

Golden Queen Mining Co. Ltd.
Condensed Consolidated Interim Financial Statements
June 30, 2014

(Unaudited - US Dollars)

GOLDEN QUEEN MINING CO. LTD.
Condensed Consolidated Interim Balance Sheets
(Unaudited - US dollars)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 5,076,621	\$ 5,030,522
Receivables	28,538	13,786
Prepaid expenses and other current assets	163,053	62,951
Total current assets	5,268,212	5,107,259
Property and equipment, net	268,033	286,256
Mineral property interests (Note 2)	18,412,963	9,919,486
Reclamation financial assurance (Note 4)	478,739	478,742
Total Assets	\$ 24,427,947	\$ 15,791,743
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6(i))	\$ 1,876,601	\$ 1,438,904
Interest payable (Note 6(ii) and (iii))	911,639	76,699
Loan payable (Note 6(iii))	10,000,000	-
Property rent payments	-	6,351
Total current liabilities	12,788,240	1,521,954
Asset retirement obligations (Note 4)	552,250	552,250
Derivative liability—Convertible debenture (Note 6(ii))	6,946,682	2,833,987
Convertible debenture (Note 6(ii))	5,772,276	4,642,620
Total liabilities	26,059,448	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); 99,778,683 (2013 – 99,233,383) shares issued and outstanding (Note 3)	62,709,015	62,289,402
Additional paid-in capital	9,835,578	9,927,142
Deficit accumulated	(74,176,094)	(65,975,612)
Total shareholders' equity (Deficiency)	(1,631,501)	6,240,932
Total Liabilities and Shareholders' Equity (Deficiency)	\$ 24,427,947	\$ 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.
Condensed Consolidated Interim Statements of Income/(Loss) and Comprehensive Income/(Loss)
(Unaudited - US dollars)

	<u>Three Months Ended June 30, 2014</u>	<u>Three Months Ended June 30, 2013</u>	<u>Six Months Ended June 30, 2014</u>	<u>Six Months Ended June 30, 2013</u>
General and administrative expenses	\$ (2,081,950)	\$ (452,804)	\$ (3,147,208)	\$ (902,501)
Change in fair value of derivative liability including change in foreign exchange (Notes 6(ii) and 8)	<u>1,634,681</u>	<u>1,672,861</u>	<u>(4,112,695)</u>	<u>2,284,810</u>
	(447,269)	1,220,057	(7,259,903)	1,382,309
Interest expense (Note 6)	(264,120)	-	(955,417)	-
Interest income	<u>5,546</u>	<u>6,723</u>	<u>14,838</u>	<u>11,775</u>
Net and comprehensive income (loss) for the period	\$ <u>(705,843)</u>	\$ <u>1,226,780</u>	\$ <u>(8,200,482)</u>	\$ <u>1,394,084</u>
Earnings (Loss) per share (Note 9):				
Earnings (Loss) per share - basic	\$ <u>(0.01)</u>	\$ <u>0.01</u>	\$ <u>(0.08)</u>	\$ <u>0.01</u>
Earnings (Loss) per share - diluted	\$ <u>(0.02)</u>	\$ <u>(0.00)</u>	\$ <u>(0.08)</u>	\$ <u>(0.01)</u>
Weighted average number of common shares outstanding -basic	<u>99,619,562</u>	<u>98,228,768</u>	<u>99,441,099</u>	<u>98,116,201</u>
Weighted average number of common shares outstanding - diluted	<u>109,418,434</u>	<u>99,376,903</u>	<u>99,441,099</u>	<u>99,334,081</u>

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

GOLDEN QUEEN MINING CO. LTD.
Condensed Consolidated Interim Statements of Shareholders' Equity (Deficiency)
(Unaudited - 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	530,000	395,133	(283,712)	-	111,421
Stock-based compensation	-	-	192,148	-	192,148
Net loss for the period	-	-	-	(8,200,482)	(8,200,482)
Balance, June 30, 2014	99,778,683	\$ 62,709,015	\$ 9,835,578	\$ (74,176,094)	\$ (1,631,501)

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

GOLDEN QUEEN MINING CO. LTD.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - US dollars)

	<u>Six Months Ended June 30, 2014</u>	<u>Six Months Ended June 30, 2013</u>
Operating activities:		
Net income (loss) for the period	\$ (8,200,482)	\$ 1,394,084
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Amortization and depreciation	18,223	5,224
Amortization of debt discount and interest accrual	955,417	-
Change in fair value of derivative liability including change in foreign exchange	4,112,695	(2,284,810)
Stock option compensation	192,148	66,359
Unrealized foreign exchange	18,369	-
Changes in assets and liabilities:		
Receivables	(14,752)	6,793
Prepaid expenses and other current assets	(100,102)	23,799
Accounts payable and accrued liabilities	203,275	66,745
	<u>(2,815,209)</u>	<u>(721,806)</u>
Cash used in operating activities		
Investment activities:		
Additions to mineral property interests	(7,250,113)	(1,777,025)
Deposits on mineral properties	-	-
Release (purchase) of financial assurance	-	(14,434)
	<u>(7,250,113)</u>	<u>(1,791,459)</u>
Cash used in investing activities		
Financing activities:		
Borrowing under short-term debt	10,000,000	-
Issuance of special warrants	-	76,396
Issuance of common shares upon exercise of stock options	111,421	-
	<u>10,111,421</u>	<u>76,396</u>
Cash provided by financing activities		
Net change in cash	46,099	(2,436,869)
Cash, Beginning balance	<u>5,030,522</u>	<u>4,031,403</u>
Cash, Ending balance	<u>\$ 5,076,621</u>	<u>\$ 1,594,534</u>

Supplementary Disclosures of Cash Flow Information (Note 7)

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

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

Nature of Business Golden Queen Mining Co. Ltd. (“Golden Queen” or the “Company”) is engaged in acquiring and maintaining gold and silver mining properties for exploration, future development and production. The Company was formed on November 21, 1985. Since its inception, the Company has been in the exploration stage 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 condensed 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 condensed 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

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

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).

Capitalized Interest For significant exploration and development projects, interest is capitalized as part of the historical cost of developing and constructing assets in accordance with ASC 835-20 ("capitalization of interest"). Interest is capitalized until the asset is ready for service. Capitalized interest is determined by multiplying the Company's weighted-average borrowing cost on debt by the average amount of qualifying costs incurred. Once an asset subject to interest capitalization is completed and placed in service, the associated capitalized interest is expensed through depletion or impairment. See *Note 6(iv)—Interest Expense*.

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 June 30, 2014 and December 31, 2013 were \$1.07 and \$1.06 stated in Canadian dollars per one US dollar, respectively. The average rates of exchange during the three months ended June 30, 2014 and the year ended December 31, 2013 were \$1.09 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

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

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 June 30, 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 without a conversion feature was \$12,297,540. The fair value of the reclamation financial assurance approximates the carrying value due to its short term 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 850,000 (December 31, 2013 – 1,380,000; June 30, 2013 – 1,800,000) common shares were issuable pursuant to such stock options as at June 30, 2014.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

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.

New Accounting Policies Effective June 2014, FASB issued Accounting Standards update ("ASU") 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation - The amendments in this Update eliminate the concept of a development state entity (DSE) from U.S. GAAP.

The amendments also eliminate an exception previously provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity at risk. The amendments in this Update remove the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments eliminate the requirements for development stage entities to:

- Present inception-to-date information in the statements of income, cash flows, and shareholder equity;
- Label the financial statements as those of a development stage entity;
- Disclose a description of the development stage activities in which the entity is engaged; and
- Disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public business entities, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company early adopted the new reporting requirements of ASU No. 2014-10 in its financial reporting for its interim period beginning April 1, 2014 and its 2014 annual report will also reflect the early adoption of the new requirements.

In July 2013, FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists." The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU became effective for the Company on January 1, 2014. The ASU did not have a significant impact on the Company's financial statements.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - 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 June 30, 2014 had a deficit of \$74,176,094 (December 31, 2013 - \$65,975,612) and a working capital deficit of \$7,520,028 (December 31, 2013 – surplus of \$3,585,305). Management plans to control current costs and anticipates that the remaining funds from the \$10 million loan from January 2014 (*Note 6(iii) – Related Party Transactions*), will fund project development and administrative activities over the next several months. The proceeds from the July 2, 2014 Loan from Leucadia and Auvergne (*Note 10 – Subsequent Events*) will also fund the Company’s project development activities over the next several months.

The Company announced on June 9, 2014 that it entered into an agreement (the “Transaction Agreement”) regarding a proposed joint venture with Gauss LLC. Pursuant to the Transaction Agreement, the Company’s joint venture partner will invest US\$110 million in cash in exchange for a 50% interest in the Project. Closing of the joint venture is subject to approval by Golden Queen’s disinterested shareholders and certain other conditions. Please refer to the Form 10-Q dated August 11, 2014 for further details on the proposed joint venture transaction.

A production decision will be made if and when the joint venture transaction closes.

The ability of the Company to obtain financing for its ongoing activities and thus maintain solvency, or to fund construction of the Project (including funding its portion of capital requirements under the joint venture to be formed upon closing of the joint venture pursuant to the Transaction Agreement), 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 June 30, 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
		<u>8,043,873</u>
Asset retirement obligation (Note 4)		<u>76,312</u>
Balance, December 31, 2013	\$	<u>9,919,486</u>

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

2. Mineral Properties – Continued

Balance, December 31, 2013	\$	9,919,486
Acquisition costs:		
Mineral properties		1,221,743
Deferred costs:		
Property rent payments		97,480
Road construction		193,428
Site infrastructure development		723,148
Site development costs		3,300,879
Workshop and warehouse		1,543,602
Crushing-Screening Plant		1,360,426
Leach pad construction		52,771
		<u>8,493,477</u>
Balance, June 30, 2014	\$	<u>18,412,963</u>

As at June 30, 2014, included in site infrastructure development is capital properties and equipment with a total accumulated cost of \$410,305 (2013 - \$226,721). Total additions during the three and six months ended June 30, 2014 were \$107,227 and \$183,584 (Three and six months ended June 30, 2013 - \$Nil and \$Nil). During the three and six months ended June 30, 2014, amortization of \$14,269 and \$21,099 (Three and six months ended June 30, 2013 - \$Nil and \$Nil) relating to these assets was capitalized within site infrastructure development.

As at June 30, 2014, included in site development costs is interest expense of \$990,813 (December 31, 2013 - \$Nil). The Company is capitalizing a portion of the interest expense related to the convertible debenture and loan in accordance with its accounting policy. *See Note 6 (iv) – Interest Expense.*

3. Share Capital

Common shares - 2014

In May 2014, 300,000 stock options were exercised and the Company issued 300,000 common shares at \$0.21 per share for proceeds of \$63,000. The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$160,592.

In April 2014, 170,000 stock options were exercised and the Company issued 170,000 common shares at \$0.21 per share for proceeds of \$35,700. The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$91,002.

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 and the Company issued 60,000 common shares at \$0.21 per share for proceeds of \$12,721. 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). The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$132,011.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

3. Share Capital – Continued

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). The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$90,496.

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). The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$24,724.

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). The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$355,351.

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). The total transferred to share capital from additional paid-in capital upon exercise of stock options was \$68,849.

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 8 – Derivative liability for further details.

The following is a summary of stock option activity during the six month period ended June 30, 2014:

	Shares	Weighted Average Exercise Price per Share
Options outstanding and exercisable: December 31, 2013	1,380,000	\$0.87
Stock options issued	-	-
<u>Stock options exercised</u>	<u>(530,000)</u>	<u>\$0.21</u>
Options outstanding, June 30, 2014	850,000	\$1.27
<u>Options exercisable, June 30, 2014</u>	<u>650,000</u>	<u>\$1.29</u>

During the three and six months ended June 30, 2014, the Company recognized \$96,074 and \$192,148 (Three and six months ended June 30, 2013 - \$Nil and \$Nil) in stock-based compensation relating to employee stock options that have vesting terms.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

3. Share Capital – Continued

During the year ended December 31, 2013, there were 800,000 stock options issued for a total stock-based compensation expense of \$475,263 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.

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 June 30, 2014, the aggregate intrinsic value of the outstanding exercisable options was approximately \$140,385 (December 31, 2013 - \$325,995; June 30, 2013 - \$1,020,208).

The total intrinsic value of 530,000 options exercised during 2014 was approximately \$678,494 (December 31 2013 - \$881,816).

The unamortized compensation expense as at June 30, 2014 was \$134,014 (December 31, 2013 - \$325,158; June 30, 2013 - \$Nil).

The following table summarizes information about stock options outstanding and exercisable at June 30, 2014:

Expiry Date	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (Years)	Exercise Price
April 18, 2015	50,000	0.80	\$1.22
June 3, 2018	300,000	3.93	\$1.16
June 3, 2018	50,000	3.93	\$1.16
September 3, 2018	150,000	4.18	\$1.59
September 18, 2018	300,000	4.22	\$1.26
Outstanding, June 30, 2014	850,000	3.89	
Exercisable, June 30, 2014	650,000	3.84	

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

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 \$478,739 (2013 - \$478,742). 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.

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 June 30, 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 six months ended June 30, 2014 were \$99,980 of which \$24,480 was related to common shares issued (Year ended December 31, 2013 - \$161,190 of which \$22,568 related to common shares issued), and the Company is expected to make approximate payments of \$184,000 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 June 30, 2014, commercial production has not commenced and no shares have been issued.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

5. Commitments and Contingencies - Continued

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 June 30, 2014, 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.

6. Related Party Transactions

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

(i) Consulting Fees

For the three and six months ended June 30, 2014, the Company paid \$39,032 and \$84,059 (2013 - \$37,371 and \$74,523) to Mr. H. L. Klingmann for services as President of the Company of which \$13,797 (December 31, 2013 - \$47,967; June 30, 2013 - \$Nil) is payable as at June 30, 2014.

During the three and six months ended June 30, 2014, the Company paid a total of \$11,815 and \$23,439 (2013 - \$Nil and \$Nil) to its three independent directors. The two non independent directors, Lutz Klingmann and Thomas M. Clay, were not paid directors' fees during the three and six months ended June 30, 2014 or 2013.

(ii) 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.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

6. Related Party Transactions – Continued

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 June 30, 2014, was \$6,946,682 (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% - 1.09%	1.13% - 1.15%
Expected life of derivative liability	1.07 - 1.32 years	1.57 - 2 years
Expected volatility	95.87 - 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:

	June 30, 2014	December 31, 2013
Balance, beginning of the period	\$ 2,833,987	\$ -
Fair value at inception	-	5,741,520
Change in fair value of derivative liability including foreign exchange	4,112,695	(2,907,533)
Balance, end of the period	<u>\$ 6,946,682</u>	<u>\$ 2,833,987</u>

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:

	June 30, 2014	December 31, 2013
Balance, beginning of the year	\$ 4,642,620	\$ -
Discounted convertible debentures	-	3,975,480
Amortization of discount	1,113,618	811,327
Foreign exchange	16,038	(144,187)
Balance, end of the period	<u>\$ 5,772,276</u>	<u>\$ 4,642,620</u>

During the three and six months ended June 30, 2014, in addition to the amortization of the discount on the convertible debenture, the Company incurred interest expense of \$45,799 and \$91,516 (June 30, 2013 - \$Nil and \$Nil) based on the 2% per annum stated interest rate for a total interest expense of \$638,837 and \$1,205,134 for the three and six months ended June 30, 2014 (June 30, 2013- \$Nil and \$Nil). As at June 30, 2014, a total of \$990,813 (2013 - \$Nil) has been capitalized to mineral property interest. See Note 6 (iv).

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

6. Related Party Transactions – Continued

(iii) 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.

The Loan will be repaid on a date that is less than 183 days before the maturity date. As a result, the Company will pay the Lenders a prepayment penalty in the amount that is equivalent to 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 estimated \$500,000 finance charge, included in the \$741,096 interest payable balance, represents the prepayment penalty to the Lenders.

	June 30, 2014
Balance, beginning of the period	\$ -
Proceeds from the loan	10,000,000
Balance, end of the period	\$ 10,000,000

The interest expense and prepayment finance charge of \$741,096 has been accrued on this loan since inception and is included in interest payable as at June 30, 2014.

(iv) Amortization of discount and Interest Expense

The following summarizes the capitalized amortization of discount and interest expense as at June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
Amortization of discount and interest on loan and convertible debenture	\$ 1,946,230	\$ 888,026
Less: Interest costs capitalized	(990,813)	-
Amortization of discount and interest expensed	\$ 955,417	\$ -

7. Supplementary Disclosures of Cash Flow Information

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash paid during year for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Non-cash financing and investing activities:		
Stock option compensation	\$ 192,148	\$ -
Common shares issued for mineral property	\$ 24,480	\$ -
Gain (loss) on change in fair value of derivative liability	\$ (4,112,695)	\$ 2,284,810
Mineral property expenditures included in accounts payable	\$ 228,071	\$ 313,847
Non-cash interest cost capitalized to mineral property interests	\$ 990,813	\$ -
Non-cash amortization of discount and interest expense	\$ 955,417	\$ -

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - 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 June 30, 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:

	June 30, 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	\$ -	\$ -

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

9. Earnings (Loss) Per Share

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Numerator:				
Net income (loss) – numerator for basic EPS	\$ (705,843)	\$ 1,226,780	\$ (8,200,482)	\$ 1,394,084
Amortization of discount	-	-	-	-
Change in derivative liability – Convertible debentures	(1,634,681)	-	-	-
Change in derivative – Stock options	-	(1,672,861)	-	(2,284,810)
 Numerator for diluted EPS	 \$ (2,340,524)	 \$ (446,081)	 \$ (8,200,482)	 \$ (890,726)
	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Denominator:				
Denominator for basic EPS	99,619,562	98,228,768	99,441,099	98,116,201
Effect of dilutive securities:				
Employee stock options	90,134	1,148,136	-	1,217,880
Convertible debenture	9,708,738	-	-	-
Denominator for diluted EPS	109,418,434	99,376,903	99,441,099	99,334,081
 Basic earnings(loss) per share	 \$ (0.01)	 \$ 0.01	 \$ (0.08)	 \$ 0.01
Diluted loss per share	\$ (0.02)	\$ (0.00)	\$ (0.08)	\$ (0.01)

For the three and six month periods ended June 30, 2014, 150,000 (June 30, 2013 – 400,000) options were not included above as their impact would be anti-dilutive. In addition, for the six month period ended June 30, 2014, the convertible debenture was not included above as its effect would be anti-dilutive.

10. Subsequent Events

July 2, 2014 Advance with Leucadia and Auvergne

The Company announced on July 2 that the Company and its wholly owned subsidiary entered into a loan agreement with Leucadia National Corporation (“Leucadia”) and Auvergne, LLC, an entity controlled by certain members of the Clay family (“Auvergne”, and together with Leucadia, the “Lenders”), with the Company as guarantor, in respect of an advance of \$10,000,000 (the “Loan”) by the Lenders (as to \$6,500,000 from Leucadia and \$3,500,000 from Auvergne) to the subsidiary. The Loan is collateralized against certain assets of the subsidiary and the Company, and ranks in priority to existing debt. Proceeds will be used to advance the development of the Soledad Mountain Project.

The maturity date of the Loan will be the closing of the joint venture transaction with Gauss LLC (Refer to Note 1) the “JV Closing”). In the event the JV Closing occurs later than September 30, 2014, the maturity date can be extended to December 1, 2014 by paying a \$1,000,000 extension fee. The extension fee is not payable if the JV Closing occurs before the extended maturity date.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended June 30, 2014
(Unaudited - US dollars)

10. Subsequent Events (Continued)

The Loan will bear interest at a rate of 10.0% per annum, compounded monthly. After the occurrence and during the continuation of an event of default, interest on the Loan will accrue at a rate of 12.0% per annum.

The repayment of the Loan, accrued interest and extension fee, if any, will be funded from the proceeds of the joint venture transaction upon the JV Closing.

Significant Commitments on Site in July 2014

The Company entered into the following significant commitments during July 2014:

- Confirmed an order for a high-pressure grinding roll with ThyssenKrupp Industrial Solutions (USA), Inc. (Formerly Polysius Corporation) and made a deposit of approximately \$1.0 million in July;
- Committed to the construction and commissioning of the basic water supply for the Project approximately \$1.2 million and;
- Committed to the construction of the assay laboratory building with plumbing and electrical items approximately \$1.0 million.