Golden Queen Mining Co. Ltd.
Audited Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Golden Queen Mining Co. Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Golden Queen Mining Co. Ltd. and its subsidiaries, (together, the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity, non-controlling interest and redeemable portion of non-controlling interest and cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and their results of operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

Vancouver, Canada
March 27, 2018

We have served as the Company's auditor since 2016.

GOLDEN QUEEN MINING CO. LTD.
Consolidated Balance Sheets
(amounts expressed in thousands of US dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ 2,937	$ 13,301
Prepaid expenses and other current assets	699	611
Inventories (Note 5)	9,028	10,941
Total current assets	12,664	24,853
Property, plant, equipment and mineral interests (Note 6)	141,848	134,550
Advance minimum royalties	304	303
Total Assets	$ 154,816	$ 159,706
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,984	$ 4,561
Credit facility (Note 14 (v))	3,000	-
Current portion of note payable (Note 14 (ii))	7,712	-
Current portion of loan payable (Note 7)	7,629	5,656
Derivative liability – Related party warrants (Note 8)	441	6,430
Total current liabilities	25,766	16,647
Note payable (Note 14 (ii))	22,387	26,347
Loan payable (Note 7)	9,614	9,494
Asset retirement obligation (Note 9)	1,838	1,366
Deferred tax liability (Note 10)	8,197	12,922
Total liabilities	67,802	66,776
Temporary Equity		
Redeemable portion of non-controlling interest (Note 14 (iv))	24,214	26,219
Shareholders' Equity		
Common shares, no par value, unlimited shares authorized (2016 - unlimited); 111,148,683 (2016 – 111,048,683) shares issued and outstanding (Note 11)	71,126	71,067
Additional paid-in capital	43,853	43,652
Deficit accumulated	(88,500)	(87,335)
Total shareholders' equity attributable to GQM Ltd.	26,479	27,384
Non-controlling interest (Note 14 (iv))	36,321	39,327
Total Shareholders' Equity	62,800	66,711
Total Liabilities, Temporary Equity and Shareholders' Equity	$ 154,816	$ 159,706

Commitments and Contingencies (Note 16)
Subsequent Event (Note 18)

Approved by the Directors:

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

"Bryan A. Coates"
Bryan A. Coates, Director

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

GOLDEN QUEEN MINING CO. LTD.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(amounts expressed in thousands of US dollars, except share amounts)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Revenues		
Metal Sales	$ 62,121	$ 27,193
Cost of Sales		
Direct mining costs	(56,131)	(21,569)
Depreciation and depletion (Note 6)	(11,955)	(7,427)
Accretion expense	(126)	(90)
Loss from mine operations	(6,091)	(1,893)
General and administrative expenses (Note 12)	(5,235)	(4,308)
Operating loss	(11,326)	(6,201)
Other income (expenses)		
Gain on derivative instruments (Note 8)	5,989	1,840
Finance expense (Notes 14 (iii) and 14 (v)))	(5,217)	(5,488)
Interest income	88	157
Other expenses	(434)	-
Total other income (expenses)	426	(3,491)
Loss for the year before income taxes	$ (10,900)	$ (9,692)
Income tax benefit (Note 10)	4,725	-
Net and comprehensive loss for the year	**(6,175)**	**(9,692)**
Less: Net and comprehensive loss attributable to the non-controlling interest for the period (Note 14 (iv))	5,010	2,263
Net and comprehensive loss attributable to Golden Queen Mining Co Ltd. for the year	$ (1,165)	$ (7,429)
Loss per share – basic (Note 13)	$ (0.01)	$ (0.07)
Loss per share – diluted (Note 13)	$ (0.01)	$ (0.07)
Weighted average number of common shares outstanding -basic	111,140,464	104,737,396
Weighted average number of common shares outstanding - diluted	111,140,464	104,737,396

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

GOLDEN QUEEN MINING CO. LTD.

Consolidated Statements of Shareholders' Equity, Non-controlling Interest and Redeemable Portion of Non-Controlling Interest

(amounts expressed in thousands of US dollars, except shares amounts)

	Common shares	Amount	Additional Paid-in Capital	Deficit Accumulated	Total Shareholders' Equity attributable to GQM Ltd	Non-controlling Interest	Total Shareholders' Equity	Redeemable Portion of Non-controlling Interest
Balance, December 31, 2015	**99,928,683**	**$ 62,860**	**$ 43,628**	**$ (79,906)**	**$ 26,582**	**$ 40,686**	**$ 67,268**	**$ 27,124**
Issuance of common shares, private placement net of share issuance cost (Note 11)	11,120,000	8,207	-	-	8,207	-	8,207	-
Stock-based compensation	-	-	24	-	24	-	24	-
Net loss for the period	-	-	-	(7,429)	(7,429)	(1,359)	(8,788)	(904)
Balance, December 31, 2016	**111,048,683**	**$ 71,067**	**$ 43,652**	**$ (87,335)**	**$ 27,384**	**$ 39,327**	**$ 66,711**	**$ 26,220**
Issuance of common shares (Note 11)	100,000	59	-	-	59	-	59	-
Stock-based compensation	-	-	201	-	201	-	201	-
Net loss for the period	-	-	-	(1,165)	(1,165)	(3,006)	(4,171)	(2,006)
Balance, December 31, 2017	**111,148,683**	**$ 71,126**	**$ 43,853**	**$ (88,500)**	**$ 26,479**	**$ 36,321**	**$ 62,800**	**$ 24,214**

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

GOLDEN QUEEN MINING CO. LTD.
Consolidated Statements of Cash Flows
(amounts expressed in thousands of US dollars)

	Year Ended December 31 2017	Year Ended December 31, 2016
Operating Activities		
Net loss for the year	$ (6,175)	$ (9,692)
Adjustment to reconcile net loss to cash used in operating activities:		
Depreciation and depletion	11,955	7,427
Amortization of debt discount and interest accrual	1,540	5,732
Accretion expense	126	91
Change in fair value of derivative liabilities (Note 8)	(5,989)	(1,857)
Stock based compensation	201	24
Unrealized foreign exchange	(7)	(208)
Loss on disposal of property, plant, equipment and mineral interests	434	-
Deferred income taxes	(4,725)	-
Changes in non-cash working capital items:		
Prepaid expenses & other current assets	(88)	(155)
Inventory	1,913	(9,005)
Accounts payable & accrued liabilities	2,177	3,140
Interest payable	2,580	(674)
Cash generated from (used in) operating activities	3,942	(5,177)
Investment activities:		
Additions to property, plant, equipment and mineral interests	(11,173)	(12,276)
Release of reclamation financial assurance deposit	-	902
Cash used in investing activities	(11,173)	(11,824)
Financing activity:		
Issuance of common shares and warrants, net of share issue costs (Note 11)	59	10,908
Proceeds from credit facility	3,000	-
Repayments of loan payable (Note 7)	(6,192)	(5,006)
Repayments of note payable and accrued interest	-	(12,257)
Transaction fee on note payable	-	(930)
Cash used in financing activities	(3,133)	(7,285)
Net change in cash and cash equivalents	(10,364)	(24,286)
Cash and cash equivalents, beginning balance	13,301	37,587
Cash and cash equivalents, ending balance	$ 2,937	$ 13,301

Supplementary Disclosures of Cash Flow Information (Note 15)

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

1. Nature of Business

Golden Queen Mining Co. Ltd. ("Golden Queen", "GQM Ltd." or the "Company") is engaged in the operation of the Soledad Mountain Mine ("the Mine"), located in the Mojave Mining District, Kern County, California. The Company owns 50% of Golden Queen Mining Company, LLC ("GQM LLC"), the operator of the Mine. The remaining 50% is owned by Gauss LLC ("Gauss").

2. Liquidity Risk

For the year ended December 31, 2017, the Company generated cash from operating activities of $3,942. However, as at December 31, 2017, the Company had a working capital deficit of $13,102. The majority of the accounts payable, the loan payable and the credit facility relate to GQM LLC.

Subsequent to year-end, the Company closed a rights offering for gross proceeds of approximately $25,000 (see Note 18), of which, $10,000 was contributed into GQM LLC. In addition, Gauss, the Company's joint venture partner, also contributed $10,000 into GQM LLC. The funding contributed into GQM LLC will be available to settle accounts payable, equipment finance obligations (Note 7) and the credit facility (Note 14(v)) relating to the Soledad Mountain mine in the normal course of business.

The Company believes, with the proceeds raised subsequent to year-end, it will have sufficient cash on hand to meet its obligations for the next twelve months from the date of the approval of these consolidated financial statements.

Historically, the Company has been required to obtain funding via debt and equity financings to fund development and operations. Although the Company has been successful in obtaining debt and raising equity financing in the past, there can be no guarantee that such funding will be available in the future.

3. Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

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

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

4. Significant Accounting Policies, Estimates and Judgements

Cash and Cash Equivalents For purposes of balance sheet classification and the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Company places its cash and cash equivalents with high quality financial institutions. At times, such cash deposits may be in excess of Federal Deposit Insurance Corporation insurance limits. To date, the Company has not experienced a loss or lack of access to its cash and cash equivalents. However, no assurance can be provided that access to the Company's cash and cash equivalents will not be impacted by adverse economic conditions in the financial markets.

4. Significant Accounting Policies, Estimates and Judgements (continued)

Inventories Included in inventories are stockpiled ore, 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 weighted average cost or net realizable value. Cost includes direct labor, materials, depreciation, depletion and amortization as well as overhead costs relating to mining activities. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. Any write-downs of inventory to net realizable value are recorded as cost of sales.

Stockpiled ore inventory represents ore that has been extracted from the mine and is available for further processing. Costs added to stockpiled ore inventory are valued based on current mining cost per tonne incurred up to the point of stockpiling the ore and are transferred to the next process at the weighted average cost per equivalent ounce. Stockpiled ore tonnage is verified by periodic surveys and physical counts.

In process inventory includes ore on heap leach pad and inventories in the solution and precipitate process. Finished goods inventory includes metals in their final stage of production prior to sale, including doré.

The heap leach process extracts silver and gold by placing ore on an impermeable pad and applying a diluted cyanide solution that dissolves a portion of the contained silver and gold, which are then recovered in metallurgical processes.

Materials and supplies inventories are valued at the lower of weighted average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs.

The estimate of the ultimate recovery expected over time and the quantity of metal that may be extracted relative to the time the leach process occurs requires the use of estimates, which are inherently inaccurate due to the nature of the leaching process. The quantities of metal contained in the ore are based upon actual weights and assay analysis. The rate at which the leach process extracts gold and silver from the crushed ore is based upon metallurgical test column estimates. The assumptions that are used by the Company to measure metal content during each stage of the inventory conversion process include estimated recovery rates based on laboratory testing and assaying. The Company periodically reviews its estimates compared to actual experience and revises its estimates when appropriate.

The assumptions used in determining net realizable value for mineral inventories include estimates of gold and gold equivalents contained in the stockpile ore, heap leach pad and solution and precipitates, expected recoveries, and judgment used in determining the allocation of depletion, depreciation and amortization expense, and overhead costs that are directly attributable to inventories. If these estimates or assumptions are inaccurate, the Company may be required to write down the carrying value of its inventories.

Mineral Interests Costs related to the development of our mineral reserves are capitalized when an ore body is determined to be economically mineable based on proven and probable reserves and when appropriate permits are in place. The capitalized costs are amortized over the useful life of the ore body following commencement of production or written off if the property is sold or abandoned.

Upon commencement of the production phase, mining interests are depleted on a units-of-production basis over the estimated remaining economic life of the mine. In applying the units of production method, depletion is determined using the quantity of material extracted from the mine in the period as a portion of total quantity of material expected to be extracted in current and future periods based on the total estimated recoverable ounces in proven and probable reserves.

4. Significant Accounting Policies, Estimates and Judgements (continued)

Drilling and related costs are classified as development expenditures and capitalized if all the following criteria are met:

- 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;
- 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
- 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 access to it, and (c) the transaction or event giving rise to our right to or control of the benefit has already occurred.

Drilling and related costs not meeting all of these criteria are charged to operations as incurred.

Property, Plant and Equipment Are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and borrowing costs related to the acquisition or construction of qualifying assets. Assets under construction are recorded at cost and reallocated to machinery and mine equipment when they become available for use.

Depreciation is calculated using either the straight-line method or using the units-of-production method over the shorter of the estimated service lives of the respective assets or the expected life of mine. Depreciation commences when the asset is in the condition and location necessary for it to operate in the manner intended by management.

Mineral property interests and claims	Units-of-production
Mine development	Units-of-production
Machinery and mine equipment	7 – 12 years
Buildings and structures	5 - 12 years
Vehicles	3 – 5 years
Computer equipment and software	3 years
Asset retirement cost	Units-of-production
Capitalized interest	Units-of-production

Capitalization of certain mine construction costs ceases and expenditures are either variable production costs as a component of inventory or expensed as incurred once production commences. Depletion of capitalized costs for mining properties and depreciation and amortization of property, plant and equipment also begins when the production phase commences.

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 available for use. 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 available for use, the associated capitalized interest is expensed through depletion or impairment. See *Note 14(iii)* **-** *Amortization of Discount and Interest Expense.*

Capitalization of interest ceased as at March 31, 2016 when production commenced.

Valuation of Long-lived Assets The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Asset impairment is considered to exist if the total estimated undiscounted pre-tax future cash flows are less than the carrying amount of the asset. In estimating future cash flows, assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of future cash flows from other asset groups. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are calculated based on estimated quantities of recoverable minerals, expected silver and gold prices (considering current and historical prices, trends and related factors), production levels, operating costs, capital requirements and reclamation costs, all based on life-of mine plans.

4. Significant Accounting Policies, Estimates and Judgements (continued)

Existing proven and probable reserves are included when determining the fair value of mine site asset groups at acquisition and, subsequently, in determining whether the assets are impaired. The term “recoverable minerals” refers to the estimated amount of silver and gold that are expected to be obtained after taking into account losses during ore processing and treatment.

Gold and silver prices are volatile and affected by many factors beyond the Company’s control, including prevailing interest rates and returns on other asset classes, expectations regarding inflation, speculation, currency values, governmental decisions regarding precious metals stockpiles, global and regional demand and production, political and economic conditions and other factors may affect the key assumptions used in the Company’s impairment testing. Various factors could impact our ability to achieve forecasted production levels from proven and probable reserves. Additionally, production, capital and reclamation costs could differ from the assumptions used in the cash flow models used to assess impairment. Actual results may vary from the Company’s estimates and result in additional impairment charges.

Foreign Currency Translation The Company’s functional and reporting currency, the US dollar, is the primary economic currency in which the Company operates. Assets and liabilities in foreign currencies are translated into US dollars at the exchange rate on the balance sheet date. Expenses are translated at exchange rates on the date of the transaction. Where amounts denominated in a foreign currency are converted into US dollars by remittance or repayment, the realized exchange differences are included in other income.

Earnings (Loss) Per Share Basic earnings (loss) per share is computed as net income (loss) attributed to the Company divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible instruments. Net income attributable to any non-controlling interest is not included in the calculation of the basic and diluted earnings (loss) per share.

Asset Retirement Obligations Asset retirement obligations (‘‘AROs’’) arise from the acquisition, development and construction of mining properties and plant and equipment due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The major parts of the carrying amount of AROs relate to tailings and heap leach pad closure and rehabilitation, demolition of buildings and mine facilities, ongoing water treatment and ongoing care and maintenance of closed mines. The Company recognizes an ARO at the time the environmental disturbance occurs. When the ARO provision is recognized, the corresponding cost is capitalized to property, plant, equipment and mineral interests and depreciated over the life of the related assets.

The timing of the actual environmental remediation expenditures is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and the environment in which the mine operates. Reclamation provisions are initially measured at the expected value of future cash flows discounted to their present value using a credit adjusted risk-free interest rate. If the expected present value increases, the increase gives rise to a new obligation accounted for separately just as the reclamation provision was originally measured but using current market value assumptions, and the current credit-adjusted risk-free rate. AROs are adjusted each period to reflect the passage of time (accretion). Upon settlement of an ARO, the Company records a gain or loss if the actual cost differs from the carrying amount of the ARO. Settlement gains/losses are recorded in the consolidated statements of comprehensive income (loss).

The estimated ARO is updated each period end to reflect changes in facts and circumstances. The principal factors that can cause the ARO to change are the construction of new processing facilities, changes in the quantities of material in proven and probable mineral reserves and a corresponding change in the life-of-mine plan, changing ore characteristics that impact required environmental protection measures and related costs, changes in water quality that impact the extent of water treatment required and changes in laws and regulations governing the protection of the environment.

4. Significant Accounting Policies, Estimates and Judgements (continued)

Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and judgements have been made by Management in several areas including the accounting for the joint venture transaction and determination of the temporary and permanent non-controlling interest, the recoverability of mineral properties expenditures, royalty obligations, inventory valuations, asset retirement obligations, and derivative liability – warrants. Actual results could differ from those estimates.

Fair Value of Financial Instruments The carrying amounts reported in the balance sheets for cash, receivables, accounts payable and accrued liabilities and interest payable approximate fair values because of the immediate or short-term maturity of these financial instruments. The fair value of the short-term and long-term loans payable approximate their carrying values because the interest rates are based on the market rates. The fair 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.

The notes payable were initially recorded at fair value less financing costs and are measured at each period end at amortized cost. The derivative liability relating to the share purchase warrants issued by the Company as part of the consideration for the holders of the notes payable is recorded at fair value using the binomial and the Black-Scholes valuation models at each reporting period.

Revenue Recognition Revenue is recognized when title to and other risks and rewards of ownership of gold and silver passes to the buyer and when collectability is reasonably assured. Title and the risks and rewards of ownership pass to the buyer based on terms of the sales contract. Product pricing is determined at the point revenue is recognized by reference to active and freely traded commodity markets, for example, the London Bullion Market for both gold and silver, in an identical form to the product sold.

Income Taxes The Company follows the asset and liability method of accounting for income taxes whereby the deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. If it is determined that the realization of a future tax benefit is not more likely than not, the Company establishes a valuation allowance.

Stock-based Compensation Compensation costs are charged to the consolidated statements of income (loss) and comprehensive income (loss). Compensation costs for employees are amortized over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period.

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

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

4. Significant Accounting Policies, Estimates and Judgements (continued)

Derivative Financial Instruments The Company reviews the terms of its equity instruments and other financing arrangements to determine whether or not there are embedded derivative instruments that are required to be accounted for separately as a derivative financial instrument. Also, in connection with the issuance of financing instruments, the Company may issue freestanding options or warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity. The Company may also issue options or warrants to non-employees in connection with consulting or other services.

Derivative financial instruments are measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to profit or loss. For warrant-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to estimate fair value of the derivative instruments. For more complex derivative financial instruments, the Company uses the binomial pricing model to estimate fair value of the derivative instrument.

Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Non-Controlling Interest The non-controlling interest balance 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 14 (iv) for details.

New Accounting Pronouncements

(i) In May 2014, ASU 2014-09 was issued related to revenue from contracts with customers. The ASU was further amended in August 2015, March 2016, April 2016, and May 2016 by ASU 2015-14, 2016-08, 2016-10 and 2016-12. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition.

    In August 2015, the effective date was deferred to reporting periods, including interim periods, beginning after December 31, 2017, and will be applied retrospectively. Early adoption is not permitted.

    The Company has completed its assessment of the impact of the new revenue standard on the Company's financial position and believes the new standard will not have a material impact. The Company will adopt the standard using the modified retrospective method of adoption. The Company's revenue arises from contracts with customers in which the sale of doré is the single performance obligation under the customer contract. Accordingly, revenue will continue to be recognized at a point in time when control of the asset is transferred to the customer, which is generally consistent with the Company's current accounting policies.

    ASU 2014-09 provides presentation and disclosure requirements which are more detailed than under current GAAP.

(amounts expressed in thousands of US dollars, except share amounts)

4. *Significant Accounting Policies, Estimates and Judgements (continued)*

(ii) In February 2016, FASB issued ASC 842 that requires lessees to recognize lease assets and corresponding lease liabilities on the balance sheet for all leases with terms of more than 12 months. The update, which supersedes existing lease guidance, will continue to classify leases as either finance or operating, with the classification determining the pattern of expense recognition in the income statement.

The ASU will be effective for annual and interim periods beginning January 1, 2019, with early adoption permitted, and is applicable on a modified retrospective basis with various optional practical expedients. The Company is assessing the impact of this standard.

(iii) In August 2016, ASC guidance was issued to amend the classification of certain cash receipts and cash payments in the statement of cash flows. The new guidance is effective for the Company's fiscal year and interim periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating this guidance and the impact on its financial statements.

5. *Inventories*

Inventories consist primarily of production from the Company's operation, in varying stages of the production process and supplies and spare parts, all of which are presented at the lower of cost or net realizable value. Inventories of the Company are comprised of:

	December 31, 2017	December 31, 2016
Stockpile inventory	$ 201	$ 318
In-process inventory	6,495	9,491
Dore inventory	320	76
Supplies and spare parts	2,012	1,056
	$ 9,028	$ 10,941

During the year ended December 31, 2017, the Company recognized an allowance against inventory in the amount of $2,909 (2016 - $nil), of which $2,071 (December 31, 2016 - $nil) relates to the inventory balances noted above.

6. *Property, Plant, Equipment and Mineral Interests*

	Land	Mineral property interest and claims	Mine development	Machinery and equipment	Buildings and infrastructure	Construction in progress	Interest capitalized	Total
Cost								
At December 31, 2015	**$ 110**	**$ 4,459**	**$ 84,798**	**$ 28,085**	**$ 8,565**	**$ -**	**$ -**	**$126,017**
Additions	3,777	-	-	-	9,178	543	5,886	19,384
Transfers	6	(218)	(42,765)	32,116	10,861	-	-	-
Disposals	-	-	-	-	-	-	-	-
At December 31, 2016	**$3,893**	**$ 4,241**	**$ 42,033**	**$ 60,201**	**$ 28,604**	**$ 543**	**$ 5,886**	**$145,401**
Additions	98	817	354	17	-	19,597	-	20,883
Transfers	-	222	8,625	11,239	-	(20,086)	-	-
Disposals	(22)	-	(239)	(1,391)	(207)	-	-	(1,859)
At December 31, 2017	**$3,969**	**$ 5,280**	**$ 50,773**	**$ 70,066**	**$ 28,397**	**$ 54**	**$ 5,886**	**$164,425**
Accumulated depreciation and depletion								
At December 31, 2015	**$ -**	**$ -**	**$ 654**	**$ 1,462**	**$ 350**	**$ -**	**$ -**	**$ 2,466**
Additions	-	67	317	5,667	2,329	-	5	8,385
Disposals	-	-	-	-	-	-	-	-
At December 31, 2016	**$ -**	**$ 67**	**$ 971**	**$ 7,129**	**$ 2,679**	**$ -**	**$ 5**	**$ 10,851**
Additions	-	261	2,444	6,489	2,358	-	466	12,018
Disposals	-	-	-	(265)	(27)	-	-	(292)
At December 31, 2017	**$ -**	**$ 328**	**$ 3,415**	**$ 13,353**	**$ 5,010**	**$ -**	**$ 471**	**$ 22,577**
Carrying values								
At December 31, 2016	**$ 3,893**	**$ 4,174**	**$ 41,062**	**$ 53,072**	**$ 25,925**	**$ 543**	**$ 5,881**	**$ 134,550**
At December 31, 2017	**$ 3,969**	**$ 4,952**	**$ 47,358**	**$ 56,713**	**$ 23,387**	**$ 54**	**$ 5,415**	**$ 141,848**

(amounts expressed in thousands of US dollars, except share amounts)

7. *Loan Payable*

As at December 31, 2017 and 2016, equipment financing balances are as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of the year	$ 15,150	$ 18,373
Additions	10,727	2,047
Principal repayments	(6,192)	(5,006)
Down payments and taxes	(1,839)	(264)
Settlements	(603)	-
Balance, end of the year	$ 17,243	$ 15,150
Current portion	$ 7,629	$ 5,656
Non-current portion	$ 9,614	$ 9,494

The terms of the financing agreements are as follows:

	December 31, 2017	December 31, 2016
Total acquisition costs	$ 35,692	$ 26,309
Interest rates	0.00% ~ 4.50%	0.00% ~ 4.50%
Monthly payments	$ 5 ~ 74	$ 5 ~ 34
Average remaining life (years)	2.13	2.54

For the year ended December 31, 2017, the Company made total down payments of $1,839 (December 31, 2016 - $264). The down payment consists of the sales tax on the assets and a 10% payment of the pre-tax purchase price. All of the loan agreements are for a term of four years, except two which are for three years, and are secured by the underlying asset.

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

Years	Principal Payments
2018	$ 7,629
2019	5,782
2020	2,374
2021	1,458
Total	$ 17,243

8. *Derivative Liabilities*

Share Purchase Warrants – Clay loans (Related Party)

On June 8, 2015, the Company issued 10,000,000 share purchase warrants to the Clay Group (the “June 2015 Warrants”) in connection with the June 2015 Loan (see Note 14 (ii)). 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. On February 20, 2018, the Company completed a rights offering at a share price lower than the exercise price of the June 2015 Warrants. As per the anti-dilution provision, the exercise price of the June 2015 Warrants will be adjusted according to a formula (see Note 18).

On November 18, 2016, the Company issued 8,000,000 share purchase warrants to the Clay Group (the “November 2016 Warrants”) in connection with the November 2016 Loan (see Note 14 (ii)). The share purchase warrants are exercisable until November 18, 2021 at an exercise price of $0.85. Included in the November 2016 Loan agreement was an anti-dilution provision. On February 20, 2018, the Company completed a rights offering at a share price lower than the exercise price of the November 2016 Warrants. As per the anti-dilution provision, the exercise price of the November 2016 Warrants will be adjusted according to a formula (see Note 18).

(amounts expressed in thousands of US dollars, except share amounts)

8. Derivative Liabilities (continued)

Share Purchase Warrants – Clay loans (Related Party) (continued)

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 liabilities related to the Clay Group share purchase warrants as at December 31, 2017 is $439 (December 31, 2016 - $5,458). The derivative liabilities were calculated using the binomial and the Black-Scholes pricing valuation models with the following assumptions:

Warrants related to June 2015 Loan	December 31, 2017	December 31, 2016
Risk-free interest rate	1.73%	0.84%.
Expected life of derivative liability	2.44 years	3.44 years
Expected volatility	78.59%	78.79%
Dividend rate	0.00%	0.00%

Warrants related to November 2016 Loan	December 31, 2017	December 31, 2016
Risk-free interest rate	1.73%	1.11%
Expected life of derivative liability	3.89 years	4.89 years
Expected volatility	75.69%	77.21%
Dividend rate	0.00%	0.00%

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

	December 31, 2017	December 31, 2016
Balance, beginning of the period	$ 5,458	$ 2,498
Fair value at inception	-	3,090
Change in fair value	(5,019)	(130)
Balance, end of the period	$ 439	$ 5,458

Share Purchase Warrants – July 2016 financing

On July 25, 2016, the Company issued a total of 6,317,700 share purchase warrants in connection with the July 2016 financing with an exercise price of C$2.00 and expiry date of July 25, 2019. In accordance with the guidance in ASC 815-40-15, the share purchase warrants met the criteria of a derivative instrument liability because they were exercisable in a currency other than the functional currency of the Company and thus did not meet the "fixed-for-fixed" criteria of that guidance. As a result, the Company was required to separately account for the share purchase warrants as derivative liabilities recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to income.

As at December 31, 2017, the Company had re-measured the share purchase warrants and determined the fair value of the derivative liability to be $2 (December 31, 2016 - $972) using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2017	December 31, 2016
Risk-free interest rate	1.68%	0.84%
Expected life of derivative liability in years	1.56 years	2.56 years
Expected volatility	66.89%	79.40%
Dividend rate	0.00%	0.00%

(amounts expressed in thousands of US dollars, except share amounts)

8. Derivative Liabilities (continued)

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

	December 31, 2017	December 31, 2016
Fair value of warrants issued	$ 972	$ 2,701
Change in fair value of warrants	(970)	(1,729)
Balance, end of the period	$ 2	$ 972

9. Asset Retirement Obligations

Reclamation Financial Assurance

The Company is required to provide the Bureau of Land Management, the State Office of Mine Reclamation and Kern County with a revised reclamation cost estimate annually. The financial assurance is adjusted once the cost estimate is approved.

This estimate, once approved by state and county authorities, forms the basis of reclamation financial assurance. The reclamation assurance provided as at December 31, 2017 was $1,465 (December 31, 2016 - $1,465).

The Company is also required to provide financial assurance with the Lahontan Regional Water Quality Control Board (the "Regional Board") for closure and reclamation costs related to the lined impoundments, which are defined as the Stage 1 and Stage 2 heap leach pads, the overflow pond, and the solution collection channel. The reclamation financial assurance estimate as at December 31, 2017, is $1,869 (December 31, 2016 - $1,211).

In addition to the above, the Company is required to obtain and maintain financial assurance for initiating and completing corrective action and remediation of a reasonably foreseeable release from the Project's waste management units as required by the Regional Board. The reclamation financial assurance estimate as at December 31, 2017 is $278 (December 31, 2016 - $278).

The Company entered into $3,612 (2016 - $2,954) in surety bond agreements in order to release its reclamation deposits and posted a portion of the financial assurance due in 2017. The Company pays a yearly premium of $90 (2016 - $61). Golden Queen Ltd. has provided a corporate guarantee on the surety bonds.

Asset Retirement Obligation

The total asset retirement obligation as at December 31, 2017, was $1,838 (December 31, 2016 - $1,366).

The Company estimated its asset retirement obligations based on its understanding of the requirements to reclaim and remediate its property based on its activities to date. As at December 31, 2017, the Company estimates the cash outflow related to these reclamation activities will be incurred in 2028. Reclamation provisions are measured at the expected value of future cash flows discounted to their present value using a discount rate based on a credit adjusted risk-free interest rate of 8.7% and an inflation rate of 2.5%.

The following is a summary of asset retirement obligations:

	December 31, 2017	December 31, 2016
Balance, beginning of the period	$ 1,366	$ 978
Accretion	126	90
Changes in cash flow estimates	346	298
Balance, end of the period	$ 1,838	$ 1,366

(amounts expressed in thousands of US dollars, except share amounts)

10. Income Taxes

The tax effects of the temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

	December 31, 2017	December 31, 2016
Deferred Tax Assets (Liabilities)		
Net operating and capital losses	$ 16,942	$ 15,799
Un-deducted interest	2,109	779
Capitalized interest deducted	(1,409)	(1,475)
Unrealized FX gain	(657)	-
Discount on Clay loan	(840)	
Other	157	45
Financing costs	435	747
Investment in GQM LLC	(11,692)	(14,676)
Valuation allowance	(13,241)	(14,140)
Deferred tax liabilities	$ (8,196)	$ (12,921)

The annual tax benefit is different from the amount provided by applying the statutory federal income tax rate to the Company's pre-tax loss. The reason for the differences are:

	December 31, 2017	December 31, 2016
Income tax benefit at Canadian statutory rate	$ (2,834)	$ (3,108)
Foreign income taxes at other than Canadian statutory rate	(1,921)	(1,398)
Re-measurement due to the Tax Cuts and Jobs Act	(3,739)	-
Change in fair value of derivative liability	(1,557)	(483)
Non-deductible accretion and other	(113)	558
Expiration of tax loss carryforwards	2,105	290
Non-controlling interest	2,197	922
Permanent differences, other	58	290
Prior year true-up, net	1,977	1,334
Increase (decrease) in valuation allowance	(898)	1,885
Tax benefit	$ (4,725)	$ -

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017, which significantly changed U.S. income tax law, including a reduction of the Federal corporate income tax rate from 35% to 21%. The $4,725 income tax recovery recognized in 2017 includes a net benefit of $3,739 related to the re-measurement of the deferred income tax liability which resulted from the 2014 JV transaction. Further guidance on the implementation and application of the TCJA will be forthcoming in regulations and other pronouncements to be issued by the U.S. Department of Treasury and/or guidance from the state of California. Such regulations, other pronouncements, or guidance may require changes to the estimated net benefit recorded, and any such change will be accounted for in the period in which the regulations, other pronouncements, or guidance are enacted or released by the relevant taxing authorities.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TJCA enactment date for companies to complete the accounting under ASC 740, Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

(amounts expressed in thousands of US dollars, except share amounts)

10. Income Taxes (continued)

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation allowance is reflected in current income or loss. As management of the Company does not currently believe that the Company will receive the benefit of this asset, a valuation allowance equal to certain net deferred tax assets has been established at both December 31, 2017 and 2016.

As at December 31, 2017, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

Country		Amount	Expiration dates
Unites States – Federal	$	41,738	2018 - 2037
Canada (C$)	$	19,829	2026 - 2037

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

The Company has evaluated its tax positions for the years ended December 31, 2017 and 2016 and determined that it has no uncertain tax positions requiring financial statement recognition.

Under current federal and state income tax laws and regulations, GQM LLC, a multi-member limited liability company ("LLC") is treated as a partnership for income tax reporting purposes and is generally not subject to income taxes. Additionally, at the LLC level no provision has been made for federal, state, or local income taxes on the results of operations generated by partnership activities; as such taxes are the responsibility of its Members.

11. Share Capital

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

Common shares

In July 2016, the Company completed a financing for gross proceeds of $12,193 (C$16,124) consisting of 11,120,000 units at a price of $1.10 (C$1.45) per unit. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of C$2.00 per common share until July 25, 2019. The aggregate fair value of the common share purchase warrants at the time of issuance was $2,377, which was recorded as a derivative liability and the Company allocated the remaining proceeds of $9,816 to the common shares (See Note 8).

The Company also issued 757,700 common share purchase warrants to brokers with the same terms as the common share purchase warrants issued with the financing units. The aggregate fair value of the common share purchase warrants issued to the brokers at the time of issuance was $324 which was recorded as a derivative liability (See Note 8). In addition, the Company incurred cash share issue costs totalling $1,285, which consisted of legal fees, commission and other direct financing costs.

On January 17, 2017, the Company issued 100,000 shares for a total of $59 as finder fees which were recognized in general and administrative expenses in connection with the declaration of commercial production in December 2016.

(amounts expressed in thousands of US dollars, except share amounts)

11. Share Capital (continued)

Stock options

The Company's current stock option plan (the "Plan") was adopted by the Company in 2013 and approved by shareholders of the Company in 2013. The Plan provides a fixed number of 7,200,000 common shares of the Company that may be issued pursuant to the grant of stock options. The exercise price of stock options granted under the Plan shall be determined by the Company's Board of Directors (the "Board") but shall not be less than the volume-weighted, average trading price of the Company's shares on the Toronto Stock Exchange ("TSX") for the five (5) 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 (5) 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 has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. The compensation expense is amortized on a straight-line basis over the requisite service period, which approximates the vesting period.

The following is a summary of stock option activity during the years ended December 31, 2017 and 2016:

	Shares	Weighted Average Exercise Price per Share	
Options outstanding, December 31, 2015	1,070,000	$	0.94
Options granted	485,000	$	0.66
Options outstanding, December 31, 2016	1,555,000	$	0.85
Options granted	1,605,001	$	0.38
Options forfeited	(166,667)	$	0.64
Options expired	(393,333)	$	1.13
Options outstanding, December 31, 2017	2,600,001	$	0.54

On March 20, 2017, the Company granted 400,002 options to the Company's Chief Financial Officer ("CFO") which are exercisable at a price of $0.65 for a period of five years from the date of grant. 133,334 options vest on March 20, 2018, 133,334 options vest on March 20, 2019 and 133,334 options on March 20, 2020.

On March 14, 2017, the former CFO of the Company resigned. 146,667 stock options were forfeited on this date as they did not meet the vesting conditions. Accordingly, the share-based compensation associated with the unvested stock options was reversed. The expiry date of 393,333 stock options that had vested was modified to June 14, 2017 pursuant to the terms of the employment agreement. These stock options were not exercised, thus expired during the year ended December 31, 2017.

On October 20, 2017, the Company granted 1,204,999 options to certain directors and employees of Golden Queen. The options are exercisable at a price of $0.29 for a period of five years from the date of grant. 401,666 options vest on October 20, 2018; 401,666 options vest on October 20, 2019; and 401,667 options vest on October 20, 2020.

(amounts expressed in thousands of US dollars, except share amounts)

11. Share Capital (continued)

Stock options (continued)

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

	2017	2016
Expected life (years)	5.00	5.00
Interest rate	1.18% ~ 1.70%	1.00%
Volatility	77.29% ~ 79.17%	81.27%
Dividend yield	0.00%	0.00%

During the year December 31, 2017, the Company recognized $201 (2016 - $24) in stock-based compensation relating to employee stock options that were issued and/or had vesting terms.
The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017:

Expiry Date	Number Outstanding	Number Exercisable	Remaining Contractual Life (years)	Weighted Average Exercise Price
June 3, 2018	50,000	50,000	0.42	$ 1.16
September 3, 2018	150,000	150,000	0.68	$ 1.59
September 8, 2020	430,000	430,000	2.69	$ 0.58
November 30, 2021	365,000	121,666	3.92	$ 0.66
March 20, 2022	400,002	-	4.22	$ 0.65
October 20, 2022	1,204,999	-	4.81	0.29
Balance, December 31, 2017	2,600,001	751,666	3.92	$ 0.54

As at December 31, 2017, the aggregate intrinsic value of the outstanding exercisable options was $nil (December, 31, 2016 - $651).

Warrants

The following is a summary of common share purchase warrants activity:

	December 31, 2017	December 31, 2016
Balance, beginning of the year	24,317,700	10,000,000
Issued - financing units	-	5,560,000
Issued - financing brokers (1)	-	757,700
Issued - debt restructuring (1)	-	8,000,000
Balance, end of the year	24,317,700	24,317,700

(1) Non-tradable share purchase warrants.

The following table summarizes information about share purchase warrants outstanding and exercisable:

Expiry Date	Number Outstanding	Remaining Contractual Life (years)	Exercise Price
June 8, 2020	10,000,000	2.44	$ 0.95
July 25, 2019	6,317,700	1.56	C$ 2.00
November 18, 2021	8,000,000	3.88	$ 0.85
Balance, December 31, 2017	24,317,700	2.69	

(amounts expressed in thousands of US dollars, except share amounts)

12. General and Administrative Expenses

General and administrative expenses are incurred to support the administration of the business that are not directly related to production. Significant components of general and administrative expenses are comprised of the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Audit, legal and professional fees	$ 1,029	$ 1,357
Salaries and benefits and director fees	2,094	1,538
Regulatory fees and licenses	114	135
Insurance	514	480
Corporate administration	1,484	798
	$ 5,235	$ 4,308

13. Loss Per Share

	Year Ended December 31, 2017	Year Ended December 31, 2016
Numerator:		
Net loss attributable to the shareholders of the Company - numerator for basic and diluted loss per share	$ (1,165)	$ (7,429)
Denominator:		
Weighted average number of common shares outstanding -basic and diluted	111,140,464	104,737,396
Loss per share – basic and diluted	**$ (0.01)**	**$ (0.07)**

Weighted average number of shares for the year ended December 31, 2017 excludes 2,600,001 options (December 31, 2016 - 1,555,000) and 24,317,700 warrants (December 31, 2016 – 24,317,700) that were antidilutive.

14. Related Party Transactions

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

(i) Compensation of Key Management Personnel, Transactions with Related Parties and Related Party Balances

For the year ended December 31, 2017, the Company recognized $653 (2016 – $653) salaries and fees for Officers and Directors.

For the year ended December 31, 2017, transactions with related parties included amendment, closing, commitment and director fees and interest expense totalling $2,766 (2016 – $4,011).

As at December 31, 2017, $38 (December 31, 2016 - $nil) was included in prepaid expenses and other current assets for closing fees paid to related parties.

As at December 31, 2017, $463 (December 31, 2016 - $nil) was included in accounts payable and accrued liabilities for amendment fees and accrued interest payable to related parties.

(ii) Note Payable

On December 31, 2014, the Company entered into a loan (the "December 2014 Loan") with the Clay Group for $12,500, due on July 1, 2015. On June 8, 2015, the Company amended the December 2014 Loan to extend the maturity to December 8, 2016 and increased the principal amount from $12,500 to $37,500 (the "June 2015 Loan").

(amounts expressed in thousands of US dollars, except share amounts)

14. Related Party Transactions (continued)

On November 18, 2016, the Company repaid $10,659 of the June 2015 Loan and accrued interest from net proceeds of $10,908 from an equity financing. The Company restructured the remaining debt with a new loan with a principal amount of $31,000 (the "November 2016 Loan"). The Company incurred a financing fee to secure the loan in the amount of $930, which was also paid on November 18, 2016.

In connection with the November 2016 Loan the Company issued 8,000,000 common share purchase warrants exercisable for a period of five years expiring November 21, 2021. The common share purchase warrants have an exercise price of $0.85.

The November 2016 Loan had a thirty-month term and an annual interest rate of 8%, payable quarterly. On November 10, 2017, the Company and the Clay Group agreed to amend the November 2016 Loan by reducing the 2018 quarterly and 2019 Q1 principal payments from $2,500 to $1,000, adding the reduction of such payments pro-rata to the remaining 2019 payments, and increasing the annual interest rate from 8% to 10% effective January 1, 2018 (the "November 2017 Loan"). On January 1, 2018, $2,212 of interest payments that were deferred in 2017 at the Company's option, a principal payment of $2,500 and a $400 amendment fee became due, the payment of which was deferred until after the close of the rights offering and was paid on February 28, 2018 (see Note 18).

The following table summarizes activity on the notes payable:

	December 31, 2017	December 31, 2016
Balance, beginning of the period	$ 26,347	$ 36,053
Interest payable transferred to principal balance	2,212	2,977
Accretion of discount on loans	1,940	1,996
Capitalized financing fee and legal fees	(400)	(930)
Reduction of debt upon issuance of warrants	-	(3,090)
Repayment of loans and interest	-	(10,659)
Balance, end of the period	$ 30,099	$ 26,347
Current portion	$ 7,712	$ -
Non-current portion	$ 22,387	$ 26,347

(iii) Amortization of Discounts and Interest Expense

The following table summarizes the amortization of discounts and interest on loan:

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
Accretion of the June 2015 Loan discount	$ -	$ 1,785
Interest expense related to the June 2015 Loan	-	3,599
Accretion of the November 2017 Loan discount	1,940	210
Interest expense related to the November 2017 Loan	2,580	296
Closing and commitment fees related to the Credit Facility	90	-
Interest expense related to Komatsu financial loans (1)	607	603
Accretion of discount and interest on loan	$ 5,217	$ 6,493

(amounts expressed in thousands of US dollars, except share amounts)

14. Related Party Transactions (continued)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Accretion of discount and interest on loan (1)	$ 5,217	$ 6,493
Less: Interest costs capitalized (2)	-	(1,005)
Interest expense	$ 5,217	$ 5,488

(1) Komatsu is not a related party and has only been included in the above table to reconcile the total interest expense incurred for the period to the amounts capitalized and expensed.
(2) The Mine went into production on April 1, 2016. As a result, interest capitalization ended on March 31, 2016.

(iv) Joint Venture Transaction

The Company has presented Gauss' ownership in GQM LLC as a non-controlling interest amount on the balance sheet within the equity section. However, there are terms in the agreement that provide for the exit from the investment in GQM LLC for an initial member whose interest in GQM LLC becomes less than 20%.

If a member becomes less than a 20% interest holder, its remaining interest will (ultimately) be terminated through one of 3 events at the non-diluted member's option:

a. Through conversion to a net smelter royalty ("NSR");
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.

The net assets of GQM LLC as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Assets, GQM LLC	$ 149,095	$ 151,802
Liabilities, GQM LLC	(28,024)	(20,710)
Net assets, GQM LLC	$ 121,071	$ 131,092

Included in the assets above, is $2,606 (December 31, 2016 - $11,138) in cash held by GQM LLC which is directed specifically to fund capital expenditures required to continue with production and to settle GQM LLC's obligations. The liabilities of GQM LLC do not have recourse to the general credit of Golden Queen except for $2,203 for two mining drill loans and $2,297 in surety bond agreements.

Non-Controlling Interest

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net and comprehensive loss in GQM LLC	$ (10,022)	$ (4,526)
Non-controlling interest percentage	50%	50%
Net and comprehensive loss attributable to non-controlling interest	$ (5,010)	$ (2,263)
Net and comprehensive loss attributable to permanent non-controlling interest	$ (3,006)	$ (1,358)
Net and comprehensive loss attributable to temporary non-controlling interest	$ (2,004)	$ (905)

(amounts expressed in thousands of US dollars, except share amounts)

14. Related Party Transactions (continued)

	Permanent Non-Controlling Interest	Temporary Non-Controlling Interest
Carrying value of non-controlling interest, December 31, 2015	$ 40,686	$ 27,124
Net and comprehensive loss for the year	(1,359)	(904)
Carrying value of non-controlling interest, December 31, 2016	$ 39,327	$ 26,220
Net and comprehensive loss for the year	(3,006)	(2,006)
Carrying value of non-controlling interest, December 31, 2017	$ 36,321	$ 24,214

(v) Credit Facility

On May 23, 2017, GQM LLC entered into a $5,000 one-year revolving credit agreement (the "Credit Facility") in which Gauss Holdings LLC and Auvergne, LLC agreed to extend credit in the form of loans to GQM LLC. The Credit Facility commenced on July 1, 2017, bears interest at a rate of 12% per annum and is subject to a commitment fee of 1% per annum. For the year ended December 31, 2017, GQM LLC paid a fee of $100 on closing which was classified as prepaid expenses and other current assets of which $62 was expensed and accrued commitment fees of $28. As at December 31, 2017, GQM LLC has drawn $3,000 from the Credit Facility (see Note 18).

15. Supplementary Disclosures of Cash Flow Information

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
Cash paid during the period for:		
Interest on loan payable	$ 607	$ 603
Non-cash financing and investing activities:		
Asset retirement costs charged to mineral property interests	$ 346	$ 297
Mining equipment acquired through issuance of debt	$ 8,285	$ 1,783
Mineral property expenditures included in accounts payable	$ 117	$ 1,929
Interest cost capitalized to mineral property interests	$ -	$ 839
Non-cash amortization of discount and interest expense	$ 1,540	$ 6,571
Interest payable converted to principal balance	$ 2,212	$ -

16. Commitments and Contingencies

Royalties

The Company has acquired a number of mineral property interests outright. It has acquired exclusive rights to explore, develop and mine other portions of the Mine under various mining lease agreements with landowners. Royalty amounts due to each landholder over the life of the Mine vary with each property.

Compliance with Environmental Regulations

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

Corporate Guaranties

The Company has provided corporate guaranties for two of GQM LLC's mining drill loans. The Company has also provided a corporate guaranty for GQM LLC's surety bonds.

(amounts expressed in thousands of US dollars, except share amounts)

17. Financial Instruments

Fair Value Measurements

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

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

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Share purchase warrants – Related Party (see Note 8)	$ 439	$ -	$ 439	$ -
Share purchase warrants – (see Note 8)	2	-	2	-
	$ 441	$ -	$ 441	$ -

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Share purchase warrants – Related Party (see Note 8)	$ 5,458	$ -	$ 5,458	$ -
Share purchase warrants – (see Note 8)	972	-	972	-
	$ 6,430	$ -	$ 6,430	$ -

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

Credit Risk

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

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

Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they relate to US Dollar deposits held in Canadian financial institutions. As at December 31, 2017, the Company's cash balances held in United States and Canadian financial institutions include $2,587, which are not fully insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

17. Financial Instruments (continued)

Interest Rate Risk

The Company holds 98% of its cash in bank deposit accounts with a single major financial institution. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the year ended December 31, 2017 a 1% decrease in interest rates would have reduced the interest income for 2017 by an immaterial amount.

Foreign Currency Exchange Risk

Certain purchases of corporate overhead items are denominated in Canadian Dollar. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Canadian Dollar against the US Dollar may result in an increase in the Canadian operating expenses in US dollar terms. As at December 31, 2017, the Company maintained the majority of its cash balance in US Dollars. The Company currently does not engage in any currency hedging activities.

18. Subsequent Event

On February 20, 2018, the Company successfully closed a rights offering (the "Offering") for gross proceeds of approximately $25,000. The Company issued the full allotment of 188,952,761 common shares pursuant to the terms of the Offering. The net proceeds of the Offering will be used to reduce the corporate debt, fund the Company's 50% portion of costs required for the purchase of additional equipment for the Mine and repayment of the Credit Facility, and general corporate and working capital purposes.

Since the Company completed the Offering at a share price lower than the exercise price of the June 2015 Warrants and the November 2016 Warrants, (collectively the "Clay Group Warrants") (see Note 8), the exercise price of the Clay Group Warrants will be adjusted according to a formula.