

Golden Queen Mining Co. Ltd.
Condensed Consolidated Interim Financial Statements
March 31, 2016

(US Dollars - Unaudited)

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash	\$ 26,658,270	\$ 37,587,311
Receivables	26,164	23,962
Inventory (Note 2)	4,424,044	1,935,599
Prepaid expenses and other current assets	439,784	432,353
Total current assets	31,548,262	39,979,225
Property, plant, equipment and mineral interests (Note 3)	136,785,656	128,562,572
Reclamation financial assurance deposit (Note 5)	-	902,382
Total Assets	\$ 168,333,918	\$ 169,444,179
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7(i))	\$ 3,631,830	\$ 3,258,692
Interest payable (Note 7(ii))	988,696	969,645
Notes payable (Note 7(ii))	37,634,420	36,053,012
Current portion of loan payable (Note 12)	5,057,912	4,942,716
Derivative liability – Warrants (Note 7(iii))	9,423,226	2,498,269
Derivative liability– Hedging instruments (Note 8)	106,268	-
Total current liabilities	56,842,352	47,722,334
Asset retirement obligations (Note 5)	1,075,149	978,453
Loan payable (Note 12)	12,379,776	13,430,107
Deferred tax liability	12,922,000	12,922,000
Total liabilities	83,219,277	75,052,894
Temporary Equity		
Redeemable portion of non-controlling interest (Note 7(v))	26,981,875	27,123,741
Shareholders' Equity		
Common shares, no par value, unlimited shares authorized (2015 - unlimited); 99,928,683 (2015 – 99,778,683) shares issued and outstanding (Note 4)	62,860,443	62,860,443
Additional paid-in capital	43,631,310	43,627,511
Deficit accumulated	(88,831,798)	(79,906,021)
Total shareholders' equity attributable to GQM Ltd.	17,659,955	26,581,933
Non-controlling interest (Note 7(v))	40,472,811	40,685,611
Total Shareholders' Equity	58,132,766	67,267,544
Total Liabilities, Temporary Equity and Shareholders' Equity	\$ 168,333,918	\$ 169,444,179

Ability to Continue as a Going Concern (Note 1)

Commitments and Contingencies (Note 6)

Subsequent Events (Note 14)

Approved by the Directors:

“Thomas M. Clay”

Thomas M. Clay, Director

“Bryan A. Coates”

Bryan A. Coates, Director

See Accompanying Notes to the Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(US dollars - Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
General and administrative expenses	(1,527,176)	(739,533)
Change in fair value of derivative liability including change in foreign exchange (Notes 7(iii) and 8)	(7,031,225)	(101,749)
	(8,558,401)	(841,282)
Interest expense (Note 7(iv))	(761,571)	(947,753)
Interest income	39,529	66,142
Net loss and comprehensive loss for the period	(9,280,443)	(1,722,893)
Deduct: Net loss and comprehensive loss attributable to the non-controlling interest for the period (Note 7(v))	354,666	286,706
Net loss and comprehensive loss attributable to Golden Queen Mining Co Ltd. for the period	\$ (8,925,777)	\$ (1,436,187)
Loss per share - basic (Note 11)	\$ (0.09)	\$ (0.01)
Loss per share - diluted (Note 11)	\$ (0.09)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	99,928,683	98,785,350

See Accompanying Notes to the Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.

**Condensed Consolidated Interim Statements of Shareholders' Equity, Non-controlling Interest and Redeemable Portion of Non-controlling Interest
(US dollars - Unaudited)**

	Common Shares	Amount	Additional Paid-in Capital (Restated – Note 15)	Deficit Accumulated	Total Shareholders' Equity attributable to GQM Ltd (Restated – Note 15)	Non-controlling Interest	Total Shareholders' Equity (Restated – Note 15)	Redeemable Portion of Non- controlling Interest
Balance, December 31, 2014 (Restated – Note 15)	99,778,683	\$ 62,709,015	\$ 43,468,510	\$ (74,444,816)	\$ 31,732,709	\$ 34,250,468	\$ 65,983,177	\$ 22,833,645
Issuance of common shares as part of management agreement (Note 6)	150,000	151,428	-	-	151,428	-	151,428	-
Stock-based compensation	-	-	159,001	-	159,001	-	159,001	-
Capital contribution from non-controlling interest (Note 7(v))	-	-	-	-	-	7,500,000	7,500,000	5,000,000
Net loss for the year	-	-	-	(5,461,205)	(5,461,205)	(1,064,857)	(6,526,062)	(709,904)
Balance, December 31, 2015	99,928,683	\$ 62,860,443	\$ 43,627,511	\$ (79,906,021)	\$ 26,581,933	\$ 40,685,611	\$ 67,267,544	\$ 27,123,741
Stock-based compensation	-	-	3,799	-	3,799	-	3,799	-
Net loss for the period	-	-	-	(8,925,777)	(8,925,777)	(212,800)	(9,138,577)	(141,866)
Balance, March 31, 2016	99,928,683	\$ 62,860,443	\$ 43,631,310	\$ (88,831,798)	\$ 17,659,955	\$ 40,472,811	\$ 58,132,766	\$ 26,981,875

See Accompanying Notes to the Condensed Consolidated Interim Financial Statements

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

	<u>Three Months Ended</u> <u>March 31, 2016</u>	<u>Three Months Ended</u> <u>March 31, 2015</u>
Operating activities:		
Net loss for the period	\$ (9,280,443)	\$ (1,722,893)
Adjustments to reconcile net loss to cash used in operating activities:		
Amortization and depreciation	6,739	7,700
Amortization of debt discount and interest accrual	761,571	934,342
Change in fair value of derivative liabilities including change in foreign exchange	7,031,225	101,749
Stock-based compensation	3,799	-
Non-cash consulting expense	-	151,428
Foreign exchange gain	-	(581,102)
Changes in assets and liabilities:		
Receivables	(2,202)	17,635
Prepaid expenses and other current assets	(7,431)	(143,117)
Inventory	(1,620,940)	-
Accounts payable and accrued liabilities	51,807	132,611
Interest payable	(144,284)	(250,000)
Cash used in operating activities	<u>(3,200,159)</u>	<u>(1,351,647)</u>
Investment activities:		
Additions to property, plant, equipment and mineral interests	(7,401,004)	(18,131,600)
Release (purchase) of reclamation financial assurance deposit	902,382	(14)
Cash used in investing activities	<u>(6,498,622)</u>	<u>(18,131,614)</u>
Financing activities:		
Repayment of loans payable	(1,230,260)	(90,779)
Repayment of short-term debt	-	(2,500,000)
Financing fees related to short-term debt capitalized to the loan	-	(250,000)
Cash provided by financing activities	<u>(1,230,260)</u>	<u>(2,840,779)</u>
Net change in cash	(10,929,041)	(22,324,040)
Cash, Beginning balance	<u>37,587,311</u>	<u>91,407,644</u>
Cash, Ending balance	<u>\$ 26,658,270</u>	<u>\$ 69,083,604</u>

Supplementary Disclosures of Cash Flow Information (Note 9)

See Accompanying Notes to the Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2016 and 2015
(US dollars - Unaudited)

Nature of Business Golden Queen Mining Co. Ltd. (“Golden Queen”, “GQM Ltd.” or the “Company”) is engaged in the development of the Soledad Mountain Project (“the Project”), located in the Mojave Mining District, Kern County, California. The construction phase of the Project was completed in February 2016 and the Company commenced production in March 2016.

The Company originally used its wholly owned subsidiary, Golden Queen Mining Company, Inc. (“GQM Inc.”), to explore and develop the Project. On September 10, 2014, GQM Inc. was converted to a limited liability company, Golden Queen Mining Company, LLC (“GQM LLC”). The Company entered into a Joint Venture (the “JV”) agreement with Gauss LLC (“Gauss”) through its newly formed, wholly owned subsidiary, Golden Queen Mining Holdings, Inc. (“GQM Holdings”). The JV was completed on September 15, 2014. Upon completion of the JV, both the Company, through GQM Holdings, and Gauss each owned, and continue to own, 50% of GQM LLC. In February 2015, the Company incorporated Golden Queen Mining Canada Ltd. (“GQM Canada”), a wholly-owned British Columbia subsidiary, to hold the Company’s interest in GQM Holdings.

Basis of Preparation These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accounting policies followed in preparing these condensed consolidated interim financial statements are those used by the Company as set out in the audited consolidated financial statements for the year ended December 31, 2015.

Certain information and note disclosures normally included for annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. These condensed consolidated interim financial statements should be read together with the audited consolidated financial statements of the Company for the year ended December 31, 2015.

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, results of operations and cash flows at March 31, 2016 and for all periods presented, have been included in these financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2016, or future operating periods. For further information, see the Company’s annual consolidated financial statements, including the accounting policies and notes thereto.

Judgements and Estimates The preparation of financial statements in conformity with GAAP requires management to make judgements, 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 and judgements have been made by Management in several areas including the accounting for the joint venture transaction and determination of temporary and permanent non-controlling interest, the recoverability of mineral properties expenditures, royalty obligations, inventory valuations, ore on heap leach pads, asset retirement obligations, convertible debentures, and derivative liability – warrants. A key judgement for 2016 relates to when the Soledad Mountain mine enters the production phase. Generally, under US GAAP a mine would be considered to be in the production phase once it has demonstrated that it is producing saleable quantities of product. As at March 31, 2016, the Soledad Mountain mine is not considered to have entered the production phase.

Principles of Consolidation The Company consolidates all entities in which it can vote a majority of the outstanding voting stock. In addition, it consolidates entities which meet the definition of a variable interest entity for which it is the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. We consider special allocations of cash flows and preferences, if any, to determine amounts allocable to non-controlling interests. All intercompany transactions and balances are eliminated in consolidation.

These condensed consolidated interim financial statements include the accounts of Golden Queen, a British Columbia corporation, its wholly-owned subsidiaries, GQM Canada, GQM Holdings, a US (State of California) corporation, and GQM LLC, a limited liability company in which Golden Queen has a 50% interest, through GQM Holdings. GQM LLC meets the definition of a Variable Interest Entity (“VIE”). Golden Queen has determined it is the member of the related party group that is most closely associated with GQM LLC and, as a result, is the primary beneficiary who consolidates GQM LLC.

GOLDEN QUEEN MINING CO. LTD.
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(US dollars - Unaudited)

Recent Accounting Standards

- (i) Effective August 2014, FASB issued Accounting Standards update (“ASU”) 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40 –Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The update essentially requires management of all entities, for annual and interim periods, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued.

If conditions or events raise substantial doubt about an entity’s ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management’s plans, the entity should disclose information that enables users of the financial statements to understand all of the following:

1. Principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans).
2. Management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations.
3. Management’s plans that alleviated substantial doubt about the entity’s ability to continue as a going concern.

If conditions or events raise substantial doubt about an entity’s ability to continue as a going concern, and substantial doubt is not alleviated after consideration of management’s plans, an entity should include a statement in the footnotes indicating that there is *substantial doubt about the entity’s ability to continue as a going concern* within one year after the date that the financial statements are issued (or available to be issued).

This update will come into effect for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is assessing the impact of this standard.

- (ii) In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) – Amendments to the Consolidation Analysis* which focuses on the consolidation evaluation for reporting organizations (public and private companies and not-for-profit organizations) that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the standards and improves current GAAP by:

- Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met.
- Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE).
- Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

The ASU will be effective for periods beginning after December 15, 2015, for public companies. Early adoption is permitted, including adoption in an interim period. The Company adopted the ASU effective January 1, 2016. The Company assessed and concluded there was no impact on the Company with the adoption of the new standard.

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(iii) In January 2016, FASB issued ASU 2016-01, Financial Instruments – Recognition and measurement of financial assets and financial liabilities (Subtopic 825-10) which updates several aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments that are relevant to the Company are as follows:

1. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
2. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
3. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

The ASU will be effective for periods beginning after December 15, 2017, for public companies. The Company is assessing the impact of this standard.

(iv) In March 2016, FASB issued ASU 2016-09, Compensation – Stock Compensation (Subtopic 718) which updates several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.

The ASU will be effective for periods beginning after December 15, 2016, for public companies. The Company is assessing the impact of this standard.

GOLDEN QUEEN MINING CO. LTD.
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1. Ability to Continue as a Going Concern

The Company has generated no revenues from operations since inception and as at March 31, 2016 had an accumulated deficit of \$88,831,798 and a working capital deficit of \$25,294,090. Cash used in operations for the three months ended March 31, 2016 was \$3,200,159.

Golden Queen, on a non-consolidated basis, currently does not have sufficient funds to repay the \$37,500,000 loan plus the accrued interest at the issuance date of the condensed consolidated interim financial statements. However, in order to secure the necessary funds to meet this upcoming obligation and mitigate the going concern issue, management is actively exploring several options including debt financing and equity offering.

While Golden Queen 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 this entity's ability to continue as a going concern.

At the Project level, GQM LLC has sufficient funds to meet its contractual obligations for the next twelve months.

The Company's access to the net assets of GQM LLC is determined by the Board of Managers of GQM LLC. The Board of Managers is not controlled by the Company and therefore there is no guarantee that any access to the net assets of GQM LLC would be provided to the Company in order to continue as a going concern. The Board of Managers of GQM LLC determine when and if distributions from GQM LLC are made to the holders of its membership units at their sole discretion.

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. Such adjustments could be material.

2. Inventory

	March 31, 2016	December 31, 2015
Stockpile inventory	\$ 1,018,603	\$ 1,259,669
Dore inventory	255,527	-
Supplies and spare parts	1,122,325	592,690
	\$ 2,396,455	\$ 1,852,359
Ore on heap leach pad:		
Current	\$ 2,027,588	83,240

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3. Property, Plant, Equipment and Mineral Interests

	March 31, 2016	December 31, 2015
Land	\$ 3,895,681	\$ 109,600
Mineral property interest and claims	1,896,239	4,458,744
Mine development	38,274,609	86,038,407
Mine equipment	55,855,709	25,425,661
Buildings	17,010,959	5,691,335
Computer equipment and software	304,582	51,030
Vehicles	1,956,586	218,822
Infrastructure (Water/power)	10,905,711	978,573
Asset retirement costs	723,574	626,878
Capitalized interest	6,180,069	5,174,846
Less:		
Accumulated depreciation, depletion and amortization expensed	(218,063)	(211,324)
	<u>\$ 136,785,656</u>	<u>\$ 128,562,572</u>

During the three month period ended March 31, 2016, the Company capitalized depreciation of \$3,777,949 (December 31, 2015 - \$1,850,403) relating to assets used in the development of the mine.

The Company is capitalizing a portion of the interest expense related to the convertible debenture and notes payable in accordance with its accounting policy. See Note 7 (iv) – *Amortization of Discounts and Interest Expense*.

4. Share Capital

The Company's common shares outstanding are no par value, voting shares with no preferences or rights attached to them.

Common shares – 2016

During the three months ended March 31, 2016, no common shares were issued by the Company.

Common shares – 2015

In March 2015, the Company issued 150,000 common shares to the former President of the Company for achieving two of the three milestones outlined in his management agreement (See Note 6 – Commitments and Contingencies). The common shares had a total fair value of \$151,428 (Note 7(i)). The fair value was based on the market price on the date of issuance.

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4. Share Capital – Continued

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.

The following is a summary of stock option activity during the three months ended March 31, 2016 and 2015:

	Shares	Weighted Average Exercise Price per Share
Options outstanding and exercisable, December 31, 2014	750,000	\$1.29
Options issued	570,000	\$0.58
Options forfeited	(250,000)	\$1.18
Options outstanding, December 31, 2015	1,070,000	\$0.94
Options exercisable, December 31, 2015	976,667	\$0.97
Options outstanding, March 31, 2016	1,070,000	\$0.94
Options exercisable, March 31, 2016	976,667	\$0.97

There were no stock options issued, expired, forfeited or cancelled during the three months ended March 31, 2016 and 2015.

During the three months ended March 31, 2016, the Company recognized \$3,799 (Three months ended March 31, 2015 - \$Nil) in stock-based compensation relating to employee stock options that were issued and/or had vesting terms.

As at March 31, 2016, the aggregate intrinsic value of the outstanding exercisable options was \$521,217 (December 31, 2015 - \$Nil).

The following table summarizes information about stock options outstanding and exercisable at March 31, 2016:

Expiry Date	Number Outstanding	Number Exercisable	Remaining Contractual Life (Years)	Exercise Price
June 3, 2018	50,000	50,000	2.18	\$1.16
September 3, 2018	150,000	150,000	2.43	\$1.59
September 18, 2018	300,000	300,000	2.47	\$1.26
September 8, 2020	570,000	476,667	4.44	\$0.58
Balance, March 31, 2016	1,070,000	976,667	3.50	

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5. Asset Retirement Obligations and Financial Reclamation Assurance

Financial Reclamation Assurance

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 the reclamation financial assurance. The reclamation assurance provided as at March 31, 2016 was \$624,142 (December 31, 2015 - \$624,142).

The Company is also required to provide financial assurance with the Lahontan Regional Water Quality Control Board (the "Regional Board") for closure and reclamation costs related to the lined impoundments, which are defined as the Stage 1 heap leach pad, the overflow pond, and the solution collection channel. The reclamation financial assurance estimate for as of March 31, 2016 is \$1,210,889 (December 31, 2015 - \$Nil).

In addition to the above, the Company is required to obtain and maintain financial assurance for initiating and completing corrective action and remediation of a reasonably foreseeable release from the Project's waste management units as required by the Regional Board. The reclamation financial assurance estimate for as of March 31, 2016 is \$278,240 (December 31, 2015 - \$278,240).

In January 2016 the company entered into \$2.1 million in surety bond agreements in order to release its reclamation deposits and post a portion of the financial assurance due in 2016. The Company pays a yearly premium. Golden Queen Ltd. has provided a corporate guarantee on the surety bonds.

Asset Retirement Obligation

The total asset retirement obligation as of March 31, 2016 is \$1,075,149 (December 31, 2015 - \$978,453).

The Company estimated its asset retirement obligations based on its understanding of the requirements to reclaim and clean-up its property based on its activities to date. During the three months ended March 31, 2016, there was an increase of \$96,696 (Three months ended March 31, 2015 - \$Nil) to the asset retirement obligations that was capitalized to property, plant, equipment and mineral interests as the asset portion of the asset retirement obligation. The Company estimates that the cash outflows related to these reclamation activities will be incurred primarily in 2028. Reclamation provisions are measured at the expected value of future cash flows discounted to their present value using a credit adjusted risk-free interest rate and adjusted for inflation. The Company used a credit adjusted risk-free rate of 9.20% (December 31, 2015 - 9.20%) and an inflation rate of 2.27% (December 31, 2015 - 2.27%).

The following is a summary of asset retirement obligations:

	March 31, 2016	December 31, 2015
Balance, beginning of the period	\$ 978,453	\$ 624,142
Changes in cash flow estimates	96,696	278,240
Balance, end of the period	<u>\$ 1,075,149</u>	<u>\$ 978,453</u>

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6. 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, 2016 were \$2,500 (2015 - \$10,000), and the Company expects to pay approximately \$75,000 in property rent payments in 2016. Production royalties are expected to commence in 2016.

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, as defined in the agreement, at the Project. As of March 31, 2016, commercial production phase had not commenced and accordingly no shares have been issued.

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.

The Company may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Company believes that any adverse outcome of existing claims, individually or in the aggregate, would not have a material effect on its financial position, results of operations or cash flows.

Mine Development Commitments

As of March 31, 2016, GQM LLC has approximately \$2.0 million to be paid for mine development commitments entered into prior to fiscal 2016. The commitments were paid out subsequent to March 31, 2016. GQM LLC did not make material additional construction commitments during the three months ended March 31, 2016 or subsequent to this date.

See Note 12 for further details on the mining equipment loans.

7. 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 months ended March 31, 2015, the Company paid \$188,934 to Mr. H. Lutz Klingmann for services as President of the Company. Included in these consulting fees was \$151,428 related to 150,000 bonus shares (Refer to Note 4 – Share Capital).

During the three months ended March 31, 2016, the Company paid a total of \$28,535 (Three months ended March 31, 2015 - \$18,438) to the three independent directors of the Company. During the three months ended March 31, 2015, Thomas M. Clay also received director fees.

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7. Related Party Transactions – Continued

(ii) Notes Payable

On January 1, 2014, the Company entered into an agreement to secure a \$10,000,000 loan (the “January 2014 Loan”). The January 2014 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 January 2014 Loan had a twelve-month term and an annual interest rate of 5%, payable on the maturity date.

The January 2014 Loan was repaid on a date that is less than 183 days before the maturity date. As a result, the Company paid the Lenders an additional charge in the amount that is equivalent to 5% of the principal amount, plus interest on the principal amount at the rate of 5% per annum accrued to the date the January 2014 Loan was repaid. The Company repaid \$7,500,000 loan plus the \$375,000 accrued interest and \$375,000 additional charge on December 31, 2014.

The remaining balance of the loan, \$2,500,000, the accrued interest of \$125,000 and the additional charge of \$125,000, were paid on January 5, 2015.

On December 31, 2014 the Company also entered into a new loan (the “December 2014 Loan”) with the same parties for an amount of \$12,500,000. The December 2014 Loan was due on demand on July 1, 2015 and bore an annual interest rate of 10% payable at the end of each quarter. The loan was guaranteed by GQM Holdings, and secured by a pledge of the Company's interests in GQM Canada, GQM Canada's interest in GQM Holdings and GQM Holdings' 50% interest in GQM LLC. The Company also incurred a financing fee to secure the loan in the amount of \$1,000,000, of which, \$750,000 was paid on December 31, 2014 and the remaining \$250,000 was paid on January 5, 2015. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument which amounted to \$90,916. The total legal fees paid for the transaction were \$118,695. The Company also agreed to provide the lenders with the option for certain registration rights whereby the Company would bear the costs and responsibility of registering the lenders common shares for the purposes of disposition subsequent to July 1, 2015. The Company has determined it is unlikely the registration option would be exercised and therefore has not accrued any potential costs related to the registration of the common shares. The Company has presented these transaction costs as a contra liability as substantially all of these costs were paid to the lenders.

On June 8, 2015, the Company amended the December 2014 Loan to extend the maturity to December 8, 2016 and increased the principal amount from \$12,500,000 to \$37,500,000 (the “June 2015 Loan”). The Company also issued 10,000,000 common share purchase warrants exercisable for a period of five years expiring June 8, 2020. The common share purchase warrants have an exercise price of \$0.95. All other terms remained the same as the December 2014 Loan. The Company also incurred a financing fee to secure the loan in the amount of \$1,500,000, all of which was paid on June 8, 2015. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument which amounted to \$46,408. The legal fees were expensed as the registration met the definition of a debt extinguishment. The terms of the registration rights remains unchanged as does the Company's assessment of the likelihood of the registration rights being exercised.

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7. Related Party Transactions – Continued

(ii) Notes Payable - Continued

As such, as of March 31, 2016, no accrual has been made for the potential costs related to the registration rights.

	March 31, 2016	December 31, 2015
Balance, beginning of the period	\$ 36,053,012	\$ 13,881,305
Accretion of discount on the June 2015 Loan	606,422	1,374,228
Interest payable transferred to principal balance of the June 2015 Loan	974,986	1,181,507
Fair value at inception, notes payable	-	33,497,277
Repayment of loans	-	(2,500,000)
Accretion of financing and legal fees	-	967,156
Extinguishment of the December 2014 Loan	-	(12,500,000)
Loss on extinguishment of debt	-	151,539
Balance, end of the period	\$ 37,634,420	\$ 36,053,012

Interest payable relating to the June 2015 Loan as at March 31, 2016 was \$988,696 (December 31, 2015 - \$969,645).

(iii) Share Purchase Warrants

On June 8, 2015 the Company issued 10,000,000 share purchase warrants to the Clay family in connection with the June 2015 Loan. The share purchase warrants are exercisable until June 8, 2020 at an exercise price of \$0.95. Included in the June 2015 Loan agreement was an anti-dilution provision. If the Company were to complete a financing at a share price lower than the exercise price of the share purchase warrants, the exercise price of the share purchase warrants would be adjusted to match the price at which the financing was completed.

The share purchase warrants meet the definition of a derivative liability instrument as the exercise price is not a fixed price as described above. Therefore, the settlement feature does not meet the “fixed-for-fixed” criteria outlined in ASC 815-40-15.

The fair value of the derivative liability related to the share purchase warrants as at March 31, 2016 is \$9,423,226 (December 31, 2015 - \$2,498,269). The derivative liability was calculated using an acceptable option pricing valuation model with the following assumptions:

	2016	2015
Risk-free interest rate	0.68%	0.73% - 1.02%
Expected life of derivative liability	4.19 years	4.44 - 5 years
Expected volatility	79.45%	72.29% - 76.11%
Dividend rate	0.00%	0.00%

The change in the derivative share purchase warrants is as follows:

	March 31, 2016	December 31, 2015
Balance, beginning of the period	\$ 2,498,269	\$ -
Fair value at inception	-	4,002,723
Change in fair value	6,924,957	(1,504,454)
Balance, end of the period	\$ 9,423,226	\$ 2,498,269

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7. Related Party Transactions – Continued

(iv) Amortization of Discounts and Interest Expense

The following table summarizes the amortization of discounts and interest on loans and convertible debentures:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Accretion of the June 2015 Loan discount	\$ 606,422	\$ -
Interest expense related to the June 2015 Loan	994,037	-
*Interest expense related to Komatsu Financial loans	166,335	13,411
Interest expense related to the convertible debentures	-	40,285
Amortization of the convertible debentures	-	747,870
Interest expense related to the December 2014 Loan	-	311,644
Accretion of the December 2014 Loan financing fees	-	536,729
Accretion of discount and interest on loan and convertible debentures	<u>\$ 1,766,794</u>	<u>\$ 1,649,939</u>

The Company's loans were contracted to fund significant development costs. The Company capitalizes a portion of the interest expense as it related to funds borrowed to complete development activities at the Project site.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Accretion of discounts and interest on loan, advance and convertible debenture	\$ 1,766,794	\$ 1,649,939
Less: Interest costs capitalized	(1,005,223)	(702,186)
Interest expense	<u>\$ 761,571</u>	<u>\$ 947,753</u>

*Komatsu is not a related party and has only been included in the above table to reconcile the total interest expense incurred for the period to the amounts capitalized and expensed.

(v) Joint Venture Transaction

Variable Interest Entity

In accordance with ASC 810-10-30, the Company has determined that GQM LLC meets the definition of a VIE and that the Company is part of a related party group that, in its entirety, would meet the definition of a primary beneficiary. Although no individual variable interest holder individually meets the definition of a primary beneficiary in the absence of the related party group, Golden Queen has determined it is considered the member of the related party group most closely associated with GQM LLC. As a result, the Company has consolidated 100% of the accounts of GQM LLC in these consolidated financial statements, while presenting a non-controlling interest portion representing the 50% interest of Gauss in GQM LLC on its balance sheet. A portion of the non-controlling interest has been presented as temporary equity on the Company's balance sheet representing the initial value of the non-controlling interest that could potentially be redeemable by Gauss in the future.

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7. Related Party Transactions – Continued

(v) Joint Venture Transaction - Continued

The net assets of GQM LLC as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
Assets, GQM LLC	\$ 156,991,083	\$ 158,209,916
Liabilities, GQM LLC	(22,081,711)	(22,591,211)
Net assets, GQM LLC	<u>\$ 134,909,372</u>	<u>\$ 135,618,705</u>

Included in the assets above, is \$21,319,945 (December 31, 2015 - \$31,531,853) in cash held as at March 31, 2016. The cash in GQM LLC is directed specifically to fund capital expenditures required to take the Project to production and settle GQM LLC's obligations. The liabilities of GQM LLC do not have recourse to the general credit of the primary beneficiary except in two situation. Please refer to notes 6 and 12 for details on the exception.

Non-Controlling Interest

The carrying value of the non-controlling interest is adjusted for net income and loss, distributions and contributions pursuant to ASC 810-10 based on the same percentage allocation used to calculate the initial book value of temporary equity.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net loss and comprehensive loss in GQM LLC	\$ (709,333)	\$ (573,413)
Non-controlling interest percentage	50%	50%
Net loss and comprehensive loss attributable to non-controlling interest	<u>(354,666)</u>	<u>(286,706)</u>
Net loss and comprehensive loss attributable to permanent non-controlling interest	\$ (212,800)	\$ (172,024)
Net loss and comprehensive loss attributable to temporary non-controlling interest	<u>\$ (141,866)</u>	<u>\$ (114,682)</u>
	Permanent Non- Controlling Interest	Temporary Non- Controlling Interest
Carrying value of non-controlling interest, December 31, 2014	\$ 34,250,468	\$ 22,833,645
Capital contribution	7,500,000	5,000,000
Net loss and comprehensive loss for the period	<u>(1,064,857)</u>	<u>(709,904)</u>
Carrying value of non-controlling interest, December 31, 2015	<u>\$ 40,685,611</u>	<u>\$ 27,123,741</u>
	Permanent Non- Controlling Interest	Temporary Non- Controlling Interest
Carrying value of non-controlling interest, December 31, 2015	\$ 40,685,611	\$ 27,123,741
Net loss and comprehensive loss for the period	<u>(212,800)</u>	<u>(141,866)</u>
Carrying value of non-controlling interest, March 31, 2016	<u>\$ 40,472,811</u>	<u>\$ 26,981,875</u>

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8. Derivatives used as Hedging Instruments

During the three months ended March 31, 2016, the Company entered into a series of “zero-cost put/ call” collar contracts for gold with settlements scheduled between June 30, 2016 and December 30, 2016 with an average floor price of \$1,100 per ounce and an average ceiling price of \$1,320 per ounce. These derivative instruments were not designated as hedges by the Company and are recorded at their fair value at the end of each reporting period with changes in fair value recorded in the statement of loss and comprehensive loss.

For the three months ended March 31, 2016, the Company recorded an unrealized derivative loss of \$106,268 (Three months ended March 31, 2015 - \$Nil) in the statement of loss and comprehensive loss on these contracts.

The following is a summary, by maturity dates, of the Company’s gold collar contracts outstanding as at March 31, 2016:

		2016
Gold zero cost collars:		
Floor amount (ounces)		7,000
Average floor price	\$	1,100
Ceiling amount (ounces)		7,000
Average ceiling price	\$	1,320

The unrealized fair value of these contracts at March 31, 2016 was \$106,298 (December 31, 2015 - \$Nil).

9. Supplementary Disclosures of Cash Flow Information

	March 31, 2016	March 31, 2015
Cash paid during period for:		
Interest	\$ 144,284	\$ 260,498
Non-cash financing and investing activities:		
Common shares issued as part of a management agreement	\$ -	\$ 151,428
Change in cash flow estimates related to asset retirement obligations charged to mineral property interests	\$ 96,696	\$ -
Mobile equipment acquired through issuance of debt	\$ 295,125	\$ 2,865,983
Property, plant, equipment and mineral interest expenditures included in accounts payable	\$ 2,311,472	\$ 5,521,461
Inventory expenditures included in accounts payable	\$ 867,505	\$ -
Non-cash interest cost capitalized to mineral property interests	\$ 838,888	\$ 702,186
Non-cash amortization of discount and interest expense	\$ 606,422	\$ 934,342
Interest payable converted to principal balance on notes payable	\$ 974,986	\$ -

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10. Financial Instruments

Fair Value Measurements

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

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

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Share purchase warrants (Note 7(iv))	\$ 9,423,226	\$ -	\$ 9,423,226	\$ -
Derivatives – Hedging instruments (Note 8)	106,268	-	106,268	-
	<u>\$ 9,529,494</u>	<u>\$ -</u>	<u>\$ 9,529,494</u>	<u>\$ -</u>

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Share purchase warrants (Note 7(iv))	\$ 2,498,269	\$ -	\$ 2,498,269	\$ -

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value measurement of the financial instruments above use observable inputs in option price models such as the binomial and the Black-Scholes valuation models.

Credit Risk

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

The Company maintains its US Dollar and Canadian Dollar cash in bank accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the FDIC for up to \$250,000 and Canadian Dollar cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation (“CDIC”) for up to C\$100,000.

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10. Financial Instruments - Continued

Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they relate to US Dollar deposits held in Canadian financial institutions. As of March 31, 2016 and December 31, 2015, the Company's cash balances held in United States and Canadian financial institutions include \$26,658,270 and \$37,587,311 respectively, which are not fully insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

Interest Rate Risk

The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the three months ended March 31, 2016, a 1% decrease in interest rates would have reduced the interest income to a trivial amount.

Foreign Currency Exchange Risk

Certain purchases of corporate overhead expenditures are denominated in Canadian Dollar. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Canadian Dollar against the US Dollar may result in an increase in the Canadian operating expenses in US dollar terms. As of March 31, 2016, the Company maintained the majority of its cash balance in US Dollar. The Company currently does not engage in any currency hedging activities.

Commodity Price Risk

The Company's primary business activity is the development of the open pit, gold and silver, heap leach project on the Project. Decreases in the price of either of these metals from current levels has the potential to negatively impact the future viability of the Project. The Company holds a small portfolio of derivative contracts in the form of gold zero-cost collars in order to hedge against the gold spot price volatility risk. A 10% change in the gold spot price would have a trivial impact on the change in the fair value of the derivative contracts held by the Company. The Company may enter into hedging contracts from time to time to protect the cash flows from commodity price volatility.

11. Loss Per Share

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Numerator:		
Net loss – numerator for basic and diluted EPS	\$ (8,925,777)	\$ (1,436,187)
Denominator:		
Denominator for basic and diluted EPS	99,893,341	99,785,350
Basic loss per share	(0.09)	\$ (0.01)

For the three months ended March 31, 2016, 1,070,000 (Three months ended March 31, 2015 – 750,000) options and 10,000,000 (Three months ended March 31, 2015 - Nil) warrants were not included above as their impact would be anti-dilutive.

For the three months ended March 31, 2015 the convertible debentures were not included above as their impact would be anti-dilutive.

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12. Loan Payable

During the three months ended March 31, 2016, the Company acquired (1) one (Three months ended March 31, 2015 – (4) four) pieces of mining equipment from Komatsu through financing agreements. As at March 31, 2016 and December 31, 2015, the finance agreement balances are as follows:

	March 31, 2016	December 31, 2015
Balance, beginning of period	\$ 18,372,823	\$ 913,132
Additions	352,438	23,155,510
Down payments, taxes and principal repayments	(1,287,573)	(5,695,819)
Balance, end of period	\$ 17,437,688	\$ 18,372,823

The terms of the financing agreements are as follows:

	March 31, 2016	December 31, 2015
Total acquisition costs	\$ 24,614,468	\$ 24,262,031
Interest rates	0.00% - 4.40%	0.00% - 4.40%
Monthly payments	\$4,669 - \$33,906	\$4,669 - \$33,906
Average remaining life (Years)	3.23	3.46
Short-term portion	5,057,912	4,942,716
Long-term portion	\$ 12,379,776	\$ 13,430,107

For the three months ended March 31, 2016, the Company made total down payments of \$57,313 (Three months ended March 31, 2015 - \$574,600). The down payments consist of the sales tax on the assets and a 10% payment of the pre-tax purchase price. All of the loan agreements are for a term of four years, except one which is for three years, and are secured by the underlying asset except for the mining drill loan for which GQM Ltd. has provided a corporate guarantee.

The following table outlines the principal payments to be made for each of the remaining years:

Year	Principal Payments
2016	\$ 3,776,086
2017	\$ 5,198,262
2018	\$ 5,323,624
2019	\$ 3,133,086
2020	\$ 6,630
Total	\$ 17,437,688

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year. The reclassifications had no impact on the net loss, comprehensive loss, deficit accumulated or the cash flows as previously reported. Also see Note 15 for restatement of certain 2015 balances.

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14. Subsequent Events

On April 1st, 2016, the Company was to make the quarterly interest payment on the June 2015 loan. In accordance with the terms of the June 2015 loan agreement, the Company chose to exercise its right to add the interest owed on April 1st, 2016 to the principal balance. The principal balance of the loan was increased by \$988,696.

15. Prior Periods Financial Restatements

During the preparation of the deferred tax calculations for 2015 the Company found an accounting error in the calculation of the deferred income taxes for the year ended December 31, 2014. The accounting error related to the recognition of a deferred tax liability resulting from the dilution gain recorded in additional paid-in capital from the JV transaction (Note 7(vi)). The impact of the error on the financial statements for the three months ended March 31, 2015 are presented below. There was no impact on the Company's Consolidated Statements of Loss and Comprehensive Loss or the Consolidated Statement of Cash Flows.

Impact for the three months ended March 31, 2015:

	March 31, 2015	
	As Previously Reported	As Restated
Liabilities:		
Deferred tax liability	\$ -	\$ 12,922,000
Total liabilities	\$ 31,358,690	\$ 44,280,690
Shareholders' Equity:		
Additional paid-in capital	\$ 56,390,510	\$ 43,468,510
Total shareholders' equity attributable to GQM Ltd.	\$ 43,369,950	\$ 30,447,950
Total shareholders' equity	\$ 77,448,394	\$ 64,526,394