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

Condensed Consolidated Interim Financial Statements
March 31, 2014

(US Dollars)

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

		March 31, 2014		December 31, 2013
Assets				
Current assets:				
Cash	$	10,939,301	$	5,030,522
Receivables		25,368		13,786
Prepaid expenses and other current assets		45,904		62,951
Total current assets		11,010,573		5,107,259
Property and equipment, net		276,929		286,256
Mineral property interests (Note 2)		13,383,969		9,919,486
Reclamation financial assurance (Note 4)		478,727		478,742
Total Assets	$	25,150,198	$	15,791,743
Liabilities and Shareholders' Equity (Deficiency)				
Current liabilities:				
Accounts payable and accrued liabilities (Note 6)	$	1,899,555	$	1,438,904
Interest payable (Note 6)		119,446		76,699
Loan payable (Note 6)		10,125,000		-
Property rent payments (Note 5)		6,351		6,351
Total current liabilities		12,150,352		1,521,954
Asset retirement obligations (Note 4)		552,250		552,250
Derivative liability – Convertible debenture (Note 6)		8,581,363		2,833,987
Convertible debenture (Note 6)		4,986,664		4,642,620
Total liabilities		26,270,629		9,550,811
Shareholders' Equity (Deficiency)				
Preferred shares, no par value, 3,000,000 shares authorized; no shares outstanding				
Common shares, no par value, unlimited shares authorized (2013-unlimited); 99,308,683 (2013 – 99,233,383) shares issued and outstanding (Note 3)		62,358,721		62,289,402
Additional paid-in capital		9,991,098		9,927,142
Deficit accumulated		(73,470,250)		(65,975,612)
Total shareholders' equity (deficiency)		(1,120,431)		6,240,932
Total Liabilities and Shareholders' Equity	$	25,150,198	$	15,791,743

Basis of Presentation and Ability to Continue as a Going Concern (Note 1)
Commitments and Contingencies (Note 5)
Subsequent events (Note 10)

Approved by the Directors:

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

"Thomas M. Clay"
Thomas M. Clay, Director

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

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Cumulative from Date of Inception (November 21, 1985) through March 31, 2014
General and administrative expenses (Note 6)	$ (1,065,257)	$ (449,698)	$ (10,016,207)
Exploration expenditures	-	-	(22,155,531)
Asset impairment loss	-	-	(33,680,911)
Adjustment to asset retirement obligation from changes in cash flow estimates (Note 4)			99,220
Accretion expense (Note 4)	-	-	(105,029)
Change in fair value of derivative liability including change in foreign exchange (Notes 6 and 8)	(5,747,376)	611,949	(6,788,078)
Gain on settlement of debt	-	-	136,627
	(6,812,633)	162,251	(72,509,909)
Interest expense (Note 6)	(691,297)	-	(2,492,421)
Interest income	9,292	5,053	1,755,926
Net and comprehensive income (loss)	$ (7,494,638)	$ 167,304	$ (73,246,404)
Income (loss) per share - basic (Note 9)	$ (0.08)	$ 0.00	
Income (loss) per share - diluted (Note 9)	$ (0.01)	$ (0.00)	
Weighted average number of common shares outstanding - basic	99,260,653	98,002,383	
Weighted average number of common shares outstanding - diluted	109,423,904	99,546,172	

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

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

	Common Shares	Amount	Additional Paid-in Capital	Deficit Accumulated	Total Shareholders' Equity (Deficiency)
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	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	-	-	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
Issuance of common shares for mineral property interests	15,300	24,480	-	-	24,480
Stock options exercised	60,000	44,839	(32,118)	-	12,721
Stock-based compensation	-	-	96,074	-	96,074
Net loss for the period	-	-	-	(7,494,638)	(7,494,638)
Balance, March 31, 2014	99,308,683	$ 62,358,721	$ 9,991,098	$ (73,470,250)	$ (1,120,431)

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

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Cumulative from Date of Inception (November 21, 1985) through March 31, 2014
Operating activities:			
Net income (loss) for the quarter	$ (7,494,638)	$ 167,304	$ (73,246,404)
Adjustments to reconcile net income (loss) to cash used in operating activities:			
Asset impairment loss	-	-	33,680,911
Amortization and depreciation	9,327	2,497	508,795
Amortization of debt discount and interest accrual	691,297	-	1,954,323
Adjustment to asset retirement obligation based on changes in cash flow estimates	-	-	(99,220)
Accretion expense	-	-	105,029
Change in fair value of derivative liability including change in foreign exchange	5,747,376	(611,949)	6,788,078
Gain on disposition of property and equipment	-	-	(10,032)
Stock option compensation	96,074	-	1,987,785
Financing charges related to modification of warrants	-	-	889,117
Mineral property expenditures	-	-	(22,395,449)
Unrealized foreign exchange	(179,506)	-	(317,296)
Changes in assets and liabilities:			
Receivables	(11,582)	(7,299)	(25,368)
Prepaid expenses and other current assets	17,047	18,484	(132,814)
Accounts payable and accrued liabilities	107,920	51,828	563,522
Property rent payments payable	-	-	6,351
Cash used in operating activities	(1,016,685)	(379,135)	(49,742,672)
Investment activities:			
Additions to mineral property interests	(3,087,272)	(544,265)	(20,776,346)
Deposits on mineral properties	-	-	(1,017,551)
Release (Purchase) of financial assurance	15	-	(478,727)
Purchase of property and equipment	-	(2,128)	(1,434,367)
Proceeds from sale of property and equipment	-	-	47,153
Cash used in investing activities	(3,087,257)	(546,393)	(23,659,838)

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Cumulative from Date of Inception (November 21, 1985) through March 31, 2014
Financing activities:			
Borrowing under long-term debt	$ -	$ -	$ 3,918,187
Borrowing under short-term debt	10,000,000	-	10,000,000
Payment of long-term debt	-	-	(2,105,905)
Proceeds from convertible debt	-	-	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	12,721	-	1,854,389
Issuance of common shares upon exercise of warrants	-	-	14,295,118
Cash provided by financing activities	10,012,721	-	84,341,811
Net change in cash	5,908,779	(925,528)	10,939,301
Cash, Beginning balance	5,030,522	4,031,403	-
Cash, Ending balance	$ 10,939,301	$ 3,105,875	$ 10,939,301

Supplementary Disclosures of Cash Flow Information (Note 7)

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 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) for 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 March 31, 2014 and December 31, 2013 were $1.11 and $1.06 stated in Canadian dollars per one US dollar, respectively. The average rates of exchange during the three months ended March 31, 2014 and the year ended December 31, 2013 were $1.10 and $1.03, 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 or the Company begins capitalizing exploration expenditures when an ore body can be economically developed, 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 and loans payable 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 March 31, 2014, 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 $15,489,428. 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 1,320,000 (December 31, 2013 – 1,380,000; March 31, 2013 – 1,800,000) common shares were issuable pursuant to such stock options as at March 31, 2014.

Stock-based Compensation Compensation costs are charged to the condensed consolidated interim 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 profit or loss. 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.

(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 March 31, 2014 had a deficit of $73,470,250 (December 31, 2013 - $65,975,612) accumulated during the exploration and development stage. Management plans to control current costs and anticipates that the $10 million loan from January 2014 (*Note 6 – Related Party Transactions)*, will fund the Company's development and administrative activities over the next several months. The Company will require additional funding to continue Project development through the 2014 fiscal year.

The Company is evaluating various financing options for further developing its core mineral asset, 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 condensed consolidated interim 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*. 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 three months ended on March 31, 2014 are as follows:

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 4)		76,312
Balance, December 31, 2013	$	9,919,486

(US dollars)

2. ***Mineral Properties** – **Continued***

Balance, December 31, 2013	$	9,919,486
Acquisition costs:		
Mineral properties		373,927
Deferred costs:		
Property rent payments		31,980
Road construction		191,347
Site infrastructure development		210,479
Site development costs		1,142,702
Workshop and warehouse		605,626
Crushing-Screening Plant		886,264
Leach pad construction		22,158
		3,464,483
Balance, March 31, 2014	$	13,383,969

As at March 31, 2014, included in site infrastructure development is capital properties and equipment with a total accumulated cost of $303,077 (2013 - $226,721). Total additions during the three months ended March 31, 2014 were $76,356 (Three months ended March 31, 2013 - $Nil). During the three month period ended March 31, 2014, amortization of $6,830 (March 31, 2013 - $Nil) relating to these assets was capitalized within site infrastructure development.

3. Share Capital

Common shares - 2014

In February 2014, the Company issued 15,300 common shares for mineral property interests with a total fair value of $24,480. The fair value was based on the market price on the date of issuance.

In February 2014, 60,000 stock options were exercised by a former director and the Company issued 60,000 common shares at $0.21 per share for proceeds of $12,712. The total transferred to share capital from additional paid-in capital upon exercise of stock options was $32,118.

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).

(US dollars)

3. Share Capital – Continued

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).

<u>Stock options</u>

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 8 – Derivative liability for further details.

The following is a summary of stock option activity during the three month period ended March 31, 2014 and the year ended December 31, 2013:

	Shares	Weighted Average Exercise Price per Share
Options outstanding and exercisable: December 31, 2013	1,380,000	$0.87
Stock options issued	-	-
Stock options exercised	(60,000)	$0.21
Options outstanding, March 31, 2014	1,320,000	$0.90
Options exercisable, March 31, 2014	820,000	$0.71

During the three months ended March 31, 2014, the Company recognized $96,074 (three months ended March 31, 2013 - $Nil) in stock-based compensation relating to employee stock options that have vesting terms.

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 ended December 31, 2013, 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)

3. Share Capital – Continued

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

	2014	2013
Expected life years	-	5
Interest rate	-	1.78%
Volatility	-	98.25%
Dividend yield	-	0%

As at March 31, 2014, the aggregate intrinsic value of the outstanding exercisable options was approximately $843,980 (December 31, 2013 - $325,995; March 31, 2013 - $2,893,000).

The total intrinsic value of 60,000 options exercised during 2014 was approximately $76,020 (December 31. 2013 - $881,816).

The unamortized compensation expense as at March 31, 2014 was $230,087 (December 31, 2013 - $325,158; March 31, 2013 - $Nil).

The following table summarizes information about stock options outstanding and exercisable at March 31, 2014:

Expiry Date	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (Years)	Exercise Price
May 30, 2014	470,000	0.16	$0.21
April 18, 2015	50,000	1.05	$1.22
June 3, 2018	300,000	4.18	$1.16
June 3, 2018	50,000	4.18	$1.16
September 3, 2018	150,000	4.43	$1.59
September 18, 2018	300,000	4.47	$1.26
Outstanding, March 31, 2014	1,320,000	2.73	
Exercisable, March 31, 2014	820,000	1.77	

4. 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 $478,727 (2013 - $478,742). This deposit earns interest at 0.1% per annum and is not available for working capital purposes.

(US dollars)

4. Asset Retirement Obligations – Continued

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, $nil (December 31, 2013- $76,312) was capitalized as the asset portion of the retirement obligation for the period ended March 31, 2014. The following is a summary of asset retirement obligations:

	2014	2013
Balance, beginning of the period	$ 552,250	$ 475,938
Changes in cash flow estimates	-	76,312
Balance, end of the period	$ 552,250	$ 552,250

5. 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 three months ended March 31, 2014 were $31,980, of which $24,480 was related to common shares issued (Year ended December 31, 2013 - $161,190), and the Company is expected to make approximate payments of $177,000 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.

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 March 31, 2014, 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 March 31, 2014, none of the milestones had been reached and no commitment to issue the common shares has been recorded in connection with these arrangements.

5. Commitments and Contingencies - Continued

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.

6. Related Party Transactions

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

Consulting Fees

For the three months ended March 31, 2014, the Company paid $45,027 (2013 - $37,200) to Mr. H. L. Klingmann for services as President of the Company of which $15,287 (December 31, 2013 - $47,967; March 31, 2013 - $Nil) is payable as at March 31, 2014; paid $Nil (2013 - $6,700) to Mr. Chester Shynkaryk for his consulting services to the Company, paid $Nil (2013 - $7,400), to Mr. Ross McDonald for his services as the former CFO of the Company.

During the three months ended March 31, 2014, the Company paid a total of $11,624 (March 31, 2013 - $Nil) to its three independent directors. The two connected directors were not paid directors' fees during the three months ended March 31, 2014 or 2013.

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.

(US dollars)

6. Related Party Transactions – Continued

On inception of the debentures, the fair value of the derivative liability related to the conversion feature was $5,741,520 and as at March 31, 2014, was $8,581,363 (December 31, 2013 - $2,833,987). The derivative liability was calculated using an acceptable option pricing valuation model with the following assumptions:

	2014	2013
Risk-free interest rate	1.07%	1.13% - 1.15%
Expected life of derivative liability	1.32 years	1.57 - 2 years
Expected volatility	98.71%	73.43% - 89.52%
Dividend rate	0.00%	0.00%

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

	March 31, 2014	December 31, 2013
Balance, beginning of the period	$ 2,883,987	$ -
Fair value at inception	-	5,741,520
Change in fair value of derivative liability including foreign exchange	5,747,376	(2,907,533)
Balance, end of the period	$ 8,581,363	$ 2,833,987

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:

	March 31, 2014	December 31, 2013
Balance, beginning of the year	$ 4,642,620	$ -
Discounted convertible debentures	-	3,975,480
Amortization of discount	520,580	811,327
Foreign exchange	(176,536)	(144,187)
Balance, end of the period	$ 4,986,664	$ 4,642,620

During the period ended March 31, 2014, in addition to the amortization of the discount on the convertible debenture, the Company incurred interest expense of $45,717 (March 31, 2013 - $Nil) based on the 2% per annum stated interest rate for a total interest expense of $566,297 (March 31, 2013- $Nil).

Loan Payable

On January 1, 2014, the Company entered into an agreement to secure a $10,000,000 loan (the "Loan"). The Loan was provided by members of the Clay family, who are shareholders of the Company, including $7,500,000 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.

(US dollars)

6. Related Party Transactions – Continued

The outstanding balance will be immediately due and payable by the Company on the earlier of the maturity date, the first date during the term on which a financing over $15,000,000 is completed and the occurrence of an event of default. As at March 31, 2014, the value of the prepayment option has not met the recognition criteria under contingencies and therefore has not been recorded in these condensed consolidated interim financial statements.

	March 31, 2014
Balance, beginning of the year	$ -
Proceeds from the loan	10,000,000
Interest expense	125,000
Balance, end of the period	$ 10,125,000

7. Supplementary Disclosures of Cash Flow Information

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Amounts from Date of Inception (November 21, 1985) through March 31, 2014
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	$ -	$ -	$ 6,344,274
Reclassification of derivative liability upon conversion of exercise price to the Company's functional currency	$ -	$ -	$ 338,016
Stock option compensation	$ 96,074	$ -	$ 1,987,785
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	$ 24,480	$ -	$ 404,711
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	$ 1,256,040	$ 313,847	$ 1,256,040
Asset retirement cost charged to mineral property	$ -	$ -	$ 200,675
Interest expense on discounted convertible debt	$ 691,297	-	$ 1,502,624
Accretion expense	$ -	$ -	$ 227,212

(US dollars)

8. 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 three month period ended March 31, 2014 and the year ended December 31, 2013, there were no warrants treated as derivative liabilities.

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

	March 31, 2014	December 31, 2013
Balance, beginning of the period	$ -	$ 3,522,071
Fair value of options granted	-	204,126
Fair value of options exercised	-	(910,054)
Change in fair value of options and warrants including foreign exchange	-	(2,478,127)
Extinguishment of liability on conversion of exercise price of options to Company's functional currency	-	(338,016)
Balance, end of the period	$ -	$ -

(US dollars)

9. Income (Loss) Per Share

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Numerator:		
Net income (loss) – numerator for basic EPS	$ (7,494,638)	$ 167,304
Amortization of discount	566,297	-
Change in derivative liability – Convertible debentures	5,747,376	-
Change in derivative – Stock options	-	(611,949)
Numerator for diluted EPS	$ (1,180,965)	$ (444,000)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Denominator:		
Denominator for basic EPS	99,260,653	98,002,383
Effect of dilutive securities:		
Employee stock options	454,513	1,543,789
Convertible debenture	9,708,738	-
Denominator for diluted EPS	109,423,904	99,546,172
Basic income(loss) per share	$ (0.08)	$ 0.00
Diluted loss per share	$ (0.01)	$ (0.00)

As at March 31, 2014, 150,000 (March 31, 2013 - Nil) options were not included above as their impact would be anti-dilutive.

10. Subsequent Events

i) In April of 2014, 170,000 stock options were exercised into 170,000 common shares by two former directors for total proceeds of $35,700.

ii) In May of 2014, 100,000 stock options were exercised into 100,000 common shares by one former director for total proceeds of $21,000.