AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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, 2013 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.

IN CANADIAN DOLLARS

	September 30	December 31
	2013	2012
	$	$
		Restated (Note 3)
ASSETS		
Current assets		
Cash	**3,398,134**	1,716,318
Amounts receivable	**32,049**	42,328
Prepaid expenses	**198,416**	89,416
Income tax receivable	**-**	102,035
Total current assets	**3,628,599**	1,950,097
Equipment (Note 4)	**62,152**	74,231
Reclamation deposit	**150,481**	145,311
Deferred engineering management expense and deposit (Note 5)	**576,902**	557,080
Mineral properties (Note 5)	**1,731,077**	1,922,167
Total assets	**6,149,211**	4,648,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**1,936,580**	1,271,194
Total liabilities	**1,936,580**	1,271,194
Shareholders' equity		
Share capital (Note 6)	**22,262,042**	17,461,187
Equity reserves	**3,183,334**	2,876,809
Deficit	**(21,232,745)**	(16,960,304)
Total shareholders' equity	**4,212,631**	3,377,692
Total liabilities and shareholders' equity	**6,149,211**	4,648,886

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 12)

Events after the reporting period (Note 13)

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 September 30		Nine Months Ended September 30	
	2013	2012	**2013**	2012
	$	$	**$**	$
		Restated (Note 3)		Restated (Note 3)
Exploration and evaluation expenses (Note 5)	**(772,633)**	(1,238,299)	**(2,646,368)**	(3,625,056)
General and administrative expenses:				
Salaries and benefits	**185,230**	174,653	**570,362**	691,505
Consulting (Note 7)	**160,971**	131,644	**407,730**	376,223
Office facilities and administrative services (Note 7)	**50,430**	47,642	**145,213**	142,923
Travel	**47,810**	42,034	**140,246**	199,344
Investor relations and shareholder information	**38,542**	24,215	**115,177**	104,387
Stock-based compensation	**29,690**	41,620	**47,457**	317,048
Office and sundry	**23,409**	26,524	**76,389**	70,623
Audit and legal	**22,516**	35,763	**93,058**	86,316
Transfer agent, listing and filing fees	**12,284**	8,218	**47,888**	61,868
Amortization	**7,942**	5,532	**22,747**	15,066
Total general and administrative expenses	**(578,824)**	(537,845)	**(1,666,267)**	(2,065,303)
Foreign exchange gain (loss)	**10,985**	(10,204)	**31,386**	(22,686)
Interest income	**199**	1,814	**1,350**	8,347
Loss before income taxes	**(1,340,273)**	(1,784,534)	**(4,279,899)**	(5,704,698)
Current income tax recovery	**7,458**	-	**7,458**	-
Net comprehensive loss	**(1,332,815)**	(1,784,534)	**(4,272,441)**	(5,704,698)
Basic and diluted loss per share (Note 11)	**(0.04)**	(0.06)	**(0.12)**	(0.21)

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

IN CANADIAN DOLLARS

	Share Capital	Equity Reserves	Deficit	Total
	$	$	$	$
Balance, January 1, 2012 (Note 3)	14,058,111	2,339,450	(9,688,176)	6,709,385
Exercise of stock options	121,994	(51,994)	-	70,000
Performance shares	70,000	-	-	70,000
Private placements, net of share issuance costs	1,687,235	225,811	-	1,913,046
Stock-based compensation	-	317,048	-	317,048
Net comprehensive loss for the period	-	-	(5,704,698)	(5,704,698)
Balance, September 30, 2012 (Note 3)	15,937,340	2,830,315	(15,392,874)	3,374,781
Private placements, net of share issuance costs	1,523,847	28,762	-	1,552,609
Stock-based compensation	-	17,732	-	17,732
Net comprehensive loss for the period	-	-	(1,567,430)	(1,567,430)
Balance, December 31, 2012 (Note 3)	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**

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

	Nine Months Ended September 30	Nine Months Ended September 30
	2013	2012
	$	$
		Restated (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(4,272,441)**	(5,704,698)
Items not involving cash:		
Write-off of water rights	**390,338**	-
Stock-based compensation	**47,457**	317,048
Unrealized foreign exchange (gain) loss	**(24,790)**	6,565
Amortization	**22,747**	15,066
Salaries and benefits settled by issuance of shares	**-**	70,000
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**665,386**	(108,542)
Prepaid expenses	**(109,000)**	(7,026)
Income tax receivable	**102,035**	165,669
Amounts receivable	**10,279**	86,785
Deferred engineering management expense and deposit	**-**	528,861
Non-operating income:		
Interest income	**(1,350)**	(8,347)
Net cash used in operating activities	**(3,169,339)**	(4,638,619)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(199,248)**	(193,569)
Purchase of equipment	**(10,668)**	(17,060)
Interest income	**1,151**	8,347
Increase in reclamation deposit	**-**	(62,980)
Net cash used in by investing activities	**(208,765)**	(265,262)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**5,059,920**	1,983,046
Net cash provided by financing activities	**5,059,920**	1,983,046
Change in cash for the period	**1,681,816**	(2,920,835)
Cash, beginning of period	**1,716,318**	4,245,438
Cash, end of period	**3,398,134**	1,324,603

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

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, has title to strategic vanadium properties in the State of Nevada. The Company completed a feasibility study on its flagship Gibellini Property ("Gibellini"). The Company is actively developing the Gibellini with plans to construct and operate the mine in the future, subject to obtaining necessary regulatory approvals, financing and supply arrangements.

The Company entered into a Memorandum of Understanding in February 2013 with Gildemeister Energy Solutions, Cellstrom GmbH ("Gildemeister") of Germany under which it is contemplated that American Vanadium will provide a long-term supply of vanadium electrolyte with stable pricing to Gildemiester. Pursuant to that Memorandum of Understanding, the Company has entered into a master sales agreement with Gildemeister whereby the Company will market and sell Gildemeister's CellCube vanadium redox flow batteries in North America.

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, 2012.

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 condensed consolidated interim financial statements were authorized by the Board of Directors on November 21, 2013.

Going concern

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is 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, 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 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 September 30, 2013, the Company had a working capital of $1,692,019 and had $4,212,631 in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Voluntary change in accounting policy

The Company is party to a long-term engineering, procurement and construction management contract. Payments made pursuant to the contract are initially recorded as a deferred expense asset, which is then amortized on a percentage-of-completion basis in accordance with IAS 11 "Construction Contracts". As at and prior to December 31, 2012, the Company measured percentage-of-completion on the basis of hours spent on the related project by the contractor as a proportion of total expected hours required. Commencing January 1, 2013, the Company now measures percentage-of-completion on the basis of elapsed time since the inception of the contract as a proportion of the estimated duration of the related work. The change in the basis of measurement of percentage-of-completion was made in order to more accurately recognize the Company's contract expense in a reported period.

The change in measurement basis for percentage-of-completion has been applied retrospectively to all periods reported in these condensed consolidated interim financial statements. Although the total expense pursuant to the contract does not change, the timing of recognition of this expense over the life of the contract has resulted in comparative balances being different than those that were previously reported.

The effects of the change in the measurement basis on prior period balances in the balance sheet are as follows:

	Deferred Engineering Management Expense and Deposit	Deficit
	$	$
January 1, 2012, as previously reported	1,079,390	(9,688,176)
Impact of change in policy	-	-
January 1, 2012, restated	**1,079,390**	**(9,688,176)**

	Deferred Engineering Management Expense and Deposit	Deficit
	$	$
December 31, 2012, as previously reported	1,776,212	(15,741,172)
Impact of change in policy	(1,219,132)	(1,219,132)
December 31, 2012, restated	**557,080**	**(16,960,304)**

The effects of the change in the measurement basis on prior period balances in the statement of comprehensive loss are as follows:

	Exploration and Evaluation Expenses	Foreign Exchange Gain (Loss)	Net Comprehensive Loss	Basic and Diluted Loss per Share
	$	$	$	$
For the three months ended September 30, 2012, as previously reported	(1,435,879)	(43,638)	(2,015,548)	(0.07)
Impact of change in policy	197,580	33,434	231,014	0.01
For the three months ended September 30, 2012, restated	**(1,238,299)**	**(10,204)**	**(1,784,534)**	**(0.06)**

	Exploration and Evaluation Expenses	Foreign Exchange Loss	Net Comprehensive Loss	Basic and Diluted Loss per Share
	$	$	$	$
For the nine months ended September 30, 2012, as previously reported	(2,578,755)	(44,101)	(4,679,812)	(0.17)
Impact of change in policy	(1,046,301)	21,415	(1,024,886)	(0.04)
For the nine months ended September 30, 2012, restated	**(3,625,056)**	**(22,686)**	**(5,704,698)**	**(0.21)**

	Exploration and Evaluation Expenses	Foreign Exchange Loss	Net Comprehensive Loss	Basic and Diluted Loss per Share
	$	$	$	$
For the year ended December 31, 2012, as previously reported	(3,401,386)	(22,470)	(6,052,996)	(0.21)
Impact of change in policy	(1,227,731)	8,599	(1,219,132)	(0.04)
For the year ended December 31, 2012, restated	**(4,629,117)**	**(13,871)**	**(7,272,128)**	**(0.25)**

Notwithstanding the previously discussed change to accounting policies, these unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgement, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2012.

Basis of consolidation

These 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, which is the functional currency of the Company and American Vanadium US Inc.

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.

4. EQUIPMENT

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

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, December 31, 2012	41,655	46,787	41,118	129,560
Additions	-	10,668	-	10,668
Balance, September 30, 2013	**41,655**	**57,455**	**41,118**	**140,228**
Accumulated amortization				
Balance, December 31, 2012	29,709	10,675	14,945	55,329
Additions	6,414	9,741	6,592	22,747
Balance, September 30, 2013	**36,123**	**20,416**	**21,537**	**78,076**
Carrying value				
December 31, 2012	11,946	36,112	26,173	74,231
September 30, 2013	**5,532**	**37,039**	**19,581**	**62,152**

5. MINERAL PROPERTIES

Acquisition costs

As at September 30, 2013 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 December 31, 2012	1,873,313	39,683	9,171	1,922,167
Additions	199,248	-	-	199,248
Write-off of water rights	(390,338)	-	-	(390,338)
As at September 30, 2013	**1,682,223**	**39,683**	**9,171**	**1,731,077**

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.

During the nine months ended September 30, 2013, the Company terminated an agreement to acquire certain water rights that were deemed no longer necessary to support development of Gibellini. As a result, $390,338 in related capitalized costs from previous periods was written-off.

Exploration and evaluation expenses

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

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
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)
	2,624,101	**19,443**	**2,824**	**2,646,368**

During the nine months ended September 30, 2013, the majority of exploration and evaluation expenses were incurred for consulting, environmental testing and other services related to the Gibellini environmental permitting process; for mine planning and design; and for metallurgical work to develop the Company's capability to produce vanadium electrolyte. Partially off-setting these costs, the Company recovered $172,371 in over-charges incurred in previous periods for a feasibility study on Gibellini.

During the nine months ended September 30, 2012, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Engineering, procurement and construction management	1,870,720	-	-	1,870,720
Environmental permitting	576,842	-	-	576,842
General	272,383	-	-	272,383
Metallurgy	270,506	-	-	270,506
Drilling and trenching	212,579	-	-	212,579
Geotechnical	177,620	-	-	177,620
Property maintenance	74,427	19,139	2,692	96,258
Engineering	67,316	-	-	67,316
Microgrid	63,131			63,131
Exploration	6,549	-	-	6,549
Feasibility	6,197	-	-	6,197
Power	4,358	-	-	4,358
Water	597	-	-	597
	3,603,225	**19,139**	**2,692**	**3,625,056**

During the nine months ended September 30, 2012, the majority of exploration and evaluation expenses were incurred for basic mine engineering and design and for consulting work related to the Company's plan of operations, which is part of the environmental permitting process.

Summary of properties

a) Gibellini Property, Nevada, U.S.

The Company is party to 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, 2013, the Company has paid a total of US$720,000 for these advance royalty payments, including US$90,000 paid during the nine months ended September 30, 2013.

The Company is party to 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, 2013, the Company has paid a total of US$119,000 for these advance royalty payments; 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 2011, the Company acquired 17 unpatented lode mining claims for US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$70,000 in previous payments.

In 2011, the Company acquired rights to water leases required for production from Gibellini from two rights holders for combined consideration of US$295,000 and 50,000 common shares in the Company valued at $67,500. Additionally, the Company was required to make annual rental payments of US$125,000 to one lessor and approximately US$106,000 to the second lessor. Subsequent to September 2013, the Company terminated the latter lease arrangement, as it was no longer deemed necessary. As a result, $377,430 in cumulative historical payments related to the terminated lease, which had been capitalized to mineral properties, have been written-off for the nine months ended September 30, 2013.

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

As at September 30, 2013, the Company has 120 claims acquired through the staking process.

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

As at September 30, 2013, the Company has 18 claims acquired through the staking process.

Engineering, procurement and construction management

In 2011, the Company entered into an agreement with an independent contractor who will manage various phases of the development of a mine at Gibellini. These phases include basic and detailed engineering, asset and service procurement, and mine construction. As at September 30, 2013, the contractor has completed the basic engineering phase, pending satisfactory review by the Company.

On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and additional monthly installments totalling US$2,799,679 have been paid. Payments made or accrued are recorded on the consolidated balance sheet as a deferred engineering management expense, which is then recognized as an expense on a percentage-of-completion basis over the duration of the anticipated service.

Changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, December 31, 2012	557,080
Monthly installments paid or accrued	537,978
Expense recognized for percentage-of-completion achievement	(537,978)
Foreign exchange gain	19,822
Balance, September 30, 2013	**576,902**

In addition to the original scope of the engineering, procurement and construction management agreement, the Company engaged the contractor to design a borrow pit for Gibellini and an electrolyte process, for costs of US$194,850 and US$714,000, respectively. These costs will be incurred throughout the various stages of Gibellini's engineering and development, and for the nine months ended September 30, 2013, the Company incurred related charges of $99,554 that is included in the engineering, procurement and construction management portion of exploration and evaluation expense, and $334,882 that is included in the metallurgy portion.

6. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, January 1, 2012	27,443,397	14,058,111
Issued through private placements, net of share issuance costs	5,780,853	3,211,082
Issued on exercise of stock options	200,000	121,994
Issued on employment signing bonus	100,000	70,000
Outstanding, December 31, 2012	33,524,250	17,461,187
Issued through private placements, net of share issuance costs	9,737,698	4,744,704
Issued on exercise of stock options	53,250	56,151
Outstanding, September 30, 2013	**43,315,198**	**22,262,042**

On September 12, 2012, the Company completed a non-brokered private placement of 3,225,854 common share units at a price of $0.62 per unit for gross proceeds of $2,000,030. 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 $1.00 until March 12, 2014. The value of these units has been bifurcated between common shares at a value of $0.55 per share and warrants at a value of $0.07 per one-half warrant. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $86,985.

Between December 19, 2012 and December 21, 2012, the Company completed non-brokered private placements of 2,554,999 common share units at a price of $0.65 per unit for gross proceeds of $1,660,749.

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 $1.00 until December 19, 2013 or December 21, 2013. The full value of these units is attributed to the value of the common shares. An additional 139,245 agent's warrants were issued as part of this private placement with a fair value of $28,763. Each agent's warrant entitles the holder to purchase one common share at a price of $1.00 per common share until December 19, 2013 or December 21, 2013. Transaction costs for the private placements, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $139,627 of which $136,902 was recorded in 2012 and $2,725 in the three months ended March 31, 2013.

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 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 a non-brokered private placement of 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 ("0.60 Warrant") and one-half of one common share purchase warrant exercisable at $0.80 ("0.80 Warrant"). Each whole $0.60 Warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 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 the private placement, which include cash commissions, and legal and other fees, totalled $154,663.

During the nine months ended September 30, 2013, the Company issued 53,250 common shares on the exercise of stock options. Cash proceeds from the exercise of these options were $37,276 and an additional $18,875 in fair value attributed to these options at the time of grant was reclassified from equity reserves to share capital.

Subsequent to September 30, 2013, the Company issued an additional 3,500,000 common share units for gross proceeds of $1,765,000. Refer to Note 13 for additional information on this placement.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, January 1, 2012	2,353,400	1.92	0.28	
Warrants expired	(1,602,983)	1.88	0.07	
Warrants issued as part of common share units	2,890,425	1.00	0.08	
Warrants issued as agent's and finder's fees	139,245	1.00	0.21	
Outstanding, December 31, 2012	3,780,087	1.20	0.21	
Warrants issued as part of common share units	8,933,848	0.74	0.03	
Warrants issued as finder's fees	47,040	0.71	0.08	
Warrants expired	(750,417)	2.00	0.71	
Outstanding, September 30, 2013	**12,010,558**	**0.81**	**0.04**	**0.97**

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 agents' and finders' warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model.

The following warrants were outstanding and exercisable as at September 30, 2013:

Expiry date	Exercise Price	Number of Warrants Outstanding and Exercisable
	$	
December 19, 2013	1.00	1,349,206
December 21, 2013	1.00	67,537
March 12, 2014	1.00	1,612,927
March 30, 2014	0.60	4,088,100
April 11, 2014	1.20	804,688
September 30, 2015	0.80	4,088,100
		12,010,558

Share-based compensation

Stock options

The Company adopted an incentive stock option plan, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

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	Weighted Average Remaining Life
		$	$	(Years)
Outstanding, January 1, 2012	2,325,500	0.88	0.64	
Options granted	665,000	0.73	0.37	
Options exercised	(200,000)	0.35	0.26	
Options cancelled or forfeited	(235,000)	1.29	0.94	
Outstanding, December 31, 2012	2,555,500	0.84	0.58	
Options granted	340,000	0.72	0.36	
Options expired	(138,000)	1.30	0.89	
Options exercised	(53,250)	0.70	0.36	
Options cancelled or forfeited	(50,000)	1.00	0.74	
Outstanding, September 30, 2013	**2,654,250**	**0.80**	**0.53**	**2.68**

The Company has an incentive stock option plan allowing the Board of Directors of the Company to, at 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 in the Company at a specified exercise price. 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.

The fair values of the stock options granted during the nine months ended September 30, 2013 and the year ended December 31, 2012 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:

	Nine Months Ended June 30, 2013	Year Ended December 31, 2012
Risk-free interest rate	**1.36 %**	1.09 %
Annual dividends	**-**	-
Expected stock price volatility	**83.29%**	85.79%
Expected forfeiture rate	**19.28%**	20.31%
Expected life	**3.17 years**	2.55 years

The following stock options were outstanding and exercisable at September 30, 2013:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
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
March 23, 2016	1.53	300,000	300,000
July 19, 2016	1.34	100,000	100,000
August 2, 2016	1.25	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
May 31, 2017	0.70	96,750	96,750
June 15, 2017	0.74	300,000	300,000
January 7, 2018	0.90	30,000	22,500
August 26, 2018	0.70	310,000	27,500
		2,654,250	**2,364,250**

Subsequent to September 30, 2013, the Company issued an additional 1,195,000 options with an exercise price of $0.60 and a life of five years to directors, employees and certain consultants to the Company.

Restricted stock 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 September 30, 2013, no RSUs had been granted, but subsequent to September 30, 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.

Performance-based compensatory shares

The Company will issue common shares to certain employees, subject to achieving certain performance-based milestones. These shares are not issuable pursuant to the Company's RSU plan, and were separately approved by the Exchange, but they contain the same characteristics of an RSU, except there is no defined expiration period.

- In 2011 and 2012, the Company granted 900,000 of its common shares in a series of tranches to certain officers upon achieving various milestones for the development of the Gibellini Property. In 2011, the first milestone was met and 75,000 of these shares, valued at $78,750, were issued and an additional 100,000 of these shares, valued at $70,000, were issued in 2012.

  The performance milestones for the issuance of the remaining 725,000 shares are as follows:

Performance Milestone	**Number of Shares Issuable**
Project permitting for the Gibellini property	175,000
Design and construction of mine leach pad on the Gibellini property	200,000
Economic production of the Gibellini property	350,000

- On May 17, 2013, the Company granted 60,000 common shares to a consultant of the Company subject to the completion of certain business development and planning milestones. It is anticipated that these milestones will be met in the final quarter of 2013.

- An additional 2,600,000 common shares have been approved for issuance by shareholders. As at September 30, 2013 Exchange approval for these shares has not been received.

7. RELATED PARTY TRANSACTIONS

Office facilities and administrative services for the nine months ended September 30, 2013 includes a $58,500 (2012 - $58,500) expense for financial, accounting and corporate services provided by a company jointly controlled by a director of the Company, of which $7,339 (December 31, 2012 - $27,605) is included in accounts payable and accrued liabilities.

Consulting expenses for the nine months ended September 30, 2013, includes a $135,000 expense (2012 - $135,000) for business development services provided by a company jointly controlled by a director of the Company.

Included in prepaid expenses as at September 30, 2013 is $10,000 (December 31, 2012 - $10,000) 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 $22,245 (December 31, 2012 - $10,186) owing to this officer.

Included in accounts payable and accrued liabilities as at September 30, 2013 is a total of $32,094 (December 31, 2012 - $21,453) owing to the Executive VP, Operations; and $5,125 (December 31, 2012 - $4,343) owing to the Vice President, 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.

8. 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
Nine Months Ended	**September 30, 2013**	September 30, 2012
	$	$
Canada	**1,312,773**	1,759,629
United States	**2,959,668**	3,945,069
Total net comprehensive loss	**4,272,441**	5,704,698

		Total Assets as at
	September 30 2013	December 31 2012
	$	$
Canada	**3,489,587**	1,732,367
United States	**2,659,624**	2,916,519
Total assets	**6,149,211**	4,648,886

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2013, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash and restricted 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 (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Inputs that are not based on observable market data (unobservable inputs).

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

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	3,398,134	-	-

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 September 30, 2013, the Company held $359,398 (December 31, 2012- $133,507) 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 $35,940 foreign exchange loss (gain) based on United States dollar holdings as at September 30, 2013.

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 requires additional financing to fund its existing financial obligations. Although, the Company has successfully accessed capital markets to fund its operations to date and management believes such sources remain available to the Company in the future, there is no assurance that such financing will be available to the Company on favourable terms.

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.

10. 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 nine months ended September 30, 2013. The Company is not subject to externally imposed capital requirements.

11. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three months and nine months ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	**2013**	2012
Net loss - numerator	**$1,332,815**	$1,784,534	**$4,272,441**	$5,704,698
Basic and diluted weighted average number of common shares outstanding - denominator	**35,185,198**	28,374,542	**34,460,862**	27,818,453
Basic and diluted loss per share	**$0.04**	$0.06	**$0.12**	$0.21

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.

12. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures:

Nature of payment	Remainder of 2013	2014	2015	2016	2017
Mineral rights[1]	US$24,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[2]	US$125,000	US$125,000	US$125,000	US$125,000	US$125,000
Salaries	US$50,000	US$50,000	-	-	-
Office lease	Cdn$35,204	Cdn$140,816	Cdn$140,816	Cdn$140,816	-

1. 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.
2. 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.

As discussed in Note 6, the Company has 785,000 RSUs outstanding that would result in the issuance of up to 785,000 common shares, contingent on meeting certain operational milestones. As the events that would result in the issuance of these shares have not occurred, no provision for their payment has been recorded.

13. EVENTS AFTER THE REPORTING PERIOD

On November 4, 2013, the Company completed a non-brokered private placement of 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 common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until May 4, 2014 and each whole $0.80 common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.80 until November 4, 2015.

On November 4, 2013, the Company issued 1,195,000 options with an exercise price of $0.60 and a life of five years to directors, employees and certain consultants to the Company.

On November 4, 2013, the Company issued 200,000 RSUs to an employee of the Company. Of these, 50,000 vest upon receipt of environmental permits for Gibellini, 50,000 upon completion of certain mine processes and facilities at Gibellini, and 100,000 upon public disclosure of economic production from Gibellini. Unless they vest, these RSUs expire on November 3, 2016.