-	-	(799,430)	(799,430)
Balance, June 30, 2015	30,399,688	-	3,900,121	(36,602,820)	(2,303,011)
Private placements, net of share issuance costs	(995)	-	245	-	(750)
Funds received for shares issued subsequent to year end	-	64,427	-	-	64,427
Stock-based compensation	-	-	5,025	-	5,025
Net comprehensive loss for the period	-	-	-	(3,073,023)	(3,073,023)
Balance, December 31, 2015	30,398,693	64,427	3,905,391	(39,675,843)	(5,307,332)
Private placements, net of share issuance costs	63,505	(64,427)	-	-	(922)
Shares issued pursuant to consulting agreement	16,000	-	-	-	16,000
Stock-based compensation	-	-	605	-	605
Net comprehensive loss for the period	-	-	-	(58,107)	(58,107)
Balance, June 30, 2016	**30,478,198**	**-**	**3,905,996**	**(39,733,950)**	**(5,349,756)**

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

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

	Six Months Ended June 30 2016	Six Months Ended June 30 2015
	$	
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(58,107)**	(799,430)
Items not involving cash:		
Foreign exchange (gain) loss	**(240,026)**	55,670
Gain on write-off of accounts payable and accrued liabilities	**(34,381)**	-
Consulting expense settled by issuance of shares	**16,000**	-
Accrued interest on shareholder loan	**1,090**	-
Stock-based compensation	**605**	(39,411)
Expenses settled through issuance of shares	**-**	31,644
Gain on sale of equipment	**-**	(19,313)
Amortization	**-**	9,699
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**170,794**	250,666
Amounts receivable	**(6,536)**	8,248
Prepaid expenses	**5,500**	57,741
Non-operating income:		
Interest income	**(171)**	(7,043)
Net cash used in operating activities	**(145,232)**	(451,529)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
(Increase) decrease in reclamation deposit	**(2,755)**	145,242
Interest income	**171**	7,043
Proceeds from sale of equipment	**-**	26,460
Net cash (used in) from investing activities	**(2,584)**	178,745
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**(922)**	203,095
Net cash provided by financing activities	**(922)**	203,095
Change in cash for the period	**(148,738)**	(69,689)
Effect of exchange rate changes on balance of cash held in foreign currencies	**(602)**	(2,156)
Cash, beginning of period	**180,076**	78,413
Cash, end of period	**30,736**	6,568

Supplemental Cash Flow Information

Non-cash financing activities

During the six months ended June 30, 2016, the company issued common shares valued at $16,000 as payment for consulting services.

During the six months ended June 30, 2015, the company issued shares valued at $93,648 to settle accounts payable and accrued liabilities. Additionally, the company incurred $245 in non-cash share issuance costs for the period.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company") is the Master Sales Agent in North America for the CellCube vanadium redox flow energy system ("CellCube"), produced by Gildemeister Energy Solutions GmbH ("GES") of Germany. The CellCube is a vanadium flow battery capable of delivering long-duration energy storage. The market for commercial energy storage is in an early stage and the Company has not completed any sales to date.

In addition to marketing CellCube units, the Company has held claims in the Gibellini Property ("Gibellini"), a vanadium deposit located in Eureka County, Nevada, which the Company was in the process of permitting. As a result of significant financial constraints, the Company was unable to renew a significant number of leased claims for Gibellini in March 2016 and it has no intention to renew its remaining claims which expire during the remainder of 2016.

As a result of exploration, evaluation and permitting costs incurred on Gibellini, costs incurred to market the CellCube and general and administrative costs, the Company has historically incurred net losses. In recent years, the Company has not been able to raise sufficient financing to sustain its operations, which has resulted in a working capital deficiency (Note 2).

The Company is incorporated under the *Canada Business Corporations Act* and its principal place of business is Suite #1703, 595 Burrard St., Vancouver, British Columbia, Canada. The Company's shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC".

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, 2015.

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 approved by the Board of Directors on August 17, 2016.

Going concern

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue on a going concern basis. However, the Company has consistently incurred losses and negative operating cash flows since its incorporation and, as at June 30, 2016, the Company had a working capital deficit of $5,389,897 (December 31, 2015 - $5,344,658) and had a shareholders' deficiency of $5,349,756 (December 31, 2015 - $5,307,332). Without operating cash flows, the Company will be required to raise additional financing to sustain its operations.

Historically, the Company has accessed equity markets for financing, but in 2015 the Company was unable to raise the amounts required to fund its operations and, as a result, it curtailed its operating activities. In light of the Company's current financial position and challenging access to capital, there can be no assurance that the Company will be able raise additional funds, in which case the Company may be unable to meet its financial obligations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for 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, 2015.

Basis of consolidation

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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.

Adoption of new IFRS

The Company has applied the following new IFRS amendment starting January 1, 2016:

i. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 was amended to add specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The adoption of this standard did not result in changes to amounts or note disclosures previously reported by the Company.

Future changes in accounting policies

The following are new and revised accounting pronouncements that have been issued, but are not yet effective for the year beginning January 1, 2016:

i. 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 and 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 and 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.

ii. IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Management has determined that the application of these pronouncements is not expected to have a significant impact on the Company's financial statements.

4. PREPAID EXPENSES

	$
Balance, December 31, 2014	131,459
Net change in expense advances and rental and other deposits	(125,042)
Balance, December 31, 2015	6,417
Net change in expense advances and rental and other deposits	(5,500)
Balance, June 30, 2016	**917**

The Company's prepaid expenses typically include premiums on insurance policies and deposits for rented offices. During the six months ended June 30, 2016, the Company amortized $5,500 for insurance coverage provided in the period.

During the year ended December 31, 2015, the Company cancelled an insurance policy and recovered a deposit for office rent that had been paid for or accrued for as at December 31, 2014, resulting in a combined $64,788 reduction in the balance of prepaid expenses and deposits. Other changes to this balance are attributed to the amortization of insurance policies and the application of prepaid deposits against work performed in the period.

5. EQUIPMENT AND DEPOSITS ON EQUIPMENT

The Company owns equipment with a combined historical cost of $102,544 related to its Gibellini operations and office premises. As at June 30, 2016 and December 31, 2015, the Company had fully amortized or impaired this cost.

In addition to its Gibellini and office equipment, as at June 30, 2016, the Company has paid a total of $538,804 (December 31, 2015 - $538,804) and accrued an additional $2,931,075 (December 31, 2015 - $3,096,501) in non-refundable instalments towards CellCube units which were to be held by the Company for demonstration purposes, with the possibility of future resale as inventory, or as prepayments on future sales. As a result of insufficient capital to complete these demonstration projects and to meet final instalment payments required on the CellCube units, the Company has impaired the full carrying value of these payments or accrued deposits. Additionally, the Company has incurred $41,764 in additional CellCube shipping and storage costs for the six months ended June 30, 2016 (June 30, 2015 - $nil).

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 certain unpatented lode mining claims. Since March 2006 the Company has paid US$1,080,000 in accumulated lease payments and owes an additional US$120,000 for the four final lease payments owing under the agreement and which is included in accounts payable and accrued liabilities as at June 30, 2016.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire additional unpatented lode mining claims. Since December 2006, the Company has paid US$167,000 in accumulated lease payments and owes US$24,000 for one lease payment, which is included in accounts payable and accrued liabilities as at June 30, 2016. The lease agreement expires in December 2016 and the Company has no intention to renew it.

In addition to leased claims, the Company had staked certain unpatented lode claims and placer claims. During the year ended December 31, 2015, the Company allowed certain of those claims considered non-core to lapse. The Company has no intention to renew its remaining staked claims which will expire on August 31, 2016.

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

In 2010, the Company acquired a number of claims through the staking process. During the year ended December 31, 2015, the Company allowed certain non-core claims to lapse and its remaining claims are expected to lapse on August 31, 2016.

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

In 2010, the Company acquired certain claims through the staking process. During the year ended December 31, 2015, the Company allowed all of its Hot Creek claims to lapse.

Acquisition costs

As at June 30, 2016 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights.

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at December 31, 2014	41,635	-	-	41,635
Additions	253,201	-	-	253,201
Impairment of mineral properties	(294,835)	-	-	(294,835)
As at December 31, 2015 and June 30, 2016	**1**	**-**	**-**	**1**

Impairment of mineral properties

Coupled with adverse financing conditions, which have led to reductions in exploration activities on the Company's mineral properties, market prices for vanadium have persisted at lower levels than those required for commercial production. Additionally, the Company does not have sufficient capital to fund metallurgical, permitting and other property initiatives and has allowed some claims to lapse. As a result, the Company has recorded impairments to its properties, including an impairment of $294,835 for the year ended December 31, 2015, reducing the carrying value of its mineral properties to $1 as at June 30, 2016 (December 31, 2015 - $1).

Exploration and evaluation expenses

During the six months ended June 30, 2016, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Property maintenance	(5,023)	(80)	-	(5,103)
General	340	-	-	340
	(4,683)	**(80)**	**-**	**(4,763)**

During the six months ended June 30, 2015, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Property maintenance	65,733	-	-	65,733
Metallurgy	54,807	-	-	54,807
Labour and benefits	42,826	-	-	42,826
Feasibility study	32,792	-	-	32,792
Environmental permitting	28,690	-	-	28,690
General	12,964	-	-	12,964
Satellite office	10,925	-	-	10,925
	248,737	**-**	**-**	**248,737**

7. SHAREHOLDER LOAN

In December 2015, the Company received $200,000 from a shareholder of the Company under a promissory note that is payable on demand and which accrues interest at a rate of 1% per annum.

8. SHAREHOLDERS' DEFICIENCY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, December 31, 2014	63,863,998	30,100,545
Issued through private placements, net of share issuance costs	3,014,285	202,100
Issued to settle accounts payable and for mineral property claims	1,337,830	93,648
Issued on contract termination	30,000	2,400
Outstanding, December 31, 2015	68,246,113	30,398,693
Issued through private placements, net of share issuance costs	805,332	63,505
Shares issued pursuant to consulting agreement	200,000	16,000
Outstanding, June 30, 2016	**69,251,445**	**30,478,198**

Private placements

On April 23, 2015, the Company completed a non-brokered private placement of 3,014,285 common share units at a price of $0.07 per unit for gross proceeds of $211,000. Each unit consists of one common share and one-half of one common share purchase warrant. The full value of these units is attributed to the value of the common shares. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.12 until April 23, 2016. An additional 15,000 agent's warrants were issued as part of this private placement with a fair value of $245. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $8,655.

In April and May 2015, the Company issued 30,000 shares valued at $2,400 ($0.08 per share) to a consultant on the termination of a consulting agreement and settled $93,648 in accounts payable and outstanding mineral leases through the issuance of 1,337,830 shares at a fair value of $0.07 per share.

On January 20, 2016, the Company completed a non-brokered private placement of 805,332 common share units at a price of $0.08 per unit for gross proceeds of $64,427. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.10 until January 20, 2018. Transaction costs for the private placement, which include filing and other fees, totalled $922.

In January 2016, the Company issued 200,000 shares valued at $16,000 to a consultant as remuneration for consulting services.

Restricted share units ("RSUs")

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

As at December 31, 2014, the Company had 200,000 RSUs outstanding under the RSU plan, none of which had vested. In the year ended December 31, 2015, these RSUs were cancelled upon the termination of the related employment agreement. Consequently, no RSUs are outstanding as at June 30, 2016.

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 in stock-based compensation on their grant date for the prevailing fair market value of the shares. For Performance Shares, an expense is recorded in share-based compensation for the grant date fair market value those shares expected to be earned, which is recognized rateably 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 balances of Bonus and Performance Shares are as follows:

	Number of Shares
Outstanding, December 31, 2014	750,000
Share awards cancelled	(750,000)
Outstanding, December 31, 2015 and June 30, 2016	**-**

During the year ended December 31, 2015, all 750,000 Performance Shares outstanding as at December 31, 2014 were cancelled upon the termination of certain employment and consulting agreement. As a result, the Company recorded a reversal $105,637 of stock-based compensation expenses previously recorded for these Performance Shares in the year ended December 31, 2015.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	**Weighted Average Exercise Price**	**Weighted Average Fair Value**
		$	**$**
Outstanding, December 31, 2014	14,000,475	0.66	0.00
Warrants expired	(5,869,900)	0.80	0.01
Warrants issued as part of common share units	1,507,143	0.12	0.00
Warrants issued as agents' and finders' fees	15,000	0.12	0.00
Outstanding, December 31, 2015	9,652,718	0.49	0.00
Warrants expired	(7,865,518)	0.51	0.00
Warrants issued as part of common share units	805,332	0.10	0.00
Outstanding, June 30, 2016	**2,592,532**	**0.31**	**0.00**

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. Inputs to the Black-Scholes model for these warrants are as follows:

	For the six months ended June 30, 2016	For the year ended December 31, 2015
Risk-free interest rate	**-**	0.66%
Dividend yield	**-**	0%
Expected stock price volatility	**-**	92.36%
Expected life	**-**	1.00 year

The following warrants were outstanding and exercisable as at June 30, 2016:

Expiry date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
	$	
December 30, 2016	0.40	1,787,200
January 20, 2018	0.10	805,332
		2,592,532

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.

In the six months ended June 30, 2016, the Company has suspended its stock option plan, although stock options already granted will remain unaffected.

During the six months ended June 30, 2016, the Company recorded $605 in stock-based compensation expense for the value of stock options vesting in the period. An offsetting amount has been recorded in equity reserves.

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, December 31, 2014	4,212,500	0.62	0.33
Options granted	3,102,500	0.10	0.02
Options expired	(1,065,000)	0.42	0.31
Options cancelled or forfeited	(2,495,000)	0.64	0.35
Outstanding, December 31, 2015 and June 30, 2016	**3,755,000**	**0.24**	**0.09**

The fair values of the stock options granted were 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 six months ended June 30, 2016	For the year ended December 31, 2015
Risk-free interest rate	-	0.66%
Dividend yield	-	0%
Expected stock price volatility	-	92.36%
Expected forfeiture rate	-	1.00 year
Expected life	-	0.66%

The following incentive stock options were outstanding and exercisable at June 30, 2016:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
February 6, 2017	0.77	40,000	40,000
June 15, 2017	0.74	100,000	100,000
November 4, 2018	0.10	67,500	67,500
November 4, 2018	0.60	395,000	395,000
December 2, 2018	0.10	40,000	40,000
April 29, 2019	0.10	110,000	110,000
May 30, 2019	0.60	250,000	250,000
July 10, 2019	0.60	200,000	200,000
April 16, 2020	0.10	2,432,500	2,432,500
May 6, 2020	0.10	95,000	95,000
June 8, 2020	0.10	25,000	25,000
		3,755,000	**3,755,000**

9. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2016, a $39,325 (2015 - $39,000) expense was recorded for office facilities, corporate and administrative services provided by Earlston Management Corp. ("Earlston"), a company that provides key management services to the Company. As at June 30, 2016, $141,421 is included in accounts payable and accrued liabilities (December 31, 2015 - $96,445) for amounts owing to Earlston.

Included in accounts payable and accrued liabilities as at June 30, 2016 is $245,000 (December 31, 2015 - $145,000) owing to Bill Radvak, the Chief Executive Officer of the Company for salaries and benefits, and $5,211 (December 31, 2015 - $20,371) for travel expense claims.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2016, the Company's financial instruments comprise cash, amounts receivable, reclamation deposits, accounts payable and accrued liabilities, and a shareholder loan. 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 are summarized in levels of fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	30,736	-	-

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 U.S. 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 U.S. dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

As at June 30, 2016, the Company's net financial liabilities included accounts held in U.S. dollars totalling US$1,742,196. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the U.S dollar would result in a $225,980 foreign exchange gain (loss) based on U.S. dollar denominated net financial liabilities as at June 30, 2016.

As at June 30, 2016, the Company's net financial liabilities included accounts held in European Euros totalling 2,041,992 Euros. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the Euro would result in a $301,704 foreign exchange gain (loss) based on European euro denominated net financial liabilities as at June 30, 2016.

The Company has not hedged its exposure to currency fluctuations.

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 and amounts receivable. 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 become due. The Company has a working capital deficiency as at June 30, 2016 and additional financing is required for the Company to settle its existing obligations and fund future obligations. As such, the Company is exposed to liquidity risk.

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, which comprises the components of shareholders' (deficiency) equity, and makes adjustments to it, based on the funds available to the Company and operational requirements. 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.

Although the Company has made operational changes, including headcount reductions and reductions to property claims to reduce its expenditures, the Company will require additional financing to settle outstanding debt and to maintain operations as a publicly-listed entity. The Company is not subject to externally imposed capital requirements.

12. INCOME (LOSS) PER SHARE

The numerators and denominators of basic and diluted loss per share for the six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended		**Six Months Ended**	
	June 30 2016	June 30 2015	**June 30 2016**	June 30 2015
Net income (loss) - numerator	**$14,663**	$(265,270)	**$(58,107)**	$(799,430)
Basic and diluted weighted average number of common shares outstanding - denominator	**69,251,445**	66,845,506	**69,062,947**	65,362,988
Basic and diluted income (loss) per share	**$0.00**	$(0.00)	**$(0.00)**	$(0.01)

The calculation of diluted income per share for the three months ended June 30, 2016 excludes the effect of stock-options and warrants as all stock options and warrants outstanding were out-of-the-money during period. Diluted loss per share for all other periods excludes the effect of stock options as their inclusion would be anti-dilutive.