Golden Queen Mining Co. Ltd.
(a development stage company)

Consolidated Financial Statements

December 31, 2013

(US Dollars)

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Vancouver BC V6C 3L2 Canada

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Golden Queen Mining Co. Ltd.
(A development stage company)

We have audited Golden Queen Mining Co. Ltd.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Golden Queen Mining Co. Ltd's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. A material weakness in internal control over financial reporting related to a lack of segregation of duties in daily cash management and limited approval of capital expenditures and general and administrative spending over one bank account has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and this report does not affect our report dated March 14, 2014 on those consolidated financial statements.

In our opinion, Golden Queen Mining Co. Ltd. did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria. We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Golden Queen Mining Co. Ltd. as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income (loss), shareholders' equity (capital deficit), and cash flows for each of the three years in the period ended December 31, 2013. We have also audited the consolidated statements of comprehensive income (loss), shareholders' equity (capital deficit), and cash flows for the period from inception (November 21, 1985) through December 31, 2013. Our report dated March 14, 2014, expressed an unqualified opinion with an explanatory paragraph disclosing substantial doubt about the Company's ability to continue as a going concern.

(signed) BDO CANADA LLP

Chartered Accountants

Vancouver, Canada
March 14, 2014

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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 and Board of Directors
Golden Queen Mining Co. Ltd.
(A development stage company)

We have audited the accompanying consolidated balance sheets of Golden Queen Mining Co. Ltd. as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income (loss), shareholders' equity (capital deficit), and cash flows for each of the three years in the period ended December 31, 2013. We have also audited the consolidated statements of comprehensive income (loss), shareholders' equity (capital deficit), and cash flows for the period from inception (November 21, 1985) through December 31, 2013. 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.

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden Queen Mining Co. Ltd. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 and for the period from inception (November 1, 1985) through December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated 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 had no revenues from operations and had a deficit accumulated as of December 31, 2013. 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Golden Queen Mining Co. Ltd.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2014 expressed an adverse opinion on the Company's internal control over financial reporting.

(signed) BDO CANADA LLP

Chartered Accountants

Vancouver, Canada
March 14, 2014

GOLDEN QUEEN MINING CO. LTD.
(a development stage company)
Consolidated Balance Sheets
(US dollars)

		December 31, 2013		December 31, 2012
Assets				
Current assets:				
Cash	$	5,030,522	$	4,031,403
Receivables		13,786		16,972
Prepaid expenses and other current assets		62,951		81,848
Total current assets		5,107,259		4,130,223
Property and equipment, net (Note 2)		286,256		298,466
Mineral property interests (Note 3)		9,919,486		1,799,301
Reclamation financial assurance (Note 6)		478,742		339,079
Total Assets	$	15,791,743	$	6,567,069
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities (Note 8)	$	1,438,904	$	148,929
Interest payable (Note 8)		76,699		-
Property rent payments (Note 7)		6,351		6,351
Total current liabilities		1,521,954		155,280
Asset retirement obligations (Note 6)		552,250		475,938
Derivative liability – Convertible debenture (Note 8)		2,833,987		-
Convertible debenture (Note 8)		4,642,620		-
Derivative liability – Stock options (Note 10)		-		3,522,071
Total liabilities		9,550,811		4,153,289
Shareholders' Equity				
Preferred shares, no par value, 3,000,000 shares authorized; no shares outstanding				
Common shares, no par value, unlimited shares authorized (2012-150,000,000); 99,233,383 (2012 – 97,998,383) shares issued and outstanding (Note 5)		62,289,402		61,959,471
Additional paid-in capital		9,927,142		8,407,935
Deficit accumulated		(65,975,612)		(67,953,626)
Total shareholders' equity		6,240,932		2,413,780
Total Liabilities and Shareholders' Equity	$	15,791,743	$	6,567,069

Basis of Presentation and Ability to Continue as a Going Concern (Note 1)
Commitments and Contingencies (Notes 3 and 7)
Subsequent events (Note 14)

Approved by the Directors:

"H. Lutz Klingmann"
H. Lutz Klingmann, Director

"Thomas M. Clay"
Thomas Clay, Director

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

GOLDEN QUEEN MINING CO. LTD.
(a development stage company)
Consolidated Statements of Comprehensive Income (Loss)
(US dollars)

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Cumulative from Date of Inception (November 21, 1985) through December 31, 2013
General and administrative expenses (Note 8)	$ (2,532,279)	$ (466,996)	$ (880,830)	$ (8,950,950)
Exploration expenditures	-	(1,567,894)	(2,639,946)	(22,155,531)
Asset impairment loss	(2,522)	(193,340)	(938,770)	(33,680,911)
Adjustment to asset retirement obligation from changes in cash flow estimates (Note 6)	-	(124,363)	-	99,220
Accretion expense (Note 6)	-	-	(33,667)	(105,029)
Change in fair value of derivative liability including change in foreign exchange (Notes 8 and 10)	5,385,660	1,030,431	1,213,913	(1,040,702)
Gain on settlement of debt	-	-	-	136,627
	2,850,859	(1,322,162)	(3,279,300)	(65,697,276)
Interest expense (Note 8)	(888,026)	-	-	(1,801,124)
Interest income	15,181	51,174	48,659	1,746,634
Net and comprehensive income (loss)	$ 1,978,014	$ (1,270,988)	$ (3,230,641)	$ (65,751,766)
Income (loss) per share - basic (Note 13)	$ 0.02	$ (0.01)	$ (0.03)	
Income (loss) per share - diluted (Note 13)	(0.01)	$ (0.01)	$ (0.03)	
Weighted average number of common shares outstanding - basic	98,390,561	97,981,197	95,343,041	
Weighted average number of common shares outstanding - diluted	102,737,593	97,981,197	95,343,041	

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

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

From the Date of Inception (November 21, 1985) through December 31, 2013	Common Shares	Amount	Additional Paid-in Capital	Deficit Accumulated	Total Shareholders' Equity (Capital Deficit)
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.
(a development stage company)
Consolidated Statements of Shareholders' Equity (Capital Deficit)
(US dollars)

From the Date of Inception (November 21, 1985) through December 31, 2013	Common Shares	Amount	Stock Subscription	Additional Paid-in Capital	Deficit Accumulated	Total Shareholders' Equity (Capital Deficit)
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)

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

From the Date of Inception (November 21, 1985) through December 31, 2013	Common Shares	Amount	Additional Paid-in Capital	Deficit Accumulated	Total Shareholders' Equity (Capital Deficit)
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	2,337,500	1,396,646	-	-	1,396,646
Issuance of common shares through exercise of options	400,000	131,085	-	-	131,085
Reclassification of derivative liability on the exercise of stock options	-	-	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.
(a development stage company)
Consolidated Statements of Shareholders' Equity (Capital Deficit)
(US dollars)

From the Date of Inception (November 21, 1985) through December 31, 2013	Common Shares		Amount		Additional Paid-in Capital		Deficit Accumulated		Total Shareholders' Equity (Capital Deficit)
Balance carried forward from previous page	94,228,383	$	56,339,823	$	3,784,582	$	(63,451,997)	$	(3,327,592)
Issuance of common shares through exercise of options	1,250,000		972,559		-		-		972,559
Issuance of common shares through exercise of warrants	2,500,000		4,594,237		-		-		4,594,237
Reclassification of derivative liability on exercise of warrants	-		-		1,629,668		-		1,629,668
Reclassification of derivative liability on the exercise of stock options	-		-		2,993,685		-		2,993,685
Net loss for the year	-		-		-		(3,230,641)		(3,230,641)
Balance, December 31, 2011	97,978,383		61,906,619		8,407,935		(66,682,638)		3,631,916
Issuance of common shares for mineral property interests	20,000		52,852		-		-		52,852
Net loss for the year	-		-		-		(1,270,988)		(1,270,988)
Balance, December 31, 2012	97,998,383	$	61,959,471	$	8,407,935	$	(67,953,626)	$	2,413,780
Issuance of common shares for mineral property interests	15,000		22,568		-		-		22,568
Stock options exercised	1,220,000		307,363		-		-		307,363
Stock-based compensation	-		-		271,137		-		271,137
Reclassification of derivative liability on the exercise of stock options	-		-		910,054		-		910,054
Reclassification of derivative liability upon conversion of exercise price of stock options from Canadian dollars to US dollars	-		-		338,016		-		338,016
Net income for the year	-		-		-		1,978,014		1,978,014
Balance, December 31, 2013	99,233,383	$	62,289,402	$	9,927,142	$	(65,975,612)	$	6,240,932

GOLDEN QUEEN MINING CO. LTD.
(a development stage company)
Consolidated Statements of Cash Flows
(US dollars)

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Cumulative from Date of Inception (November 21, 1985) through December 31, 2013
Operating activities:				
Net income (loss) for year	$ 1,978,014	$ (1,270,988)	$ (3,230,641)	$ (65,751,766)
Adjustments to reconcile net income (loss) to cash used in operating activities:				
Asset impairment loss	2,522	193,340	938,770	33,680,911
Amortization and depreciation	9,688	9,984	9,876	499,468
Amortization of debt discount and interest accrual	888,026	-	-	1,263,026
Adjustment to asset retirement obligation based on changes in cash flow estimates	-	124,363	-	(99,220)
Accretion expense	-	-	33,667	105,029
Change in fair value of derivative liability including change in foreign exchange	(5,385,660)	(1,030,431)	(1,213,913)	1,040,702
Gain on disposition of property and equipment	-	-	-	(10,032)
Stock option compensation	475,263	-	-	1,891,711
Financing charges related to modification of warrants	-	-	-	889,117
Mineral property expenditures	-	-	-	(22,395,449)
Unrealized foreign exchange	(137,790)			(137,790)
Changes in assets and liabilities:				
Receivables	3,186	4,544	21,280	(13,786)
Prepaid expenses and other current assets	18,897	62,617	(104,362)	(149,861)
Accounts payable and accrued liabilities	386,666	(238,494)	(115,001)	455,602
Property rent payments payable	-	(7,372)	(3,385)	6,351
Cash used in operating activities	(1,761,188)	(2,152,437)	(3,663,709)	(48,725,987)
Investment activities:				
Additions to mineral property interests	(7,117,996)	(1,695,516)	(938,770)	(17,689,074)
Deposits on mineral properties	-	-	-	(1,017,551)
Purchase of financial assurance	(139,663)	(42,899)	(9,527)	(478,742)
Purchase of property and equipment	-	-	-	(1,434,367)
Proceeds from sale of property and equipment	-	-	-	47,153
Cash used in investing activities	(7,257,659)	(1,738,415)	(948,297)	(20,572,581)

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

GOLDEN QUEEN MINING CO. LTD.
(a development stage company)
Consolidated Statements of Cash Flows (Continued)
(US dollars)

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Cumulative from Date of Inception (November 21, 1985) through December 31, 2013
Financing activities:				
Borrowing under long-term debt	$ -	$ -	$ -	$ 3,918,187
Payment of long-term debt	-	-	-	(2,105,905)
Proceeds from convertible debt	9,710,603	-	-	10,150,603
Issuance of common shares for cash	-	-	-	28,871,618
Share issuance costs	-	-	-	(733,866)
Issuance of special warrants	-	-	-	18,091,667
Issuance of common shares upon exercise of stock options	307,363	-	972,559	1,841,668
Issuance of common shares upon exercise of warrants	-	-	4,594,237	14,295,118
Cash provided by financing activities	10,017,966	-	5,566,796	74,329,090
Net change in cash	999,119	(3,890,852)	954,790	5,030,522
Cash, beginning balance	4,031,403	7,922,255	6,967,465	-
Cash, ending balance	$ 5,030,522	$ 4,031,403	$ 7,922,255	$ 5,030,522

Supplementary Disclosures of Cash Flow Information (Note 9)

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

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 but moved into the development stage in 2012. Planned activities involve bringing to production a precious metals mine, the Soledad Mountain Project ("the Project"), located in the Mojave Mining District, Kern County, California.

Principles of Consolidation These consolidated financial statements include the accounts of Golden Queen, a British Columbia corporation, and its wholly-owned subsidiary, Golden Queen Mining Co., Inc. (the "Subsidiary"), a US (State of California) corporation.

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

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. At times, such cash deposits may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. To date, the Company has not experienced a loss or lack of access to its cash and cash equivalents. However, no assurance can be provided that access to the Company's 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	30 years
Furniture and Fixtures	5 years
Automobiles	3 to 5 years
Rental Properties	30 years
Land	Not depreciated

The Company has instituted a policy that all property and equipment acquired for an amount over $3,000 will be capitalized and all property and equipment purchased for under this threshold will be expensed as incurred.

Mineral Properties Costs related to the development of our mineral reserves are capitalized when it has been determined an ore body can be economically developed. The development stage begins when an ore body is determined to be economically minable based on proven and probable reserves and appropriate permits are in place, and ends when the production stage begins. Major mine development expenditures are capitalized, including primary development costs such as costs of building access roads, heap leach pads, and infrastructure development.

Costs for exploration, pre-production development, if and when applicable, and maintenance and repairs on capitalized property, plant and equipment are charged to operations as incurred. Exploration costs include those relating to activities carried out in search of previously unidentified mineral deposits. Pre-production development activities involve costs incurred in the exploration stage that may ultimately benefit production that are expensed due to the lack of evidence of economic development, which is necessary to demonstrate future recoverability of these expenses. Secondary development costs are incurred for preparation of an ore body for production in a specific ore block, stope or work area, providing a relatively short-lived benefit only to the mine area they relate to, and not to the ore body as a whole.

Drilling and related costs are either classified as exploration or secondary development, as defined above, and charged to operations as incurred, or capitalized, based on the following criteria:

- Whether or not the costs are incurred to further define mineralization at and adjacent to existing reserve areas or intended to assist with mine planning within a reserve area;

- Whether or not the drilling costs relate to an ore body that has been determined to be commercially mineable, and a decision has been made to put the ore body into commercial production; and
- Whether or not at the time that the cost is incurred, the expenditure: (a) embodies a probable future benefit that involves a capacity, singly or in combination, with other assets to contribute directly or indirectly to future net cash inflows, (b) we can obtain the benefit and control others' access to it, and (c) the transaction or event giving rise to our right to or control of the benefit has already occurred.

If all of these criteria are met, drilling and related costs are capitalized. Drilling costs not meeting all of these criteria are expensed as incurred. The following factors are considered in determining whether or not the criteria listed above have been met, and capitalization of drilling costs is appropriate:

- Completion of a favourable economic study and mine plan for the ore body targeted;
- Authorization of development of the ore body by management and/or the Board of Directors; and
- All permitting and/or contractual requirements necessary for us to have the right to or control of the future benefit from the targeted ore body have been met.

Once production has commenced, capitalized costs will be depleted using the units-of-production method over the estimated life of the proven and probable reserves. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to the Consolidated Statements of Comprehensive Income (Loss) in that period.

We assess the carrying cost of our mineral properties for impairment whenever information or circumstances indicate the potential for impairment. Such evaluations compare estimated future net cash flows with our carrying costs and future obligations on an undiscounted basis. If it is determined that the future undiscounted cash flows are less than the carrying value of the property, a write down to the estimated fair value is charged to the Consolidated Statement of Comprehensive Income (Loss) for the period. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered.

Proceeds received under option agreements and/or earn-in agreements are recorded as a cost recovery against the carrying value of the underlying project until the carrying value is reduced to zero. Any proceeds received in excess of the carrying value of the project are recorded as a realized gain in the Consolidated Statement of Comprehensive Income (Loss).

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 or not reported in continuing operations or in discontinued operations. In accordance with the provisions of the accounting standard 360-10-35, 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 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 rate 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, 2013, 2012 and 2011 were $1.06, $0.99 and $1.02 stated in Canadian dollars per one US dollar, respectively. The average rates of exchange during the years ended December 31, 2013, 2012 and 2011 were $1.06, $1.00 and $0.99 stated in Canadian dollars per one US dollar, respectively.

Earnings (Loss) Per Share The Company computes and discloses earnings (loss) per share in accordance with ASC 260, "Earnings per Share", which requires dual presentation of basic earnings (loss) per share and diluted earnings (loss) per share on the face of all income statements presented for all entities with complex capital structures. Basic earnings (loss) per share is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible instruments.

Reclamation Costs (Asset Retirement Obligations) The Company accrues the estimated costs associated with reclamation obligations in the period in which the liability is incurred or becomes determinable. Until such time that a project life is established, the Company records the corresponding cost as an expense. The costs of future expenditures for reclamation are not discounted to their present value unless subject to a contractually obligated fixed payment schedule.

Future reclamation expenditures are difficult to estimate due to the early-stage nature of the Project, the uncertainties associated with defining the nature and extent of environmental disturbance, the application of laws and regulations by regulatory authorities and changes in reclamation requirements. The Company periodically reviews the provision for such reclamation costs as evidence indicating that the liabilities have potentially changed. Changes in estimates are reflected in the Consolidated Statement of Comprehensive Income (Loss) in the period an estimate is revised.

The Company is in the development stage and is unable to determine the estimated timing of expenditures relating to reclamation accruals. It is reasonably possible that the ultimate cost of reclamation and remediation could change in the future and that changes to these estimates could have a material effect on future operating results as new information becomes known.

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, convertible debenture and derivative liabilities. 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 approximate fair values because of the immediate or short-term maturity of these financial instruments. The carrying amount of the convertible debt instrument is being recorded at amortized cost using the effective interest rate method. As at December 31, 2013, the estimated fair value of the convertible debt using a discounted cash flow analysis based on an interest rate for a similar type of instrument was $9,549,361. 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. The value of the embedded derivative is being recorded at its fair value using an acceptable valuation model at each reporting period.

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 The Company's current stock option plan (the "Plan") was adopted by the Company in 2013 and approved by shareholders of the Company in 2013. 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 (the "Board"), but shall not be less than the volume-weighted, average trading price of the Company's shares on the TSX 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) 12 months from the date the option holder ceases to act as a director or officer of the Company, or (iii) 12 months from the date the option holder ceases to be employed, or engaged as a consultant, by the Company. All options granted under the 2013 Plan will be subject to such vesting requirements as may be prescribed by the TSX, if applicable, or as may be imposed by the Board. A total of 1,380,000 (2012 – 1,800,000; 2011 – 1,800,000) common shares were issuable pursuant to such stock options as at December 31, 2013.

Stock-based Compensation Compensation costs are charged to the Consolidated Statements of Comprehensive Income (Loss). Compensation costs for employees are amortized over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period.

We account for stock-based compensation awards granted to non-employees in accordance with FASB ASC Topic 505-50, *Equity-Based Payments to Non-Employees, or* ASC 505-50. Under ASC 505-50, we determine the fair value of the stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

The Company uses the Black-Scholes option valuation model to calculate the fair value of stock options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

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. For more complex derivative financial instruments, the Company uses acceptable pricing models to estimate fair value of the derivative instrument. .

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.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendment provides specific guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this Update are effective for annual and interim periods within those fiscal years beginning after December 15, 2013. The Company is in the process of assessing the impact of this update on its consolidated financial statements.

(US dollars)

1. Basis of Presentation and Ability to Continue as a Going Concern

The Company has had no revenues from operations since inception and as at December 31, 2013 had a deficit of $65,975,612 (2012 - $67,953,626; 2011 - $66,682,638) accumulated during the exploration and development stage. Management plans to control current costs and anticipates the additional $10 million loan subsequent to year end (*Note 14 – Subsequent Events)*, will help fund the Company's development and administrative activities over the next several months. The Company will require additional funding to continue the project development through the 2014 fiscal year.

The Company is evaluating various financing options for further developing its core mineral asset, the Soledad Mountain Project (the "Project"), including debt, equity and other alternatives. A production decision will be made once the full project financing has been secured.

The ability of the Company to obtain financing for its ongoing activities and thus maintain solvency, or to fund construction of the Project, is dependent on equity market conditions, the market for precious metals, the willingness of other parties to lend the Company money or the ability to find a merger partner. While the Company has been successful at certain of these efforts in the past, there can be no assurance that future efforts will be successful. This raises substantial doubt about the Company's ability to continue as a going concern.

These consolidated 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:

	2013	2012
Buildings	$ -	$ 26,360
Land	109,600	109,600
Rental properties	324,568	324,566
Property and equipment, cost	434,166	460,526
Less accumulated depreciation	(147,910)	(162,060)
Property and equipment, net	$ 286,256	$ 298,466

During the year, the Company demolished the old buildings the Company had as part of the development of the mine site. The buildings had a net book value of $2,522 at the time of the demolition. During the year, the Company decided to separate out the land from the rental properties and buildings which resulted in a 2012 reclassification of cost of $84,370 from buildings and $25,230 from rental properties to land of $109,600. In addition, the Company removed all old, fully depreciated assets from its books. The assets removed were furniture and fixtures with a cost and accumulated amortization of $56,090 (2012- $56,090), and a vehicle with a cost and accumulated amortization of $21,401 (2012- $21,401). The assets had been fully depreciated for many years.

(US dollars)

3. *Mineral Properties*

In July 2012, the Company received notice that it had met all the remaining major conditions of the conditional use permits for development of the Project. As a result, management made the decision to begin capitalizing all development expenditures directly related to the Project. Prior to July 2012, all acquisition costs were written off due to uncertainties around obtaining the necessary permits. Development expenditures for the years ended December 31, 2012 and 2013 are as follows:

Balance, December 31, 2010 and 2011	$	-
Acquisition costs:		
Mineral properties		515,469
Deferred costs:		
Property rent payments		141,626
Site development costs		1,017,843
		1,674,938
Asset retirement obligation (Note 6)		124,363
Balance, December 31, 2012	$	1,799,301

Balance, December 31, 2012	$	1,799,301
Acquisition costs:		
Mineral properties		1,392,081
Deferred costs:		
Property rent payments		161,190
Road construction		962,828
Site infrastructure development		1,604,929
Site development costs		2,673,869
Workshop and warehouse		700,390
Leach pad construction		548,586
		8,043,873
Asset retirement obligation (Note 6)		76,312
Balance, December 31, 2013	$	9,919,486

For the year ended December 31, 2013, included in site infrastructure development is capital properties and equipment with a total cost of $226,721 that was acquired during the year. During the year, amortization of $6,885 relating to these assets was capitalized within site infrastructure development.

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:

(US dollars)

	2013	2012
Net operating and capital losses	$ 8,180,000	9,001,000
Property and equipment	117,000	121,000
Mineral properties and deferred exploration costs	2,703,000	3,315,000
Asset retirement obligations	188,000	162,000
Foreign exchange (gain) loss	(109,000)	(48,000)
Un-deducted financing costs	5,000	5,000
Valuation allowance	(11,084,000)	(12,556,000)
Deferred tax assets (liabilities)	$ -	-

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

	2013	2012	2011
Income tax provision (benefit) at Canadian statutory rate	$ 509,000	$ (318,000)	$ (856,000)
Foreign income taxes at other than Canadian statutory rate	(125,000)	(175,000)	(278,000)
Change in fair value of derivative liability	(1,271,000)	(278,000)	(329,000)
Non-deductible accretion and other	204,000	(15,000)	(16,000)
Non-deductible stock-based compensation	119,000	-	-
Non-taxable portion of foreign exchange gain	(17,000)	(61,000)	61,000
Expiry of losses carried forward	2,045,000	-	1,372,000
Effect of reduction in statutory rate	(64,000)	-	12,000
Adjustment due to change in estimates	72,000	(81,000)	78,000
Increase (decrease) in valuation allowance	(1,472,000)	928,000	(44,000)
Deferred tax recovery	$ -	$ -	$ -

The Company's deferred tax assets include approximately $5,000 (2012 - $5,000; 2011 - $8,000) 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 deferred 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 deferred tax assets has been established at both December 31, 2013 and 2012.

As at December 31, 2013, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

Country	Amount	Expiration Dates
United States – Federal	$ 17,930,000	2018 - 2033
Canada (C$)	$ 8,016,000	2014 - 2033

4. Income Taxes - Continued

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

The FASB's guidance for "Accounting for Uncertainty in Income Taxes" 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, 2013 and 2012 and determined that it has no uncertain tax positions requiring financial statement recognition.

5. Share Capital

Common shares - 2013

In March 2013, the Company issued 15,000 common shares for mineral property interests with a total fair value of $22,568 (C$23,250).

In April 2013, 200,000 stock options were exercised and the Company issued 200,000 common shares at C$0.26 per share for proceeds of $50,674 (C$52,000).

In May 2013, 100,000 stock options were exercised and the Company issued 100,000 common shares at C$0.26 per share for proceeds of $25,722 (C$26,000).

In September 2013, 20,000 stock options were exercised and the Company issued 20,000 common shares at C$0.26 per share for proceeds of $5,017 (C$5,200).

In October 2013, 500,000 stock options were exercised and the Company issued 500,000 common shares at C$0.26 per share for proceeds of $126,373 (C$130,000).

In October 2013, 300,000 stock options were exercised and the Company issued 300,000 common shares at C$0.26 per share for proceeds of $74,677 (C$78,000).

In November 2013, 100,000 stock options were exercised and the Company issued 100,000 common shares at C$0.26 per share for proceeds of $24,900(C$26,000).

Common shares - 2012

In November 2012, the Company issued 20,000 common shares for mineral property interests with a total fair value of $52,852 (C$52,000).

Common shares - 2011

In January 2011, 100,000 stock options were exercised and the Company issued 100,000 common shares at C$0.77 per share for proceeds of $77,426 (C$77,000).

In March 2011, 50,000 stock options were exercised and the Company issued 50,000 common shares at C$0.77 per share for proceeds of $39,390 (C$38,500).

(US dollars)

5. Share Capital - Continued

In April 2011, 1,050,000 stock options were exercised and the Company issued 1,050,000 common shares at C$0.77 per share for proceeds of $842,463 (C$808,500).

In August 2011, 50,000 stock options were exercised and the Company issued 50,000 common shares at C$0.26 per share for proceeds of $13,280 (C$13,000).

In November 2011, 2,500,000 warrants were exercised and the Company issued 1,250,000 common shares at C$1.75 per share and 1,250,000 common shares at C$2.00 per share for total proceeds of $4,594,237 (C$4,687,500).

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.

On December 23, 2013, the Board of the Company passed a resolution to convert the exercise prices of granted stock options to US dollars, being the functional currency of the Company. Prior to this, the Company was recognizing a derivative liability on the balance sheet for these options since they were not denominated in the functional currency. Refer to Note 10 – Derivative liability for further details.

The following is a summary of stock option activity during the year ended December 31, 2013 and the year ended December 31, 2012:

	Shares	Weighted Average Exercise Price per Share
Options outstanding and exercisable: December 31, 2012 and 2011	1,800,000	US$0.24
Stock options issued	800,000	US$1.28
Stock options exercised	(1,220,000)	US$0.21
Options outstanding, December 31, 2013	1,380,000	US$0.87
Options exercisable, December 31, 2013	880,000	US$0.68

During the year ended December 31, 2013, there were 800,000 stock options issued for a total stock-based compensation expense of $475,263 (2012 - $Nil; 2011 - $Nil) of which $271,137 related to stock options issued to employees and $204,126 related to stock options issued to non-employees. Of the options issued, 50,000 were issued to a consultant and vested immediately while an additional 150,000 options were issued to directors and they also vested immediately. The remaining 600,000 stock options were issued to two employees of which 100,000 vested immediately. The remaining 500,000 stock options had vesting conditions as follows:

- 300,000 options - 100,000 vesting every 6 months from grant date for a total vesting period of 18 months using the straight line method; and
- 200,000 options - 100,000 vesting every 6 months from grant date for a total vesting period of 12 months using the straight line method.

In addition, during the year, the Company extended the expiry date of 650,000 stock options issued to non-employees from January 28, 2014 to May 30, 2014. All other stock options remain unchanged.

(US dollars)

5. Share capital - Continued

The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2013
Expected life years	5
Interest rate	1.78%
Volatility	98.25%
Dividend yield	0%

As at December 31, 2013, the aggregate intrinsic value of the outstanding exercisable options was approximately $325,995 (2012 - $3,515,000; 2011 - $4,500,000).

The total intrinsic value of 1,220,000 options exercised during 2013 was approximately $881,816 (2012 - $Nil; 2011 - $2,837,000).

The unamortized compensation expense as at December 31, 2013 was $325,158 (2012 - $Nil; 2011 - $Nil).

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013:

Expiry Date	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (Years)	Exercise Price
May 30, 2014	530,000	0.41	US$0.21
April 18, 2015	50,000	1.30	US$1.22
June 3, 2018	300,000	4.42	US$1.16
June 3, 2018	50,000	4.42	US$1.16
September 3, 2018	150,000	4.68	US$1.59
September 18, 2018	300,000	4.72	US$1.26
Outstanding, December 31, 2013	1,380,000	2.86	
Exercisable, December 31, 2013	880,000	1.91	

The weighted average exercise price of the stock option outstanding is US$0.87, while the weighted average exercise price of the options exercisable is US$0.68

(US dollars)

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 annually. The financial assurance is adjusted once the cost estimate is approved.

The Company's provision for reclamation of the property is estimated each year by an independent consulting engineer. This estimate, once approved by state and county authorities, forms the basis for a cash deposit of reclamation financial assurance.

The Company has provided reclamation financial assurance to the Bureau of Land Management, the State and Kern County totaling $478,742 (2012 - $339,079). This deposit earns interest at 0.1% per annum and is not available for working capital purposes.

The Company estimated its asset retirement obligations based on its understanding of the requirements to reclaim and clean-up the property within the Project based on its activities and planned activities to date.

As Management made the decision to capitalize all development expenditures directly related to the Project in July 2012, $76,312 (2012 - $124,363) was capitalized as the asset portion of the retirement obligation for the year ended December 31, 2013. The following is a summary of asset retirement obligations:

	2013	2012	2011
Balance, beginning of the year	$ 475,938	$ 227,212	$ 193,545
Accretion expense	-	-	33,667
Changes in cash flow estimates	76,312	248,726	-
Balance, end of the year	$ 552,250	$ 475,938	$ 227,212

7. Commitments and Contingencies

Property rent payments (Advance minimum royalties)

The Company has acquired a number of mineral properties outright. It has acquired exclusive rights to explore, develop and mine other portions of the Project under various mining lease agreements with landowners.

The Company is required to make property rent payments related to its mining lease agreements with landholders, in the form of advance minimum royalties. The total property rent payments for the year ended December 31, 2013 were $161,190 (2012 - $204,792; 2011 - $245,970), and the Company is expected to make approximate payments of $153,000 in 2014 to various landowners under the existing lease agreements. The payments are at the discretion of the Company and will cease if and when the Company goes into production and then begins paying royalty payments on production yields.

There are multiple third party landholders and the royalty amount due to each landholder over the life of the Project varies with each property. Please refer to Note 3 for complete details.

7. Commitments and Contingencies - Continued

Finder's fee

The Company has agreed to issue 100,000 common shares as a finder's fee in connection with certain property acquisitions upon commencement of commercial production of the Project. As of December 31, 2013, commercial production has not commenced and no shares have been issued.

Management agreement

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 further 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 C$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 C$1.50 per share. This amended agreement is for a term of three years and shall automatically renew for two years. As at December 31, 2013, none of the milestones had been reached and no commitment to issue the common shares has been recorded in connection with these arrangements.

During the year ended December 31, 2013, the Company entered into employment agreements with a new Chief Financial Officer ("CFO") and a Chief Operating Officer ("COO'). Included in the agreement with the CFO is a provision that if the CFO's position is lost upon a change of control or within six months of a change of control the CFO would be entitled to a one-time payment equal to twice the annual salary, C$300,000 total, plus twice the annual bonus. The annual bonus is determined by the Board subsequent to a review of the CFO's performance. Included in the agreement with the COO is a provision that if the COO's position is lost upon a change of control or within six months of a change of control the COO would be entitled to a onetime payment equal to 100% of the annual base salary of $150,000.

Compliance with Environmental Regulations

The Company's exploration and development activities are subject to laws and regulations controlling not only the exploration and mining of mineral properties, but also the effect of such activities on the environment. Compliance with such laws and regulations may necessitate additional capital outlays or affect the economics of a project, and cause changes or delays in the Company's activities.

8. Related Party Transactions

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

Consulting Fees

For the year ended December 31, 2013, the Company paid $192,431 (2012 - $138,885; 2011 - $137,748) to Mr. H. L. Klingmann for services as President of the Company of which $47,967 is payable as at December 31, 2013 of which $32,907 is related to the 2013 year-end bonus; paid $17,622 (2012 - $26,977; 2011 - $27,295) to Mr. Chester Shynkaryk for his consulting services to the Company, paid $21,987 (2012 - $29,930; 2011 - $20,218), to Mr. Ross McDonald for his services as the former CFO of the Company; paid $11,759 (2012 - $Nil; 2011 - $Nil) to a company controlled by one of the directors for consulting services during the year.

During the year ended December 31, 2013, the Company paid a total of $35,484 (2012 - $10,068; 2011 – $10,088) to its five directors, of which $15,772 (2012 - $Nil; 2011 - $Nil) is payable as at December 31, 2013.

(US dollars)

8. Related Party Transactions – Continued

Convertible Debentures

On July 26, 2013, the Company entered into agreements to issue convertible debentures for aggregate proceeds of C$10,000,000 ($9,710,603). The convertible debentures are unsecured and bear interest at 2% per annum, calculated on the outstanding principal balance, payable annually. The principal amounts of the notes are convertible into shares of the Company at a price of C$1.03 per share for a period of two years. If the notes have not been converted by the holder prior to the maturity date, then the Company may convert them at the lower of C$1.03 or the market price as at the maturity date. The market price on the maturity date will be determined based on the volume- weighted average price of the shares traded on the Toronto Stock Exchange for the five trading days preceding the maturity date. A total of C$7,500,000 of the offering was subscribed for by an investment vehicle managed by Thomas M. Clay, a Director and insider of the Company. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument which amounted to $10,049.

The conversion feature of the convertible debentures meets the definition of a derivative liability instrument because the conversion feature is denominated in a currency other than the Company's functional currency as well as the fact the exercise price is not a fixed price as described above. Therefore, the conversion feature does not meet the "fixed-for-fixed" criteria outlined in ASC 815-40-15. As a result, the conversion feature of the notes is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income or loss.

On inception of the debentures, the fair value of the derivative liability related to the conversion feature was $5,741,520 and as at December 31, 2013, was $2,833,987. The derivative liability was calculated using an acceptable option pricing valuation model with the following assumptions:

Risk-free interest rate	1.13% - 1.15%
Expected life of derivative liability	1.57 - 2 years
Expected volatility	73.43% - 89.52%
Dividend rate	0.00%

The changes in the derivative liability related to the conversion feature are as follows:

	December 31, 2013
Balance, beginning of the year	$ -
Fair value at inception	5,741,520
Change in fair value of derivative liability including foreign exchange	(2,907,533)
Balance, end of the year	$ 2,833,987

(US dollars)

8. Related Party Transactions – Continued

With the conversion feature initially being valued at $5,741,520, the resulting residual value allocated to the host debentures was $3,975,480, being the difference between the face value of the convertible debentures and the fair value of the conversion feature derivative liability.

The change in the convertible debentures is as follows:

	December 31, 2013
Balance, beginning of the year	$ -
Discounted convertible debentures	3,975,480
Amortization of discount	811,327
Foreign exchange	(144,187)
Balance, end of the year	$ 4,642,620

In addition to the amortization of the discount on the convertible debenture, the Company incurred interest expense of $76,699 based on the 2% per annum stated interest rate for a total interest expense of $888,026.

9. Supplementary Disclosures of Cash Flow Information

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Amounts from Date of Inception (November 21, 1985) through December 31, 2013
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 and warrants	$ 910,054	$ -	$ 4,623,353	$ 6,344,274
Reclassification of derivative liability upon conversion of exercise price to the Company's functional currency	$ 338,016	$ -	$ -	$ 338,016
Stock option compensation	$ 475,263	$ -	$ -	$ 1,891,711
Financing charges related to modification of warrant's 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	$ 22,568	$ 52,852	$ -	$ 380,231
Mineral property acquired through the issuance of long-term debt	$ -	$ -	$ -	$ 1,084,833
Common shares issued upon conversion of convertible debt	$ -	$ -	$ -	$ 414,917
Mineral property expenditures included in accounts payable	$ 903,309	$ 119,910	$ -	$ 1,023,219
Asset retirement cost charged to mineral property	$ 76,312	$ 124,363	$ -	$ 200,675
Non-cash interest expense on discounted convertible debt	$ 811,327	-	$ -	$ 811,327
Accretion expense	$ -	$ -	$ 33,667	$ 227,212

(US dollars)

10. Derivative Liability – Options and Warrants

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 and warrants 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 and warrants as derivative instrument liabilities recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to income.

During the year ended December 31, 2013, the Company issued a total of 200,000 stock options that were treated as a derivative liability and in total 1,220,000 stock options were exercised during the year. Upon exercise of the options, the portion of the derivative liability that pertained to these options was re-measured and recorded at its fair value of $910,054, 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 – 82.54% - 105.67%, expected life – 0.39 – 0.78 years, risk-free discount rate – 0.97% - 1.32%, dividend yield – 0.00%.

On December 23, 2013, the Board of the Company passed a resolution to convert the exercise prices of granted stock options to US dollars, being the functional currency of the Company. As a result of this change, the derivative liability no longer exists. In accordance with Accounting Standard 815-40-35, the Company marked the derivative liability to market and recorded the change in fair value of the derivative liability in the Consolidated Statement of Comprehensive Income (Loss). The resulting balance was reclassified to additional paid-up capital. In accordance with the Toronto Stock Exchange (the "Exchange") guidance, the reclassification was completed at the exchange rates at the grant date of the stock options. The difference between the current foreign exchange rate and the grant date exchange rate was included in the change in fair value of the derivative liability in the profit and loss statement. The total amount reclassified to equity was $338,016.

During the year ended December 31, 2012, no stock options that were treated as derivative liabilities were exercised.

During the year ended December 31, 2011, a total of 1,250,000 stock options treated as derivative liabilities 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 $2,993,685, 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 – 43.70% - 78.82%, expected life – 0.01 – 2.47 years, risk-free discount rate – 1.04% - 1.88%, dividend yield – 0.00%.

As of December 31, 2013 and 2012, the Company had re-measured the remaining outstanding options and determined the fair value of the derivative liability to be $Nil and $3,522,071, respectively, using the Black-Scholes option pricing model with the following assumptions:

	2013	2012
Risk-free interest rate	-	1.14%
Expected life of derivative liability	-	1.08 to 2.30 years
Expected volatility	-	57.15% - 63.01%
Dividend rate	-	0.00%

(US dollars)

10. Derivative Liability – Options and Warrants - Continued

During the years ended December 31, 2013 and 2012, no warrants treated as derivative liabilities were exercised.

During the year ended December 31, 2011, a total of 2,500,000 warrants treated as derivative liabilities were exercised. Upon exercise of these warrants the portion of the derivative liability that pertained to these warrants was re-measured and recorded at its fair value of $1,629,668, subsequent to which it was reclassified to additional paid-in capital. The Company measured the fair value of the derivative liability that pertained to the warrants using the Black-Scholes pricing model with the following range of assumptions: expected volatility – 167.710%, expected life – 0.003 years, risk-free discount rate – 1.01%, dividend yield – 0.00%.

The changes of derivative liability for options and warrants are as follows:

	2013	2012	2011
Balance, beginning of the year	$ 3,522,071	$ 4,552,502	$ 10,389,768
Fair value of options granted	204,126	-	-
Fair value of options exercised	(910,054)	-	(2,993,685)
Fair value of warrants exercised	-	-	(1,629,668)
Change in fair value of options and warrants including foreign exchange	(2,478,127)	(1,030,431)	(1,213,913)
Extinguishment of liability on conversion of exercise price of options to Company's functional currency	(338,016)	-	-
Balance, end of the year	$ -	$ 3,522,071	$ 4,552,502

11. Financial Instruments

Fair Value Measurements

All financial assets and financial liabilities are recorded at fair value on initial recognition. Transaction costs are expensed when they are incurred, unless they are directly attributable to the acquisition of qualifying assets, in which case they are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity). See Notes 8 and 10 – Convertible Debentures and Derivative Liability- Options and Warrants for derivatives fair valued on a recurring basis.

11. Financial Instruments - Continued

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of December 31, 2013 and 2012, the Company had embedded derivative liabilities in connection with the Convertible Debenture (Note 8) and Options and Warrants prior to modification of the exercise price currency (Note 10).

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. To mitigate exposure to credit risk on financial assets the Company has established policies to ensure liquidity of funds and ensure counterparties demonstrate minimum acceptable credit worthiness.

The Company maintains its US Dollar and Canadian Dollar cash in bank accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the FDIC for up to $250,000 and Canadian Dollar cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation ("CDIC") for up to C$100,000. Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they related to US Dollar deposits held in Canadian financial institutions. As of December 31, 2013 and 2012, the Company's cash balances held in United States and Canadian financial institutions include $5,030,522 and $4,031,403 respectively, which are not fully insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

Interest Rate Risk

The Company holds all of the Company's cash in bank deposit accounts with major financial institutions. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the year ended December 31, 2013, a 1% decrease would have resulted in a reduction in interest income to $Nil.

The Company holds 99% of its cash in bank deposit accounts with a single major financial institution. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the year ended December 31, 2013, a 1% decrease in interest rates would have reduced the interest income for 2013 to a trivial amount.

Foreign Currency Exchange Risk

Certain purchases of labour are denominated in Canadian Dollar. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Canadian Dollar against the US Dollar may result in an increase in the Canadian operating expenses in US dollar terms. As of December 31, 2013, the Company maintained the majority of its cash balance in US Dollar. The Company currently does not engage in any currency hedging activities.

Commodity Price Risk

The Company's primary business activity is the development of the open pit, gold and silver, heap leach project on the Property. Decreases in the price of either of these metals from current levels has the potential to negatively impact the Company's ability to secure significant additional financing required to develop the Project into an operating mine. We do not currently engage in hedging transactions and we have no hedged mineral resources.

12. Comparative information

Certain reclassifications, which have no effect on net loss and comprehensive loss, have been made to the prior period financial statements to conform to the current presentation.

(US dollars)

13. Income (Loss) Per Share

	2013	2012	2011
Numerator:			
Net income (loss) – numerator for basic EPS	$ 1,978,014	$ (1,270,988)	(3,230,641)
Amortization of discount	888,026	-	-
Change in derivative liability – Convertible debentures	(2,907,533)	-	-
Change in derivative – Stock options	(767,419)	-	-
Numerator for diluted EPS	$ (808,912)	$ (1,270,988)	$ (3,230,641)

	2013	2012	2011
Denominator:			
Denominator for basic EPS	98,390,561	97,981,197	95,343,041
Effect of dilutive securities:			
Employee stock options	132,800	-	-
Convertible debenture	4,214,232	-	-
Denominator for diluted EPS	102,737,593	97,981,197	95,343,041
Basic income(loss) per share	$ 0.02	$ (0.01)	$ (0.03)
Diluted loss per share	$ (0.01)	$ (0.01)	$ (0.03)

As at December 31, 2013, 850,000 (2012 - 50,000) options were not included above as their impact would be anti-dilutive.

14. Subsequent Events

i) On January 6, 2014, the Company entered into an agreement to secure a $10,000,000 loan (the "Loan"). The Loan is provided by members of the Clay family including $7,500,000 to be provided by an investment vehicle managed by Thomas M. Clay, a Director and insider of the Company. The Loan has a twelve-month term and bears an annual interest rate of 5%, payable on the maturity date. If the Loan is repaid on a date that is less than 183 days before the maturity date, the Company will pay the Lenders an amount of 105% of the principal amount plus interest on the principal amount at the rate of 5% per annum accrued to the date the Loan is repaid. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument.

ii) On January 31, 2014, the Center for Biological Diversity (the "Center") filed an emergency petition (the "Petition") with the United States Fish and Wildlife Service ("USFWS") asking the USFWS to list the Mojave Shoulderband snail as a threatened or endangered species. Citing a report published more than 80 years ago, the Petition claims that the snail exists in only three places, and that most of the snail habitat occurs on Soledad Mountain, where the Company is developing its fully-permitted mining operation, known locally as the Soledad Mountain Project. The Company is currently working with its environmental and legal advisors to prepare a detailed and complete response to the Petition and expects to submit this response to the USFWS in March 2014. At this time, the impact of this matter on the Company's financial position and future plans is unknown.

14. Subsequent Events- continued

iii) In February of 2014, 60,000 stock options were exercised and the Company issued 60,000 common shares at $0.21 per share for proceeds of $12,600.

iv) The Company issued 15,300 shares in February of 2014 to a claim holder to extend a royalty agreement and eliminate future advance minimum royalties payable to this claim holder.