

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September 30, 2015

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

000-21777

(Commission File Number)

GOLDEN QUEEN MINING CO. LTD.

(Exact name of registrant as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation)

Not Applicable

(IRS Employer Identification No.)

**2300 – 1066 West Hastings Street
Vancouver, British Columbia
V6E 3X2 Canada**

(Address of principal executive offices)

Issuer's telephone number, including area code: **(778) 373-1557**

Former name, former address and former fiscal year, if changed since last report: **N/A**

Check whether the registrant (1) filed all reports required to be filed by sections 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Check whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 9, 2015 the registrant's outstanding common stock consisted of 99,928,683 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of the operating results and financial condition of Golden Queen Mining Co. Ltd. ("Golden Queen", "Company", "we", "our" or "us") is as at November 9, 2015 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the quarter ended September 30, 2015 and the notes thereto.

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is prepared in accordance with U.S. generally accepted accounting principles and all amounts herein are in U.S. dollars unless otherwise noted.

The Soledad Mountain Project

Overview

The Company is developing a gold-silver, open pit, heap leach operation on its fully-permitted Soledad Mountain property, located just outside the town of Mojave in Kern County in southern California. The Soledad Mountain Project (the "Project") will use conventional open pit mining methods and the cyanide heap leach and Merrill-Crowe processes to recover gold and silver from crushed, agglomerated ore.

The Company closed a joint venture transaction (the "Joint Venture Transaction") with Gauss LLC ("Gauss") pursuant to which it sold 50% of its ownership in the Project for an investment of \$110 million in September 2014. Gauss is a funding vehicle owned by entities controlled by Leucadia National Corporation (NYSE: LUK) ("Leucadia") and certain members of the Clay family, a shareholder group which, at the time of the Joint Venture Transaction, collectively owned approximately 27% of the issued and outstanding shares of Golden Queen (the "Clay Group"). Gauss is owned 70.51% by Gauss Holdings LLC ("Gauss Holdings", Leucadia's investment entity) and 29.49% by Auvergne LLC ("Auvergne", the Clay Group's investment entity).

Golden Queen Mining Co., Inc. ("GQM Inc."), a California corporation and the wholly-owned subsidiary of the Company, was converted into a limited liability company, Golden Queen Mining Company, LLC ("GQM LLC") on September 10, 2014 in preparation for the formation of the Joint Venture. Golden Queen Mining Holdings ("GQ Holdings"), the Company's wholly-owned subsidiary, now owns a 50% interest in GQM LLC and Gauss holds the remaining 50%.

On June 15, 2015, GQ Holdings and Gauss LLC each made a single capital contribution of \$12.5 million to GQM LLC, for an aggregate contribution of \$25 million.

The Company started construction of infrastructure-related items during the third quarter of 2013 and expects commissioning of the processing facilities in late 2015.

Please refer to the Company's Form 10-K dated March 16, 2015 for information on the Project and the Joint Venture Transaction.

Construction of Infrastructure and Project Facilities

Construction progressed on site and proceeded with no incidents to report during the third quarter and to date in the fourth quarter of 2015.

Please refer to ***Cash used in Investing Activities*** below for further details on the work done on site.

- Robert C. Walish, Jr. was appointed to the position of Chief Operating Officer of GQM LTD in August. Mr. Walish also serves as the President & Chief Executive Officer of GQM LLC;
- There are now 60 full-time employees in Mojave with an expected increase to over 100 full-time employees in the near term. The management team is also in place. The contractors' combined workforce varies from 50 to 60 depending upon the status of project construction;
- The assay laboratory was commissioned in late July and is now fully operational;
- GQM LLC received four 100-ton trucks, two wheel loaders and one medium dozer during the third quarter;
- Stockpiling of unprocessed ore started in late August;

- Construction of the Phase 1, Stage 1 heap leach pad was completed in late September;
- Structural steel and equipment for the crushing-screening plant and Merrill-Crowe plant was delivered during the third quarter and the assembly continued;
- Construction of the basic water supply infrastructure is completed and the backup production water well is currently being connected to the mine water supply infrastructure;
- Construction of the site-wide power distribution system has essentially been completed, however, energization by SCE (power company) has not yet occurred. It is expected early in the fourth quarter.

February 2015 Technical Report and Updated Feasibility Study

The Company engaged Mine Development Associates (“MDA”) in 2014 to update the Project’s geological model from first principles and to provide updated mineral resource estimates. The Company also engaged Norwest Corporation (“Norwest”) and Kappes, Cassidy & Associates (“KCA”) to update the mineral reserve estimates and prepare a feasibility study and economic analysis based upon current information. The updated mineral resource and reserve estimates and results of the feasibility study were disclosed in a news release on February 10, 2015. The Company filed a technical report pursuant to National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) titled “Soledad Mountain Technical Report and Updated Feasibility Study” with an effective date of February 25, 2015 (the “Technical Report”) on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on February 27, 2015 and with the U.S. Securities And Exchange Commission (“SEC”) on March 2, 2015. The Technical Report was prepared by Carl E. Defilippi of KCA, Sean Ennis of Norwest, Michael M. Gustin of MDA and Peter Ronning of New Caledonian Geological Consulting, each of whom is a Qualified Person and independent of the Company pursuant to NI 43-101.

The updated feasibility study highlights include:
(expressed on a 100% Basis)

- Life of mine average annual production of 74k oz of gold and 781k oz of silver during full production Years 2-11;
- Total production of 807k oz of gold and 8.3mm oz of silver;
- Stripping ratio of 3.41:1 (waste tons : ore tons);
- First quartile total cash costs net of by-products of \$518/oz of gold (including royalties, California fees, property taxes, off-site refining charges and reclamation financial assurance) and of \$558/oz of gold including sustaining capital costs;
- Pre-production capital costs of approximately \$144mm in-line with the capital costs update provided in March 2014: \$99.3mm in construction capital costs, \$15mm contingency, \$10.5mm in working capital and financial assurance cost estimate and \$19.2mm for the mobile mining equipment. The mobile mining equipment is being financed through Komatsu Financial;
- Base case after-tax net present value (5% discount rate) of \$214mm with a gold price of \$1,250/oz and a silver price of \$17/oz; and
- Base case after-tax IRR of 28.3% with a gold price of \$1,250/oz and a silver price of \$17/oz.

Please refer to the Company’s news release dated February 10, 2015 and Form 10-K dated March 16, 2015 for further details on the Technical Report and updated feasibility study.

The Center for Biodiversity Petition to List the Mojave Shoulderband Snail as an Endangered Species

On January 31, 2014, the Center for Biological Diversity (“CBD”) filed an emergency petition (the "Petition") with the United States Fish and Wildlife Service ("USFWS") asking the USFWS to list the Mohave Shoulderband snail as a threatened or endangered species. Citing a report published more than 80 years ago, the Petition claims that the snail exists in only three places, and that most of the snail habitat occurs on Soledad Mountain, where the Company is developing the Project.

The Company worked with its environmental and legal advisors to prepare a detailed response to the petition, which was filed with the USFWS on March 31, 2014. The Company’s response is available on the Company’s website at www.goldenqueen.com.

On April 22, 2014, the Company learned that the USFWS had determined that there is no emergency to justify listing the Mohave Shoulderband snail as threatened or endangered under the Endangered Species Act of 1973, as

amended. The USFWS reviewed the petition filed by the CBD and concluded that there was no imminent threat to the snail that would cause them to believe an emergency listing was required.

Even though an emergency listing was not warranted, the USFWS is required by the Endangered Species Act to continue processing the Petition. As the USFWS stated in its notice, taking this step does not mean that a listing will be justified at the end of the 12-month study period.

The Project has received all necessary regulatory approvals. The decision by the USFWS to proceed with a study does not affect the Project's regulatory approvals or prevent the Project from moving forward.

Other Legal Matters

National Labor Relations Board

During the second quarter of 2014, the Company filed a complaint with the National Labor Relations Board (the "NLRB") against the Building and Construction Trades Council of Kern, Inyo, and Mono Counties (the "Union"). The complaint was in response to action taken by the Union related to a 1997 project labor agreement (the "PLA") that the Company believes is not applicable to the current Project and, in any event, unenforceable under federal labor law.

The NLRB informed the Company that the NLRB's General Counsel had found in favor of the Company in the above matter in early October 2014. The NLRB issued a complaint against the Union with the NLRB in the role of prosecutor. In the case the NLRB Region 31 will be acting as a representative of the NLRB General Counsel and will be prosecuting this unfair labor practice charge against the Union.

A Field Attorney for the NLRB reported that he had his first substantive conversation with legal counsel for the Union on December 4, 2014. The Field Attorney explored the possibility of a settlement whereby the Union would agree not to enforce the 1997 PLA. Legal counsel for the Union indicated that they were not interested in a settlement because the Unions believed that the PLA was lawful and enforceable. The Field Attorney then asked the Company's legal counsel about the possibility of a "non-Board" settlement, meaning a settlement between the Company and the Union. Our legal counsel's response was that we had made several attempts to settle this issue and a likelihood of a settlement at this point was low.

A hearing before a United States Administrative Law Judge was held in Los Angeles from June 24 to June 26, 2015. The various parties that attended the hearing prepared briefs that were submitted to the Judge on September 18th, 2015.

Complaint on Alleged Short-swing Trading Profits

We received notice that a complaint was filed on April 22, 2015 in United States District Court, District of Massachusetts seeking recovery pursuant Section 16(b) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), of alleged short-swing trading profits. The complaint was filed by Ryan T. Darby, as plaintiff, and named Landon T. Clay, a shareholder of the Company ("Clay"), and the Company as defendants. The plaintiff alleges that Mr. Clay realized short-swing profits in connection with transactions in Company securities within a period of six months. There can be no assurance that the Company will receive any funds as a result of this suit. Although the Company is only a nominal defendant in this action, time and money may be required to resolve it. The Company is unable to predict the timing or outcome of this litigation. Each of Mr. Clay and the Company believes that the allegations are without merit and intend to vigorously defend against the claims.

In conjunction with the June 2015 Loan, as defined elsewhere herein, the Company agreed to indemnify the Clay Group and their affiliates for up to \$350,000 in legal expenses (not damages) incurred in defense of complaints brought against the lenders and their affiliates by shareholders of the Company under Section 16 of the Exchange Act. The legal fees reimbursed by the Company currently amount to \$53,723. Please refer to the ***Transaction with Related Parties*** section for further details on the June 2015 Loan.

Management Changes

On August 10, 2015, the President and Chief Executive Officer of the Company stepped down. Mr. Thomas M. Clay, the current Chairman of the Company, assumed the role of Interim Chief Executive Officer. The Company also appointed the President and Chief Executive Officer of Golden Queen LLC to the position of Chief Operating Officer. The Company and the former President and Chief Executive Officer entered into a separation agreement as of August 10, 2015, which provides for the termination of his employment agreement and an agreement for the Company to pay six month's salary commencing from the date of termination. The separation agreement also confirms that the 150,000 bonus shares that were to be issued upon reaching the commencement of production will no longer be issuable as that milestone was not met as at the date of termination of the employment agreement.

Results of Operations

The following are the results of operations for the three and nine months ended September 30, 2015, and the corresponding periods ended September 30, 2014.

The Company had no revenue from operations during the three and nine months ended September 30, 2015 and the corresponding periods ended September 30, 2014.

The Company incurred general and administrative expenses of \$672,738 and \$3,403,486 during the three and nine months ended September 30, 2015 as compared to \$1,119,216 and \$4,266,435 for the same periods in 2014. Costs were lower by \$446,478 and \$862,949 for the three and nine months ended September 30, 2015 when compared with the same periods in 2014. The reasons for the variance in costs are highlighted below.

The following significant general and administrative expenses were incurred during the nine months ended September 30, 2015 with a comparison to costs incurred during the same period in 2014:

- \$1,164,061 (2014 - \$787,453) for corporate salary. This increase is related to the addition of administrative personnel in Mojave as the Project is advancing towards production. The costs incurred during the nine months ended September 30, 2015 also include 2014 bonuses for H. Lutz Klingmann, the former CEO of the Company, and Andrée St-Germain, CFO of the Company, of C\$45,000 and C\$37,500, respectively. Corporate salary expenses also include a signing bonus for GQM LLC's newly appointed President. The Company also started accruing for a construction bonus to be paid to employees upon successful completion of the construction and commissioning of the facilities.
- \$700,912 (2014 - \$1,214,603) for legal expenses. Legal costs were significantly higher during the nine months ended September 30, 2014 as compared to the same period in 2015 due to the fees related to the Joint Venture Transaction completed during the third quarter of 2014.
- \$372,976 (2014 - \$452,097) for audit and accounting fees. Audit and accounting costs were higher during the nine months ended September 30, 2014 as compared to the same period in 2015 due to the fees related to the Joint Venture Transaction completed during the third quarter of 2014.
- \$896,752 (2014 - \$581,501) for office expenses. Fees were higher during the nine months ended September 30, 2015 as compared to the same period in 2014 due to the cost related to the ramp up of the Mojave office. Office expenses include fees such as office supplies and equipment, software, site support, vehicle expense, operating supplies and other such expenses.
- \$217,515 (2014 - \$78,614) for insurance expenses. The insurance expense increase is related to the general increase in corporate and site activities. Enhanced insurance coverage is required as the Project is advancing towards production.
- \$172,283 (2014 - \$677,081) for corporate expenses. The Company incurred significantly higher costs related to project financing during the nine months ended on September 30, 2014 as compared to the same period in 2015.
- \$83,428 (2014 - \$175,033) for public relations & promotion expenses. The Company incurred higher costs related to project financing during the nine months ended on September 30, 2014 as compared to the same period in 2015. The costs incurred in 2014 included fees related to the Joint Venture Transaction.

The following significant general and administrative expenses were incurred during the three months ended September 30, 2015 with a comparison to costs incurred during the same period in 2014:

- \$306,499 (2014 - \$207,143) for office expenses. Fees were higher during the three months ended September 30, 2015 as compared to the same period in 2014 due to the cost related to the ramp up of the Mojave office. Office expenses include fees such as office supplies and equipment, software, site support, vehicle expense, operating supplies and other such expenses.
- \$97,607 (2014 - \$187,576) for audit and accounting fees. Audit and accounting costs were higher during the three months ended September 30, 2014 as compared to the same period in 2015 due to the fees related to the Joint Venture Transaction completed during the third quarter of 2014.
- \$85,590 (2014 - \$285,836) for legal expenses. Legal costs were significantly higher during the three months ended September 30, 2014 as compared to the same period in 2015 due to the fees related to the Joint Venture Transaction completed during the third quarter of 2014.
- \$85,364 (2014 - \$39,418) for corporate expenses. The increase during the three months ended September 30, 2015 is due to general increase in corporate activity.
- \$81,613 (2014 - \$36,706) for insurance expenses. The insurance expense increase is related to the general increase in corporate and site activities. Enhanced insurance coverage is required as the Project is advancing towards production.
- \$31,711 (2014 - \$78,765) for public relations & promotion expenses. The Company incurred higher costs related to project financing during the nine months ended on September 30, 2014 as compared to the same period in 2015. The costs incurred in 2014 included fees related to the Joint Venture Transaction.

The Company experienced a net foreign exchange gain of \$319,600 and a gain of \$786,688 during the three and nine months ended September 30, 2015, respectively, as compared with a gain of \$300,989 and \$279,457 for the same periods in 2014. The net foreign exchange gain is made up by realized and unrealized gains and losses related to the Company's convertible debentures, Canadian expenditures and the Canadian balances of cash and accounts payable. The net foreign exchange gain was mainly the result of the gain realized on the convertible debentures, which were denominated in Canadian dollars while the Company's functional currency is the US dollar. The exchange rate, stated in Canadian dollars per one US dollar, moved from \$1.16 as of December 31, 2014 to \$1.33 on September 30, 2015.

For the three and nine months ended September 30, 2015, the Company incurred a total interest expense of \$981,390 and \$2,999,254, respectively (three months ended September 30, 2014 - \$208,126, nine months ended September 30, 2014 - \$1,163,543) related to its various loans and its convertible debentures. The increase was mainly due to the amortization of the discounts and the interest payable related to the convertible debentures, the December 2014 loan and the June 2015 Loan. Please refer to the *Transaction with Related Parties* section for a complete breakdown of the interest expenses as there was a portion of the interest capitalized to mineral property interests.

The amount of the Company's derivative liability includes the convertible debentures and the warrants issued in conjunction with the June 2015 Loan. The Company recorded an increase in the derivative liability including foreign exchange of \$598,770 as a result of an increase in the Company's share price during the three months ended September 30, 2015 as compared to a decrease of \$2,861,314 for the same quarter in 2014. For the nine months ended September 30, 2015, the Company recorded a decrease in the derivative liability including foreign exchange of \$1,868,329, of which \$1,829,770 relates to the convertible debentures and \$38,559 relates to the share purchase warrants, as a result of a decrease in the Company's share price during the nine months ended September 30, 2015 as compared to an increase of \$1,251,381 for the same period in 2014, all of which is related to the convertible debentures. The convertible debenture was repaid in July 2015 and therefore there is no related derivative liability as of September 30, 2015. These derivative liability changes are a non-cash item and were recorded in accordance with accounting pronouncement ASC 850-40-15. Refer to Note 8 of the unaudited condensed consolidated interim financial statements for a detailed analysis of the changes in fair value of the derivative liability.

Interest income of \$49,805 (2014 - \$18,940) was higher during the three months ended September 30, 2015 as compared with the same period in 2014 due to higher cash balances in 2015. For the nine months ended September

30, 2015, interest income was \$168,330 (2014 - \$33,778), significantly higher than the same period in 2014 due to higher cash balances. Interest rates remained low during the quarter and are projected to remain low for the remainder of 2015.

The Company recorded a net and comprehensive loss of \$1,924,167* and \$4,739,168* (or \$0.02 and \$0.05 loss per basic share) during the three and nine months ended September 30, 2015 respectively, as compared to net and comprehensive loss of \$1,811,843 and \$10,012,336 (or \$0.02 and \$0.10 loss per basic share) during the same periods of 2014. The difference between the three and nine months ended September 30, 2015 and 2014 is mainly due to the costs associated with the Joint Venture Transaction in the third quarter of 2014. During the nine months ended September 30, 2014, the Company had significantly higher accounting and legal costs that were associated with the Joint Venture Transaction. In addition, there were closing and transaction fees that totaled \$4,525,000 during the nine months ended September 30, 2014 as compared with \$1,500,000 in closing fees during the same period in 2015.

* Net income (loss) for the period attributable to the Company.

Summary of Quarterly Results

Results for the eight most recent quarters are set out in the table below:

Results for the quarter ended on:	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014
Item	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net income (loss) for the quarter	(1,924,167)*	(1,379,265)*	(1,436,186)*	1,543,120*
Basic net income (loss) per share	(0.02)	(0.01)	(0.01)	0.02
Diluted net income (loss) per share	(0.02)	(0.01)	(0.01)	0.00

Results for the quarter ended on:	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Item	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net income (loss) for the quarter	(1,811,843)*	(705,843)	(7,494,638)	1,221,564
Basic net income (loss) per share	(0.02)	(0.01)	(0.08)	0.02
Diluted net income (loss) per share	(0.02)	(0.02)	(0.08)	(0.01)

* Net income (loss) for the period attributable to the Company

For the quarters illustrated in the above table, the main reasons for the significant fluctuations in net income (loss) between periods are the fluctuations in the Company's derivative liabilities and the costs related to the Joint Venture Transaction, as explained above. The Company's derivative liabilities are a function of the Company's stock price against the instruments strike price and the exchange rate between the Canadian dollar and the US dollar. As the stock price rises, the derivative liabilities increase resulting in the Company recognizing losses. When the stock price decreases, the Company recognizes gains.

For fiscal 2015, the Company experienced a loss related to its derivative liabilities in the amount of \$101,749 (2014 – Loss of \$5,747,376) in the first quarter whereas it recorded a gain of \$2,568,849 (2014 – Gain of \$1,634,681) during the second quarter. The second quarter gain was however off-set by higher interest expenses and a one-time closing fee of \$1,500,000 paid in connection with the June 2015 Loan. In the third quarter of 2015, the Company experienced a loss of \$598,770 (2014 – Gain of \$2,861,314) related to the derivative liabilities. Adding to the losses for the three months ended September 30, 2015 was the interest expense and amortization of the discount on the June 2015 loan and the convertible debenture and the interest expense related to the Komatsu loans. The total charge for the three months ended September 30, 2015 was \$1,538,297. The third quarter of 2015 was the first full quarter in which the June 2015 loan was outstanding.

For fiscal 2014, the Company experienced a significant loss related to its derivative liabilities in the amount of \$5,747,376 (2013 – Gain of \$611,949) in the first quarter whereas the second, third and fourth quarters of 2014 resulted in gains of \$1,634,681 (2013 – Gain of \$1,672,861), \$2,861,314 (2013 – Gain of \$475,862) and \$2,255,598 (2013 – Gain of \$2,624,988), respectively. In addition to the derivative liabilities, the Company also incurred in 2014 a commitment fee of \$2,250,000 (2013 - \$Nil) and a Joint Venture Transaction fee of \$2,275,000 (2013 - \$Nil) in the third quarter of fiscal 2014 that were meaningful contributing factors to the significant loss recognized in that quarter. Both fees were one-time fees not previously incurred in earlier quarters or to be incurred in future quarters.

In general, the results of operations can vary from quarter to quarter depending upon the nature, timing and cost of activities undertaken during the quarter, whether or not the Company incurs gains or losses on foreign exchange or grants stock options, and the movements in its derivative liability.

Please refer to the **Results of Operations** section above for the results of operations for the three and nine months ended on September 30, 2015.

Asset Retirement Obligation

The Company has provided reclamation financial assurance to the Bureau of Land Management, the State and Kern County and a reasonably foreseeable release financial assurance to the Lahontan Regional Water Quality Control Board (the “Regional Board”) totaling \$902,382 (December 31, 2014 - \$553,329; September 30, 2014 - \$563,105).

The total asset retirement obligation as of September 30, 2015 is \$902,382 (December 31, 2014 - \$624,142; September 30, 2014 - \$552,250).

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 nine months ended September 30, 2015, there was an increase of \$278,240 to the retirement obligations as compared with the year ended December 31, 2014, where \$71,892 was capitalized to mineral property interests as the asset portion of the retirement obligation.

Reclamation Financial Assurance

The Company has provided reclamation financial assurance to the Bureau of Land Management, the State and Kern County totaling \$624,142 (December 31, 2014 - \$553,329; September 30, 2014 - \$563,105). This deposit earns interest at 0.2% per annum and is not available for working capital purposes. The increase in the deposit in 2015 was to ensure the reclamation financial assurance covers the asset retirement obligation for 2015.

The financial assurance increased to \$624,142 in 2015 based upon the anticipated work done on site in 2015 and recorded this anticipated obligation as at December 31, 2014. The estimate was submitted to the State Office of Mine Reclamation for review and was subsequently approved by the Kern County Engineering, Surveying & Permit Services Department.

Reasonably Foreseeable Release Financial Assurance

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 Lahontan Regional Water Quality Control Board (the “Regional Board”). The reclamation estimate for 2015 is \$278,240 (December 31, 2014 - \$Nil).

Property Rent Payments

The Company continues to make property rent payments to landholders and paid \$68,706 in cash for the nine months ended September 30, 2015, as compared to \$116,436 in cash and \$24,480 in common shares of the Company during the same period in 2014. The overall payments during the year are expected to decrease from approximately \$184,000 in fiscal 2014 to approximately \$140,000 in fiscal 2015 as the Company has been buying back royalty interests. The Company is in ongoing discussions with landholders and has made offers to buy back royalty interests. As of September 30, 2015, \$552,971 of cumulative property rental payments were capitalized to mineral properties.

Mine Development Commitments

As of September 30, 2015, GQM LLC has entered into contracts for construction totaling approximately \$60.3 million of which \$10.9 million remains to be paid. The major commitments relate to the construction of the crushing-screening plant for \$18.1 million, the construction of the Phase 1, Stage 1 heap leach pad for \$8.4 million, the construction of the conveying and stacking system for \$8.2 million and work related to the Merrill-Crowe plant equipment for \$7.2 million. The commitments are expected to be paid out in 2015. GQM LLC made approximately \$4.0million in additional construction commitments subsequent to September 30, 2015.

In addition, GQM LLC committed, as of September 30, 2015, to \$20.6 million of Komatsu mobile mining equipment with Road Machinery LLC, of which \$16.7 million has been received (see Note 11 of the unaudited condensed consolidated interim financial statements for more details). Please refer to ***Subsequent Events*** section below for additional commitments entered into by the Company subsequent to September 30, 2015.

GQM LLC's contractual obligations as of September 30, 2015 are shown in the table below:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (Komatsu Financial loans)	\$13,001,602	\$3,323,701	\$6,114,722	\$3,563,179	-
Capital lease obligations	-	-	-	-	-
Operating lease obligations	-	-	-	-	-
Purchase obligations (see above) (construction contracts)	\$10,939,072	\$10,939,072	-	-	-
Asset retirement obligations	\$902,382	-	-	-	\$902,382
Other long-term liabilities	-	-	-	-	-
Total	\$24,843,056	\$14,262,773	\$6,114,722	\$3,563,179	\$902,382

GQM LTD's contractual obligations as of September 30, 2015 are shown in the table below:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Interest payable - June 2015 Clay loan	\$1,166,667	\$1,166,667	-	-	-
2015 June Clay Loan (Face value)	\$37,500,000	-	\$37,500,000	-	-
Other long-term liabilities	-	-	-	-	-
Total	\$38,666,667	\$1,166,667	\$37,500,000	-	-

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Stock Option Plan

The Company's current stock option plan (the "Plan") was adopted by the Company in 2013 and approved by shareholders of the Company in 2013. The Company also adopted a house keeping amendment to the plan on April 27, 2015 to clarify the procedure for fixing the early termination date of stock options. 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 Toronto Stock Exchange (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 the expiry date of the vested portion of a stock option will be the earlier of the date so fixed by the Board at the time the stock option is awarded and the early termination date (the "Early Termination Date"). The Early Termination Date will be the date the vested portion of a stock option expires following the option holder ceasing to be a director, employee or consultant, as determined by the Board at the time of grant, or in the absence thereof at any time prior to the time the option holder ceases to be a director, employee or consultant, in accordance with and subject to the provisions of the Plan. 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.

The Company granted 50,000 stock options to a consultant of the Company on April 19, 2010. The options were exercisable at a price of \$1.22 per share for a period of 5 years from the date of grant. The options expired unexercised on April 19, 2015.

During the quarter ended June 30, 2013, the Company granted 300,000 options to an officer of the Company, on June 3, 2013. The options are exercisable at a price of \$1.16 for a period of five years from the date of grant and vest over a period of 18 months with 100,000 vesting in 6, 12 and 18 months respectively. During the fourth quarter of 2014, the officer resigned and as a result, 100,000 unvested stock options were forfeited. The remaining 200,000 remain outstanding with an accelerated expiration date of November 11, 2015. The Company also granted 50,000 stock options to a consultant of the Company on June 3, 2013. The options are exercisable at a price of \$1.16 for a period of five years from the date of grant and vest immediately.

During the quarter ended September 30, 2013, the Company granted 300,000 options to Ms. Andrée St-Germain, the Company's Chief Financial Officer, on September 18, 2013. The options are exercisable at a price of \$1.26 for a period of five years from the date of grant and vest over a period of 12 months with 100,000 vesting on the date of grant, 100,000 vesting in 6 and 12 months respectively. The Company also granted 150,000 stock options to the Company's independent directors on September 4, 2013. The options are exercisable at a price of \$1.59 for a period of five years from the date of grant and vest immediately.

The Company did not grant options during the quarters ended December 31, 2013, March 31, 2014, June 30, 2014, September 30, 2014, December 31, 2014, March 31, 2015 and June 30, 2015.

The Company granted the aggregate amount of 430,000 options on September 8, 2015 to the Company's directors. The options are exercisable at a price of \$0.58 for a period of five years from the date of grant and vest immediately. At the same time, the Company granted 140,000 options to Ms. Andrée St-Germain at an exercise price of \$0.58. The amount of 46,666 options vest immediately, 46,667 options vest 12 months from the grant date, and a further 46,667 options vest 24 months from the grant date. The Company recorded stock-based compensation of \$155,203 in the third quarter of 2015 related to the issuance of the stock options.

A total of 1,270,000 (1,176,666 exercisable) (December 31, 2014 – 750,000 (750,000 exercisable); September 30, 2014 – 850,000 (750,000 exercisable)) common shares were issuable pursuant to such stock options as at September 30, 2015.

Transactions with Related Parties

Except as noted elsewhere in this Form 10-Q, related party transactions are disclosed as follows:

(i) Consulting Fees

For the three and nine months ended September 30, 2015, the Company paid \$Nil and \$201,312 respectively (2014 - \$42,417 and \$126,476) to Mr. H. Lutz Klingmann for services as President of the Company, of which \$Nil (December 31, 2014 - \$Nil; September 30, 2014 - \$13,811) is payable as at September 30, 2015. Included in the consulting fees for the three and nine months ended September 30, 2015 was \$Nil and \$151,428 (nine months ended September 30, 2014 - \$Nil) related to 150,000 bonus shares issued in accordance with Mr. Klingmann's management agreement (Refer to Note 7 – Commitments and Contingencies of the unaudited condensed consolidated interim financial statements). On May 1, 2015 Mr. Klingmann became an employee of the Company and his salary, to August 10, 2015, the date he ceased to be an employee, is included under corporate salary expenses. Please refer to ***Management Changes*** above for additional changes in management.

During the three and nine months ended September 30, 2015, the Company paid a total of \$44,732 and \$81,584, respectively (2014 - \$11,640 and \$35,079, respectively) for regular director fees to the three independent directors and Thomas M. Clay.

(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), to a significant shareholder group. 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 had not been converted by the holder prior to the maturity date, then the Company could have converted them at the lower of C\$1.03 or the market price as at the maturity date.

The market price on the maturity date will be determined based on the volume-weighted average price of the shares traded on the Toronto Stock Exchange for the five trading days preceding the maturity date.

A total of C\$7,500,000 of the offering was subscribed for by an investment vehicle managed by Thomas M. Clay, a Director and insider of the Company. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument which amounted to \$10,049.

The conversion feature of the convertible debentures meets the definition of a derivative liability instrument because the conversion feature is denominated in a currency other than the Company's functional currency as well as the fact the exercise price is not a fixed price as described above. Therefore, the conversion feature does not meet the "fixed-for-fixed" criteria outlined in ASC 815-40-15.

As a result, the conversion feature of the notes is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income or loss.

The Company elected to repay the convertible debenture rather than convert into common shares in the Company. The convertible debenture were repaid in full on July 24, 2015.

The fair value of the derivative liability related to the conversion feature as at September 30, 2015 is \$Nil (September 30, 2014 - \$4,085,368; December 31, 2014 - \$1,829,770). The derivative liability was calculated using an acceptable option pricing valuation model with the following assumptions:

	2015	2014
Risk-free interest rate	0.49% - 0.50%	1.00% - 1.09%
Expected life of derivative liability	0.07 – 0.32 years	0.57 – 1.32 years
Expected volatility	49.36% - 77.00%	73.03 – 98.21%
Dividend rate	0.00%	0.00%

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

	September 30, 2015	December 31, 2014
Balance, beginning of the period	\$ 1,829,770	\$ 2,833,987
Change in fair value of derivative liability including foreign exchange	(1,829,770)	(1,004,217)
Balance, end of the period	\$ -	\$ 1,829,770

The change in the convertible debentures is as follows:

	September 30, 2015	December 31, 2014
Balance, beginning of the period	\$ 6,649,967	\$ 4,642,620
Discounted convertible debentures	-	-
Amortization of discount	1,852,754	2,510,611
Foreign exchange	(827,721)	(503,264)
Repayment of the convertible debenture	(7,675,000)	-
Balance, end of the period	\$ -	\$ 6,649,967

During the three and nine months ended September 30, 2015, in addition to the amortization of the discount on the convertible debenture, the Company incurred interest expense of \$14,321 and \$94,907, respectively (Three and nine months ended September 30, 2014 - \$45,543 and \$137,059, respectively) based on the 2% per annum stated interest rate for a total amortization of discount and interest expense of \$276,524 and

\$1,947,661 for the three and nine months ended September 30, 2015 (Three and nine months ended September 30, 2014 - \$711,220 and \$1,196,353, respectively). Interest payable relating to the convertible debenture as at September 30, 2015 was \$Nil (December 31, 2014 - \$70,721). As the convertible derivative matures, the amortization of the discount increases and as such, the total interest expense increases month-to-month and quarter-to-quarter.

On July 24, 2015, the Company repaid its C\$10,000,000 (\$7,675,000) convertible debenture and accrued interest of C\$200,000 (\$153,500).

(iii) Notes Payable

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

The January Loan was repaid on a date that was 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 Loan was repaid. The Company repaid the \$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. In total, the Company incurred \$500,000 in interest expense and \$500,000 in additional charge related to the January Loan.

On December 31, 2014 the Company also entered into a new loan (the “December Loan”) with the same parties for an amount of \$12,500,000. The December Loan was due on demand on July 1, 2015 with 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 closing 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 Loan to extend the maturity to December 8, 2016 and increasing 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 Loan. The Company also incurred a closing 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 transaction 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. As such, as of September 30, 2015, no accrual has been made for the potential costs related to the registration rights.

	September 30, 2015	December 31, 2014
Balance, beginning of the period	\$ 13,881,305	\$ -
Fair value at inception	33,497,277	22,500,000
Repayment of loans	(2,500,000)	(7,500,000)
Amortization of closing and legal fees	967,156	-
Amortization of discount on the June Loan	743,866	-
Extinguishment of the December Loan	(12,500,000)	-
Loss on extinguishment of debt	151,539	-
Capitalized closing fee and legal fees	-	(1,118,695)
Balance, end of the period	<u>\$ 34,421,143</u>	<u>\$ 13,881,305</u>

During the three and nine months ended September 30, 2015, in addition to the amortization of the discount on the June Loan, the Company incurred interest expense of \$937,500 and \$1,166,667, respectively. For the same periods in 2014 the Company incurred interest expense of \$126,027 and \$867,123, respectively. Of the \$867,123, \$500,000 related to a finance charge.

(iv) 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 with respect to the share purchase warrants. 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 September 30, 2015 is \$3,964,164 (December 31, 2014 - \$Nil). The derivative liability at inception and at period end, was calculated using an acceptable option pricing valuation model with the following assumptions:

	2015	2014
Risk-free interest rate	0.81% - 1.02%	-
Expected life of derivative liability	4.69 - 5 years	-
Expected volatility	72.29% - 74.29%	-
Dividend rate	0.00%	-

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

	September 30, 2015	December 31, 2014
Balance, beginning of the period	\$ -	\$ -
Fair value at inception	4,002,723	-
Change in fair value	(38,559)	-
Balance, end of the period	<u>\$ 3,964,164</u>	<u>\$ -</u>

(v) Advance

In July 2014, GQM Inc. entered into a \$10,000,000 short-term advance agreement (the “Advance”) with Leucadia and Auvergne (collectively, the “Lenders”), with the Company as guarantor. Leucadia provided \$6,500,000 of the loan and Auvergne provided \$3,500,000. The Advance had an interest rate of 10.0% per annum, compounded monthly. Auvergne is an investment vehicle managed by Thomas M. Clay, a Director and insider of the Company. On closing of the Joint Venture Transaction on September 15, 2014, GQM LLC applied part of the investment of \$110,000,000 to repayment of principal and accrued interest on the \$10,000,000 bridge loan advanced by the Lenders in July 2014. GQM LLC paid \$209,607 in interest

payment, including \$73,632 paid to Auvergne on the July 2014 Advance, of which \$45,264 was capitalized to mineral property interests.

(vi) Amortization of Discounts and Interest Expense

The following table summarizes the amortization of discount and interest on loan and convertible debentures as at September 30, 2015 and as at September 30, 2014.

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest expense related to the convertible debentures	\$ 14,321	\$ 45,543	\$ 94,907	\$ 137,059
Interest expense related to the January 2014 loans	-	126,027	-	867,123
Interest expense related to the December 2014 loans	-	-	547,945	-
Interest expense related to the June 2015 loans	937,500	-	1,166,667	-
Interest expense related to Komatsu Financial loans	91,301	-	135,859	-
Amortization of debt discount on the convertible debentures	262,203	665,676	1,852,754	1,779,294
Interest on Gauss advance	-	209,607	-	209,607
Amortization of the December 2014 loan closing fees	-	-	967,155	-
Amortization of the June 2015 loan discount	600,797	-	743,866	-
Amortization of discount and interest on loan and convertible debentures	<u>\$ 1,906,122</u>	<u>\$ 1,046,853</u>	<u>\$ 5,509,153</u>	<u>\$ 2,993,083</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 Sep. 30, 2015	Three Months Ended Sep. 30, 2014	Nine Months Ended Sep. 30, 2015	Nine Months Ended Sep. 30, 2014
Amortization of discounts and interest on loan, advance and convertible debenture	\$ 1,906,122	\$ 1,046,853	\$ 5,509,153	\$ 2,993,083
Less: Interest costs capitalized	(924,732)	(838,727)	(2,509,899)	(1,829,540)
Amortization of discounts and interest expensed	<u>\$ 981,390</u>	<u>\$ 208,126</u>	<u>\$ 2,999,254</u>	<u>\$ 1,163,543</u>

(vii) Joint Venture Transaction

On September 15, 2014, the Company closed the Joint Venture Transaction with Gauss resulting in both parties owning a 50% interest in the Project. Pursuant to the Joint Venture Transaction, Golden Queen converted its wholly-owned subsidiary GQM Inc., the entity developing the Project, into a California limited liability company named GQM LLC. On closing of the transaction, Gauss acquired 50% of GQM LLC by investing \$110 million cash in exchange for newly issued membership units of GQM LLC. GQ Holdings, a newly incorporated subsidiary of the Company, holds the other 50% of GQM LLC.

Gauss is a funding vehicle owned by entities controlled by Leucadia and certain members of the Clay family, a shareholder group which collectively owned approximately 27% of the issued and outstanding shares of Golden Queen (the "Clay Group") at the time of the transaction. Gauss is owned 70.51% by Gauss

Holdings LLC (“Gauss Holdings”, Leucadia’s investment entity) and 29.49% by Auvergne. Pursuant to the transaction, Leucadia was paid a transaction fee of \$2,000,000 and \$275,000 was paid to Auvergne through GQM LLC. The Company has adopted an accounting policy of expensing these transaction costs.
Variable Interest Entity (“VIE”)

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. The net assets of GQM LLC as September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Assets, GQM LLC	\$ 155,104,439	\$ 118,937,371
Liabilities, GQM LLC	(18,492,213)	(4,769,144)
Net assets, GQM LLC	<u>\$ 136,612,226</u>	<u>\$ 114,168,227</u>

Included in the assets above, is \$45,643,060 (December 31, 2014 - \$83,282,403) in cash held as at September 30, 2015. The decrease in cash since December 31, 2014 is the result of construction expenditures, partly off-set by the proceeds from the June 2015 capital contributions from GQ Holdings and Gauss, totaling \$25,000,000. 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. Please refer to the Subsequent Events details below for details on a GQM LLC liability that is guaranteed by Golden Queen.

Non-Controlling Interest

In accordance with ASC 810, the Company has presented Gauss’ ownership in GQM LLC as a non-controlling interest amount on the balance sheet within the equity section. However, the Amended and Restated Limited Liability Company Agreement (“LLC Agreement”) contains terms within Section 12.5 that provides for the exit from the investment in GQM LLC for an initial member whose interest in GQM LLC becomes less than 20%. The following is a summary of the terms of the clause:

Pursuant to Section 12.5, if a member becomes less than a 20% interest holder, its remaining unit interest will (ultimately) be terminated through one of three events at the non-diluted member’s option within 60 days of the diluted member’s interest dropping below 20% (the “triggering event”):

- a. Through conversion to a net smelter royalty (“NSR”) (in which case the conversion ratio is based on a pro rata percentage, determined on a linear basis, based on the following: 0-20% membership interest translates to 0-5% NSR) obligation of GQM LLC;
- b. Through a buy-out (at fair value) by the non-diluted member; or
- c. Through a sale process by which the diluted member’s interest is sold
 - If such sale process does not result in a binding offer acceptable to the non-diluted member within six months after the election by the non-diluted member, the sale process terminates and the non-diluted member has 15 days to choose between (a) and (b).

If the non-diluted member does not make an election pursuant to the above within 60 days, the diluted member may choose (a) or (b) above. If no election is made by the diluted member, option (a) is deemed to have been elected.

This clause in the Joint Venture Transaction constitutes contingent redeemable equity as outlined in Accounting Series Release No. 268 (“ASR 268”) and has been classified as temporary equity.

On initial recognition the amount of the temporary equity is calculated using the guidance that specifies that the initial measurement of redeemable instruments should be the carrying value. The amount allocated to temporary equity and the permanent equity on initial recognition is shown below. Temporary equity represents the amount of redeemable equity within Gauss' ownership interest in the net assets of GQM LLC. The remaining 60% of their interest is considered permanent equity as it is not redeemable.

	<u>September 15, 2014</u>
Net assets, GQM LLC before Joint Venture Transaction	\$ 16,973,184
Investment by Gauss	<u>110,000,000</u>
Net assets, GQM LLC after Joint Venture Transaction	126,973,184
Gauss' ownership percentage	<u>50%</u>
Net assets of GQM LLC attributable to Gauss	<u>\$ 63,486,592</u>
Allocation of non-controlling interest between permanent equity and temporary equity:	
Permanent non-controlling interest (60% of total non-controlling interest)	<u>\$ 38,091,955</u>
Temporary non-controlling interest (40% of total non-controlling interest)	<u>\$ 25,394,637</u>

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

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Net and comprehensive loss in GQM LLC	\$ (2,556,001)	\$ (2,804,957)
Non-controlling interest percentage	<u>50%</u>	<u>50%</u>
Net and comprehensive loss attributable to non-controlling interest	<u>\$ (1,278,001)</u>	<u>\$ (1,402,479)</u>
Net and comprehensive loss attributable to permanent non-controlling interest	\$ (766,801)	\$ (841,487)
Net and comprehensive loss attributable to temporary non-controlling interest	<u>\$ (511,200)</u>	<u>\$ (560,992)</u>

	<u>Permanent Non-Controlling Interest</u>	<u>Temporary Non-Controlling Interest</u>
Carrying value of non-controlling interest, December 31, 2014	\$ 34,250,468	\$ 22,833,645
Capital contribution	7,500,000	5,000,000
Net and comprehensive loss for the period	<u>(766,801)</u>	<u>(511,200)</u>
Carrying value of non-controlling interest, September 30, 2015	<u>\$ 40,983,667</u>	<u>\$ 27,322,445</u>

	<u>Permanent Non-Controlling Interest</u>	<u>Temporary Non-Controlling Interest</u>
Carrying value of non-controlling interest, September 15, 2014	\$ 38,091,955	\$ 25,394,637
Distributions to non-controlling interests	(3,000,000)	(2,000,000)
Net and comprehensive loss for the period	<u>(841,487)</u>	<u>(560,992)</u>
Carrying value of non-controlling interest, December 31, 2014	<u>\$ 34,250,468</u>	<u>\$ 22,833,645</u>

Dilution of Interest in Subsidiary

As a result of the Joint Venture Transaction, the Company's interest in GQM LLC was diluted from 100% to 50% and ordinarily, the Company would recognize a charge on dilution. However, since the transaction was with a related party and the Company retained control, the excess has not been recognized in net income but rather has been recorded in equity as an increase to additional paid in capital based on guidance provided in ASC 810-10-55-4D and -4E.

	<u>September 15, 2014</u>
Investment by Gauss	\$ 110,000,000
Less:	
Initial carrying value of permanent equity	(38,091,955)
Initial carrying value of temporary equity	<u>(25,394,637)</u>
Effect of dilution of subsidiary recorded to APIC	<u>\$ 46,513,408</u>

Management Agreement

GQM LLC is managed by a board of managers comprising an equal number of representatives of each of Gauss and GQM Holdings. The initial officers of GQM LLC were H. Lutz Klingmann as Chief Executive Officer, and Andrée St-Germain as Chief Financial Officer. During the third quarter of 2015, Robert C. Walsh Jr. was appointed as Chief Operating Officer of the Company. Bryan A. Coates was appointed to the GQM LLC Board of Managers as a nominee of the Company, replacing Mr. Klingmann. As long as a member of the Clay family holds greater than 25% of the Company, the Clay Group is entitled to appoint one of the Company's representatives to the GQM LLC board of managers.

Capital Contribution Agreement

Pursuant to the Joint Venture Transaction, GQ Holdings made a single capital contribution to GQM LLC of \$12.5 million on June 15, 2015. Gauss also funded an amount equal to the GQ Holding capital contribution to GQM LLC, and the aggregate amount of \$25 million is anticipated to provide GQM LLC with the necessary funds to fully develop the Project. Both partners will maintain their 50% ownership of the Project.

Standby Commitment

Golden Queen also entered into a backstop guarantee agreement with Gauss (the "Backstop Agreement") whereby, if the Company conducts a rights offering, Gauss has agreed to purchase, upon the terms set forth in the Backstop Agreement, any common shares which have not been acquired pursuant to the exercise of rights under the Rights Offering at a purchase price to be determined but not to exceed \$1.10 per common share, up to a maximum amount of \$45 million in the aggregate. In consideration for entering into the Backstop Agreement, on closing of the Joint Venture, the Company paid Leucadia and Auvergne a standby guarantee fee of \$2,250,000, of which \$731,250 was paid to Auvergne.

The Transaction Agreement and Backstop Agreement contemplated that the Company would file a registration statement in connection with the rights offering by October 15, 2014. The Company has decided not to proceed with a rights offering, and as a result the standby commitment has expired.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash, receivables, accounts payable and accrued liabilities, interest payable, closing fee payable and reclamation financial assurance approximate fair values because of the immediate or short-term maturity of these non-level 3 financial instruments. The fair value of the short-term and long-term loans payable approximate their carrying values as the interest rates are based on the market rates as they were initiated during the quarter and the previous three quarters. The market rates have remained steady for the loans payable during the past four quarters. The carrying value of the short and long term portions of the notes payable approximates their carrying value and have been estimated based on discounted cash flows using interest rates being offered for similar debt instruments. The carrying amount of the notes payable are being recorded at amortized cost using the effective interest rate method.

As at September 30, 2015, the fair value of the convertible debt and the notes payable were estimated using a discounted cash flow analysis based on an interest rate for a similar type of instrument without a conversion feature was \$Nil (December 31, 2014: \$7,972,993) and \$30,564,497 (December 31, 2014: \$Nil), respectively. The embedded derivatives in connection with share purchase warrants are being recorded at their fair values using an acceptable valuation model at each reporting period.

Please refer also to the note on fair value of derivative liability under *Results of Operations* above for more information.

Liquidity and Capital Resources

The Company and GQM Holdings (100%-owned by the Company) held \$6,362,309 in cash on September 30, 2015 as compared to \$5,442,546 on September 30, 2014. The increase in cash is due to the proceeds from the June 2015 Loan, partly off-set by the \$12.5 million capital contribution paid to GQM LLC. It is expected that the cash held by the Company will fund the Company's corporate expenses until late 2016. The convertible debenture was repaid on July 24, 2015 for a total of \$7.7 million (C\$10 million), including, \$153,500 (C\$200,000) of accrued interest. The June 2015 Loan will mature in December 2016.

The Company's 50%-owned subsidiary, GQM LLC, held \$45,643,060 in cash as of September 30, 2015 as compared to \$92,034,560 on September 2014. The cash will be used to fund capital expenditures required to take the Project to production. GQM LLC has entered into contracts for construction totaling approximately \$60.3 million as at September 30, 2015, of which \$10.9 million remains to be paid. The major commitments relate to the construction of the crushing-screening plant for \$18.1 million, the construction of the Phase 1, Stage 1 heap leach pad for \$8.4 million, the construction of the conveying and stacking system for \$8.2 million, and work related to the Merrill-Crowe plant equipment for \$7.2 million. The commitments are expected to be paid out in 2015 with the cash on hand. The capital expenditures significantly increased in 2015 as the Company started full construction. The trend will continue until the Company reaches the commissioning phase in late 2015. It is expected that the current cash on hand will fund capital expenditures and working capital needs until the Project reaches positive cash flow. The portion related to mobile mining equipment will be financed through loans with Komatsu Financial.

GQM LLC has committed to all the major turn-key projects. Remaining expenditures mostly relate to engineering work, site support, pre-production related expenses, labour, maintenance, spare parts and commissioning related expenses.

Cash used in Operating Activities:

Cash used to fund operating activities, including general and administrative expenses such as legal fees, accounting, taxation and auditing fees, corporate expenses, office expenses and corporate salary was \$4,815,347 (2014 - \$9,347,735) for the nine months period ended September 30, 2015. The decrease in cash used in operating activities is mostly due to the significant costs incurred in 2014 related to the Joint Venture Transaction. The decrease is partially off-set by an increase in interest payable during the nine months period ended September 30, 2015, as compared to the same period in 2014.

Cash used in Investing Activities:

The Company began capitalizing all development expenditures directly related to the Project in July 2012. Prior to July 2012, all Project-related expenditures were written off due to uncertainties around obtaining the necessary approvals for proceeding with the Project.

Cash used in investing activities totaled \$60,161,928 during the nine months ended September 30, 2015 (2014 - \$13,317,102). The increase is due to the increased level of activity on site.

The development costs incurred/capitalized, by the Company totalled \$59,812,875 (2014 - \$13,232,736) for the nine months ended September 30, 2015, which was an increase of \$46,580,139 as compared to the same period in 2014. See Note 9 – Supplementary Disclosures of Cash Flow Information in the unaudited condensed consolidated interim financial statements for non-cash adjustments to mineral property interest investing activities. There was a significant increase in activity on site during 2015 to date due to the initiation of full construction in the fourth quarter of 2014. The following is a breakdown of significant development costs incurred during the nine months ended September 30, 2015 as compared with the same period in 2014:

- \$17.1 million (2014 - \$4.1 million) in costs related to the construction of the crushing-screening plant. Approximately \$2.0 million was paid as a progress payment on the high pressure grinding rolls or HPGR during the nine months ended September 30, 2015. The remainder was spent on progress payments for the equipment, the construction of the Hilfiker wall, concrete foundations and steel erection.
- \$7.8 million (2014 - \$Nil) in costs related to the construction of the Merrill-Crowe plant. The pump box was essentially completed during the first quarter. The supporting steel was fabricated in Mexico. Basic construction of the pump box was completed in March. Construction of the footings was completed in August and the erection of the building started shortly thereafter. The equipment was received during the third quarter.
- \$7.6 million (2014 - \$0.7 million) in costs related to the construction of the Phase 1, Stage 1 heap leach pad. The contractor started the preparation of the heap leach pad in early 2015 and site grading was completed in March. Mixing of the historical tailings and natural clay from a deposit along Mojave Tropic Road was completed in May and the mix has been used for the lower, impervious liner for the events pond, the solution conveying channel and for the heap leach pad. The installation of the impermeable liner for the events pond, the solution conveying channel and for the heap leach pad was completed in June. The installation of the over-liner commenced in May and the construction of the Phase 1, Stage 1 heap leach pad was completed in late September.
- \$3.6 million (2014 - \$Nil) in costs related to the construction of the conveying and stacking system. Progress payments were made during the first, second and third quarters of 2015. The equipment was delivered in April and May and the assembly was initiated shortly thereafter.
- \$3.2 million (2014 - \$0.7 million) related to costs to prepare the power supply for the site. Construction of the site-wide power distribution system was essentially completed and power poles were erected during the first quarter. Nine transformers were delivered in June.
- \$3.1 million (2014 - \$3.0 million) in engineering and consulting costs. Engineering costs mostly comprised of engineering and project management costs related to the crushing-screening plant.
- \$2.9 million (2014 - \$Nil) in pre-production operating costs related to mining, laboratory work and maintenance.
- \$2.5 million (2014 - \$Nil) for the purchase of Komatsu mobile mining equipment. GQM LLC received two dozers and two articulated trucks in the first quarter of 2015. Two excavators and one dozer were received in the second quarter of 2015. GQM LLC received four 100-ton trucks, two wheel loaders and one medium dozer during the third quarter of 2015. GQM LLC paid the sales tax and 10% deposit upon delivery. The remaining of the purchase costs was financed through loans with Komatsu Financial.
- \$2.4 million (2014 - \$0.7 million) in costs related to the water supply and water storage infrastructure. The electrical installations at water well PW-1 were completed in March and water supply from the well is now fully automated. Five water storage tanks were delivered during the second quarter and the construction of the foundations is underway. The production water well (PW-4) was drilled, equipped and tested in June and the connection to the mine water supply infrastructure started in September.
- \$2.2 million (2014 - \$Nil) in sustaining capital. The Company purchased two production drills.
- \$1.6 million (2014 - \$Nil) in costs related to the assay laboratory. The construction of the assay laboratory was essentially completed during the first quarter of 2015. The laboratory was subsequently equipped during the second quarter of 2015. Ventilation balancing, mechanical equipment installation and electrical hook-ups were completed in June. The assay laboratory was commissioned in July.
- \$1.0 million (2014 - \$0.08 million) in construction indirect costs and freight.

The Company, through GQM LLC, continued its work on the Project as described in ***Construction of Infrastructure and Project Facilities*** above. Construction is advancing smoothly and is approximately 90% complete. All turn-key projects have been awarded to independent contractors.

Workshop-Warehouse: This project was completed on time and on budget in 2014. The workshop-warehouse was fully equipped with the necessary lubrication equipment, compressor, work-benches and a waste oil storage tank in February 2015. Construction of four offices on the floor above the warehouse was completed in March. We received approval for early occupancy of the workshop-warehouse in April. The workshop-warehouse is fully functional and is now being used.

Assay Laboratory: The construction started in the fourth quarter of 2014 and was completed on time and on budget during the first quarter of 2015. We received approval for early occupancy of the assay laboratory in April. The laboratory was equipped during the second quarter of 2015 and ventilation balancing, mechanical equipment installation and electrical hookups were completed in June. The laboratory was commissioned in July and is now fully operational.

Water Supply & Water Storage: The construction of the basic water supply infrastructure for the Project has been completed. The electrical installations at water well PW-1 were completed in March and water supply from the well is now fully automated. Five water storage tanks were delivered during the second quarter and the construction of the foundations is underway. The backup production water well (PW-4) was drilled, equipped and tested in June and the connection to the mine water supply infrastructure is nearly complete.

Power Supply: Construction of the site-wide power distribution system has essentially been completed and all power poles have been set. The primary sub-station was completed in November. We expect to connect to the Southern California Edison grid in two phases in November 2015.

Crushing-Screening Plant: The Hilfiker wall was completed in February. Construction of the footings and construction of a retaining wall in the primary crusher area was completed in April. Structural steel and equipment for the crushing-screening plant was delivered during the second and third quarters and assembly started shortly thereafter. The order for the high pressure grinding roll or HPGR was placed with ThyssenKrupp Industrial Solutions (USA), Inc. in the third quarter of 2014 and the HPGR has been delivered to site in early August. Construction of a second Hilfiker wall in the HPGR was completed mid-July. The Primary section of the crushing-screening plant was commissioned in late October. The Secondary and Tertiary (HPGR) sections of the crushing-screening plant are nearly complete and are expected to be commissioned in November.

Heap Leach Pad Phase 1/Stage 1: The earthmoving phase of the Phase 1, Stage 1 heap-leach pad, the events pond and the solution conveying channel were completed during the first quarter. Mixing of the historical tailings and natural clay from a deposit along Mojave Tropic Road was completed in May and the mix has been used to construct the lower, impervious liner for the events pond, the solution conveying channel and for the heap leach pad. The synthetic upper liner was placed in the events pond and solution collection ditch in May and the upper synthetic liner was placed on the heap leach pad in May and June. A sub-contractor mobilized a portable crushing-screening plant to site and over-liner material was crushed and placed on the heap leach pad. The Phase 1, Stage 1 heap-leach pad turn-key project was completed in September.

Merrill-Crowe plant: The contract for the equipment was awarded during the fourth quarter of 2014 and the contract for the Merrill-Crowe plant building was awarded in January 2015. The supporting steel was fabricated in Mexico. Basic construction of the pump box was completed in March. Construction of the footings was completed in August and the erection of the building started shortly thereafter. The equipment was received during the third quarter and the installation is well underway. This turn-key project is expected to be completed in late November or early December.

Stacking and Conveying System: Equipment and structural steel components of the conveying and stacking system were delivered during the second quarter and the assembly started shortly thereafter. This turn-key project is expected to be completed in November.

Cash from Financing Activities:

Cash from financing activities totaled \$25,575,000 during the nine months ended September 30, 2015 (2014 - proceeds of \$115,111,421). The cash from financing activities was significantly higher during the nine months ended September 30, 2014 as compared to the same period in 2015 due to the Joint Venture Transaction. Financing activities during the nine months ended on September 30, 2015 include the June 2015 Loan incremental proceeds of \$25,000,000 and Gauss LLC's \$12,500,000 capital contribution to GQM LLC. The remaining balance of the January 2014 Loan,

\$2,500,000 and closing fees of \$250,000 on the December 2014 Loan were paid during the first quarter of 2015. The Company also paid closing fees of \$1,500,000 in conjunction with the June 2015 Loan. The Company retired its convertible debentures on July 26, 2015 for \$7,675,000.

On January 1, 2014, the Company entered into the \$10,000,000 January Loan. The January Loan had a twelve-month term and an annual interest rate of 5%, payable on the maturity date. The Company repaid \$7,500,000 of the loan on December 31, 2014. The remaining balance of the loan, \$2,500,000 was repaid on January 5, 2015 (please see **Transactions with Related Parties** above for more information).

On June 8, 2015, the Company amended the December Loan to extend the maturity to December 8, 2016 and increasing the principal amount from \$12,500,000 to \$37,500,000 (the "June 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 Loan. The Company also incurred a closing 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 total legal fees were expensed as the transaction met the definition of a debt extinguishment.

Working Capital:

As at September 30, 2015, the Company, on a consolidated basis, had current assets of \$52,439,070 (December 31, 2014 - \$91,574,405; September 30, 2014 - \$97,695,965) and current liabilities of \$9,105,708 (December 31, 2014 - \$26,464,078; September 30, 2014 - \$22,586,126) or working capital of \$43,333,362 (December 31, 2014 - \$65,110,327; September 30, 2014 - working capital of \$75,109,839). The decrease in current assets from December 31, 2014 is the result of project-related expenditures, partially off-set by June 2015 loan and capital contribution from Gauss LLC. The decrease in current liabilities is the result of the extension of the December 2014 Loan with the June 2015 Loan and the repayment of the convertible debenture, partly off-set by an increase in mobile equipment loans at the Joint Venture level.

GQM LLC will use its cash on hand for ongoing construction work on site (refer to **Construction of Infrastructure and Project Facilities** above) and for working capital related expenditures until the Project reaches positive cash flows.

Golden Queen Mining Co. Ltd will use its cash for general corporate expenditures such as accounting fees, legal fees, interest expense and corporate salary expenses.

Please refer also to **Outlook** below.

Outstanding Share Data

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

Item	No. of Shares		
Shares issued and outstanding on June 30, 2015	99,928,683		
Shares issued for mineral properties	Nil		
Shares issued pursuant to the exercise of stock options	Nil		
Shares issued and outstanding on September 30, 2015	99,928,683	Exercise Price	Expiry Date
Director and consultants stock options	1,270,000	\$0.58 to \$1.59	From 11/11/15 to 09/08/20
Shares to be issued on exercise of warrants	10,000,000	\$0.95	06/08/20
Shares to be issued as a finder's fee	Nil	Not Applicable	Not Applicable
Fully diluted on September 30, 2015	111,198,683		
Fully diluted on November 9, 2015	111,198,683		
The company has an unlimited authorized share capital			

Outlook

The estimated capital costs, including contingency, working capital and mining equipment, are \$144 million.

The net proceeds from the Joint Venture Transaction will be applied to the continued development of the Project. It is expected that the current cash on hand will fund capital expenditures and working capital needs until the Project reaches positive cash flows from production. The portion related to mobile mining equipment will be financed through loans with Komatsu.

Construction is advancing smoothly and has progressed to a 90% completion rate; all turn-key projects have been awarded to independent contractors. The Company expects commissioning of the processing facilities in late 2015.

The Company is evaluating its options, including debt and equity, to re-finance the June 2015 Loan which matures on December 8, 2016.

The ability of the Company to develop a mine on the property is subject to numerous risks, certain of which are disclosed in the Company's latest Form 10-K filing with the SEC, dated March 16, 2015. Readers should evaluate the Company's prospects in light of these and other risk factors.

Mineral Properties

In July 2012, the Company received notice that it had met all remaining major conditions of the conditional use permits for the Project. As a result, management made the decision to begin capitalizing all development expenditures related to the Project while all other expenses not related to the development of the project continue to be expensed as incurred. Refer also to Note 4 Mineral Property Interests of the unaudited condensed consolidated interim financial statements for a more detailed discussion.

Subsequent Events

Subsequent to September 30, 2015, GQM LLC took possession of two haul trucks and a water truck, valued at \$4.0 million. The Company made total payments, tax and a 10% down payment, of \$0.7 million. The remaining \$3.3 million will be financed over 48 months at an interest rate of 3.90% for the two haul trucks and 0.99% for the water truck.

Subsequent to September 30, 2015, GQM LLC also acquired a blasthole drill valued at \$1.1 million. A down payment of \$0.2 million was made with the remaining amount being financed over 36 months at a rate of 4.40%. The loan agreement has been guaranteed by Golden Queen.

On October 1st, 2015, the Company was to make the quarterly interest payment on the June 2015 loan. In terms with the June 2015 loan agreement, the Company chose to exercise its right to pay in kind by adding the interest owed on October 1st, 2015 to the principal balance of the June 2015 loan. The principal balance of the loan was increased by \$1,181,507. The principal balance of the loan moving forward will be \$38,681,507 and interest will be calculated on this balance.

Application of Critical Accounting Estimates

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

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

Metal and Other Inventory

Inventories include stock piles, in-process inventory, doré, and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. All inventories are stated at the lower of cost or market, with cost being determined using a weighted average cost method. Dore inventory includes product at the mine site. Dore inventory costs include direct labor, materials, depreciation, depletion and amortization as well as overhead costs relating to mining activities

Mineral Property and Exploration Costs

Costs related to the development of our mineral reserves are capitalized when it has been determined an ore body can be economically developed. An ore body is determined to be economically minable based on proven and probable reserves and when appropriate permits are in place. Major mine development expenditures are capitalized, including primary development costs such as costs of building access roads, heap leach pads, processing facilities, and infrastructure development. The Company also capitalizes additional development expenditures that are directly related to the development of the mine.

Drilling and related costs are classified as additional development expenditures, are charged to operations as incurred, or capitalized, based on the following criteria:

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

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

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

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

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

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

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 general 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 8(vi) of the unaudited condensed consolidated interim financial statements.

Non-controlling Interest

Non-controlling interest consists of equity in GQM LLC not attributable, directly or indirectly, to Golden Queen. 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. The non-controlling interest has been classified into two categories; permanent equity and temporary equity.

Non-controlling interests in temporary equity represent the estimated portion of non-controlling interest that could potentially be convertible through either a conversion of the non-controlling interest into a net smelter royalty obligation of GQM LLC or a buy-out of the non-controlling interest at fair value by the Company. The convertible portion of non-controlling interest recorded in temporary equity is initially recorded at the carrying value and then adjusted for net income or loss and distributions attributable to the temporary equity.

The non-controlling interest in permanent equity represents the portion of the non-controlling interest that is not convertible. Please refer to Note 8(vii) of the unaudited condensed consolidated interim financial statements for complete details of how the transaction has been accounted for.

Derivative Liabilities

Derivative liabilities consist of the Company's convertible debentures and derivative liabilities related to their share purchase warrants.

If the Company's convertible debentures had not been converted by the holder prior to the maturity date, then either the Company or the holder may convert them at the lower of C\$1.03 or the market price as at the maturity date. The convertible debentures were required to be accounted for as separate derivative liabilities due to this possible variability in conversion price.

The share purchase warrants issued by the Company are exercisable at \$0.95 per share purchase warrant for a period of five years. They are required to be accounted for as a separate derivative liability due to an anti-dilution clause that could potentially result in the exercise price being reduced.

These liabilities were required to be measured at fair value. These instruments were adjusted to reflect fair value at each period end. Any increase or decrease in the fair value was recorded in results of operations as change in fair value of derivative liabilities. In determining the appropriate fair value, we used the Binomial pricing model.

New Accounting Policies

- (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). Additionally, the entity should disclose information that enables users of the financial statements to understand all of the following:

1. Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.
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 are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

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 is assessing the impact of this standard.

(iii) In April, 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)* which focuses on simplifying the presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update.

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 is assessing the impact of this standard.

(iv) In July 2015, FASB issued ASU 2015-11, *Inventory – Simplifying the Measurement of Inventory (Topic 330)* which focuses on simplifying the guidance on subsequent measurement of inventory. Currently, the guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The ASU now updated the measurement to lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

The ASU will be effective for periods beginning after December 15, 2016, for public companies. Early adoption is permitted, including adoption in an interim period. The Company has assessed the impact of this new standard and will adopt the new standard effective October 1, 2015.

Qualified Person and Caution With Respect to Forward-looking Statements

Mr. Sean Ennis, P. Eng., P.E. is a qualified person for the purposes of NI 43-101 and has reviewed and approved the technical information in this Form 10-Q.

This Form 10-Q contains certain forward-looking statements, which relate to the intent, belief and current expectations of the Company's management, as well as assumptions and parameters used in the feasibility study referenced in this report. These forward-looking statements are based upon numerous assumptions that involve risks and uncertainties and other factors that may cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include among other things the receipt and compliance with the terms of required approvals and permits, the costs of and availability of sufficient capital to fund the projects to be undertaken by the Company and commodity prices. In addition, projected mining results, including quantity of ore,

grade, production rates, and recovery rates, are subject to numerous risks normally associated with mining activity of the nature described in this report and in the feasibility study, and as a result actual results may differ substantially from projected results. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date the statements were made.

Caution to U.S. Investors

Management advises U.S. investors that while the terms “measured resources”, “indicated resources” and “inferred resources” are recognized and required by Canadian regulations, the SEC does not recognize these terms. U.S. investors are cautioned not to assume that any part or all of the material in the mineral resource categories will be converted into mineral reserves. References to such terms are contained in the Company’s Form 10-K and other publicly available filings. We further advise U.S. investors that the mineral reserve estimates disclosed in this report have been prepared in accordance with Canadian regulations and may not qualify as “reserves” under the SEC Industry Guide 7. Accordingly, information concerning mineral resources and reserves set forth herein may not be comparable with information presented by companies using only U.S. standards in their public disclosure.

Additional Information

Further information on Golden Queen Mining Co. Ltd. is available on the SEDAR web site at www.sedar.com and on the Company’s web site at www.goldenqueen.com.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company holds 85% of its cash in bank deposit accounts with a single major financial institution. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the quarter ended September 30, 2015, a 1% decrease in interest rates would have reduced the interest income for the period by a trivial amount.

Foreign Currency Exchange Risk

Certain purchases of labour are denominated in Canadian dollars. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Canadian dollar against the U.S. dollar may result in an increase in the Canadian operating expenses in U.S. dollar terms. As of September 30, 2015, the Company maintained the majority of its cash balance in U.S. dollars. The Company currently does not engage in any currency hedging activities.

Commodity Price Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our Exchange Act reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. It is management’s responsibility to establish and maintain adequate disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, and our external Sarbanes-Oxley consultants carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2015 and concluded that since the last quarterly review, our disclosure controls and procedures were operating effectively

Changes in Internal Control

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Fraud Analysis

The Company is committed to preventing fraud and corruption and is developing an anti-fraud culture. To achieve this goal, the Company has committed to the following:

1. Developing and maintaining effective controls to prevent fraud;
2. Ensuring that if fraud occurs a vigorous and prompt investigation takes place;
3. Taking appropriate disciplinary and legal actions;
4. Reviewing systems and procedures to prevent similar frauds;
5. Investigating whether there has been a failure in supervision and take appropriate disciplinary action if supervisory failures occurred; and
6. Recording and reporting all discovered cases fraud.

The following policies have been developed to support the Company's goals:

- Insider Trading Policy
- Managing Confidential Information Policy
- Whistleblower Policy
- Anti-corruption Policy

All policies can be viewed in full on the Company's website at www.goldenqueen.com

For the three and nine months ended September 30, 2015 and year ended December 31, 2014, there were no reported instances of fraud.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See “The Center for Biodiversity Petition to List the Mojave Shoulderband Snail as an Endangered Species” and “Other Legal Matters” contained in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal period ended December 31, 2014, as filed with the SEC on March 16, 2015.

Item 4. Mine Safety Disclosures

GQM LLC is the operator of the Project, which is located in Mojave in Kern County, California. The Company and GQM LLC have no mine safety violations to report. There were no lost-time accidents at GQM LLC during the third quarter of 2015.

Item 6. Exhibits

Exhibit No.	Description of Exhibit	Manner of Filing
3.1	Notice of Articles	Incorporated by reference to Exhibit 3.03 to the Form S-3 of the Company, filed with the SEC on August 21, 2014
3.2	Articles	Incorporated by reference to Exhibit 3.2 to the Form 8-K of the Company, filed with the SEC on September 2, 2010
31.1	Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange Act of 1934	Filed herewith
31.2	Certification of the Principal Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange act of 1934	Filed herewith
32.1	Section 1350 Certification of the Principal Executive Officer	Filed herewith
32.2	Section 1350 Certification of the Principal Financial Officer	Filed herewith
101	Financial Statements from the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2015, formatted in XBRL	Filed herewith

