

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

0-21777

(Commission File Number)

GOLDEN QUEEN MINING CO. LTD.

(Name of registrant in its charter)

British Columbia, Canada

(State or other jurisdiction  
of incorporation or organization)

Not Applicable

(IRS Employer  
Identification No.)

6411 Imperial Avenue, West Vancouver, British Columbia, Canada

(Address of principal executive offices)

V7W 2J5

(Zip Code)

Issuer's telephone number: (604) 921-7570

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under section 12(g) of the Exchange Act: Common shares without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$72,956,250 as at June 30, 2010.

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 94,228,383 common shares as at February 28, 2011.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K, which Proxy Statement is to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2010.

**Form 10-K**  
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## PART I

### FORWARD-LOOKING STATEMENTS

ALL STATEMENTS IN THIS DISCUSSION THAT ARE NOT HISTORICAL ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. STATEMENTS PRECEDED BY, FOLLOWED BY OR THAT OTHERWISE INCLUDE THE WORDS "BELIEVES", "EXPECTS", "ANTICIPATES", "INTENDS", "PROJECTS", "ESTIMATES", "PLANS", "MAY INCREASE", "MAY FLUCTUATE" AND SIMILAR EXPRESSIONS OR FUTURE OR CONDITIONAL VERBS SUCH AS "SHOULD", "WOULD", "MAY" AND "COULD" ARE GENERALLY FORWARD-LOOKING IN NATURE AND NOT HISTORICAL FACTS. THESE FORWARD-LOOKING STATEMENTS WERE BASED ON VARIOUS FACTORS AND WERE DERIVED UTILIZING NUMEROUS IMPORTANT ASSUMPTIONS AND OTHER IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN THE FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE THE INFORMATION CONCERNING OUR FUTURE FINANCIAL PERFORMANCE, BUSINESS STRATEGY, PROJECTED PLANS AND OBJECTIVES. THESE FACTORS INCLUDE, AMONG OTHERS, THE FACTORS SET FORTH BELOW UNDER THE HEADING "RISK FACTORS." ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOST OF THESE FACTORS ARE DIFFICULT TO PREDICT ACCURATELY AND ARE GENERALLY BEYOND OUR CONTROL. WE ARE UNDER NO OBLIGATION TO PUBLICLY UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-K, UNLESS ANOTHER DATE IS STATED, ARE TO DECEMBER 31, 2008. AS USED HEREIN, THE "COMPANY," "GOLDEN QUEEN MINING" "WE," "US," "OUR" AND WORDS OF SIMILAR MEANING REFER TO GOLDEN QUEEN MINING CO. LTD.

#### **Item 1. Business.**

##### *Glossary*

Certain terms used in this Form 10-K are described below. Note that Golden Queen Mining Co. Ltd. (the "Company") uses Canadian Institute of Mining, Metallurgy and Petroleum definitions for the terms "reserves", "measured resources", "indicated resources" and "inferred resources", and U.S. investors are cautioned that while these terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them.

*Advance minimum royalty* - Payment made before the start of commercial production under a mining lease agreement with landholders.

*Ag* – The chemical symbol for silver.

*Au* – The chemical symbol for gold.

*Exploration stage* – A mining company engaged in the search for or exploration of mineral deposits, which is not in either the development or production stage.

*Development stage* – A mining company engaged in the preparation of a mineral deposit with reserves for production and which is not in the production stage.

*Production stage* – A mining company engaged in the exploitation of a mineral deposit with reserves.

*Fault or faulting* - A fracture in the earth's crust caused by tectonic forces with displacement along the fracture.

*Grade* - A term used to assign value to resources and reserves, such as gram per tonne (g/t) or troy ounces per ton (oz/ton). Grades are reported both in Imperial and Metric units in this Form 10-K.

*Heap leaching* – A process for extracting gold and/or silver, which typically allows dilute cyanide solutions to percolate through run-of-mine or crushed ore heaped on an impervious pad to dissolve the gold and/or silver.

*Kriging* - A geostatistical method used to assign grades to mineral resource and mineral reserve model blocks.

*Mineral deposit* - A mineral deposit is a mineralized body, which has been intersected by a sufficient number of drill holes or by underground workings to give an estimate of grade(s) of metal(s) and thus to warrant further exploration or development. A mineral deposit does not qualify as a commercially viable mineral deposit with reserves under standards set by the Securities and Exchange Commission until a final, comprehensive, economic, technical and legal feasibility study has been completed.

*Ore* - A natural aggregate of one or more minerals which, at a specified time and place, may be mined and processed and the product(s) sold at a profit or from which some part may be profitably separated.

*Mineral Resource* - A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic exploitation. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories.

*Mineral Reserve* - A mineral reserve is the economically mineable part of an indicated or measured mineral resource as demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, metallurgy and processing, economic and other relevant factors that demonstrate, at the time of reporting, that economic exploitation can be justified. A mineral reserve includes diluting materials and allowance for losses that may occur when the material is mined. Mineral reserves are sub-divided in order of increasing confidence into probable and proven categories.

*Stripping ratio* - The quantity of waste rock in tons removed to allow the mining of one ton of ore in an open pit.

*Volcanics* - Rock composed of clasts or pieces that are of volcanic composition.

### ***General Development of Business***

The Company was incorporated under the laws of the Province of British Columbia, Canada in November 1985 and has been exploring its mineral properties (the "Property") located just south of Mojave in Kern County in southern California since that time.

The Company acquired its initial interest in the Property in 1985 and has since added to its holdings in the area. Work on the Property and on the Soledad Mountain project (the "Project") is done by Golden Queen Mining Co., Inc., a California corporation and the wholly-owned subsidiary (the "Subsidiary") of the Company.

The Company explored for gold and silver on the Property and did extensive engineering work on the Project between 1988 and 1999. M3 Engineering and Technology Corporation ("M3"), Tucson, Arizona completed a preliminary feasibility study for the Project in 1998 with gold and silver prices of \$350/oz and \$5.50/oz respectively. The Company did additional drilling and underground sampling in 1998 and 1999.

The Company had previously reported that it expected to begin producing gold and silver from the Project during the second half of 1998, based on the M3 preliminary feasibility study and once approvals and permits had been secured. Because of relatively low gold and silver prices in the late 1990s and in early 2000 however, the Company was not able to obtain financing for the Project and the Project was therefore put on hold in late 2000. Employees were laid off and costs were reduced to the minimum required to maintain rights to the Property. The major landholders agreed to a 3-year moratorium on advance minimum royalty and other property payments or until the

prices of gold and silver improved. The Company recorded an asset impairment loss of \$28,547,592 for the year ended December 31, 2000 and this asset impairment loss reduced the carrying value of mineral properties and other assets to their estimated, net realizable value.

The Project remained on hold in 2010 pending the receipt of outstanding approvals and permits for the Project.

In order to update the prospects for the economic exploitation of the Soledad Mountain mineral deposit, the Company initiated a detailed review of the Project in mid-2002 to identify new approaches that would reduce both the capital cost to the start of production and future operating costs. The review was supported and complimented by a substantial amount of work done by independent engineers and contractors. The review was documented and compiled into an in-house report to assist management in determining the prospects for development of the Project at gold and silver prices prevailing in late-2006. The review indicated reasonable prospects for the development of the Project and this was the basis for the work on the Project that has continued to date.

The Company retracted the historical mineral reserve estimates, which were based on the report prepared by M3 in 1998, in 2005 on the basis that they were out of date and not supported by National Instrument NI 43-101 (“NI 43-101”), being the Canadian regulation that governs the disclosure of technical information by natural resource companies. Past disclosure of mineral reserve estimates should accordingly not be relied upon.

The Company engaged SRK Consulting (U.S.), Inc. (“SRK”), Lakewood, Colorado in 2005 to prepare a NI 43-101 compliant technical report (the “Technical Report (SRK)”) to validate and confirm the mineral resource estimates in compliance with NI 43-101. SRK released the Technical Report (SRK) on March 6, 2006 and this confirmed the mineral resource estimates (see “*Exploration & Mineral Resources*” heading below).

The Company engaged Norwest Corporation (“Norwest”), Vancouver in 2007 to prepare a further NI 43-101 compliant technical report (the “Technical Report (Norwest)”) to assess mineral reserves for the Project as part of an independent feasibility study based upon the technical work that had been completed to the end of 2006. The results of the Norwest study were disclosed in a press release on December 14, 2007 (see “*Mineral Reserves*” heading below).

The Company engaged Norwest in June 2010 to update the feasibility study to reflect current market conditions. It is expected that the results of the updated feasibility study will be released in the second quarter of 2011.

The Project will produce two different types of materials with overlapping time frames. Metal mining and heap leach operation as presently defined is approximately one year of construction, twelve years of mining, thirteen years of leaching for the production of gold and silver (which overlaps with the twelve years of mining), and a further two years of rinsing and drain-down. The production and sale of aggregate is expected to commence fairly early in the mine life and continue for up to thirty years or until the stockpile of quality waste rock has been exhausted. The Company also plans to process and sell leached and rinsed residues from the heap leach operation for a range of uses to local and regional markets. Reclamation will proceed concurrently where feasible, but is nonetheless expected to require two years following cessation of all mining, and a further three years of post-closure monitoring. Monitoring will continue until the reclamation success criteria are met.

There are a number of risks associated with the Project and readers are urged to consider these risks and possible other risks, in order to obtain an understanding of the Project (see “Item 1A. Risk Factors” heading below).

The registered office of the Company is located at 1200 - 750 West Pender Street, Vancouver, BC, Canada V6C 2T8 and its executive offices are located at 6411 Imperial Ave., West Vancouver, BC, Canada, V7W 2J5.

The U.S. dollar is used in this Form 10-K and quantities are reported in Metric units with Imperial units in brackets.

### ***Project Background***

The Project is located approximately 8km (5miles) south of Mojave in Kern County in southern California. See Figure 1, property location map under below.

Gold mining on Soledad Mountain dates back to the late 19<sup>th</sup> century. The largest producer in the area was Gold Fields America Development Co. (“Gold Fields”), a subsidiary of Consolidated Gold Fields of South Africa. This syndicate operated an underground mine and mill on the property from 1935 to 1942, when the mine was forced to close by War Production Board Order L-208. Production after the war was minimal, as costs had increased while the price of gold remained fixed at \$35/oz until 1973.

### ***Exploration & Mineral Resources***

The Soledad Mountain mineral deposit is hosted in a volcanic sequence of rhyolite porphyries, quartz latites and bedded pyroclastics that occur on a large dome-shaped feature, called Soledad Mountain, along the margins of a collapsed caldera. Higher-grade precious metals mineralization is associated with steeply dipping, epithermal veins, which occupy faults and fracture zones that cross cut the rock units and generally trend northwest. The veins are contained within siliceous envelopes of lower-grade mineralization that forms the bulk of the mineral resource.

The primary rock types that occur on the Property are rhyolite porphyry and flow-banded rhyolite, quartz latite porphyry, pyroclastics and siliceous vein material. Little or no clay occurs in any of the rocks and the rocks contain upwards of 60% Si as SiO<sub>2</sub>. Rhyolite porphyry and flow-banded rhyolite were grouped as a single rock type for the metallurgical test work.

Extensive programs of mapping, diamond drilling, reverse-circulation drilling and underground diamond drilling and channel sampling were carried out on the Property between 1985 and 1999. Company geologists and engineers managed these programs. The geological database today includes the crosscut assay data recorded on liners by Gold Fields between 1933 and 1942 and the results of exploration done on the Property by Rosario Exploration and Shell/Billiton. The database contains 71,325 samples, generated from over 113,593m (372,649ft) of drilling and sampling of underground crosscuts.

Ore zones were shaped manually by Company geologists to define continuity with a low-grade cutoff grade of 0.274g/t AuEq (0.008oz/ton AuEq). Prices for gold and silver of \$325.00/oz and \$6.00/oz and recoveries for gold and silver of 78.0% and 60.0% respectively were used to calculate the gold-equivalent cutoff grade for this purpose.

Note:

AuEq is the gold-equivalent grade, which is calculated as follows:

$AuEq \text{ g/t} = Au \text{ g/t} + \{(Ag/R_1) \times R_2\} \text{ g/t}$  where

$R_1 = Au \text{ price in } \$/oz / Ag \text{ price in } \$/oz; R_2 = Ag \text{ recovery in } \% / Au \text{ recovery in } \%$ .

Mineral Resources Development, Inc. (“MRDI”), San Mateo, California completed a detailed due diligence review of the procedures used by the Company between 1998 and 2000. This work involved statistical analyses, the evaluation of grade capping, the design of appropriate kriging techniques and setting criteria for the classification of resources. The Company received a final report with recommendations in May 2000.

The Company engaged SRK Consulting (U.S.), Inc. (“SRK”), Lakewood, Colorado in 2005 to prepare a NI 43-101 compliant technical report (the “Technical Report (SRK)”) to validate and confirm the mineral resource estimates in compliance with NI 43-101. SRK and AMEC E&C Services, Inc. (AMEC acquired MRDI in 2000) did an exhaustive review of the database information and this included the MRDI recommendations from 2000 and audited the geological model over a period of five months in late 2005 and early 2006. Linear kriging was used to estimate gold and silver grades for all blocks in the model. SRK released the Technical Report (SRK) on March 6, 2006.

Mineral resources were classified as follows:

- Measured – first drill hole or crosscut within 21m (70ft) and a second drill hole or crosscut within 30m (100ft).
- Indicated - first drill hole or crosscut within 43m (140ft) and a second drill hole or crosscut within 61m (200ft).
- Inferred – everything beyond measured and indicated, but with two drill holes or cross-cuts within 91m (300ft) and this is more restrictive than the MRDI recommendation from 2000.

Note that mineral resources are not mineral reserves and do not have demonstrated economic viability.

**Cautionary note to U.S. investors concerning estimates of measured or indicated resources:** This section uses the terms “measured resources” and “indicated resources”. We advise U.S. investors that while these terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them.

**Soledad Mountain Project - Measured & Indicated Mineral Resources**

Category	t	ton	Grade					
			AuEq		Gold		Silver	
			g/t	oz/ton	g/t	oz/ton	g/t	oz/ton
Measured	39,720,000	43,692,000	1.118	0.033	0.926	0.027	14.86	0.43
Indicated	50,774,000	55,851,000	0.789	0.023	0.603	0.018	11.47	0.33
<b>Total &amp; Average</b>	<b>90,494,000</b>	<b>99,543,000</b>	<b>0.912</b>	<b>0.027</b>	<b>0.744</b>	<b>0.022</b>	<b>12.96</b>	<b>0.38</b>

**Cautionary note to U.S. investors concerning inferred resources:** This section uses the term “inferred resources.” We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. Inferred resources have great uncertainty as to their existence, and great uncertainty as to the economic feasibility of exploiting these in a mining operation. Under Canadian rules, estimates of an inferred resource may not form the basis of pre-feasibility or feasibility studies except in rare cases. Investors are cautioned not to assume that all of or part of an inferred resource exists or will be economically exploitable.

**Soledad Mountain Project - Inferred Mineral Resources**

Category	t	ton	Grade					
			AuEq		Gold		Silver	
			g/t	oz/ton	g/t	oz/ton	g/t	oz/ton
Inferred	32,073,000	35,280,000	0.634	0.019	0.497	0.015	10.84	0.32

Note:

1. AuEq is the gold-equivalent grade, which is calculated as follows:  

$$\text{AuEq g/t} = \text{Au g/t} + \{(\text{Ag/R}_1) \times \text{R}_2\} \text{ g/t where}$$

$$\text{R}_1 = \text{Au price in \$/oz} / \text{Ag price in \$/oz}; \text{R}_2 = \text{Ag recovery in \%} / \text{Au recovery in \%}.$$
Prices used in the calculations are \$450.00/oz and \$7.50/oz for gold and silver respectively.  
Recoveries used in the calculations are 78.0% and 60.0% for gold and silver respectively.
2. Ore zones were shaped manually with a cutoff grade of 0.274g/t (0.008oz/ton) AuEq.
3. The mineral resources were calculated with a cutoff grade of 0.274g/t (0.008oz/ton) AuEq.

Peter Clarke, P.Eng., SRK Consulting (U.S.), Inc., a Qualified Person as described in NI 43-101, signed the Technical Report (SRK). The Technical Report (SRK) is available on the Company’s web site at [www.goldenqueen.com](http://www.goldenqueen.com).

***Infill Drilling Program***

The Company has prepared a drilling program with 40 drill holes and approximately 7,200m (23,500ft) of drilling, designed to test a portion of the material classified as inferred within pit shells constructed in 2007. SRK concurred

in the Technical Report (SRK) that strategically targeted drilling could upgrade a significant portion of the inferred to the measured or indicated categories. The Company intends to do extensive infill drilling only once the mine is in production. The Company is however proceeding with a limited infill drilling program with targets within the areas of the planned North-West and East open pits. A total of 15 holes are proposed within the North-West open pit area with a total length of 1,500m (4,900ft). The North-West open pit is the planned location of the first phase of mining. A total of 9 holes are proposed within the East open pit area with a total length of 1,200m (3,900ft). The program will consist primarily of infill drilling with the objective of upgrading inferred resources to reserves. In addition the drilling will test continuity of mineralization, which typically has been excellent in most areas previously tested.

### ***Mineral Reserves***

The Company engaged Norwest in January 2007 to prepare a NI 43-101 compliant technical report (the “Technical Report (Norwest)”) to assess mineral reserves for the Project as part of an independent feasibility study based upon the technical work that had been completed to the end of 2006. The results of the Norwest study were disclosed in a press release on December 14, 2007 and the Technical Report (Norwest) is dated March 2008.

The mineral reserves as calculated by Norwest are set out in the table below.

#### **Soledad Mountain Project - Proven and Probable Mineral Reserves**

Reserve Category			Diluted Grades			
			Gold		Silver	
	t	ton	g/t	oz/ton	g/t	oz/ton
<b>Proven*</b>	27,705,500	30,476,000	0.819	0.0239	13.82	0.403
<b>Probable*</b>	18,861,800	20,748,000	0.535	0.0156	11.69	0.341
<b>Total &amp; Average</b>	46,567,300	51,224,000	0.703	0.0205	12.96	0.378

\*Indicated recoveries for gold and silver based upon extensive test work are 85.0% and 52.5% as discussed in detail in section *Mineralogy, Process Development & Flow Sheet* below.

**Cautionary note to U.S. investors concerning proven or probable reserves:** This section uses the terms “proven reserves” and “probable reserves”. We advise U.S. investors that these terms are defined strictly in accordance with applicable Canadian regulations. We further advise U.S. investors that the mineral reserve estimates are not compliant with the Securities and Exchange Commission Industry Guide 7 as a final bankable feasibility study has not been completed.

Sean Ennis, P.Eng., Norwest Corporation, a Qualified Person as described in NI 43-101, signed the Technical Report (Norwest). The Technical Report (Norwest) is available on the Company’s web site at [www.goldenqueen.com](http://www.goldenqueen.com).

These mineral reserve estimates are included in the Measured & Indicated Mineral Resources set out in the table in the section *Exploration & Mineral Resources* above.

The gold-equivalent cut-off grade for the calculation of mineral reserves is 0.51g/t (0.015oz/ton) AuEq.

Norwest allowed for ore loss of 2.5% and 15% dilution at a zero grade in calculating the mineral reserves.

### ***Exploration Potential***

Additional geological targets have been identified on the Property. These targets are generally peripheral (east, south and west) to the currently defined mineral resources. In the east, two additional zones of quartz stringer veins have been mapped in the hanging wall of the Karma/Ajax vein system. Toward the south, an extension of the Silver Queen vein system is open and additional vein splits have been mapped on surface. Also, an extension of the Golden Queen vein system appears to be offset by an east-west trending fault. Initial drill results indicate widths of 8m (26ft) with good gold and silver grades.

The exploration work to date has focused on known fault/vein structures central to the deposit. The host volcanics associated with the mineralization on the Property extend further to the south and have not been fully evaluated. Further, anomalous gold values have also been found in the low volcanic hills that protrude from the valley floor to the northwest of the Property.

The continuity of mineralization at depth remains untested.

### ***Independent Feasibility Study Completed By Norwest Corporation***

Norwest completed a feasibility study and Technical Report (Norwest) for the Project and the results were released in a press release on December 14, 2007.

The following were the parameters used in the base case cash flow projection:

- Gold and silver prices of \$600.00/oz and \$12.00/oz respectively
- An analysis on an all-equity basis with lease financing of the primary mining equipment and
- A 10% contingency on capital and operating costs.

The Project then had a projected internal rate of return (“IRR”) on capital employed of 19% before taxes with a payback of approximately 4 years. The net present value (“NPV”) was \$66.5million with discount rate of 5.0% and the undiscounted, cumulative, net cash flow was \$120million. The contribution of gold and silver to gross revenues was projected to be 84% and 16% respectively with an average cash operating cost per ounce of gold produced, net of silver credits, of \$420/oz.

The Company engaged Norwest in June 2010 to update the feasibility study to reflect current market conditions. It is expected that the results of the updated study will be released in the second quarter of 2011.

Technical information is provided in the following sections.

### ***Mine Design***

Norwest did a detailed mine design in 2007. Gold and silver prices of \$600.00/oz and \$12.00/oz respectively were used to develop an ultimate, open pit shell with standard modeling techniques. A total of five mining phases were defined within this shell. Detailed waste rock removal and ore production schedules were prepared. The waste rock management plan incorporates sequential backfilling of mined-out phases of the open pit as required by current California regulations.

An independent consulting engineer did open pit slope stability analyses in 1995 and these included analyses with the ultimate slopes subjected to a maximum, credible earthquake acceleration of 0.297g. The consulting engineer recommended an ultimate slope angle of 55° with an indication that this angle could be safely increased to 63.4°. The Company drilled five diamond drill holes in 1997 specifically to obtain rock strength parameters for further slope stability analyses. An independent consulting engineer did further slope stability analyses and confirmed the ultimate slope angle of 55°. Norwest use an inter-ramp slope angle of 55° for the mine design done in 2007.

Disposal of waste rock will be largely in mined-out phases of the open pit and a single, external waste rock dump will be constructed to provide a pad for the aggregate operation. Independent consulting engineers did waste rock dump stability analyses in 1996 and again in 1998 and these were confirmed by Norwest in 2007. A further dump stability analysis was done in 2010. These analyses concluded that waste rock dumps would be stable under both static and seismic loading conditions, both during operations and after closure and reclamation. Some sloughing of the faces of dumps could occur during significant seismic events in the area.

Waste rock dumps will be constructed at an angle of repose of 37° (1.3:1.0) and a specific volume of 18.1ft<sup>3</sup>/ton that represents a 30% net swell after allowing for partial compaction. Dumps will be re-sloped to 27° (2.0:1.0) as part of closure and reclamation. The toes of the re-sloped dumps will also typically remain within the open pit perimeter or

within the permit boundary. There is no groundwater in the areas where waste rock will be disposed of and this will therefore not have an impact on the stability of the waste rock dumps.

### ***Open Pit Operation***

Standard, open pit mining methods will be used to mine ore and waste rock. Mining operations will include drilling, blasting, loading and hauling and it is expected that the Company will do the mining. All open pit mining will occur in dry conditions above the water table.

Norwest determined the open pit equipment requirements and capital and operating costs for the feasibility study.

Planned mining rates are 13,000 tons of ore and 27,000 tons of waste rock per day or 4.55million tons of ore and 9.45million tons of waste rock per year for a combined total of 14.0million tons per year and these have been reduced from the earlier planned mining rates. Mine life has increased from 7 years to 12 years. The total quantity of ore to be mined, crushed and screened and stacked on the heap leach pads is estimated to be 48.5 million tonnes (53.3 million tons). Total waste rock to be mined is estimated as 89.7 million tonnes (98.7 million tons) of which 17.3 million tonnes (19.0 million tons) is expected to be processed and 13.6 million tonnes (15.0 million tons) sold as aggregate and 76.1 million tonnes (83.7 million tons) is expected to be managed on site. The average waste to ore mining ratio has been reduced from 2.12:1.0 in 2008 to 1.85:1.0.

The quantities of both ore and waste rock mined per year will vary from year to year to ensure the most efficient disposal of waste rock in mined-out phases of the open pit.

Ore-from-waste separation will require special attention to ensure that overall grade projections are met.

Underground mine openings will be encountered from time-to-time during open pit mining and this will be allowed for in the detailed mine planning.

The open pit design done by Norwest assumed a loaded downhill ore haul to the primary crusher for the life of the mine. The intent is to replace trucks with a downhill pipe conveyor to convey ore for a number of the mining phases with a reduction in the number of trucks required. Ore will be crushed by an in-pit, portable, primary crusher and fed to the pipe conveyor and conveyed to the coarse ore stockpile. The length of the pipe conveyor will be approximately 1500ft. Various alternative mine designs are being explored in an effort to make the best possible use of the pipe conveyor and detailed engineering for this application remains to be completed.

Pipe conveyor technology is well-proven in practice with upwards of 200 installations in Europe. Regenerative braking is typically used in all loaded downhill applications and the power generated would provide a small portion of the power required elsewhere in the Project.

### ***Mineralogy, Process Development & Flow Sheet***

Studies show that gold is present as native gold and electrum with particles ranging in size from less than 10 micron to greater than 150 micron with the silver content of the electrum as high as 25%. Silver is also present as the mineral acanthite ( $\text{Ag}_2\text{S}$ ) with some native silver, pyrrargyrite ( $3\text{Ag}_2\text{S}\text{Sb}_2\text{S}_3$ ) and polybasite ( $9\text{Ag}_2\text{S}\text{Sb}_2\text{S}_3$ ). Pyrite ( $\text{FeS}_2$ ), galena ( $\text{PbS}$ ) and chalcopyrite ( $\text{CuFeS}_2$ ) are present in minor amounts with no indicated acid-generating potential. Multi-element x-ray fluorescence analyses show only trace quantities of mercury.

Test work done on Soledad Mountain ores from 1989 to 2007 shows that these ores are readily amenable to heap leaching provided the ore is crushed and/or ground to relatively small sizes. A range of parameters required to design a heap leach operation, such as agglomerate strength, percolation rates under load and the consumption of cyanide and other reagents, were determined.

It was proposed to crush and screen ore to 100% - 8mesh or 100% - 2.37mm and a four-stage crushing and screening plant using vertical shaft impact crushers in the third and fourth crushing stages was designed for the Project in the 1990s. This approach is referred to as conventional crushing in the following analysis. The Company did a review that provided new insights into the historical test results in 2002. An alternative flow sheet was

developed for the Project in late 2002. This was now a three-stage crushing and screening plant with a high-pressure grinding roll (“HPGR”) in the third crushing stage.

Confirmation HPGR tests were required to provide the following:

- The design parameters to both size the equipment and determine the motor sizes for the HPGR;
- The target particle size distributions for the commercial operation; and
- Information to finalize the flow sheet, e.g. the need to recycle edge material.

Samples of rhyolite ore and quartz latite ore were collected for the HPGR tests in July 2003 and in March 2004 respectively. The samples were crushed to 100% passing 32mm and 35mm respectively by McClelland Laboratories, Inc. (“MLI”), an independent metallurgical laboratory located in Sparks, Nevada. The samples were shipped by airfreight to the laboratories of two HPGR manufacturers in Germany where the actual HPGR tests were done. The crushed samples were returned to the MLI laboratory in Nevada for confirmation leach test work. The following conclusions were drawn based upon the results of bottle roll and column leach tests:

- Recoveries are higher with longer leach times and this confirms the historical findings;
- Recoveries increase with a finer crushed product and this effect is especially pronounced for silver; and
- Recoveries for the HPGR products are consistently higher and extraction rates faster than those obtained from conventional crusher products – the evidence is that this is due to penetration of leach solution into micro-cracks that are created by the high specific press force applied to the ore particles in the HPGR.

The detailed analysis of the leached residues or tails indicated that tests should be done on a high-grade and a low-grade sample to obtain data for the complete range of expected head grades. Two rhyolite samples were taken for this test work in April 2006. The total weight of the two samples was approximately 2,100kg (4,600lb). The samples were shipped by truck to MLI for first-stage crushing and then by airfreight to a HPGR manufacturers’ laboratory in Germany where the HPGR tests were done. The samples were returned to MLI and bottle roll tests and column leach tests were started in July and completed in December 2006. Final test results were received and combined with the results from earlier tests for a detailed recovery analysis.

The Company now estimates the following recoveries based upon the tails analysis:

Primary Rock Types	Proportion	Gold	Silver
	%	%	%
Pyroclastics	10.5	85.4	52.5
Quartz Latite	21.3	89.9	52.5
Rhyolite	68.1	83.4	52.5
Undefined	0.1	Average	Average
Total & Average	100.0	85.0	52.5

Tests were done on leached residues from two of the column leach tests to determine the percolation rates under load and the results of the tests were used to design the heap and confirm heap height for the heap leach operation.

The test work shows that the HPGR is expected to have distinct advantages over conventional crushing and screening to size and prepare particles for heap leaching in this particular application. The indicated benefits of using the HPGR will be:

- Higher recoveries in the heap leach operation due to micro-cracks in the ore particles;
- Faster gold and silver extraction rates;
- Stronger agglomerates due to a more favorable overall particle size distribution and this will also impact the flow rates of solution through the heap;
- Substantially lower capital costs than a conventional crushing - screening plant;

- Manageable dust control with fewer transfer points;
- Lower energy consumption and thus lower operating costs; and
- Exceptional circuit flexibility that will readily permit future upgrades such as a finer HPGR feed size or the recycle of edge product.

A technical paper entitled “Flow Sheet Development And Benefits Of The HPGR” was presented at the RANDOL conference held in Perth, Australia in late-August 2005.

An independent consulting engineering firm did the design of the crushing-screening plant including the HPGR in 2006. This design was revised in 2008 and further updated in 2010. The crushing-screening plant has been designed to process 650t/h (715ton/h to a possible throughput of 4,650,000 tonnes (5,119,000 tons) of ore per year.

The HPGR consists basically of two counter-rotating rolls – one a fixed roll and the other a ‘floating’ roll. The ‘floating’ roll is mounted on and can move freely on two slides and the grinding forces are applied to the ‘floating’ roll by four hydraulic rams. Ore is choke-fed to the gap between the rolls and comminution takes place by inter-particle crushing in the bed of particles. The gap between the rolls is determined by the nip-in characteristics of the feed and the total grinding force applied, which in turn depends upon pressures in the hydraulic system. Each roll is driven by an electric motor via a planetary gear reducer. The total grinding force can range from 750kN to 20,000kN and pressures in the gap can range from 50MPa (approximately 7,000lb/in<sup>2</sup>) to 250MPa (approximately 36,000lb/in<sup>2</sup>). The unconfined compressive strengths of Soledad Mountain ores range from 2.2MPa (320lb/in<sup>2</sup>) to 118.9MPa (17,200lb/in<sup>2</sup>) by comparison.

Comminution in the HPGR is achieved without impact and essentially without attrition of the wear protection on the surface of the rolls.

#### ***Merrill-Crowe Plant***

Gold and silver are typically recovered in a heap leach operation by dissolution in a dilute sodium-cyanide solution and then by precipitation with zinc or adsorption on activated carbon. The zinc precipitation process, referred to as the Merrill-Crowe process after its developers, is used to recover gold and silver when the silver to gold ratio in solution is greater than 10:1. The silver to gold ratio is expected to average 15:1 for the Project and a Merrill-Crowe precipitation plant will therefore be required. In the Merrill-Crowe process, zinc dust is metered into the deaerated, pregnant solution and gold and silver are precipitated as micron-sized, metallic particles. The precipitate is dried, mixed with selected fluxes and melted in an induction furnace. The molten mix of gold and silver, i.e. the dorè, is poured into molds. The dorè is cooled, cleaned and shipped to a commercial refinery where gold and silver bullion are produced for final sale.

The Merrill-Crowe process is highly efficient and recoveries in a commercial plant typically range upwards of 98%.

Independent consulting engineering firms did detailed designs and prepared capital and operating costs estimates for the Merrill-Crowe plant and this includes the refinery in 2010.

#### ***The Heap Leach Pad And The Heap***

A dilute, sodium-cyanide solution will be used to extract gold and silver in the heap leach operation. Extensive procedures will be put in place to protect workers and the environment. The cyanide will be received in a dissolved form by truck directly from the manufacturer and will be pumped to a storage tank on site and from there to the process.

An independent consulting engineering firm is responsible for the design of the heap leach facility, which has been designed for zero discharge. The design contemplates that the first heap leach pad to be constructed, the Phase 1 pad, will be located on the northern side of Soledad Mountain. A second pad, the Phase 2 pad, will be located on the western side of Soledad Mountain, if required. The Phase 1 pad will be a single-use, dedicated pad.

The following are the design criteria for the Phase 1 pad:

- The pad has been designed as a permanent, single-use pad;
- Dry specific weight of agglomerated ore ranges from 1.36t/m<sup>3</sup> (85lb/ft<sup>3</sup>) to 1.86t/m<sup>3</sup> (116lb/ft<sup>3</sup>);
- Maximum heap height is 60m (200ft);
- Lift height is 10m (33ft);
- The angle of repose of the agglomerated ore is 2.0H:1.0V;
- Slopes are 2.5H:1.0V on the north and west sides and 2.0H:1.0V on the south and east side of the heap;
- Nominal capacity of the pad is 55 million tonnes (60 million tons) and
- The heap is to be constructed in 3 stages.

The Phase 1 heap leach pad will be lined with a composite liner consisting of a compacted soil liner and a geomembrane. The geomembrane will in turn be covered and protected by 45cm (18inch) of a crushed liner protection fill that will act as a drainage layer. A network of perforated pipes will be installed in the liner protection fill. Solution will drain by gravity to a pump box and will be pumped to the Merrill-Crowe plant where gold and silver will be extracted from the pregnant solution. The barren solution will be returned to the heap and drip emitters will be used on the heap to limit evaporation losses. Drip emitters will be covered. An overflow pond is located east and downstream of the pump box.

Detailed site investigations were done in the area where the Phase 1 heap leach pad will be constructed in 2004 and again in 2006. The design of the Phase 1 pad has been completed for construction. A local contractor has prepared a construction cost estimate for the Phase 1, Stage 1 portion of the pad.

The design of the heap leach pad meets all applicable regulatory requirements.

An equipment manufacturer did the heap leach stacking study for the conveying and stacking system.

### ***Services***

The Project is located approximately 8km (5 miles) south of Mojave in southern California. The metropolitan areas of Rosamond and Lancaster lie from 14km (9 miles) to 32km (20 miles) to the south. Access to site is from State Route 14 and Silver Queen Road, an existing paved County road. Mojave is a railroad hub for the Burlington Northern/Santa Fe and Union Pacific/Southern Pacific railroad lines. Services such as a hospital, ambulance, fire-protection, garbage and hazardous waste disposal, schools, motels and housing, shopping, airport and recreation are available in Mojave and its surroundings.

### ***Water Supply***

A water supply will be required for the operation and it is expected that groundwater will be used.

A detailed study of the site hydrogeology was completed in 2006 to confirm that groundwater would be a dependable source of water for the Project. As many as 35 wells have been drilled in the greater Project area in the past. Records for some of these wells plus step rate test data from production well PW-1 drilled by the Company indicate that, initially, two production wells can provide the maximum estimated water requirement of 147.6m<sup>3</sup>/h (650gal/min). Production well PW-1 is located approximately 1km (3,000ft) north of the Project. A second production well was drilled approximately 300m (1,000ft) north of well PW-1 and cased and tested and a third production well, PW-3, was drilled in an area west of the Project in November 2008 and development of the well has just been completed.

Water samples taken from five characterization wells on site indicate that groundwater can be used in the heap leach process without pre-treatment.

An independent consulting engineering firm did the design for the water supply and the process water and firewater distribution systems and prepared capital and operating cost estimates in 2010.

The Company filed an application for a water service connection with Antelope Valley – East Kern Water Agency in February 2008 to provide a backup water supply. This was mandated as one of the conditions of approval in the Conditional Use Permits that were issued in 1997.

The Company is in discussion with the Rosamond Community Services District to determine the availability and feasibility of using recycled water for the Project and initial engineering studies have been initiated.

### ***Power Supply***

The regional utility, Southern California Edison (“SCE”), will supply power.

A main power line with three sets of conductors runs along the eastern property boundary. The top two sets of conductors carry 66kV while the bottom set of conductors carries 12,460V and these are the common primary voltages in SCE territory.

SCE provided a rate for power in 2010. The rate structure is complex and a mix of consumption and demand charges applies to peak, mid-peak and off-peak periods.

SCE indicates that the power factor is an absolutely critical item in SCE territory. SCE requires a minimum operating power factor of 0.95 and a load-sensitive capacitor bank will be installed to achieve this. SCE may also limit the number of starts permitted for the major motors per day.

It is expected that the Company will install and own the utility tie sub-station, which will transform the incoming voltage of 66kV to 4160V and this will be the mine distribution voltage. Overhead transmission lines will distribute power from the utility tie sub-station to the areas where power will be required.

A diesel-powered generator will provide standby power and this will be set beside the Merrill-Crowe plant. Power will be available to operate the pregnant and barren solution pumps in case of a SCE power failure.

An independent consulting engineering firm prepared a detailed motor list and estimated the power consumption for the Project. The firm also prepared a detailed capital cost estimate for the supply of power to the Project in 2010.

### ***Assay Laboratory, Offices & Workshop/Warehouse***

Detailed designs for all services required for a mining operation such as an office, workshop and warehouse, diesel fuel and gasoline storage and an assay laboratory have been completed. Detailed capital and operating cost estimates were prepared for these facilities in 2010.

### ***Project Management & Operating Manpower***

A management team will be assembled in Mojave to manage the Project. Manpower is expected to average 32 salaried and 165 hourly-paid workers once the mine is in full production with a further 15 hourly-paid workers required for the aggregate operation. Indications are that skilled workers will be available locally as there are a number of mines and quarries in production in the greater Mojave area.

Construction manpower is expected to peak at 200 with an estimated 141.7 man-years required for construction.

### ***Aggregate***

It is expected that a by-product aggregate and construction materials business can be developed once the heap leach operation is in full production, based on the location of the Project in southern California with close proximity to major highways and railway lines. The source of raw materials will be quality waste rock specifically stockpiled for this purpose. The waste rock can be classified into a range of products such as riprap, crushed stone and sand with little further processing. Test work done in the 1990s confirmed the suitability of waste rock as aggregate and construction material. The waste rock could be sold over an extended mine life greater than 30 years. The

Company also plans to process and sell leached and rinsed residues from the heap leach operation for a range of uses to local and regional markets.

### ***Environmental Issues & Permits***

#### *Introduction*

The Company's Soledad Mountain Project requires three main permits that will give the Company the right to begin mining and processing operations. These are:

- a. Amended Conditional Use Permits to be issued by Kern County (see "*CEQA/NEPA*" heading below);
- b. Authorities to Construct to be issued by the Eastern Kern Air Pollution Control District (see "*Authority to Construct & Permit to Operate*" heading below; and
- c. Waste Discharge Requirements to be issued by the Lahontan Regional Water Quality Control Board (see "*Water Quality*" heading below.

The environmental issues and the efforts made to secure the three main permits are described in detail under the subheadings "*CEQA/NEPA*", "*Authority to Construct & Permit to Operate*", and "*Water Quality*".

#### *General*

The area surrounding Mojave is typical of the western Mojave Desert. The immediate vicinity of the Project is sparsely populated with considerable historical and more recent mining activity. The Standard Hill, Tropic and Cactus mines are located within a radius of 12km (7.5 miles) of the Property.

The Project and the immediate area surrounding the Project or a total of approximately 9,600 (3,887 hectares) acres are included in the Specific Plan (the "Plan") for Soledad Mountain - Elephant Butte & Vicinity - south of Mojave. This Plan was prepared in March 1973 and adopted by the Kern County Board of Supervisors as Resolution 73-485 on June 18, 1973. Gold and silver mining operations are recognized in the Plan as important land uses and the protection of mineral deposits, potentially of commercial value, is included in the Plan through restriction of incompatible land uses. The Project as presently defined is consistent with the Plan.

An independent consulting engineering firm reviewed the major approvals and permits that were issued for the Project in the late 1990s and the current regulatory environment in California in 2005. Additional work was indicated due to the time that had passed since the permits were first issued and changes that had been made in the Project. There have also been changes in regulations imposed by two levels of government in California. No significant environmental issues were however identified in the review and furthermore, the footprint of the Project as presently defined has been reduced in both a physical and an environmental sense.

Environmental issues and the status of approvals and permits are summarized in the following sections.

#### *CEQA/NEPA*

The Project is subject to the California Environmental Quality Act ("*CEQA*") and the National Environmental Policy Act ("*NEPA*"), each of which requires written analysis of proposed mining activities and their effect on the physical, biological, social and economic resources of the area. This analysis is known under *CEQA* as an environmental impact report ("*EIR*"), and under *NEPA* as an environmental impact statement ("*EIS*").

The environmental setting of the Project was documented in a number of baseline studies prepared between 1990 and 1997. The Kern County Board of Supervisors unanimously approved two Conditional Use Permits ("*CUP*") for the Project in September 1997 (i.e. *CUP* Case No. 41, Map No. 213 and *CUP* Case No. 22, Map No. 214). The Bureau of Land Management subsequently issued its Record of Decision approving the Plan of Operations under *NEPA* in November 1997.

The State of California introduced backfilling requirements for certain types of open pit, metal mines in December 2002. The Company contended that these regulations did not apply to the Project under a grandfathering provision

included in the regulation. The Company, therefore, pursued both a favorable interpretation under the regulation and subsequently an amendment of the regulation with the State Mining and Geology Board (the "Board") in 2006. These efforts were supported by Kern County officials. Both approaches were rejected by the Board and the decision was duly recorded by the Board in January 2007.

The Company completed an Application for a revised Surface Mining and Reclamation Plan, which was submitted to the Kern County Planning Department (the "Planning Department") in April 2007. The Planning Department completed its review of the Application and deemed the Application complete in July 2007. The Planning Department noted that changes proposed for the Project constituted new information that required evaluation of potential impacts and mitigation in a supplemental EIR ("SEIR"). The Planning Department issued a Request for Proposal to prepare the SEIR to a total of 17 qualified consultants in October 2007. The Chambers Group was awarded the contract to prepare the SEIR. The Company signed an agreement with the Planning Department in February 2008 and made a payment of \$55,000 which was 50% of the cost of preparing the SEIR. This agreement was approved by the Kern County Board of Supervisors at its regular meeting on March 11, 2008.

The kickoff meeting with the Chambers Group was held on the afternoon of March 12, 2008. The Chambers Group completed the initial review of information provided by the Planning Department and issued a draft Notice of Preparation by mid-June. The Planning Department then terminated the agreement with the Chambers Group due to a conflict of interest related to another project. The Planning Department mailed the Notice of Preparation and the supporting reports to agencies on the mailing list on August 18 with a deadline for responses by September 17. A total of 66 sets of information were mailed by the Planning Department directly plus a further 15 sets were mailed by the State Clearinghouse.

The State Office of Mine Reclamation ("OMR"), accompanied by the Planning Department and Company management, met on site for a due diligence review on September 16, 2008. The OMR indicated that it would require additional time beyond the September 17, 2008 deadline to prepare comments on the Project.

The Planning Department received nine comment letters by September 17, 2008 and two additional comment letters at the end of September plus a twelfth comment letter thereafter. The OMR submitted comments to the Planning Department on September 30, 2008.

The County selected RGP Planning and Development Services ("RGP") to continue with the preparation of the SEIR. The agreement with RGP was approved by the Kern County Board of Supervisors at its regular meeting on October 14, 2008. The estimated cost of the work to be done by RGP was \$123,800 and the Company paid this amount on September 25, 2008.

A scoping meeting was held on site attended by RGP, the Planning Department, and Company management.

The Company submitted responses to ten of the comment letters referred to above to the Planning Department on November 27, 2008 and responses to the OMR's comment letter on December 16, 2008.

RGP prepared a Progress Report, which the Planning Department released to the public, on December 30, 2008.

The Company's consulting engineers did extensive studies to confirm the possibility of backfilling mined-out phases of the open pit in January and February 2009. The studies were presented to the Planning Department in a meeting in Bakersfield on March 11, 2009. The Planning Department requested that the Project Description be revised to include the backfilling studies and this was done and submitted to the Planning Department on March 24. The Application for the revised Surface Mining and Reclamation Plan was also revised and submitted to the Planning Department on April 5. A further revision of the Application was requested by the Planning Department on May 5 and this was completed and submitted on May 25. The Company recognizes that the reviews by the Planning Department have added to the overall quality of the Application.

The Planning Department's target for the release of the SEIR to the public was then late July or early August 2009.

The following two items are of note:

- The Company completed a number of studies and did significant work on site between 2005 and 2010 to document that the environmental setting for the Project had not changed since 1997. The studies have been submitted to the Planning Department.
- The Bureau of Land Management has confirmed that its Record of Decision approving the Plan of Operations under NEPA in November 1997 remains valid and that no additional reviews or approvals are required before the Company can proceed with the Project.

There are 87 conditions of approval listed in Exhibit “E” to the CUPs and this includes a requirement to reclaim historical disturbances on the Property. Site inspections are conducted annually to verify that the Company is in compliance with the conditions of approval.

The SEIR was distributed by the Planning Department, as lead agency under the provisions of CEQA to approximately 430 recipients and notification of release to 985 recipients on January 11, 2010. At the conclusion of the review period, the Planning Department had received 26 responses, including letters supporting the Project, letters that had concerns with the Project, and letters from regulatory agencies designated as responsible agencies under CEQA. Comments were also received from the State of California on the reclamation plan provisions. The lead agency responded in writing to the comments received by February 25, 2010. The Company supported the lead agency’s effort by supplying additional information that was requested. As required by CEQA, the lead agency provided written responses to those who commented no later than 14 days prior to the project’s consideration by the Kern County Planning Commission “Commission”. The Commission was scheduled to consider this case at its regularly scheduled April 8, 2010, hearing.

The Commission formally considered the Project on April 8, 2010. At the meeting, the Commission, consisting of a panel of three commissioners, unanimously approved the Project. Two appeals to the certification were filed but subsequently withdrawn. Accordingly, the Commission’s actions became final on May 24, 2010. The thirty-day period for filing a lawsuit challenging the SEIR expired on June 23, 2010. The Commission certified the SEIR and adopted a Mitigation Measures Monitoring Program and a set of Conditions of Approval for the Project. The Mitigation Measures Monitoring Program and Conditions of Approval for the Project were amended by Commission Resolution No. 171-10 adopted on October 28, 2010 and are now final.

### *Air Quality*

#### *Background Information*

The Project lies within the Southeast Desert Air Basin, which falls under the jurisdiction of the Eastern Kern Air Pollution Control District (“EKAPCD”). The district is charged to regulate sources of air pollution within the basin, pursuant to authority granted under the federal Clean Air Act.

The area is designated as unclassified for PM<sub>10</sub> emissions (that portion of the total suspended particulates less than 10 microns in size) and as a non-attainment area for ozone. The typically windy conditions and very dry nature of the area are responsible for high background PM<sub>10</sub> levels recorded at several nearby meteorological monitoring stations.

Fugitive dust from a mining operation on the Property, combined with background dust, may result in unacceptable levels of PM<sub>10</sub> emissions in the surrounding areas, especially downwind, and this may present the greatest potential environmental issue for the Project. A PM<sub>10</sub> level of 44 micrograms per cubic meter was projected by computer modeling for an annual mining rate of 27 million tonnes (30 million tons) in 1996. This level is below the California attainment standard of 50 micrograms per cubic meter and the Federal standard of 150 micrograms per cubic meter. However, the Company believes that it will achieve compliance with applicable standards by a greater margin, as the modeling methodology assumes worst-case conditions, which are considered unlikely to be encountered in the actual operation based on the planned use of commonly accepted dust control techniques in all phases of the operation.

The Planning Department requested that the Air Quality Assessment and Health Risk Assessment for the Project be redone in February 2009 to provide current information for the SEIR. This study was completed and in the hands of the Planning Department and EKAPCD on July 21, 2009.

EKAPCD transferred an Emission Reduction Credit Certificate from Cactus Gold Mines Company to the Project in February 1999 and this remains valid.

#### *Authority To Construct & Permit To Operate*

The Company had obtained seven Authorities to Construct dated March 16, 2002. These permits expired on March 16, 2004 and were not renewed due to changes anticipated in the Project.

The Company's consulting engineers completed the revised Applications for Authorities to Construct and these were submitted to EKAPCD in February 2011. EKAPCD can now prepare and issue Authorities to Construct as the SEIR has been certified.

The Authorities to Construct are converted to a Permit To Operate after construction has been completed and subject to inspection by the EKAPCD.

#### *Meteorological Monitoring Station*

The Company was required to install both upwind and downwind meteorological monitoring stations before the start of production and decided to proceed with the upwind monitoring station in May 2006 to add to the background database. The station was designed by Air Sciences Inc., Golden, Colorado and commissioned in September 2006. The EKAPCD approved the design of the station in October 2006. Data is being recorded on a continuous basis and quarterly reports are being issued to the EKAPCD.

The equipment for the downwind meteorological monitoring station has been purchased and is in storage in Mojave.

#### *Water Quality*

The Project is located in the northern portion of the Antelope Valley Groundwater Basin. The mean recorded annual rainfall in the surrounding area is approximately 156mm (6.14in). Typical patterns of precipitation are winter rains and summer thunderstorms and these tend to be short-lived and of high intensity. The site is dominated by Soledad Mountain and surface drainage patterns in the area are largely influenced by local topography. This varies from steep, rugged hillsides at the upper elevations to a gently sloping desert floor around the toe of Soledad Mountain. Runoff on the northern side of Soledad Mountain is via a series of gullies or channels, which direct surface flows to the north, northeast and northwest and eventually to the east to the Gloster and Chaffee Hydrologic Areas of the Antelope Hydrologic Unit.

There are no springs or intermittent streams in the immediate area. The closest intermittent stream is approximately 5km (3 miles) to the west. Evaporation rates are high. Groundwater is typically found at depths of 55m to 60m (180ft to 200ft) in the area north of the Project.

The Lahontan Regional Water Quality Control Board ("Regional Board") is responsible for ensuring compliance with the federal Clean Water Act and California's Porter-Cologne Water Quality Act. The Company submitted a Report of Waste Discharge ("ROWD"), prepared by a company based in Bakersfield to the Regional Board in June 1997. The Regional Board adopted Board Order No. 6-98-9 in March 1998 at a meeting held in Lancaster and this set the Waste Discharge Requirements for the Project.

### *Revised Report Of Waste Discharge*

The ROWD submitted in 1997 included a design for the heap leach facility done before and in 1997. The Company and its consulting engineers prepared an engineering review that set out significant differences between the layout and designs prepared for the heap leach facility in 1997 and in 2005 and made a presentation to the Regional Board in Victorville in May 2006. The Regional Board requested that the Company submit a revised ROWD to reflect these changes. The Company and its consulting engineers prepared and submitted a revised ROWD to the Regional Board in March 2007.

The Regional Board completed its assessment of the revised ROWD and prepared draft Waste Discharge Requirements (“WDRs”) for the Project. The Regional Board waited for confirmation from the Planning Department that the SEIR had been certified before adopting a revised Board Order and setting revised WDRs for the Project.

The Regional Board unanimously approved WDRs and a Monitoring and Reporting Program for the Project at the joint, regular meeting held on July 14, 2010 in South Lake Tahoe, NV and Victorville, CA. The Board recommended adopting an order approving the WDRs subject only to locating an additional ground water monitoring well. This well was drilled and tested in November 2010. The Board Order was signed by the Executive Officer of the Regional Board on July 23, 2010.

The order approving the WDRs is a critical authorization for the construction and operation of, and establishes the discharge and monitoring standards for, the heap leach pads, rock stockpiles and other activities that have the potential to affect surface and ground waters.

### *Closure, Reclamation and Financial Assurance*

Closure and reclamation will be done in accordance with the requirements set out in the CUPs and an approved Surface Mining and Reclamation Plan and as set out in the Board Order issued by the Regional Board.

The following general principles apply:

- Considerable experience gained in reclamation of other heap leach operations in the California deserts since the mid-1990s shows that reclamation can be completed successfully.
- The Surface Mining and Reclamation Plan will be an active plan with concurrent reclamation on one hand and alternative reclamation concepts to be sought and evaluated during the mine life on the other hand.
- Reclamation will proceed concurrently where feasible, but is nonetheless expected to require two years following ending of all mining and the processing and sale of aggregate and construction materials.
- The site drainage plan will be re-assessed to direct and thus control runoff to minimize erosion.
- Public safety will be a concern to be addressed both while mining is underway and as part of closure, and
- Post-closure monitoring will continue until revegetation targets are met with the ultimate goal of establishing a productive and self-sustaining eco-system.

The following points will have an impact on closure and reclamation costs:

- The footprint required for Project facilities has been significantly reduced from the earlier concepts;
- A road to the top of Soledad Mountain will remain for access to public facilities and will not be reclaimed;
- Waste rock will be disposed of in mined-out phases of the open pit as part of a comprehensive waste rock management plan;
- A planned major waste rock dump to the south of Soledad Mountain has been eliminated and this will significantly reduce the total disturbed area that must be reclaimed;
- The Company is committed to neutralizing, rinsing and then selling the leached residues; and
- The size and complexity of the crushing & screening plant has been significantly reduced with fewer structures that have to be dismantled and fewer concrete footings that have to be broken up or buried.

The following two items will require future consideration:

- The workshop and warehouse building and wash slab, security and human resources units, bulk fuel storage tanks, septic tank and leach field and the parking lot will find an approved, alternative industrial use and may not be dismantled and the site where these facilities are constructed may not have to be reclaimed.
- Two (or three) water supply wells may remain for future industrial or municipal use. The water supply infrastructure may be turned over to the Mojave Public Utility District to become part of the permanent facilities in the area.

### *Revegetation*

Sites have been revegetated successfully elsewhere in the California deserts, for example at the Castle Mountain Mine in San Bernardino County, and it is expected that revegetation can be completed successfully for the Project as per the detailed revegetation plan that has been prepared by the Company's consulting engineers.

A summary of the proposed revegetation procedures is given below:

- Two revegetation test plots were prepared and seeded north and south of Soledad Mountain in 2006 and 2007 respectively to demonstrate that seed collected locally can be an effective source of seed;
- Seed is being collected locally and a seed library has been established;
- Seed collected locally will be supplemented by seed contained in growth media that has been stockpiled;
- Surfaces will be prepared to provide textures suitable for desert plants and micro-basins will be created to trap seed and moisture;
- Hand seeding has been found to be effective and aerial (crop duster or helicopter) seeding can be used in areas that are inaccessible by vehicle or foot;
- Seeded areas will not require fertilizer and watering;
- Reclamation of disturbed areas will occur as soon as possible throughout the mine life;
- Control of runoff to minimize erosion will be a key to successful revegetation and
- Quantifiable goals for density and diversity of perennial species have been proposed..

### *Financial Assurances*

The Company will be required to provide the following financial assurances for the Project:

- To the State of California and Kern County for general reclamation on site;
- To the Regional Board for rinsing and closing reclamation of the leached residues on the heap and
- "Unforeseen events financial assurance" required by the Regional Board to provide for an unforeseen event that could contaminate surface or groundwater.

The Company provided reclamation financial assurance in the form of a Payment Bond Certificate backed by a Certificate Of Deposit with Union Bank of California in the amount of \$286,653 on October 21, 2009 and this is being maintained with no change to October 2011.

### *Cleanup On Site*

The Company has done extensive cleanup on site over the past four years as summarized in the table below.

		<b>Amount</b>	
<b>Payable To</b>	<b>Years</b>	<b>USD\$</b>	<b>No. of Loads</b>
Contractor 1	2006	13,077.93	6.0
	2007	41,946.50	48.5
	2008	138,336.00	160.0
	2009	15,425.00	17.5
	2010	20,310.00	19.5
Total	2006-2010	229,095.43	251.5
Contractor 2	2008	128,000.00	141.0
Contractor 3	2010	18,644.60	5.0
<b>Grand Total</b>	<b>Five Years</b>	<b>357,095.43</b>	<b>392.5</b>

Some work remains to be done and cleanup is continuing in 2011.

The work was done at a significant cost to the Company and demonstrates that the Company is committed to environmental stewardship and good housekeeping in its operations.

### *Environmental, Safety and Health Policy*

The Company has an Environmental, Safety and Health Policy and a management system to implement the Policy.

The Company expects to sign the International Cyanide Management Code. The Code was developed under the auspices of the United Nations Environment Program and the International Council on Metals and the Environment. The International Cyanide Management Institute, a non-profit organization, administers the Code. Signatories to the Code commit to follow the Principles set out in Code and to follow the Standards of Practice. Companies are expected to design, construct, operate and decommission their facilities consistent with the requirements of the Code and must have their operations audited by an independent third party. Audit results are made public.

### *Offices and Employees*

The Company's principal executive offices are located in Vancouver at 6411 Imperial Ave., West Vancouver, BC, V7W 2J5, Canada.

The Company currently has no employees. The Company utilizes an accounting firm, which is independent from our auditors, on a contract basis for the preparation of its financial statements, and engages various part-time consultants and contractors as needed for administrative services. Technical services related to Project permitting, development and land matters are performed by consultants and contractors on an as-needed basis.

### **Item 1A. Risk Factors.**

The following is a brief discussion of distinctive or special characteristics of the Company's operations and the industry in which it operates, which may have a material impact on, or constitutes risk factors in respect of, the Company's future financial performance and in respect of an investment in the Company. These risk factors should be read in conjunction with disclosure on business and risks appearing in this Form 10-K and elsewhere.

### ***The Likelihood Of Continued Losses From Operations***

The Company has had no revenue from operations and has incurred cumulative losses from inception through December 31, 2010 of \$63,451,997. Losses are expected to continue until such time as the Company can economically produce and sell gold and silver, aggregate and construction materials from the Project. Continued losses will require that the Company raise additional funds by equity or debt financing, failing which the Company will not be able to continue operations.

### ***Ability To Continue As A Going Concern***

The Company has had no revenues from operations since inception and has a deficit of \$63,451,997 accumulated during the exploration stage. In addition we have significant costs associated with ongoing operations and advancing the Project that we are presently funding primarily through the sale of our common shares.

The continuation of the Company as a going concern is dependent upon the continued financial support from our shareholders, the ability of the Company to obtain the necessary financing to achieve its operating objectives, and the attainment of profitable operations. Management cannot provide assurances that such plans will occur. These factors raise doubts about the Company's ability to continue as a going concern.

### ***The Need for Significant Additional Financing***

If a production decision is made, the Company will need significant additional financing to develop the Project into an operating mine and estimates that this could range as high as \$85 million plus working capital. The Company expects to finance the construction and to secure the necessary working capital from either additional sales of common shares, from bank or other borrowings or, alternatively, through a joint venture. However, the Company has no commitment for the underwriting of additional shares or for bank financing and it is not a party to any agreement or arrangement providing for a joint venture. Whether or not and to what extent project financing can be secured will depend on a number of factors, including gold and silver prices. Gold and silver prices fluctuate widely and are affected by numerous factors beyond the Company's control, such as the strength of the US dollar and foreign currencies, global and regional demand, and global or regional political or economic events. If financing is not obtained, the Company will not be able to develop the Project and would be forced to seek alternatives to its current business plan, including disposing of its interests in the Property.

### ***Passive Foreign Investment Company***

The Company may be classified as a passive foreign investment company. U.S. investors should seek independent advice from tax advisors to discuss any tax consequences.

### ***We must secure approvals and permits.***

The Company must secure all approvals and permits as set out above. The Company has been persistent in its efforts to secure approvals and permits, however, there is no assurance that these can ultimately be secured and this remains a significant risk.

### ***Our ability to obtain mine financing is likely dependant on the price of gold and silver remaining at current levels, which, given historical fluctuations, can vary significantly.***

Financing to develop the Project will depend upon current price levels for gold and silver being sustained for the foreseeable future. The current price levels of gold and silver have not been attained since the early 1980s and there is no guarantee that prices will remain at the current high levels. Gold and silver prices historically have fluctuated widely and are affected by numerous factors outside of our control including industrial and retail demand, central bank lending, forward sales of gold by producers and speculators, levels of gold production, short-term changes in supply and demand because of speculative hedging activities, confidence in the global monetary system, expectations of the future rate of inflation, the strength of the US dollar (the currency in which the price of gold is generally quoted), interest rates and global or regional political or economic events.

Historical U.S. dollar prices for gold and silver based on the London pm fix as at the closing dates noted, are set out in the table below.

<b>Date</b>	<b>Gold</b>	<b>Silver</b>
January 2, 2011	\$1388.50	\$30.67
January 2, 2010	\$1,121.50	\$17.17
January 2, 2009	\$874.50	\$11.08
January 2, 2008	\$840.75	\$14.93
January 2, 2007	\$640.75	\$13.01
January 3, 2006	\$530.00	\$9.04
January 4, 2005	\$427.75	\$6.39
January 2, 2004	\$415.25	\$5.98
January 2, 2003	\$343.80	\$4.66

***The agreements with landholders need ongoing monitoring.***

The Company monitors the status of agreements with landholders on a regular basis in order to protect the Company's interests in the Property that it does not own. There can be no assurance that the Company will continue to be able to retain all of its interests in the Property through negotiations with landowners, or that the cost of retaining its interests will not increase significantly as a result of future negotiations. The value of the Project may be significantly reduced if the Company cannot access or mine areas of the Property that are material to the Project, due to its inability to retain its interests in the Property. While each and every property has its own value and unique purpose in the overall mine plan, the feasibility of the Project will depend on the Company's ability to maintain control of the portions of the Property that are material to the Project. Failure to keep property agreements in good standing may result in a loss of control of the corresponding interest in the Property, which, if material to the Project, would prevent the Company from developing the Project.

***We rely extensively on the services of our President, Mr. H. Lutz Klingmann, P.Eng., who has considerable current knowledge of our operations, including the Soledad Mountain Project, and the loss of his services would likely result in delay and cost associated with acquiring and training additional management.***

Since 2002, Mr. Lutz Klingmann has been largely responsible for most of the operations of the Company, including work on the Project. The successful development of the Project as currently envisioned by management is dependent to a significant extent on the efforts and abilities of Mr. Klingmann. Investors must be willing to rely to a significant extent on management's discretion and judgment. We do not maintain key employee insurance on Mr. Klingmann and the loss of his services would likely have an adverse affect on Company operations and plans, until such time as a replacement can be located and brought current on Company plans and operations.

***Risks and Contingencies Associated with the Mining Industry Generally***

In addition to the risks noted above, the Company is subject to all of the risks inherent in the mining industry, including environmental risks, fluctuating metals prices, industrial accidents, labor disputes, unusual or unexpected geologic formations, cave-ins, flooding, earth quakes and periodic interruptions due to inclement weather. These risks could result in damage to, or destruction of, production facilities, personal injury, environmental damage, delays, monetary losses and legal liability. Although the Company maintains or can be expected to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that such insurance will be available at economically feasible premiums. Insurance against environmental risks (including pollution or other hazards resulting from the disposal of waste products generated from production activities) is not generally available to the Company or other companies in the mining industry. If subjected to environmental liabilities, the costs incurred would reduce funds available for other purposes.

***Most of our directors are ordinarily resident outside of the United States and accordingly it may be difficult to effect service of process on them, or to enforce any legal judgment against them.***

With the exception of Thomas Clay, our directors namely Edward G. Thompson, Chester Shynkaryk, Gordon C. Gutrath, and H. Lutz Klingmann are residents of Canada. Consequently, it may be difficult for U.S. investors to effect service of process within the U.S. upon these directors, or to realize in the U.S. upon judgments of U.S. courts predicated upon civil liabilities under the U.S. securities laws. A judgment of a U.S. court predicated solely upon such civil liabilities would probably be enforceable in Canada by a Canadian court if the U.S. court in which the judgment was obtained had jurisdiction, as determined by the Canadian court, in the matter. There is substantial doubt whether an original action could be brought successfully in Canada against any of such directors predicated solely upon such civil liabilities.

***Because our common shares will likely trade at prices below \$5.00 per share, and because we will not be listed on a national U.S. exchange, there are additional regulations imposed on U.S. broker-dealers trading in our shares that may make it more difficult for you to resell our shares through a U.S. broker-dealer.***

Because of U.S. rules that apply to shares with a market price of less than U.S.\$5.00 per share, known as the “penny stock rules”, investors will find it more difficult to sell their securities in the U.S. through a U.S. broker dealer. The penny stock rules will probably apply to trades in our shares. These rules in most cases require a broker-dealer to deliver a standardized risk disclosure document to a potential purchaser of the securities, along with additional information including current bid and offer quotations, the compensation of the broker-dealer and its salesperson in the transaction, monthly account statements showing the market value of each penny stock held in the customer’s account, and to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction.

#### **Item 1B. Unresolved Staff Comments.**

Not applicable.

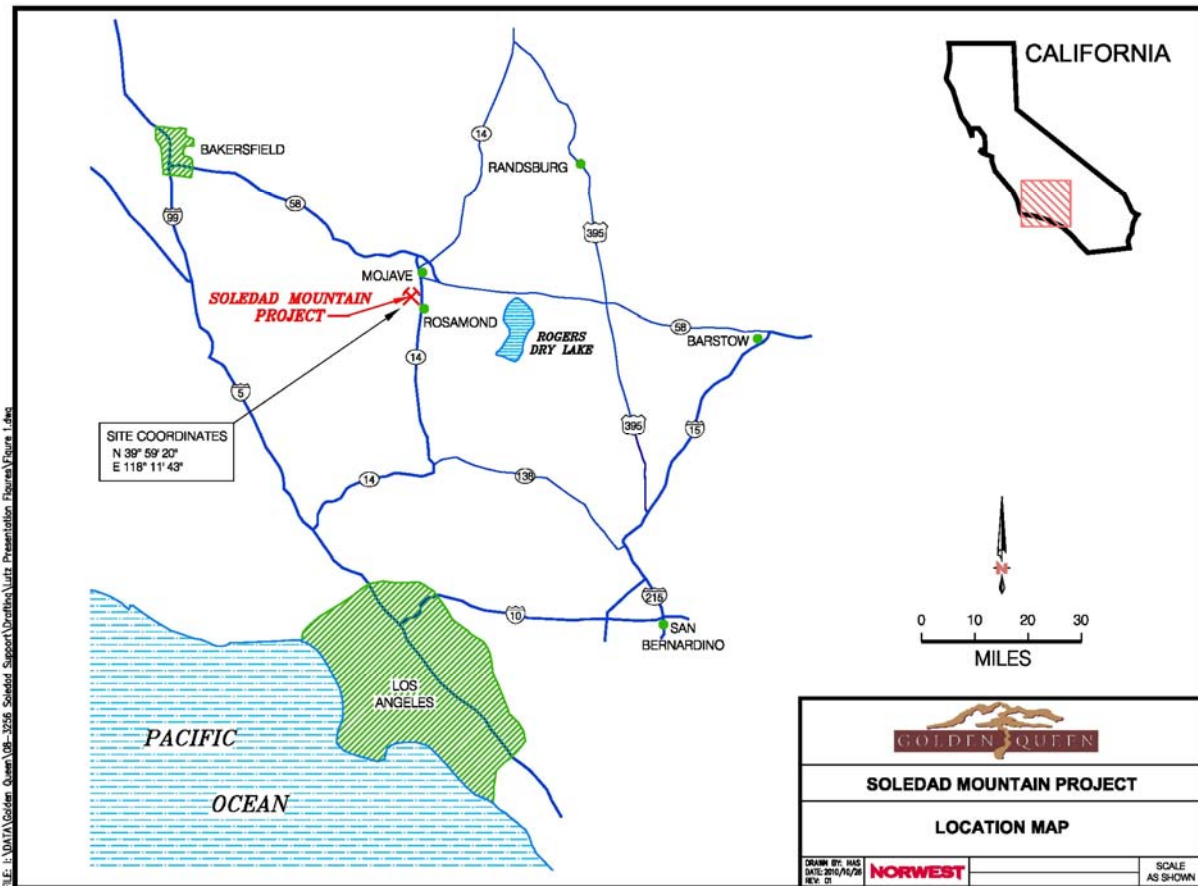
#### **Item 2. Properties.**

##### *Land Ownership and Mining Rights*

The Company acquired its initial property interests in 1985 and has since acquired additional properties in the area. The Company holds directly or controls via agreement a total of 33 patented lode mining claims, 134 unpatented lode mining claims, 1 patented millsite, 12 unpatented millsites, 1 unpatented placer claim and 907 acres of fee land, which together comprise the Property. The Property is located west of California State Highway 14 and lies largely south of Silver Queen Road covering all of Section 6 and portions of Sections 5, 7 and 8 in Township 10 North, Range 12 West; portions of Sections 1 and 12 in Township 10 North, Range 13 West; portions of Section 18 in Township 9 North, Range 12 West, and portions of Section 32 in Township 11 North, Range 12 West, all from the San Bernardino Baseline and Meridian.

Figure 1 below provides a Property location map.

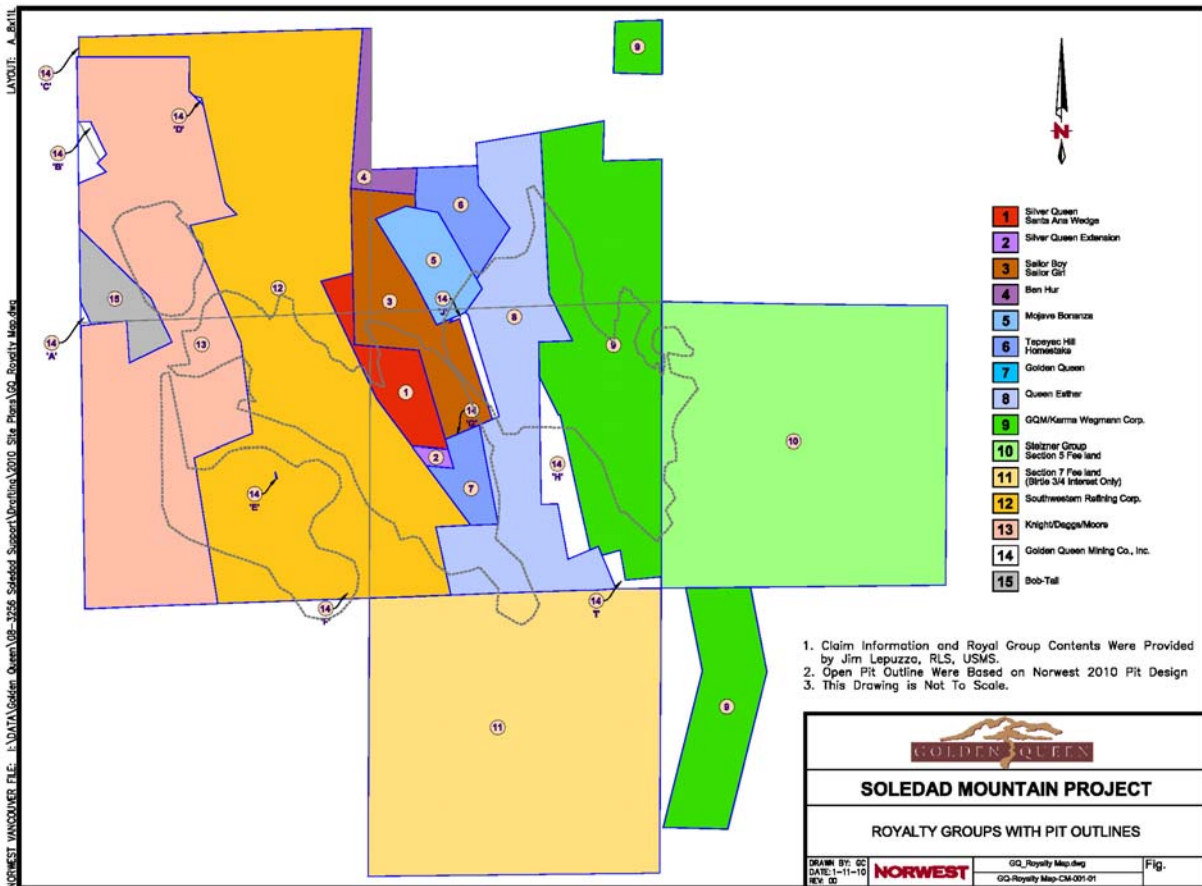
Figure 1



The Company holds the properties either directly through a subsidiary, or under mining lease agreements with 53 individual landholders, two groups of landholders and three incorporated entities. The land required for the Project has therefore either been secured under one of these agreements or is controlled by the Company through ownership of the land in fee or where the Company holds patented and unpatented mining claims or millsites. The mining lease agreements were entered into from 1986 onwards.

Figure 2 below provides a map of the various claims groups comprising the Property.

Figure 2



The Company owns or controls 709 acres of fee land in the area surrounding Section 6. The land is required for the construction of the ancillary facilities required for a mining operation, for the construction of the heap leach pads and for waste rock disposal. The area that will be disturbed by the Project is a 369 hectare-block (912 acres) within the total area of approximately 366 hectares (3,500 acres) owned, held or controlled by the Company. The Company also owns six residential properties with buildings north of Silver Queen Road and six residential properties west of Soledad Mountain.

The Company is continuing with its efforts to purchase additional land that will secure its land position in the area.

#### *Title Review*

The Company commissioned a formal title review of the Property by a firm familiar with title matters in California in 1996. This title review was updated in February 1998 and again in March 1999. A further title review was completed by an independent landman in 2004 and no particular title problems were identified.

#### *Quiet Title Judgment*

The ownership history is typically complex in historic mining districts and title problems will exist. The Company obtained a Quiet Title Judgment on May 15, 1999 and this resolved a majority of title questions. The effect of the

Judgment was to clear the title to the interests in the patented claims listed in the action and to cure the title defects of record, providing security of title and thus greatly enhancing the value of the Property.

The Company has determined that any remaining title questions would not present a threat to the Project.

#### *Land Survey*

A U.S. mineral surveyor licensed in California has completed a survey of the patented and unpatented lode mining claims in Section 6, T10N, R2W and Section 32, T11N, R12W. A claim status map and Royalty Map have been prepared. The Company has confirmed that there are no gaps in its land holdings in the project area. The Company has filed a Record of Survey with Kern County and this is currently under review by County staff.

#### *Royalties*

The Company is required to make advance, minimum royalty payments under the mining lease agreements. In some instances, the Company will receive a credit for the advance minimum royalty payments on commencement of commercial production. Most of the royalties are of the net smelter return (“NSR”) type and are based on a sliding scale, with the percentage amount of the royalty depending upon the ore grades on the particular property to which the royalty relates. Weighted average royalty rates will range from a low of 2.0 % to a high of 5.0% depending upon the area being mined and gold and silver prices. The agreements also typically provide for an additional royalty if non-mineral commodities, such as aggregates, are produced and sold.

#### *Property Interests Are In Good Standing*

The Company had disclosed in its Form 10-K for the fiscal year ended December 31, 2007 that not all property interests were in good standing. The total advance minimum royalty owing to landholders was \$714,137. The Company contacted all landholders and paid \$666,103 in the second, third and fourth quarters of 2008 with a further \$48,034 paid to the remaining rightful landholders in 2009. The Company is continuing to pay advance minimum royalties to landholders and incurred a total of \$185,276 in 2010. The Company believes it is in compliance with the requirements.

A mining lease agreement with one group of landholders expired in 2004 and the Company had proposed that the mining lease agreement be extended, subject to some revised terms. The Company has now reached agreement with this group of landholders and it is expected that an extension agreement will be signed in April 2011.

A number of mining lease agreements expired in 2010. Of these expired lease agreements, one set of lease agreements that together comprises a 50% interest in a claim group, is considered material by the Company. The Company is in the process of negotiating renewed leases with the landholders, maintains a good relationship with the landholders involved, and anticipates that it will be able to reach agreements for new leases in 2011.

While the Company is not in default of any current lease, the Company is negotiating renewal terms for leases that are approaching expiry, as well as for leases that have expired. The Company does not consider any of those leases to be individually material. However leases that are individually not material may become part of a material group of leases if more than one of the leases in the group cannot be renewed.

Leases have expiry dates ranging from 2011 to 2045. Of these, no single lease is considered material with the exception of four leases which expire in September 2014, April 2015, April 2021 and April 2026 respectively. All leases become non-expiring once the mine commences commercial production.

While each and every part of the Property has its own value and unique purpose in the overall mine plan, the feasibility of the Project will depend on the ability of the Company to maintain the rights to access and use of the material portions of the Property. A failure to keep property agreements in good standing may result in a loss of control, which, if material to the Project, would prevent the Company from developing the Project.

### Item 3. Legal Proceedings.

To the best of our knowledge, there are no legal actions pending, threatened or contemplated against the Company.

## PART II

### Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

#### Market and Trading Price

The common shares of the Company are listed and traded on The Toronto Stock Exchange under the trading symbol "GQM". The high and low sales prices of the common shares as traded on The Toronto Stock Exchange for the calendar periods indicated are set out in the table below. All prices are reported in Canadian dollars.

Year ended December 31	High	Low
2010 Fourth Quarter	\$2.80	\$2.02
Third Quarter	\$2.06	\$1.29
Second Quarter	\$1.54	\$0.95
First Quarter	\$1.06	\$0.78
2009 Fourth Quarter	\$1.17	\$0.77
Third Quarter	\$0.84	\$0.55
Second Quarter	\$0.72	\$0.40
First Quarter	\$0.50	\$0.23

#### Exchange Rates

The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in New York City for cable transfers in Canadian dollars. Such rates are the number of Canadian dollars per one (1) U.S. dollar quoted by the Bank of Canada. On March 1, 2011, the exchange rate was USD\$1.00 per CAD\$0.97. The high and low exchange rates for each month during the previous six months were as follows:

	High	Low
February 2011	\$1.00	\$0.97
January 2011	\$1.00	\$0.99
December 2010	\$1.02	\$0.99
November 2010	\$1.03	\$1.00
October 2010	\$1.03	\$1.00
September 2010	\$1.05	\$1.02

Exchange rate information (from USD\$ to CAD\$) as at each of the years ended December 31, 2009 and 2010 is set out in the table below:

	Year Ended December 31	
	2009	2010
Rate at end of Period	\$1.0466	\$0.9946
Low	\$1.0292	\$0.9946
High	\$1.3000	\$1.0778

As of March 1, 2011, there were 238 registered holders of record of the Company's common shares and an undetermined number of beneficial holders.

The common shares of the Company are also traded on the Pink Sheets under the trading symbol “GQMNF”. The high and low sales prices of the common stock as traded on the Pink Sheets for the calendar periods indicated are set out in the table below. All prices are reported in U.S. dollars. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions. The Pink Sheets has a limited and sporadic trading market and does not constitute an established trading market.

<b>Year ended December 31</b>		<b>High</b>	<b>Low</b>
2010	Fourth Quarter	\$2.82	\$1.95
	Third Quarter	\$2.00	\$1.25
	Second Quarter	\$1.46	\$0.95
	First Quarter	\$1.07	\$0.70
2009	Fourth Quarter	\$1.08	\$0.69
	Third Quarter	\$0.78	\$0.48
	Second Quarter	\$0.67	\$0.33
	First Quarter	\$0.44	\$0.22

### **Dividends**

The Company has not declared dividends on its common shares since inception.

### **Securities Authorized for Issuance Under Compensation Plans**

The following table sets forth information as at December 31, 2010 respecting the compensation plans under which shares of the Company’s common stock are authorized to be issued.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders	3,050,000	CAD\$0.48	4,150,000
Equity compensation plans not approved by security holders	Nil	Nil	Nil
<b>Total</b>	<b>3,050,000</b>	<b>--</b>	<b>4,150,000</b>

### **Sales of Unregistered Securities**

On June 1, 2010, Golden Queen completed a private placement of 5,000,000 units at a price of \$1.60 per unit for total proceeds of \$8,000,000. Each unit consisted of one common share, one quarter of one Class A Warrant, and one quarter of one Class B Warrant. Each Class A Warrant entitles the subscriber to purchase a common share of Golden Queen at a price of \$1.75 for a period of 18 months from the closing date. Each Class B Warrant entitles the subscriber to purchase one common share of Golden Queen at a price of \$2.00 for a period of 18 months from the closing date.

The units were offered and sold pursuant to the provisions of Regulation S under the United States *Securities Act of 1933*, as the purchaser is located outside of the United States.

The shares were subject to a four-month hold period and may not be resold or transferred until October 2, 2010 under Canadian securities laws. The shares were also restricted pursuant to Rule 144 promulgated under the U.S. *Securities Act* of 1933.

Net proceeds of this offering are allocated to the ongoing development of the Company's Soledad Mining project and for general working capital.

#### **Purchases of Equity Securities by the Company and Affiliated Purchasers**

Neither the Company nor an affiliated purchaser of the Company purchased common shares of the Company in the year ended December 31, 2010.

#### **Item 6. Selected Financial Data.**

Not Applicable.

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

The following discussion of the operating results and financial position of Golden Queen Mining Co. Ltd. (the "Company") is dated March 31, 2011 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2010 and the notes thereto.

All amounts herein are in US\$ unless otherwise noted.

#### ***Results of Operations***

Following are the results of operations for the year ended December 31, 2010.

The Company had no revenue from operations.

The Company incurred general and administrative expenses of \$ 3,290,736 for the year ended December 31, 2010 (2009 - \$2,246,953).

The following significant costs were incurred in general and administrative expenses during the year:

- \$173,072 (2009 - \$362,050) for engineering support required for the preparation of the SEIR and for ongoing maintenance of and data recovery from the meteorological station.
- \$246,559 (2009 - \$172,114) for detailed engineering for the Phase 1, Stage 1 heap leach pad and the associated site drainage plans and this work was completed in 2010. A sixth water quality assessment well was also drilled and tested and a foundation investigation was completed for the footings for the crushing-screening plant.
- \$205,055 (2009 - \$202,883) for ongoing work on the occurrence of arsenic in groundwater, a review of the use of cyanide in heap leaching, a study of the occurrence of mercury and capture of mercury and general liaison with the Regional Board in preparation for the public hearing, which was held in July 2010. Work on the studies outlined above was completed in 2010.
- To maintain our relationship with local residences, we spent approximately \$120,000 in the year
- \$431,862 for legal fees incurred for ongoing work on the SEIR (2009 - \$190,201). The Company engaged legal counsel to work with the Kern County Planning Department on preparation of the SEIR in 2009. Costs increased by \$241,661 in 2010 in connection with a number of public hearings held in 2010. No further public hearings are scheduled for the Project in 2011 and it is therefore not expected that these will be recurring costs.

- \$128,979 to the Kern County Planning and Engineering & Survey Services Departments for work on the SEIR (2009 - \$20,051). Costs increased by \$109,928 in 2010 as preparations were made for public hearings held in 2010. No further public hearings are scheduled for the Project in 2011 and it is therefore not expected that these will be recurring costs.
- \$186,249 for ongoing mine design and drafting support (2009 –\$180,184). Costs increased marginally by CAD\$6,065 as work on mine design and work on the feasibility study for the Project continued in 2010.
- \$481,222 for detailed costs estimates for the crushing-screening plant and for detailed engineering for the power and water supply for the Project (2009 - \$19,798).
- \$152,805 for accounting and audit fees and the preparation of tax returns (2009 –\$108,019). Costs increased by \$66,659 in 2010 due in part to costs associated with a restatement and refile of annual and quarterly reports.

For the year ended December 31, 2010, the Company has also recorded a change in fair value of derivative liability of \$6,575,406 compared to \$2,095,300 in 2009. The increase was due to the fact that increase of share price over the year and issuance of warrants in connection with the private placement in June 2010. This item is a non-cash item and was recorded in accordance with the new accounting pronouncement of ASC 850-40-15.

Interest income of \$31,633 (2009 - \$10,070) was higher by \$21,563 as there was more cash on deposit during the year although interest rates remained low during the year. There was no interest expense during the year.

The Company incurred a net loss of \$ 9,983,926 (or \$0.11 loss per share) for the year as compared to a net loss of \$4,514,742 (or \$0.05 per share) for 2009 for a difference in net loss of \$5,469,184.

### *Summary of Quarterly Results*

Results for the quarter ended on:	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010
Item	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net loss for the quarter	(4,126,127)	(3,125,127)	(2,406,367)	(326,305)
Net loss per share	(0.04)	(0.03)	(0.03)	0

Results for the quarter ended on:	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009
Item	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net loss for the quarter	(1,239,360)	(1,057,149)	(1,230,829)	(987,404)
Net loss per share	(0.02)	(0.01)	(0.01)	(0.01)

The results of operations can vary from quarter to quarter depending upon the nature, timing and cost of activities undertaken during the quarter and whether or not the Company incurs gains or losses on foreign exchange, grants stock options or makes end-of-year adjustments.

### *Selected Annual Information*

Results for the year ended on:	Dec. 31, 2010	Dec. 31, 2009	From Inception
Item	\$	\$	\$
General and administrative expenses	(3,290,736)	(2,246,953)	(23,018,536)
Asset impairment loss	(133,436)	(167,898)	(32,269,028)
Adjustment of asset retirement obligation	-	(6,882)	223,583
on changes in cash flow estimates			
Accretion expense	(15,981)	(7,779)	(71,362)
Change in fair value of derivative liability	(6,575,406)	(2,095,300)	(8,670,706)
Gain on settlement of debt	-	-	136,627
Mineral interests written off	-	-	(277,251)
<b>Sub-total</b>	<b>(10,015,559)</b>	<b>(4,524,812)</b>	<b>(63,946,673)</b>
Interest expense	-	-	(913,098)
Interest income	31,633	10,070	1,631,620
<b>Net loss</b>	<b>(9,983,926)</b>	<b>(4,514,742)</b>	<b>(63,228,151)</b>
Net loss per share	(0.11)	(0.05)	

### *Reclamation Financial Assurance and Asset Retirement Obligation*

The Company provided reclamation financial assurance in the form of an Irrevocable Payment Bond Certificate with Union Bank of California in the amount of \$286,653 on October 21, 2009. The financial assurance is reassessed annually and the estimate for reclamation of historical disturbances on the property is \$283,809 for 2010. The financial assurance was maintained at \$286,653 for 2011. The estimate for 2012 is \$289,593 and this estimate is currently being reviewed by Kern County staff.

The asset retirement obligation accrual is estimated at \$193,545 and this is shown as a liability on the consolidated balance sheet. The actual obligation could differ materially from these estimates.

### *Advance Minimum Royalties*

The Company is continuing to pay advance minimum royalties to landholders with a total of \$185,276 incurred in 2010.

### *Off-balance Sheet Arrangements*

The Company has no off-balance sheet arrangements.

### *Stock Option Plan*

The Company's current stock option plan (the "Plan") was adopted by management of the Company in 2008 and approved by shareholders of the Company in 2009. The Plan provides a fixed number of 7,200,000 common shares of the Company that may be issued pursuant to the grant of stock options. The exercise price of stock options granted under the Plan shall be determined by the Company's Board of Directors, but shall not be less than the volume weighted average trading price of the Company's shares on the Toronto Stock Exchange for the five trading days immediately prior to the date of the grant. The expiry date of a stock option shall be the date so fixed by the Board subject to a maximum term of five years. The Plan provides that stock options will terminate on the earlier of the expiry of the term and (i) 12 months from the date an option holder dies, (ii) 90 days from the date from the date the option holder ceases to act as a director or officer of the Company, or (iii) 60 days from the date the option holder ceases to be employed, or engaged as a consultant, by the Company.

The Company granted 1,950,000 stock options to directors, officers and consultants of the Company pursuant to the Plan on January 28, 2009. The options are exercisable at a price of CAD\$0.26 per share for a period of 5 years from the date of grant. The Company also granted 50,000 stock options to a consultant of the Company pursuant to the Plan on April 19, 2010. The options are exercisable at a price of CAD\$1.24 per share for a period of 5 years from the date of grant.

### ***Transactions With Related Parties***

Mr. H. Lutz Klingmann was paid \$141,293 (2009 - \$116,776) for services as President of the Company and Mr. Chester Shynkaryk was paid \$17,769 (2009 - \$18,620) for consulting services to the Company for the year ended December 31, 2010. No other compensation was paid or given during the year for services rendered by the directors in such capacity and no additional amounts were payable at year-end under any standard arrangements for committee participation or special assignments.

Four directors of the Company were paid \$1,974 (2009 - \$1,752) and one director was paid \$2,000 (2009 - \$2,000) in director's fees for the year ended December 31, 2010.

The Company amended a consulting services agreement originally entered into in 2004 with Mr. H. Lutz Klingmann, the President of the Company, in May of 2010. Under the original agreement, upon receipt by the Company of a bankable feasibility study and the decision to proceed to production, a bonus of 150,000 common shares would be issued and upon commencement of commercial production, a bonus of 150,000 common shares would be issued. Pursuant to the amended agreement, an alternative 300,000 bonus shares would be issuable upon a change of control transaction or upon a sale of all or substantially all of the Company's assets, having a value at or above CAD\$1.00 per share of the Company, with a further 300,000 bonus shares being issuable in the event the change of control transaction or asset sale occurred at a value at or above CAD\$1.50 per share. As at December 31, 2010, the milestones had not been reached and no accrual was made in connection with these arrangements.

There were no other related party transactions during the year ended December 31, 2010.

### ***Fair Value of Financial Instruments***

The carrying amount reported in the balance sheets for cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value because of the immediate or short-term maturity of these financial instruments. The company does not hold any bank or non-bank asset-backed commercial paper. The fair value of the reclamation financial assurance approximates carrying value because the stated interest rate reflects recent market conditions. It is the opinion of management that the Company is not exposed to significant interest, currency or credit risk arising from the use of these financial instruments.

### ***Private Placement***

The Company completed a non-brokered private placement with Gammon Gold Inc. on June 1, 2010, whereby Gammon Gold purchased 5,000,000 units of the Company at a price of CAD\$1.60 per unit for total proceeds of \$7,634,316 (CAD\$8,000,000). Each unit consists of one common share, one quarter of one Class A Warrant, and one quarter of one Class B Warrant. Each Class A Warrant entitles Gammon Gold to purchase a common share at a price of CAD\$1.75 for a period of 18 months from the closing date. Each Class B Warrant entitles Gammon Gold to purchase one common share at a price of CAD\$2.00 for a period of 18 months from the closing date. The aggregate fair value of the Class A and B purchase warrants was \$1,726,518 and the amount has been recorded as derivative liability and the Company allocated the remaining proceeds of \$5,907,798 to the common shares.

Subject to certain conditions, Gammon Gold Inc. was granted the right to participate in future financings to maintain its equity position in the Company.

### ***Liquidity and Capital Resources***

The Company held \$6,967,465 in cash and cash equivalents on December 31, 2010.

### Cash from Financing Activities

Cash was received from financing activities in 2010 and in 2009 as follows:

An increase of \$6,332,976 from 2009 was primarily due to issuances of additional common shares of the Company. During the year the Company received aggregate receipts of 7,860,707 during 2010, of which \$7,588,551 (net of share issuance costs) was from a private placement of \$7,634,316 and the remaining was from the exercise of 850,000 stock options during the year. In 2009, there was no private placement and the Company received \$1,527,731 from the exercise of stock options only.

### Cash Used in Operating Activities

Cash was used mainly for the ongoing development of the Project with major costs in two areas:

- Legal fees were incurred in support of ongoing efforts to secure approvals and permits for the Project, and
- Consulting engineering fees were higher due to the significant amount of detailed engineering completed for Project facilities. The detailed engineering allows contractors to provide cost estimates for construction of the facilities.

### Cash Used in Investing Activities

The Company purchased a building for approximately \$ 120,500 and mineral properties for approximately \$133,000 compared to \$167,800 in 2009. Further increases in our land position in areas are required for the construction of facilities for the Project upon the completion of financing and decision of completion is made.

### Working Capital

Management plans to control costs and does not expect that additional cash will be required (prior to securing production financing) beyond cash currently on hand for ongoing work on approvals and permits for the Project, for advance minimum royalty payments to landholders,, for additional property purchases, for ongoing work on site and for general corporate purposes to the end of 2011 (see “*Outlook*” heading below).

### *Outstanding Share Data*

The number of shares issued and outstanding and the fully diluted share position are set out in the table below.

#### **Golden Queen Mining Co. Ltd.**

<b>Item</b>	<b>No. of Shares</b>	<b>Exercise Price (CAD\$)</b>	<b>Expiry Date</b>
Shares issued and outstanding on Dec. 31, 2009	88,378,383		
Shares issued pursuant to the exercise of stock options	700,000		
Gammon Gold Inc. private placement	5,000,000		
Shares issued pursuant to the exercise of stock options	<u>150,000</u>		
<b>Shares issued and outstanding on December 31, 2010</b>	<b>94,228,383</b>		
Gammon Gold Inc. warrants	2,500,000	1.75 & 2.00	1/12/2011
Director and employee stock options	1,200,000	0.77	20/04/11 28/01/14 & 19/04/15
Director and employee stock options	1,850,000	0.26 & 1.24	
Shares to be issued as a finders fee	100,000	Not Applicable	Not Applicable
Bonus shares to H.L. Klingmann	600,000	Not Applicable	Not Applicable
<b>Fully diluted on March 31, 2011</b>	<b>100,478,383</b>		

The Company's authorized share capital is 150,000,000 common shares with no par value.

### ***Outlook***

The Company plans to put the Project into production as an open pit heap leach operation and to construct facilities to process ore at rates of up to 4,650,000 tonnes (5,119,000 tons) per year. Projected life of the open pit heap leach operation is 12 years. The Company also plans to produce and sell aggregate and leached and rinsed residues for an extended period after gold and silver production from the heap leach operation has ended. The Company has completed or is proceeding with detailed engineering designs for each of the key facilities to be constructed. The Company is also securing approvals such as building permits and other approvals for these facilities. Cost estimates for construction of the key facilities have been and are being obtained from contractors. These cost estimates are being incorporated into the feasibility study update, which is being prepared by Norwest. The feasibility study update, once completed, will be the key document to be considered by management in making a production decision.

If all approvals and permits are secured for the Project and a production decision is made, the Company will need significant additional financing to develop the Project into an operating mine. The Company believes that financing for the Project can be secured if gold and silver prices remain at or above \$600.00/oz and \$12.50/oz respectively and these are the prices used for the feasibility study base case cash flow projections that were released on December 14, 2007. Gold and silver prices averaged \$1,224.53/oz and \$20.19/oz in 2010 and closing prices on March 23, 2011 were \$1,439.50/oz and \$36.58/oz respectively. The Company is targeting Project financing in 2011. The ability to finance the Project will be subject to market conditions.

The following are possible financing options that the Company will evaluate, and that may be combined:

- a. An equity financing;
- b. A combination of equity and debt;
- c. A silver-stream financing and
- d. A merger with an established mining company.

It is not expected that the Company will hedge any of its gold or silver production.

The ability of the Company to put the Project into production is subject to numerous risks (see "Item 1A. Risk Factors" heading above). Readers should evaluate the Company's prospects in light of these and other risk factors.

### ***Special Meeting of Shareholders***

The Company held a special meeting of shareholders on September 1, 2010 at which the Company adopted new corporate Articles and increased its authorized capital to 150,000,000 common shares.

### ***Subsequent Event***

*None*

### ***Application of Critical Accounting Estimates***

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### *Mineral Property and Exploration Costs*

Exploration costs are expensed as incurred. Development costs are expensed until it has been established that a mineral deposit is commercially mineable and a production decision has been made by the Company to implement a mining plan and develop a mine, at which point the costs subsequently incurred to develop the mine on the property prior to the start of mining operations are capitalized.

The Company capitalizes the cost of acquiring mineral property interests, including undeveloped mineral property interests, until the viability of the mineral interest is determined. Capitalized acquisition costs are expensed if it is determined that the mineral property has no future economic value. Exploration stage mineral interests represent interests in properties that are believed to potentially contain (i) other mineralized material such as measured, indicated or inferred resources with insufficient drill hole spacing to qualify as proven and probable mineral reserves and (ii) other mine-related or green field exploration potential that are not an immediate part of measured or indicated resources. The Company's mineral rights are generally enforceable regardless of whether or not proven and probable reserves have been established. The Company has the ability and intent to renew mineral rights where the existing term is not sufficient to recover undeveloped mineral interests.

Capitalized amounts (including capitalized development costs) are also written down if future cash flows, including potential sales proceeds, related to the mineral property are estimated to be less than the property's total carrying value. Management reviews the carrying value of each mineral property periodically, and, whenever events or changes in circumstances indicate that the carrying value may not be recoverable, makes the necessary adjustments. Reductions in the carrying value of a property would be recorded to the extent that the total carrying value of the mineral property exceeds its estimated fair value. A write-down of \$133,436 (2009 - \$167,898) in mineral property interests was recorded for the year ended December 31, 2010.

### *Asset Retirement Obligations*

In accordance with the Accounting for Asset Retirement Obligations, the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company has recorded an asset retirement obligation to reflect its legal obligations related to future abandonment of its mineral property using estimated expected cash flow associated with the obligation and discounting the amount using a credit-adjusted, risk-free interest rate. At least annually, the Company reassesses the obligation to determine whether or not a change in any estimated obligation is necessary. The Company has evaluated whether or not there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. The asset retirement obligation recorded as a liability on the Consolidated Balance Sheet is \$193,545 (2009 - \$177,564) as at December 31, 2010.

### *Derivative Liabilities*

Our stock options and warrants are denominated in a currency other than our functional currency and the instruments were required to be accounted for as separate derivative liabilities. These liabilities were required to be measured at fair value. These instruments were adjusted to reflect fair value at each period end. Any increase or decrease in the fair value was recorded in results of operations as change in fair value of derivative liabilities. In determining the appropriate fair value, we used the Black-Scholes pricing model.

### *Recently Issued Accounting Standards*

- (i) In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements", which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. This standard is effective for the Company's interim and annual periods commencing

- January 1, 2011 and will require additional disclosure such as disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than one net amount.
- (ii) In January 2010, an accounting standard update on stock compensation was issued. This accounting standards update codifies Escrowed Share Arrangements and the Presumption of Compensation. When evaluating whether presumption of compensation has been overcome, registrants should consider the substance of the arrangement, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. An escrowed share arrangement in which the shares are automatically forfeited if employment terminates is compensation. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.
  - (iii) In April 2010, the FASB issued ASU 2010-13, "Compensation – Stock Compensation (Topic 718)". The objective of this update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. It provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance or service condition is required to be classified as a liability. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements as the Company does not have any employees.

#### ***Qualified Person and Caution With Respect to Forward-looking Statements***

Mr. H. Lutz Klingmann, P.Eng., the president of the Company, is a qualified person for the purposes of National Instrument 43-101 and has reviewed and approved the technical information in this report.

This report contains certain forward-looking statements, which relate to the intent, belief and current expectations of the Company's management. These forward-looking statements are based upon numerous assumptions that involve risks and uncertainties and other factors that may cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include among other things the receipt of required approvals and permits, the costs of and availability of sufficient capital to fund the projects to be undertaken by the Company, commodity prices and other factors. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date the statements were made.

#### ***Caution to U.S. Investors***

Management advises U.S. investors that while the terms "measured resources", "indicated resources" and "inferred resources" are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize these terms. U.S. investors are cautioned not to assume that any part or all of the material in the mineral resource categories will be converted into mineral reserves. We further advise U.S. investors that the mineral reserve estimates are not compliant with the Securities and Exchange Commission Industry Guide 7 as a final bankable feasibility study has not been completed.

#### ***Additional Information***

Further information on Golden Queen Mining Co. Ltd. is available on the SEDAR web site at [www.sedar.com](http://www.sedar.com) and on the Company's web site at [www.goldenqueen.com](http://www.goldenqueen.com).

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

## **Item 8. Financial Statements and Supplementary Data.**

The Consolidated Financial Statements of the Company and the notes thereto are attached to this report following the signature page and Certifications.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

## **Item 9A. Controls and Procedures.**

### *Management's Evaluation of Disclosure Controls and Procedures*

Management, including the principal executive officer who is also our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, management concluded that as of the end of the period covered by this report, our disclosure controls and procedures were not effective. This includes those controls and procedures necessary to ensure that information required to be disclosed in reports filed or submitted with the SEC (i) is recorded, processed, and reported within the time periods specified by the SEC, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure. The conclusion that our disclosure controls and procedures were not effective was due to the inherent limitation of a lack of segregated duties, items and restatement noted below.

There have been no changes in our internal controls over financial reporting that occurred during this period that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### *Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the *Securities Exchange Act of 1934*. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2010 using the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2010, the Company's internal control over financial reporting was not effective based on those criteria. Based on the assessment, management has noted the following in regards to its internal controls:

1. The Company does not review certain expenditures in a U.S. bank account on a regular basis; and
2. The Company does not have the proper procedure for recording and reporting changes in the US dollar to Canadian dollar.

The deficiencies noted above had no material effect on the Company, however the Company has implemented the following changes in its internal controls to avoid recurrence of the deficiencies in future periods:

1. The Company's President, Principal Executive Officer and Principal Accounting Officer now has sole signing authority on checks drawn on the U.S. bank account and no other person has access to this account.

A record of transactions and bank balances are reviewed via internet access on a regular basis to ensure accuracy.

2. Every foreign exchange transaction is recorded in exact detail and reported to the Company's principal bank in Vancouver on the day the transaction takes place. The information is provided to the Company's independent accountants at the end of every month.

### **Restatement**

In addition to items noted above, our company effected a restatement of its financial results for the year ended December 31, 2009 as well as for the first three quarters of the unaudited interim financial statements for 2010.

### **Evaluation of disclosure controls and procedures and remediation**

In connection with the weaknesses noted above for signing authority and foreign exchange, the Company has implemented the following changes in its internal controls to avoid recurrence of the deficiencies in future periods:

1. The Company's President, Principal Executive Officer and Principal Accounting Officer now has sole signing authority on checks drawn on the U.S. bank account and no other person has access to this account. A record of transactions and bank balances are reviewed via internet access on a regular basis to ensure accuracy.
2. Every foreign exchange transaction is recorded in exact detail and reported to the Company's principal bank in Vancouver on the day the transaction takes place. The information is provided to the Company's independent accountants at the end of every month.

If the Project is financed and proceeds to the production stage, a production management team will be required to oversee the operations of the Project, and internal controls would be reviewed and updated at that time.

In connection with the restatement, under the direction of the company's management, we have re-evaluated certain disclosure controls and procedures. In connection with the restatement, we identified a material weakness in our disclosure controls and procedures relating to the recognition of new accounting pronouncements and assessment of their potential impact on our consolidated financial statements.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5) or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We have identified the following material weakness which has caused us to conclude that, as of December 31, 2010, our disclosure controls and procedures were not effective at the reasonable assurance level.

Our conclusion to restate the above periods resulted in the company recognizing that its disclosure controls and procedures were not effective as of the year ended December 31, 2010 and constituted a material weakness.

To address this material weakness, we performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the period presented.

To remediate the material weakness in our disclosure controls and procedures identified above, in addition to working with our independent auditors, we have continued to refine our internal procedures to alleviate this weakness and have added human resources with experience in generally accepted accounting principles (GAAP) and are committed to ongoing education in this area as well as a defined process to prepare such calculations. Management has and continues to take action to correct the known deficiencies and it plans to remain vigilant and to implement improvements, as needed to ensure that its internal control over financial reporting is effective. These efforts include formalizing the assessment process by identifying and scheduling periodic internal testing of the various systems and processes involved in its internal control over financial reporting.

The Company's annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in the annual report.

#### **Limitations on the effectiveness of disclosure controls and procedures**

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments, in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of internal control is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The Company's annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in the annual report.

#### **Item 9B. Other Information**

None.

### **PART III**

Information with respect to Items 10 through 14 is set forth in the definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before April 30, 2011 and is incorporated herein by reference. If the definitive Proxy Statement cannot be filed on or before April 30, 2011, the issuer will instead file an amendment to this Form 10-K disclosing the information with respect to Items 10 through 14.

**PART IV**

**Item 15. Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>	<b><u>Manner of Filing</u></b>
3.1	Notice of Articles	Incorporated by reference to Exhibit 3.1 to the Form 8-K of the Company, filed with the SEC on September 2, 2010
3.2	Articles	Incorporated by reference to Exhibit 3.2 to the Form 8-K of the Company, filed with the SEC on September 2, 2010
10.1	Management Agreement dated March 11, 2004 between the Registrant and H. Lutz Klingmann, and amendment dated May 31, 2010.	Incorporated by reference to Exhibit 10.1 to the Form 10-K/A of the Company, filed with the SEC on January 14, 2011
10.2	Mining Lease dated April 22, 1986 between the Registrant, Southwestern Refining Corporation, and Claude and Mary J. Birtle, and amendment dated March 23, 2007.	Incorporated by reference to Exhibit 10.2 to the Form 10-K/A of the Company, filed with the SEC on January 14, 2011
10.3	Mining Lease dated April 26, 2001 between the Subsidiary and Virginia Knight.	Incorporated by reference to Exhibit 10.3 to the Form 10-K/A of the Company, filed with the SEC on January 14, 2011
10.4	Lease dated October 20, 1994 between the Subsidiary and William J. Warner with respect to certain property within the project area.	Incorporated by reference to Exhibit 10.5 to the Form 10-SB
10.5	Mining Lease dated September 19, 1994 between the Subsidiary and Western Centennials, Inc., with respect to certain property within the project area.	Incorporated by reference to Exhibit 10.6 to the Form 10-SB
10.6	1996 Stock option plan of the registrant, as amended.	Incorporated by reference to Exhibit 10.13 to the Form 10-SB
10.7	2008 Stock option plan of the registrant.	Incorporated by reference to Exhibit 10.1 to the Form S-8 of the Company filed with the SEC on February 17, 2010
21.1	Subsidiaries of the Registrant.	Incorporated by reference to Exhibit 24.0 to the Form 10-SB
23.1	Consent of BDO Canada LLP	Filed herewith
31.1	Rule 13a-14(a)/15(d)-14(a) Certification	Filed herewith
32.1	Section 1350 Certification	Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### GOLDEN QUEEN MINING CO. LTD.

By: /s/ H. Lutz Klingmann  
H. Lutz Klingmann  
President, Principal Executive Officer,  
and Principal Accounting Officer

Date: March 31, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ H. Lutz Klingmann</u> H. Lutz Klingmann	President, Principal Executive Officer, Principal Accounting Officer, and Director	March 31, 2011
<u>/s/ Edward Thompson</u> Edward Thompson	Director	March 31, 2011
<u>/s/ Chester Shynkaryk</u> Chester Shynkaryk	Director	March 31, 2011
<u>/s/ Gordon Gutrath</u> Gordon Gutrath	Director	March 31, 2011
<u>/s/ Thomas Clay</u> Thomas Clay	Director	March 31, 2011



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Fax: 604 688 5132  
www.bdo.ca

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

## Consent of Independent Registered Public Accounting Firm

Golden Queen Mining Co. Ltd.  
Vancouver, Canada

We hereby consent to the incorporation by reference in the Registration Statement Form S-8 (No. 333-102112) of Golden Queen Mining Co. Ltd., of our report dated March 29, 2011, relating to the consolidated financial statements of Golden Queen Mining Co. Ltd., which appears in this Form 10-K. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ BDO Canada LLP

Chartered Accountants  
Vancouver, Canada  
March 31, 2011

EXHIBIT 31.1

**CERTIFICATION  
PURSUANT TO RULE 13a-14(a) OR 15d-14(a)  
OF THE U.S. SECURITIES EXCHANGE ACT OF 1934**

I, Lutz Klingman, certify that:

1. I have reviewed this report on Form 10-K for the fiscal year ended December 31, 2010 of Golden Queen Mining Co. Ltd.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's control over financial reporting.

Date: March 31, 2011

By: /s/ Lutz Klingmann  
Lutz Klingmann  
Principal Executive Officer and Principal Financial Officer



**Golden Queen Mining Co. Ltd.**  
**(An Exploration Stage Company)**  
**Consolidated Financial Statements**  
**December 31, 2010**  
**(US Dollars)**



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www.bdo.ca

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

## Report of Independent Registered Public Accounting Firm

To the Shareholders of  
Golden Queen Mining Co. Ltd.  
(An exploration stage company)

We have audited the accompanying consolidated balance sheets of Golden Queen Mining Co. Ltd. (an exploration stage company), as of December 31, 2010 and 2009, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (capital deficit) and cash flows for the years then ended. We have also audited the statements of loss and comprehensive loss, changes in shareholders' equity (capital deficit), and cash flows for the period from inception (November 21, 1985) through December 31, 2010, except that we did not audit these financial statements for the period from inception (November 21, 1985) through May 31, 1996; those statements were audited by other auditors whose report dated July 12, 1996, expressed an unqualified opinion on those statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Our opinion, insofar as it relates to the amounts for the period from inception (November 21, 1985) through May 31, 1996, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects the financial position of Golden Queen Mining Co. Ltd., as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended and for the period from inception (November 21, 1985) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred recurring operating losses and had a deficit accumulated during the exploration stage as of December 31, 2010. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada  
March 29, 2011

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Balance Sheets**  
**(US dollars)**

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,967,465	\$ 2,433,202
Receivables	42,796	24,604
Prepaid expenses and other current assets	40,103	19,490
Total current assets	7,050,364	2,477,296
Property and equipment, net (Note 2)	318,326	205,916
Reclamation financial assurance (Note 3)	286,653	286,653
Total Assets	\$ 7,655,343	\$ 2,969,865
Liabilities and Capital Deficit		
Current liabilities:		
Accounts payable	\$ 319,675	\$ 150,766
Accrued liabilities	62,839	77,821
Advance minimum royalties (Note 7)	17,108	-
Total current liabilities	399,622	228,587
Asset retirement obligations (Note 6)	193,545	177,564
Derivative liability (Note 10)	10,389,768	2,695,602
Total liabilities	10,982,935	3,101,753
Capital deficit:		
Preferred shares, no par value, 3,000,000 shares authorized; no shares outstanding		
Common shares, no par value, 150,000,000 shares authorized; 94,228,383 (2009 – 88,378,383) shares issued and outstanding (Note 5)	56,339,823	50,205,634
Additional paid-in capital	3,784,582	3,130,549
Deficit accumulated during the exploration stage	(63,451,997)	(53,468,071)
Total capital deficit	(3,327,592)	(131,888)
Total liabilities and capital deficit	\$ 7,655,343	\$ 2,969,865

Financial Condition and Ability to Continue as a Going Concern (Note 1)

Commitments and Contingencies (Notes 3, 5 and 7)

Approved by the Directors:

“H. Lutz Klingmann”  
H. Lutz Klingmann, Director

“Chester Shynkaryk”  
Chester Shynkaryk, Director

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(US dollars)**

	Year Ended December 31, 2010	Year Ended December 31, 2009	Cumulative From Date of Inception (November 21, 1985) through December 31, 2010
General and administrative expenses	\$ (3,290,736)	\$ (2,246,953)	\$ (23,018,536)
Impairment loss (Note 3)	(133,436)	(167,898)	(32,269,028)
Adjustment to asset retirement obligation on changes in cash flow estimates (Note 6)	-	(6,882)	223,583
Accretion expense (Note 6)	(15,981)	(7,779)	(71,362)
Change in fair value of derivative liability (Note 10)	(6,575,406)	(2,095,300)	(8,670,706)
Gain on settlement of debt	-	-	136,627
Mineral interests written off	-	-	(277,251)
	<u>(10,015,559)</u>	<u>(4,524,812)</u>	<u>(63,946,673)</u>
Interest expense	-	-	(913,098)
Interest income	<u>31,633</u>	<u>10,070</u>	<u>1,631,620</u>
Net loss and comprehensive loss	<u>\$ (9,983,926)</u>	<u>\$ (4,514,742)</u>	<u>\$ (63,228,151)</u>
Loss per share - basic and diluted	<u>\$ (0.11)</u>	<u>\$ (0.05)</u>	
Weighted average number of common shares outstanding	<u>91,990,821</u>	<u>86,738,897</u>	

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Shareholders' Equity (Capital Deficit)**  
**(US dollars)**

From the Date of Inception (November 21, 1985) through December 31, 2010	Common Shares	Amount	Stock Subscription	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Total Shareholders' Equity (Deficiency)
Balance, November 21, 1985						
Issuance of common shares for cash	1,425,001	\$ 141,313	\$ -	\$ -	\$ -	\$ 141,313
Net loss for the period	-	-	-	-	(15,032)	(15,032)
Balance, May 31, 1986	1,425,001	141,313	-	-	(15,032)	126,281
Issuance of common shares for cash	550,000	256,971	-	-	-	256,971
Issuance of common shares for mineral property	25,000	13,742	-	-	-	13,742
Net loss for the year	-	-	-	-	(58,907)	(58,907)
Balance, May 31, 1987	2,000,001	412,026	-	-	(73,939)	338,087
Issuance of common shares for cash	1,858,748	1,753,413	-	-	-	1,753,413
Net income for the year	-	-	-	-	38,739	38,739
Balance, May 31, 1988	3,858,749	2,165,439	-	-	(35,200)	2,130,239
Issuance of common shares for cash	1,328,750	1,814,133	-	-	-	1,814,133
Issuance of common shares for mineral property	100,000	227,819	-	-	-	227,819
Net loss for the year	-	-	-	-	(202,160)	(202,160)
Balance, May 31, 1989	5,287,499	4,207,391	-	-	(237,360)	3,970,031
Issuance of common shares for cash	1,769,767	2,771,815	-	-	-	2,771,815
Issuance of common shares for mineral property	8,875	14,855	-	-	-	14,855
Net loss for the year	-	-	-	-	(115,966)	(115,966)
Balance, May 31, 1990	7,066,141	6,994,061	-	-	(353,326)	6,640,735
Net income for the year	-	-	-	-	28,706	28,706
Balance, May 31, 1991	7,066,141	6,994,061	-	-	(324,620)	6,669,441
Net loss for the year	-	-	-	-	(157,931)	(157,931)
Balance, May 31, 1992	7,066,141	6,994,061	-	-	(482,551)	6,511,510
Net loss for the year	-	-	-	-	(285,391)	(285,391)
Balance, May 31, 1993	7,066,141	6,994,061	-	-	(767,942)	6,226,119
Issuance of common shares for cash	5,834,491	1,536,260	-	-	-	1,536,260
Share issuance costs	-	-	-	-	(18,160)	(18,160)
Issuance of common shares for mineral property	128,493	23,795	-	-	-	23,795
Net loss for the year	-	-	-	-	(158,193)	(158,193)
Balance, May 31, 1994	13,029,125	8,554,116	-	-	(944,295)	7,609,821
Issuance of common shares for cash	648,900	182,866	-	-	-	182,866
Net loss for the year	-	-	-	-	(219,576)	(219,576)
Balance, May 31, 1995	13,678,025	8,736,982	-	-	(1,163,871)	7,573,111
Issuance of common shares for cash	2,349,160	2,023,268	-	-	-	2,023,268
Issuance of common shares for debt	506,215	662,282	-	-	-	662,282
Issuance of 5,500,000 special warrants	-	9,453,437	-	-	-	9,453,437
Special warrants issuance costs	-	-	-	-	(100,726)	(100,726)
Net loss for the year	-	-	-	-	(426,380)	(426,380)
Balance, May 31, 1996	16,533,400	20,875,969	-	-	(1,690,977)	19,184,992
Issuance of common shares for cash	18,000	10,060	-	-	-	10,060
Issuance of common shares for special warrants	5,500,000	-	-	-	-	-
Special warrants issuance costs	-	-	-	-	(123,806)	(123,806)
Net loss for the period	-	-	-	-	(348,948)	(348,948)
Balance, December 31, 1996	22,051,400	\$ 20,886,029	\$ -	\$ -	\$ (2,163,731)	\$ 18,722,298

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Shareholders' Equity (Capital Deficit)**  
**(US dollars)**

From the Date of Inception (November 21, 1985) through December 31, 2010	Common Shares	Amount	Stock Subscription	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Total Shareholders' Equity (Deficiency)
Balance, carried forward from previous page	22,051,400	\$ 20,886,029	\$ -	\$ -	\$ (2,163,731)	\$ 18,722,298
Issuance of common shares for cash	157,000	157,050	-	-	-	157,050
Issuance of 3,500,000 special warrants	-	5,287,315	-	-	-	5,287,315
Issuance of common shares for special warrants	3,500,000	-	-	-	-	-
Options to non-employee directors	-	-	-	70,200	-	70,200
Special warrants issuance costs	-	-	-	-	(163,313)	(163,313)
Net loss for the year	-	-	-	-	(1,047,869)	(1,047,869)
Balance, December 31, 1997	25,708,400	26,330,394	-	70,200	(3,374,913)	23,025,681
Issuance of common shares upon exercise of warrants	1,834,300	857,283	-	-	-	857,283
Issuance of common shares through conversion of debt	2,017,941	1,000,000	-	-	-	1,000,000
Share issuance costs	-	-	-	-	(6,060)	(6,060)
Issuance of common shares for cash	5,236,000	2,439,753	-	-	-	2,439,753
Options and re-priced options to non-employee directors	-	-	-	107,444	-	107,444
Net loss for the year	-	-	-	-	(971,595)	(971,595)
Balance, December 31, 1998	34,796,641	30,627,430	-	177,644	(4,352,568)	26,452,506
Issuance of 13,250,000 special warrants	-	3,350,915	-	-	-	3,350,915
Special warrants issuance costs	-	-	-	-	(166,620)	(166,620)
Issuance of common shares for special warrants	13,250,000	-	-	-	-	-
Net loss for the year	-	-	-	-	(564,657)	(564,657)
Balance, December 31, 1999	48,046,641	33,978,345	-	177,644	(5,083,845)	29,072,144
Cumulative effect of change in accounting for stock options	-	-	-	(177,644)	-	(177,644)
Stock subscription	-	-	200,000	-	-	200,000
Net loss for the year	-	-	-	-	(28,708,276)	(28,708,276)
Balance, December 31, 2000	48,046,641	33,978,345	200,000	-	(33,792,121)	386,224
Issuance of common shares through conversion of debt	406,250	65,000	-	-	-	65,000
Issuance of common shares for conversion of stock subscription	1,538,462	200,000	(200,000)	-	-	-
Share issuance costs	-	-	-	-	(3,337)	(3,337)
Net loss for the year	-	-	-	-	(262,059)	(262,059)
Balance, December 31, 2001	49,991,353	34,243,345	-	-	(34,057,517)	185,828
Issuance of common shares through exercise of options	290,000	37,234	-	-	-	37,234
Issuance of common shares through exercise of warrants	1,520,836	243,334	-	-	-	243,334
Stock option compensation	-	-	-	21,456	-	21,456
Share issuance costs	-	-	-	-	(4,216)	(4,216)
Net loss for the year	-	-	-	-	(347,603)	(347,603)
Balance, December 31, 2002	51,802,189	34,523,913	-	21,456	(34,409,336)	136,033
Issuance of common shares through exercise of options	100,000	24,379	-	-	-	24,379
Equity component of convertible notes	-	-	-	375,000	-	375,000
Stock option compensation	-	-	-	127,326	-	127,326
Net loss for the year	-	-	-	-	(744,516)	(744,516)
Balance, December 31, 2003	51,902,189	\$ 34,548,292	\$ -	\$ 523,782	\$ (35,153,852)	\$ (81,778)

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Shareholders' Equity (Capital Deficit)**  
**(US dollars)**

From the Date of Inception (November 21, 1985) through December 31, 2010	Common Shares	Amount	Stock Subscription	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Total Shareholders' Equity (Deficiency)
Balance, carried forward from previous page	51,902,189	\$ 34,548,292	\$ -	\$ 523,782	\$ (35,153,852)	\$ (81,778)
Issuance of common shares for cash	8,000,000	3,036,282	-	-	-	3,036,282
Issuance of common shares for convertible notes	978,260	225,000	-	-	-	225,000
Issuance of common shares through exercise of options	200,000	55,861	-	-	-	55,861
Share issuance costs	-	-	-	-	(38,975)	(38,975)
Net loss for the year	-	-	-	-	(1,772,250)	(1,772,250)
Balance, December 31, 2004	61,080,449	37,865,435	-	523,782	(36,965,077)	1,424,140
Issuance of common shares through exercise of options	110,000	21,049	-	-	-	21,049
Stock option compensation	-	-	-	48,592	-	48,592
Net loss for the year	-	-	-	-	(1,476,324)	(1,476,324)
Balance, December 31, 2005	61,190,449	37,886,484	-	572,374	(38,441,401)	17,457
Issuance of common shares through private placement	7,200,000	1,614,716	-	1,520,899	-	3,135,615
Issuance of common shares through exercise of options	100,000	30,853	-	-	-	30,853
Issuance of common shares through exercise of warrants	8,978,260	4,659,173	-	-	-	4,659,173
Issuance of common shares for convertible notes	652,174	150,000	-	39,917	-	189,917
Stock option compensation	-	-	-	814,810	-	814,810
Modification of warrants	-	-	-	889,117	-	889,117
Share issuance costs	-	-	-	-	(62,888)	(62,888)
Net loss for the year	-	-	-	-	(4,910,036)	(4,910,036)
Balance, December 31, 2006	78,120,883	44,341,226	-	3,837,117	(43,414,325)	4,764,018
Issuance of common shares for exercise of options	290,000	127,652	-	-	-	127,652
Issuance of common shares for property	30,000	24,600	-	-	-	24,600
Net loss for the year	-	-	-	-	(2,006,482)	(2,006,482)
Balance, December 31, 2007	78,440,883	44,493,478	-	3,837,117	(45,420,807)	2,909,788
Issuance of common shares through exercise of warrants	7,200,000	4,184,425	-	-	-	4,184,425
Net loss for the year	-	-	-	-	(3,996,777)	(3,996,777)
Balance, December 31, 2008	85,640,883	48,677,903	-	3,837,117	(49,417,584)	3,097,436
Cumulative effect of change in accounting principle	-	-	-	(863,402)	464,255	(399,147)
Issuance of common shares through private placement (Note 5)	2,337,500	1,396,646	-	-	-	1,396,646
Issuance of common shares through exercise of options (Note 5)	400,000	131,085	-	-	-	131,085
Reclassification of derivative liability on the exercise of stock options (Note 10)	-	-	-	156,834	-	156,834
Net loss for the year,	-	-	-	-	(4,514,742)	(4,514,742)
Balance, December 31, 2009	88,378,383	50,205,634	-	3,130,549	(53,468,071)	(131,888)
Issuance of common shares through exercise of options (Note 5)	850,000	272,156	-	-	-	272,156
Reclassification of derivative liability on the exercise of stock options (Note 10)	-	-	-	654,033	-	654,033
Issuance of common shares through private placement (Note 5)	5,000,000	5,907,798	-	-	-	5,907,798
Share issuance costs (Note 5)	-	(45,765)	-	-	-	(45,765)
Net loss for the year	-	-	-	-	(9,983,926)	(9,983,926)
Balance, December 31, 2010	94,228,383	\$ 56,339,823	\$ -	\$ 3,784,582	\$ (63,451,997)	\$ (3,327,592)

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Cash Flows**  
**(US dollars)**

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>	<u>Cumulative From Date of Inception (November 21, 1985) through December 31, 2010</u>
Operating activities:			
Net loss for period	\$ (9,983,926)	\$ (4,514,742)	\$ (63,228,151)
Adjustments to reconcile net loss to cash used in operating activities:			
Asset impairment loss	133,436	167,898	32,269,028
Mineral interests written off	-	-	277,251
Amortization and depreciation	8,119	6,024	469,920
Amortization of debt discount	-	-	375,000
Adjustment to asset retirement obligation based on changes in cash flow estimates	-	6,882	(223,583)
Accretion expense	15,981	7,779	71,362
Change in fair value of derivative liability	6,575,406	2,095,300	8,670,706
Gain on disposition of property and equipment	-	-	(10,032)
Stock option compensation	46,275	357,989	1,416,448
Financing charges related to modification of warrants	-	-	889,117
Mineral property expenditures	-	-	(22,395,449)
Changes in assets and liabilities:			
Receivables	(18,192)	(4,553)	(42,796)
Prepaid expenses and other current assets	(20,613)	356	(127,013)
Accounts payable and accrued liabilities	153,927	(20,456)	422,431
Royalty and mining rights payable	17,108	(48,034)	17,108
Cash used in operating activities	<u>(3,072,479)</u>	<u>(1,945,557)</u>	<u>(41,148,653)</u>
Investing activities:			
Purchase of mineral properties	(133,436)	(167,898)	(7,936,792)
Deposits on mineral properties	-	-	(1,017,551)
Purchase of reclamation financial assurance	-	(14,845)	(286,653)
Purchase of property and equipment	(120,529)	-	(1,434,367)
Proceeds from sale of property and equipment	-	-	47,153
Cash used in investing activities	<u>(253,965)</u>	<u>(182,743)</u>	<u>(10,628,210)</u>

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Consolidated Statements of Cash Flows (Continued)**  
**(US dollars)**

	Year Ended December 31, 2010	Year Ended December 31, 2009	Cumulative From Date of Inception (November 21, 1985) through December 31, 2010
Financing activities:			
Borrowing under long-term debt	-	-	3,918,187
Payment of long-term debt	-	-	(2,105,905)
Proceeds from convertible debt	-	-	440,000
Issuance of common shares for cash	7,634,316	1,396,646	28,871,618
Share issuance costs	(45,765)	-	(733,866)
Issuance of special warrants	-	-	18,091,667
Issuance of common shares upon exercise of stock options	272,156	131,085	561,746
Issuance of common shares upon exercise of warrants	-	-	9,700,881
Cash provided by financing activities	<u>7,860,707</u>	<u>1,527,731</u>	<u>58,744,328</u>
Net change in cash and cash equivalents	4,534,263	(600,569)	6,967,465
Cash and cash equivalents, beginning balance	<u>2,433,202</u>	<u>3,033,771</u>	<u>-</u>
Cash and cash equivalents, ending balance	<u>\$ 6,967,465</u>	<u>\$ 2,433,202</u>	<u>\$ 6,967,465</u>

Supplementary Disclosures of Cash Flow Information (Note 9)

See Accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2010 and 2009**  
**(US dollars)**

**Nature of Business** Golden Queen Mining Co. Ltd. (“Golden Queen” or the “Company”) is engaged in acquiring and maintaining gold and silver mining properties for exploration, future development and production. The Company was formed on November 21, 1985. Since its inception, the Company has been in the exploration stage. Planned activities involve bringing to production a precious metals mine located in the Mojave Mining District, Kern County, California.

**Principles of Consolidation** These consolidated financial statements include the accounts of Golden Queen Mining Co. Ltd., a British Columbia corporation, and its wholly-owned subsidiary, Golden Queen Mining Co., Inc. (the “Subsidiary”), a US (State of California) corporation and, until its dissolution on August 27, 2007, the Karma Wegmann Corporation (see Note 3).

**Generally Accepted Accounting Principles (“GAAP”)** The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

In June 2009, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 105, “Generally Accepted Accounting Principles”. The FASB Accounting Standards Codification (“Codification”) is the source of authoritative US GAAP to be applied by non-government entities for Securities and Exchange Commission (“SEC”) registrants. On the effective date of this statement, the Codification superseded all the then-existing non-SEC accounting and reporting standards. This statement became effective for the Company’s consolidated financial statements for the year ended December 31, 2009.

**Cash and Cash Equivalents** For purposes of balance sheet classification and the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Company places its cash and cash equivalents with high quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. At times, such investments may be in excess of FDIC insurance limits. To date, the Company has not experienced a loss or lack of access to its invested cash and cash equivalents. However, no assurance can be provided that access to the Company’s invested cash and cash equivalents will not be impacted by adverse economic conditions in the financial markets.

**Property and Equipment** Property and equipment are stated at the lower of cost or net realizable value less accumulated depreciation. Depreciation is provided by the straight-line method over the estimated service lives of the respective assets, which range from 3 to 30 years, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Automobiles	3 to 5 years
Rental Properties	30 years

**Mineral Properties** Mineral properties include the cost of advance minimum royalty payments, the cost of capitalized mineral property leases, and mineral property acquisition costs. Expenditures for exploration and development on specific mineral properties with no proven reserves are expensed as incurred. Mineral property costs will be amortized against future revenues or charged to operations at the time the related mineral property is determined to have an impairment in value.

**Carrying Value of Mineral Property Interests.** The cost of acquiring mineral property interests is capitalized. Capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value. Capitalized amounts may also be written down if future cash flows, including potential sales proceeds related to the property, are estimated to be less than the carrying value of the property. The Company reviews the carrying value of mineral property interests periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the property’s estimated fair value.

**GOLDEN QUEEN MINING CO. LTD.**  
**(an exploration stage company)**  
**Notes to Consolidated Financial Statements**  
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**Exploration and Development Expenditures.** Exploration and development expenditures are expensed as incurred. Once a mineral reserve has been established, all future development costs will be capitalized and charged to operations on a unit-of-production method based on estimated recoverable reserves.

**Valuation of Long-lived Assets.** Accounting standards require recognition of impairment of long-lived assets in the event the carrying value of such assets may not be recoverable. It requires that those long-lived assets to be disposed of by sale are to be measured at the lower of carrying amount or fair value less cost of sale whether reported in continuing operations or in discontinued operations. In accordance with the provisions of the accounting standard, the Company reviews the carrying value of its mineral properties on a regular basis. Estimated undiscounted future cash flow from the mineral properties is compared with the current carrying value in order to determine if an impairment exists. Reductions to the carrying value, if necessary, are recorded to the extent the net book value of the property exceeds the estimate of future discounted cash flow or liquidation value.

**Foreign Currency Translation** The Company's functional and reporting currency, the US dollar, is the primary economic currency. Assets and liabilities in foreign currencies are generally translated into US dollars at the exchange rates on the balance sheet date. Revenues and expenses are translated at exchange rates on the date of the transaction. Where amounts denominated in a foreign currency are converted into US dollars by remittance or repayment, the realized exchange differences are included in other income. The exchange rates prevailing at December 31, 2010 and 2009 were \$0.99 and \$1.05 stated in Canadian dollars per one US dollar, respectively. The average rates of exchange during the years ended December 31, 2010 and 2009 were \$1.02 and \$1.14 stated in Canadian dollars per one US dollar, respectively.

**Loss Per Share** The Company computes and discloses loss per share in accordance with ASC 260, "Earnings per Share", which requires dual presentation of basic loss per share and diluted loss per share on the face of all income statements presented for all entities with complex capital structures. Basic loss per share is computed as net loss divided by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur from common shares issuable through stock options and warrants. Since the Company's stock options and warrants are anti-dilutive for all periods presented, there is no difference between basic and diluted loss per share as presented. A total of 5,550,000 (2009 – 3,850,000) common shares were issuable pursuant to such stock options and warrants at December 31, 2010.

**Asset Retirement Obligations** The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The obligation is measured initially at fair value using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount or timing of the underlying future cash flows. Capitalized asset retirement costs are amortized on the same basis as the related asset and the discount accretion of the liability is included in determining the results of operations.

**Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates have been made by management in several areas including the recoverability of mineral properties, reclamation reserves and valuation of stock options. Actual results could differ from those estimates.

**Fair Value of Financial Instruments** The carrying amounts reported in the balance sheets for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments. The fair value of the reclamation financial assurance approximates the carrying value because the stated interest rates reflect recent market conditions or because the rates are variable in nature.

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***Income Taxes*** The Company follows the asset and liability method of accounting for income taxes whereby the deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. If it is determined that the realization of the future tax benefit is not more likely than not, the Company establishes a valuation allowance.

***Stock Option Plan*** In 2009, the Company's Board of Directors adopted a second stock option plan referred to as the 2008 stock option plan (the "2008 Plan"). Pursuant to the 2008 Plan, a further 7,200,000 shares were reserved for issuance on exercise of options granted under the new plan. The exercise price of stock options granted under the 2008 Plan is determined by the Board, but shall not be less than the volume weighted average price for the five trading days immediately prior to the award date. All options granted under the 2008 Plan will be subject to such vesting requirements as may be prescribed by the Exchange, if applicable, or as may be imposed by the Board. All stock options granted under the 2008 Plan and outstanding as at December 31, 2010 expire at a date determined by the Company's Board of Directors, not exceeding five years from the date of grant.

***Derivative Financial Instruments*** The Company reviews the terms of its equity instruments and other financing arrangements to determine whether or not there are embedded derivative instruments that are required to be accounted for separately as a derivative financial instrument. Also, in connection with the issuance of financing instruments, the Company may issue freestanding options or warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity. The Company may also issue options or warrants to non-employees in connection with consulting or other services.

Derivative financial instruments are measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For warrant-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to estimate fair value of the derivative instruments. To the extent that the initial fair values of the freestanding and/or bifurcated derivative instrument liabilities exceed the total proceeds received, an immediate charge to income is recognized, in order to initially record the derivative instrument liabilities at their fair value.

The classification of derivative instruments, including whether or not such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period. If reclassification is required, the fair value of the derivative instrument, as of the determination date, is reclassified. Any previous charges or credits to income for changes in the fair value of the derivative instrument are not reversed. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

***New Accounting Pronouncements***

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements", which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. This standard is effective for the Company's interim and annual periods commencing January 1, 2011 and will require additional disclosure such as disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than one net amount. The Company is currently assessing the impact of ASU 2010-6 and does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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***New Accounting Pronouncements – (cont’d)***

In January 2010, the FASB issued ASU 2010 -5 “Compensation – Stock Compensation (Topic 718)”. This accounting standards update codifies EITF Topic D-110, Escrowed Share Arrangements and the Presumption of Compensation. When evaluating whether presumption of compensation has been overcome, registrants should consider the substance of the arrangement, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. An escrowed share arrangement in which the shares are automatically forfeited if employment terminates is compensation. The adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13, “Compensation – Stock Compensation (Topic 718)”. The objective of this update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. It provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance or service condition is required to be classified as a liability. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements. .

***1. Financial Condition and Ability to Continue as a Going Concern***

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has not generated revenues and has accumulated a deficit of \$63,451,997 at December 31, 2010 (2009 - \$53,468,071) since inception and is not expected to generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, and the ability of the Company to obtain necessary equity and/or debt or joint venture financing to fund construction of the operating facility on its Soledad Mountain Property (the “Property”) in the Mojave Mining District, Kern County, California, once a production decision has been made.

Management cannot provide assurances that such plans will occur. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

***2. Property and Equipment***

Property and equipment consists of:

	2010	2009
Buildings	\$ 110,730	\$ 26,360
Furniture and fixtures	56,090	56,090
Automobiles	21,401	21,401
Rental properties	349,794	313,635
Property and equipment, cost	538,015	417,486
Less accumulated depreciation	(219,689)	(211,570)
Property and equipment, net	\$ 318,326	\$ 205,916

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**3. Mineral Properties**

The Company formerly capitalized amounts that were paid to acquire mineral property rights and for professional services rendered in the exploration, drilling, sampling, engineering and other related technical, managerial and professional services toward the evaluation and development of its Property. The Company's investment in mineral properties in the amount of \$30,951,041 (2009 - \$30,616,348) was fully provided for by the year ended December 31, 2010.

	2010	2009
Exploration and development expenditures	\$ 21,015,506	\$ 21,015,206
Mineral properties	6,071,388	5,937,952
Advance minimum royalty	3,482,379	3,297,103
Asset retirement obligations	381,768	365,787
Impairment loss	(30,951,041)	(30,616,348)
	<u>\$ -</u>	<u>\$ -</u>
Total	\$ -	\$ -

As at December 31, 2010, the Company had provided reclamation financial assurance to the Bureau of Land Management, California and Kern County totaling \$286,653 (2009 - \$286,653). This deposit earns interest at 0.4% per annum and is not available for working capital purposes.

In July 2006, the Company acquired through the purchase of the Karma Wegmann Corporation a tract of land contiguous to the Property; in consideration of \$875,000 paid to the vendors. The mineral properties owned by Karma Wegmann Corporation were transferred to the Company and management determined that a write-down of \$875,000 was necessary in 2006. The Karma Wegmann Corporation was wound-up on August 27, 2007.

The Company is required to pay a royalty of 1% of gross smelter returns to the original owners of the Karma Wegmann Corporation for a period of up to 60 years, not to exceed \$60,000,000, upon commencement of commercial production from the property formerly owned by Karma Wegmann Corporation. As of December 31, 2010, the Company has not incurred any royalty as the Property has not been in production.

**4. Income Taxes**

The tax effects of the temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

	2010	2009
Net operating and capital losses	\$ 9,174,000	\$ 8,848,000
Property, plant and equipment	327,000	317,000
Mineral properties and deferred exploration costs	2,141,000	1,456,000
Asset retirement obligations	63,000	58,000
Foreign exchange (gain) loss	(43,000)	-
Undeducted financing costs	10,000	4,000
Valuation allowance	(11,672,000)	(10,683,000)
	<u>\$ -</u>	<u>\$ -</u>
Deferred tax assets (liabilities)	\$ -	\$ -

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**4. Income Taxes – (cont'd)**

The provision for income taxes differ from the amount established using the statutory income tax rate as follows:

	2010	2009
Income benefit at Canadian statutory rate	\$ (2,845,000)	\$ (1,354,000)
Foreign income taxes at other than Canadian statutory rate	(176,000)	(64,000)
Change in fair value of derivative liability	1,797,000	681,000
Non-deductible stock based compensation	14,000	-
Share issuance costs	(7,000)	-
Non-taxable portion of foreign exchange gain	(43,000)	-
Expiry of losses carried forward	253,000	699,000
Effect of reduction in statutory rate	18,000	61,000
Increase (decrease) in valuation allowance	989,000	(23,000)
Deferred tax recovery	\$ -	\$ -

The Company's future tax assets include approximately \$10,000 (2009 - \$4,000) related to deductions for share issue costs in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize this benefit as an adjustment to share capital as opposed to income tax expense in the consolidated statements of loss.

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income. As management of the Company does not currently believe that it is more likely than not that the Company will receive the benefit of this asset, a valuation allowance equal to the future tax asset has been established at both December 31, 2010 and 2009.

As at December 31, 2010, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

<u>Country</u>	<u>Amount</u>	<u>Expiration Dates</u>
United States – Federal	\$22,600,000	2011 – 2030
Canada (C\$)	\$ 5,900,000	2011 – 2030

These financial statements do not reflect the potential effect on future income taxes of the application of these losses.

“Accounting for Uncertainty in Income Taxes” was issued, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has evaluated its tax positions for the years ended December 31, 2010 and 2009 and determined that it has no uncertain tax positions requiring financial statement recognition.

Because the Company's recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a 100% valuation allowance against its net deferred tax assets due to the uncertainty surrounding the realization of such assets.

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**5. Share Capital**

Common shares

In July 2009, the Company issued 2,337,500 common shares at C\$0.65 per share for proceeds of \$1,396,646 (C\$1,519,375).

During the three-month period from September to December 2009, 400,000 stock options were exercised and the Company issued 400,000 common shares at C\$0.35 per share for proceeds of \$131,085 (C\$140,000).

In January 2010, 700,000 stock options were exercised and the Company issued 700,000 common shares at C\$0.35 per share for proceeds of \$234,113 (C\$245,000).

On June 1, 2010, the Company issued 5,000,000 units at C\$1.60 per unit for gross proceeds of \$7,634,316 (C\$8,000,000) and incurred professional fees of \$45,765 as share issuance costs. Each unit consisted of one common share, one-quarter of one Class A purchase warrant and one-quarter of one Class B purchase warrant. Each whole Class A warrant is exercisable to acquire one additional common share of the Company at a price of C\$1.75. Each Class B warrant is exercisable to acquire one additional common share of the Company at a price of C\$2.00. Both Class A and Class B warrants expire December 1, 2011. The aggregate fair value of the Class A and Class B purchase warrants was \$1,726,518 and the Company allocated the remaining proceeds of \$5,907,798 to the common shares. The fair value of the warrants was determined using the Black-Scholes option pricing model with assumptions as set out below:

	2010
Expected life years	1.5
Interest rate	1.37%
Volatility	114%
Dividend yield	Nil

In September 2010, 50,000 stock options were exercised and the Company issued 50,000 common shares at C\$0.26 per share for proceeds of \$12,487 (C\$13,000).

In October 2010, 100,000 stock options were exercised and the Company issued 100,000 common shares at C\$0.26 per share for proceeds of \$25,556 (C\$26,000).

In connection with the guidance of ASC 815-40-15, as the options and warrants are exercisable in a currency other than the functional currency of the Company, they do not meet the “fixed-for-fixed” criteria of the guidance. As a result, the Company was required to separately account for the Class A and Class B warrants issued in connection with the private placement noted above as a derivative instrument liability (Note 10).

Stock options

The Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with the accounting standard for employees, the compensation expense is amortized on a straight-line basis over the requisite service period, which approximates the vesting period. Compensation expense for stock options granted to non-employees is amortized over the contract services period or, if none exists, from the date of grant until the options vest. Compensation associated with unvested options granted to non-employees is re-measured on each balance sheet date using the Black-Scholes option pricing model.

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**5. Share Capital – (cont'd)**

Stock options – (cont'd)

The following is a summary of stock option activity during the years ended December 31, 2010 and 2009:

	Shares	Weighted Average Exercise Price per Share
Options outstanding and exercisable, January 1, 2009	2,300,000	C\$0.57
Granted	1,950,000	C\$0.26
Exercised	(400,000)	C\$0.35
Options outstanding and exercisable, December 31, 2009	3,850,000	C\$0.44
Granted	50,000	C\$1.24
Exercised	(850,000)	C\$0.33
Options outstanding and exercisable, December 31, 2010	3,050,000	C\$0.48

The stock-based compensation expense recognized on the grant date was \$46,275 (2009 - \$357,989). Subsequent to the grant date, such options are revalued to fair value at each period-end (Note 10). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2010	2009
Expected life years	5	5
Interest rate	1.95%	2.04%
Volatility	106%	112.3%
Dividend yield	0%	0%

As at December 31, 2010, the aggregate intrinsic value of the outstanding exercisable options was approximately \$7,124,000 (2009 - \$1,921,979). The total intrinsic value for options that were exercised during 2010 was approximately \$438,000 (2009 - \$232,160).

There is no unamortized compensation expense as at December 31, 2010 and 2009 as all the outstanding options vested at the grant date.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2010:

Expiry Date	Number Outstanding and Exercisable	Weighted Average Contractual Remaining Life (Years)	Weighted Average Exercise Price
April 20, 2011	1,200,000	0.30	C\$0.77
January 28, 2014	1,800,000	3.07	C\$0.26
April 18, 2015	50,000	4.29	C\$1.24
	3,050,000	2.01	C\$0.48

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**5. Share Capital – (cont'd)**

Warrants

The following is a summary of warrants activity during the years ended December 31, 2010 and 2009:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Expiry Date
Outstanding, January 1, 2009 and 2010	-	-	-	-
Issued:				
Class A	1,250,000	C\$1.75	0.92	December 1, 2011
Class B	1,250,000	C\$2.00	0.92	December 1, 2011
Outstanding, December 31, 2010	2,500,000	C\$1.88		

As at December 31, 2010, the aggregate intrinsic value of the outstanding warrants was approximately \$2,325,000 (2009 - \$Nil).

**6. Asset Retirement Obligations**

The Company is required to provide the Bureau of Land Management, the State Office of Mine Reclamation and Kern County with a revised reclamation cost estimate once per year. The financial assurance is adjusted once the cost estimate is approved (see Note 3).

The Company estimated its asset retirement obligations based on its understanding of the requirements to reclaim and clean-up its Property. The Company estimated that total payments of approximately \$367,000 over three years commencing in 2017 would be required to complete the reclamation obligations. In determining the estimated initial present value of the obligation, a discount factor of 9.0% (the credit-adjusted risk-free rate), and an inflation rate of 3.0% were used. The asset portion of the retirement obligations were written off in 2004. The following is a summary of asset retirement obligations:

	2010	2009
Balance, beginning of the year	\$ 177,564	\$ 162,903
Change in cash flow estimates	-	6,882
Accretion expense	15,981	7,779
Balance, end of the year	\$ 193,545	\$ 177,564

**7. Commitments and Contingencies**

The Company has acquired a number of mineral properties outright and has acquired exclusive rights to explore, develop and mine the Property under various agreements with landowners.

The Company is required to make advance minimum royalty payments related to its mineral properties. The total advance minimum royalty in 2010 was \$185,276 (2009 - \$174,196), of which \$17,108 was unpaid. The total advance minimum royalty owing for 2011 is expected to be approximately \$272,000.

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**7. Commitments and Contingencies – (cont'd)**

In 2007, the Company reached an agreement with a landowner to amend the terms of the lease agreement. Under the terms of the amendment, the Company has been granted an extension of twenty years and has paid \$100,000 owed from 2005. In addition, the Company is not required to pay advance royalties during the two-year period until April 23, 2008 and the Company will receive a credit representing 50% of all advance minimum royalty paid and use it against the future production royalties. The Company recommenced the advance minimum royalty payment, and paid the landowner \$100,000 in 2009 and \$100,000 in 2010.

A mining lease agreement with a group of landholders expired in 2004. The Company is currently in discussions with this group of landholders in an effort to reach a new agreement.

The Company has agreed to issue 100,000 common shares as a finder's fee upon commencement of commercial production on the Property in connection with certain property acquisitions. As of December 31, 2010, commercial production has not commenced and no shares have been issued.

In 2004, the Company entered into an agreement with the President of the Company to issue 300,000 bonus shares upon completion of certain milestones. Upon receipt by the Company of a bankable feasibility study and the decision to place the Property into commercial production, a bonus of 150,000 common shares would be issued. Upon commencement of commercial production on the Property, a bonus of 150,000 common shares would be issued. In May 2010, the Company entered into an amendment to the agreement whereby the 300,000 bonus shares would alternatively be issuable upon a change of control transaction or upon a sale of all or substantially all of the Company's assets, having a value at or above CAD \$1.00 per share of the Company, with a further 300,000 bonus shares being issuable in the event the change of control transaction or asset sale occurred at a value at or above CAD \$1.50 per share. The agreement is for a term of three years and shall automatically renew for two years. As at December 31, 2010, the milestones had not been reached and no accrual was made in connection with these arrangements.

**8. Related Party Transactions**

Except as noted elsewhere in these consolidated financial statements, related party transactions are disclosed as follows:

For the year ended December 31, 2010, the Company paid \$141,293 (2009 - \$116,776) to Mr. H. L. Klingmann for services as President of the Company and paid \$17,769 (2009 - \$18,620) to Mr. Chester Shynkaryk for his consulting services to the Company.

For the year ended December 31, 2010, the Company paid \$1,974 (2009 - \$1,752) to each of four directors and \$2,000 (2009 - \$2,000) to a director as director's fees.

The above noted transactions were in the normal course of operations, and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**9. Supplementary Disclosures of Cash Flow Information**

	Year ended December 31, 2010	Year ended December 31, 2009	Amounts From Date of Inception (November 21, 1985) through December 31, 2010
Cash paid during year for:			
Interest	\$ -	\$ -	\$ 1,192,911
Income taxes	\$ -	\$ -	-
Non-cash financing and investing activities:			-
Reclassification of derivative liability for exercised stock options	\$ 654,033	\$ 156,834	\$ 810,867
Stock option compensation	\$ 46,275	\$ 357,989	\$ 1,416,448
Financing charges related to modification of warrants term	\$ -	\$ -	\$ 889,117
Exchange of notes for common shares	\$ -	\$ -	\$ 1,727,282
Exchange of note for future royalty payments	\$ -	\$ -	\$ 150,000
Common shares issued for mineral property	\$ -	\$ -	\$ 304,811
Mineral property acquired through the issuance of long-term debt	\$ -	\$ -	\$ 1,084,833
Common shares issued upon conversion of convertible debt	\$ -	\$ -	\$ 414,917
Asset retirement obligations	\$ 15,981	\$ 14,661	\$ 193,545

**10. Derivative Liability**

As at January 1, 2009, the date on which the guidance of ASC 815-40-15 became effective for the Company, the Company's stock options met the criteria of a derivative instrument liability because they were exercisable in a currency other than the functional currency of the Company and thus did not meet the "fixed-for-fixed" criteria of that guidance. As a result, the Company was required to separately account for the stock options as a derivative instrument liability recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to income.

The transition provisions of ASC 815-40-15 require cumulative effect adjustments as of January 1, 2009 to reflect the amounts that would have been recognized if derivative fair value accounting had been applied from the original issuance date of an equity-linked financial instrument through the implementation date of the revised guidance. Thus, the Company calculated the value of the derivative liability associated with the stock options at the date of their issuances and recorded the change in the fair value of the derivative liability from the date of the grant of the options up to January 1, 2009. Additionally, in conjunction with the foregoing, the previously calculated amounts in respect of the additional paid-in capital were reversed.

The cumulative effect of this change in accounting principle of \$399,147 had been recognized as a decrease of the opening balance of the accumulated deficit of \$464,255 and a decrease in the opening balance of additional paid-in capital of \$863,402 as of January 1, 2009, with corresponding adjustments at January 1, 2009 to recognize a derivative liability of \$399,147.

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**10. Derivative Liability – (cont'd)**

Stock-based compensation of \$357,989 in respect of stock options granted in 2009, previously recorded as additional paid-in capital, was reclassified as derivative liability in connection with the adoption of these pronouncements.

During the year ended December 31, 2009, a total of 400,000 stock options treated as a derivative liability were exercised. Upon exercise of these options, the portion of the derivative liability that pertained to these options was re-measured and recorded at its fair value of \$156,834, subsequent to which it was reclassified to additional paid-in capital. The Company measured the fair value of the derivative liability pertaining to the options exercised using the Black-Scholes pricing model with the following range of assumptions: expected volatility – 100.45% - 108.23%, expected life – 0.28 – 0.44 years, risk-free discount rate – 1.23% - 1.52%, dividend yield – 0.00%.

During the year ended December 31, 2010, a total of 850,000 stock options included in the derivative liability were exercised. Upon exercise of these options, the portion of the derivative liability that pertained to these options was re-measured and recorded at its fair value of \$654,033. The Company measured the fair value of the derivative liability pertaining to the options exercised using the Black-Scholes pricing model with the following range of assumptions: expected volatility - 33% - 116%, expected life – 0.01 – 3.30 years, risk-free discount rate – 1.17% - 1.52%, dividend yield – 0.00%.

As of December 31, 2010 and 2009, the Company had re-measured the remaining outstanding options and determined the fair value of the derivative liability to be \$7,324,429 and \$2,695,602 respectively, using the Black-Scholes option pricing model with the following assumptions:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Risk-free interest rate	1.52% - 2.41%	1.47 to 2.77%
Expected life of derivative liability	0.30 to 4.30 years	1 to 4.1years
Expected volatility	69.88% - 118.22%	60% to 148%
Dividend rate	0.00%	0.00%

As of December 31, 2010 the Company re-measured outstanding warrants and determined the fair value of the derivative liability to be \$3,065,339 (2009 - \$Nil) using the Black Scholes option pricing model with the following assumptions:

	<u>December 31, 2010</u>
Risk-free interest rate	1.67%
Expected life of derivative liability	0.92 years
Expected volatility	73.32%
Dividend rate	0.00%

As of December 31, 2010, the changes of derivative liability for options and warrants are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of the year	\$ 2,695,602	\$ 399,147
Fair value of options granted	46,275	357,989
Fair value of warrants issued	1,726,518	-
Fair value of options exercised	(654,033)	(156,834)
Change in fair value of options and warrants	6,575,406	2,095,300
Balance, end of the year	<u>\$ 10,389,768</u>	<u>\$ 2,695,602</u>