

Golden Queen Mining Co. Ltd.
Condensed Consolidated Interim Financial Statements
March 31, 2017

(US dollars – Unaudited)

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

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 9,451 | \$ 13,301 |
| Receivables | 67 | 34 |
| Inventories (Note 5) | 11,814 | 10,941 |
| Prepaid expenses and other current assets | 632 | 577 |
| Total current assets | 21,964 | 24,853 |
| Property, plant, equipment and mineral interests (Note 6) | 138,074 | 134,550 |
| Advance minimum royalties | 304 | 303 |
| Total Assets | \$ 160,342 | \$ 159,706 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 5,037 | \$ 4,264 |
| Interest payable (Note 9 (iii)) | 626 | 296 |
| Current portion of note payable (Note 9 (ii)) | 2,500 | - |
| Current portion of loan payable (Note 16) | 6,137 | 5,656 |
| Derivative liability – Related party warrants (Note 10) | 5,885 | 5,458 |
| Derivative liability – Warrants (Note 10) | 1,026 | 972 |
| Total current liabilities | 21,211 | 16,646 |
| Note payable (Note 9 (ii)) | 24,429 | 26,347 |
| Loan payable (Note 16) | 10,089 | 9,494 |
| Asset retirement obligation (Note 8) | 1,483 | 1,366 |
| Deferred tax liability | 12,922 | 12,922 |
| Total liabilities | 70,134 | 66,775 |
| Temporary Equity | | |
| Redeemable portion of non-controlling interest (Note 9 (iv)) | 26,064 | 26,220 |
| Shareholders' Equity | | |
| Common shares, no par value, unlimited shares authorized (2016 - unlimited); 111,148,683 (2016 – 111,048,683) shares issued and outstanding (Note 7) | 71,126 | 71,067 |
| Additional paid-in capital | 43,686 | 43,652 |
| Deficit accumulated | (89,761) | (87,335) |
| Total shareholders' equity attributable to GQM Ltd. | 25,051 | 27,384 |
| Non-controlling interest (Note 9 (iv)) | 39,093 | 39,327 |
| Total Shareholders' Equity | 64,144 | 66,711 |
| Total Liabilities, Temporary Equity and Shareholders' Equity | \$ 160,342 | \$ 159,706 |

Ability to Continue as a Going Concern (Note 2)
Commitments and Contingencies (Note 12)
Subsequent Events (Note 17)

Approved by the Directors:

“Thomas M. Clay”
Thomas M. Clay, Director

“Bryan A. Coates”
Bryan A. Coates, Director

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(amounts expressed in thousands of US dollars, except shares amounts - Unaudited)

| | <u>Three Months Ended March 31, 2017</u> | <u>Three Months Ended March 31, 2016</u> |
|--|--|--|
| Revenues | | |
| Metal Sales | \$ 14,804 | \$ - |
| Cost of Sales | | |
| Direct mining costs | (11,561) | - |
| Depreciation and depletion (Note 6) | (2,756) | - |
| Income from mine operations | <u>487</u> | <u>-</u> |
| General and administrative expenses (Note 14) | (1,416) | (1,527) |
| Operating loss | <u>(929)</u> | <u>(1,527)</u> |
| Other (expenses) income | | |
| Loss on derivative instruments (Note 10) | (481) | (7,031) |
| Interest expense (Note 9 (iii)) | (1,047) | (762) |
| Interest income | 25 | 40 |
| Other expenses | (384) | - |
| Total other expenses | <u>(1,887)</u> | <u>(7,753)</u> |
| Net and comprehensive loss for the period | \$ (2,816) | \$ (9,280) |
| Less: Net and comprehensive loss attributable to the non-controlling interest for the period (Note 9 (iv)) | <u>390</u> | <u>355</u> |
| Net and comprehensive loss attributable to Golden Queen Mining Co Ltd. for the period | <u>\$ (2,426)</u> | <u>\$ (8,925)</u> |
| Loss per share – basic (Note 15) | <u>\$ (0.02)</u> | <u>\$ (0.09)</u> |
| Loss per share – diluted (Note 15) | <u>\$ (0.02)</u> | <u>\$ (0.09)</u> |
| Weighted average number of common shares outstanding -basic | <u>111,080,008</u> | <u>99,928,683</u> |
| Weighted average number of common shares outstanding - diluted | <u>111,080,008</u> | <u>99,928,683</u> |

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.

**Condensed Consolidated Interim Statements of Shareholders' Equity, Non-controlling Interest and Redeemable Portion of Non-controlling Interest
(amounts expressed in thousands of US dollars, except shares amounts- Unaudited)**

| | 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 |
| Stock-based compensation | - | - | 4 | - | 4 | - | 4 | - |
| Net loss for the period | - | - | - | (8,926) | (8,926) | (213) | (9,139) | (142) |
| Balance, March 31, 2016 | 99,928,683 | \$ 62,860 | \$ 43,632 | \$ (88,832) | \$ 17,660 | \$ 40,473 | \$ 58,133 | \$ 26,982 |
| 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 7) | 100,000 | 59 | - | - | 59 | - | 59 | - |
| Stock-based compensation | - | - | 34 | - | 34 | - | 34 | - |
| Net loss for the period | - | - | - | (2,426) | (2,426) | (234) | (2,660) | (156) |
| Balance, March 31, 2017 | 111,148,683 | \$ 71,126 | \$ 43,686 | \$ (89,761) | \$ 25,050 | \$ 39,093 | \$ 64,144 | \$ 26,064 |

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

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

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| | <u>2017</u> | <u>2016</u> |
| Operating Activities | | |
| Net loss for the period | \$ (2,816) | \$ (9,280) |
| Adjustment to reconcile net loss to cash used in operating activities: | | |
| Depreciation and depletion | 2,756 | 7 |
| Amortization of debt discount and interest accrual | 286 | 762 |
| Accretion expense | 30 | - |
| Change in fair value of derivative liabilities (Note 10) | 481 | 7,031 |
| Stock based compensation | 34 | 4 |
| Unrealized foreign exchange | (5) | - |
| Non-cash finder fees | 59 | - |
| Changes in non-cash working capital items: | | |
| Receivables | (33) | (2) |
| Prepaid expenses & other current assets | (55) | (7) |
| Inventory | (873) | (1,622) |
| Accounts payable & accrued liabilities | 2,301 | 51 |
| Interest payable | 626 | (144) |
| Cash generated from (used in) operating activities | <u>2,791</u> | <u>(3,200)</u> |
| Investment activities: | | |
| Additions to property, plant, equipment and mineral interests | (5,236) | (7,401) |
| Release (purchase) of reclamation financial assurance deposit | - | 902 |
| Cash used in investing activities | <u>(5,236)</u> | <u>(6,499)</u> |
| Financing activities: | | |
| Repayments of loan payable (Komatsu) | (1,405) | (1,230) |
| Cash used in financing activities | <u>(1,405)</u> | <u>(1,230)</u> |
| Net change in cash and cash equivalents | (3,850) | (10,929) |
| Cash and cash equivalents, beginning balance | 13,301 | 37,586 |
| Cash and cash equivalents, ending balance | <u>\$ 9,451</u> | <u>\$ 26,657</u> |

Supplementary Disclosures of Cash Flow Information (Note 11)

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

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

2. Ability to Continue as a Going Concern

The unaudited condensed consolidated interim financial statements of Golden Queen Mining Co Ltd have been prepared using accounting principles generally accepted in the United States (US GAAP) applicable to a going concern.

The Company generated \$14.8 million in revenues from operations during the three months ended March 31, 2017. The Company had an accumulated deficit of \$89.8 million and a working capital surplus of \$0.8 million at March 31, 2017.

Golden Queen Mining Co. Ltd. expects to have sufficient cash on hand to meet its corporate general and administrative expenditures for the next twelve months from the date of the approval of these condensed consolidated interim financial statements. However, the Company is required to pay \$5.4 and \$3.1 million in accrued interest and debt principal repayment on January 1, 2018 and April 1, 2018, respectively. The Company will need to receive cash distributions from GQM LLC to service its debt and such distributions are contingent on GQM LLC’s ability to generate positive cash flows. This situation raises substantial doubt about the Company’s ability to continue as a going concern.

The Company anticipates receiving sufficient distributions from GQM LLC during this fiscal year to service its debt in 2018, however such distributions are dependent on a number of factors, including the gold price and the ability of the mine to perform according to the mine plan in 2017 and 2018. Because of the uncertainty relating to the above factors, there can be no assurance that sufficient distributions will be generated and paid by GQM LLC to the Company in order for it to meet its obligations when they fall due. If the distributions are not sufficient, the Company will need to either raise equity or negotiate with its debt lender a delay in principal and interest repayments.

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

The unaudited condensed consolidated interim financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3. Basis of Presentation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with US GAAP. The accounting policies followed in preparing these condensed consolidated interim financial statements are those used by the Company as set out in the audited consolidated financial statements for the year ended December 31, 2016.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

3. Basis of Presentation (continued)

Certain information and note disclosures normally included for annual consolidated financial statements prepared in accordance with US GAAP have been omitted. These condensed consolidated interim financial statements should be read together with the audited consolidated financial statements of the Company for the year ended December 31, 2016.

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, results of operations and cash flows at March 31, 2017 and for all periods presented, have been included in these financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2017, or future operating periods. For further information, see the Company's annual consolidated financial statements, including the accounting policies and notes thereto.

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

These unaudited condensed consolidated interim 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. Summary of Accounting Policies and Estimates and Judgements

Estimates The preparation of financial statements in conformity with US 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 interests, royalty obligations, inventory valuation, asset retirement obligations, and derivative liability – warrants. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

- (i) In July 2015, ASU No. 2015-11 was issued related to the inventory, simplifying the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The update is effective in fiscal years, including interim periods beginning after December 15, 2016. The Company records inventory at the lower of cost or net realizable value and the adoption of this guidance effective January 1, 2017 had no impact on the consolidated financial statements.
- (ii) In March 2016, ASU No. 2016-09 was issued related to stock-based compensation. The new guidance simplifies the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update is effective for the Company's fiscal year and interim periods beginning after December 15, 2016. The adoption of this guidance as of January 1, 2017 had no impact on the consolidated financial statements.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

4. Summary of Accounting Policies and Estimates and Judgements (continued)

New Accounting Policies

- (iii) 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.

We are currently assessing the impact of implementation of ASU No. 201-09, however, management does not believe it will change the point of revenue recognition or amounts of revenue recognized compared to how we recognize revenue under our current policies. Our revenues involve a relatively limited number of types of contracts and customers. In addition, our revenue contracts do not involve multiple types of performance obligations. Revenues from doré are recognized, and the transaction price is known, at the time the metals sold are delivered to the customer. We will finalize our assessment of the impact of ASU No. 201-09 on our revenue recognition during 2017 and assess the additional disclosure requirements under the guidance.

- (iv) 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.

- (v) 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 December 1, 2018. 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 consolidated 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:

| | March 31, 2017 | December 31, 2016 |
|--------------------------|----------------|-------------------|
| Stockpile inventory | \$ 407 | \$ 318 |
| In-process inventory | 9,389 | 9,491 |
| Dore inventory | 408 | 76 |
| Supplies and spare parts | 1,610 | 1,056 |
| | \$ 11,814 | \$ 10,941 |

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

6. Property, Plant, Equipment and Mineral Interests

Property, plant and equipment and mineral interest, are depreciated and depleted using either the units-of-production or straight-line method over the shorter of the estimated useful life of the asset or the expected life of mine. Assets under construction in progress are recorded at cost and re-allocated to its corresponding classification when they become available for use.

| | 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 | | | | 9,391 | 542 | 5,674 | 19,384 |
| Transfers | 6 | (6) | (42,765) | 32,117 | 10,648 | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| At December 31, 2016 | \$ 3,893 | \$ 4,453 | \$ 42,033 | \$ 60,202 | \$ 28,604 | \$ 542 | \$ 5,674 | \$ 145,401 |
| Additions | 17 | 18 | | 3,588 | | 3,820 | - | 7,443 |
| Transfers | | | (39) | | (36) | | | (75) |
| Disposals | - | - | - | (1,344) | - | - | - | (1,344) |
| At March 31, 2017 | \$ 3,910 | \$ 4,471 | \$ 41,994 | \$ 62,446 | \$ 28,568 | \$ 4,362 | \$ 5,674 | \$ 151,425 |
| Accumulated depreciation and depletion | | | | | | | | |
| At December 31, 2015 | \$ - | \$ - | \$ 654 | \$ 1,462 | \$ 350 | \$ - | \$ - | \$ 2,466 |
| Additions | - | 72 | 317 | 5,666 | 2,330 | - | - | 8,385 |
| Disposals | - | - | - | - | - | - | - | - |
| At December 31, 2016 | \$ - | \$ 72 | \$ 971 | \$ 7,128 | \$ 2,680 | \$ - | \$ - | \$ 10,851 |
| Additions | - | 61 | 558 | 1,437 | 591 | - | 109 | 2,756 |
| Disposals | - | - | - | (256) | - | - | - | (256) |
| At March 31, 2017 | \$ - | \$ 133 | \$ 1,529 | \$ 8,309 | \$ 3,271 | \$ - | \$ 109 | \$ 13,351 |
| Carrying values | | | | | | | | |
| At December 31, 2016 | \$ 3,893 | \$ 4,381 | \$ 41,062 | \$ 53,074 | \$ 25,924 | \$ 542 | \$ 5,674 | \$ 134,550 |
| At March 31, 2017 | \$ 3,910 | \$ 4,338 | \$ 40,465 | \$ 54,137 | \$ 25,297 | \$ 4,362 | \$ 5,565 | \$ 138,074 |

During the three months ended March 31, 2017, the Company acquired three (3) (2016 –one (1)) pieces of mining equipment from Komatsu through financing agreements. Also, during the same period the Company disposed of two (2) pieces of mining equipment (2016 – \$Nil). See Note 16 for further details.

7. Share Capital

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

Common shares – 2017

On January 17, 2017, the Company issued 100,000 shares for a total of \$0.06 million as finder fees which were recognized in general and administrative expenses in connection with the declaration of commercial production in December 2016.

Common shares – 2016

In July 2016, the Company completed a financing for gross proceeds of \$12.1 million (C\$16.1 million) 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 \$2.3 million, which was recorded as a derivative liability and the Company allocated the remaining proceeds of \$9.8 million to the common shares. (See Note 10).

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

7. Share Capital (continued)

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 \$0.3 million which was recorded as a derivative liability (See Note 10).

In addition, the Company incurred cash share issue costs totalling \$1.2 million, which consisted of legal fees, commission and other direct financing costs.

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 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. A total of 1,955,002 (December 31, 2016 – 1,555,000) common shares were issuable pursuant to such stock options as at March 31, 2017.

The Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with the accounting standard for employees, the compensation expense is amortized on a straight-line basis over the requisite service period, which approximates the vesting period.

The following is a summary of stock option activity during the period ended March 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 | 400,002 | \$0.65 |
| Options outstanding, March 31, 2017 | 1,955,002 | \$0.81 |

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

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

| | 2017 | 2016 |
|-----------------------|--------|--------|
| Expected life (years) | 4.97 | 4.92 |
| Interest rate | 1.18% | 1.00% |
| Volatility | 77.29% | 81.27% |
| Dividend yield | 0.00% | 0.00% |

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

7. Share Capital (continued)

Stock options (continued)

During the three months ended March 31, 2017, the Company recognized \$0.03 million (March 31, 2016 - \$0.02 million) 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 at March 31, 2017:

| Expiry Date | Number Outstanding | Number Exercisable | Remaining Contractual Life (years) | Exercise Price |
|--------------------------------|--------------------|--------------------|------------------------------------|----------------|
| June 3, 2018 | 50,000 | 50,000 | 1.18 | \$1.16 |
| September 3, 2018 | 150,000 | 150,000 | 1.43 | \$1.59 |
| September 18, 2018 | 300,000 | 300,000 | 1.47 | \$1.26 |
| September 8, 2020 | 570,000 | 523,334 | 3.44 | \$0.58 |
| November 30, 2021 | 485,000 | 0 | 4.67 | \$0.66 |
| March 20, 2022 | 400,002 | 0 | 4.97 | \$0.65 |
| Balance, March 31, 2017 | 1,955,002 | 1,023,334 | 3.55 | |

As at March 31, 2017, the aggregate intrinsic value of the outstanding exercisable options was \$0.1 million (December 31, 2016 - \$0.4 million).

Warrants

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

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Balance, beginning of the period | 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 period | 24,317,700 | 24,317,700 |

⁽¹⁾ Non-tradable share purchase warrants.

The following table summarizes information about share purchase warrants outstanding and exercisable at March 31, 2017:

| Expiry Date | Number Outstanding | Remaining Contractual Life (years) | Exercise Price |
|-------------------|--------------------|------------------------------------|----------------|
| June 8, 2020 | 10,000,000 | 3.19 | \$0.95 |
| July 25, 2019 | 5,560,000 | 2.32 | C\$2.00 |
| July 25, 2019 | 757,700 | 2.32 | C\$2.00 |
| November 18, 2021 | 8,000,000 | 4.65 | \$0.85 |

8. Asset Retirement Obligations and Financial Reclamation Assurance

Asset Retirement Obligation

The total asset retirement obligation as of March 31, 2017, was \$1.5 million (December 31, 2016 - \$1.4 million).

The Company estimated its asset retirement obligations based on its requirements to reclaim and remediate its property based on its activities to date. As at March 31, 2017, the Company estimates the primary cash outflow related to these reclamation activities will commence 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 2.45%.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

8. Asset Retirement Obligation and Financial Reclamation Assurance (continued)

Asset Retirement Obligation (continued)

The following is a summary of asset retirement obligations:

| | March 31, 2017 | December 31, 2016 |
|----------------------------------|----------------|-------------------|
| Balance, beginning of the period | \$ 1,366 | \$ 978 |
| Accretion | 30 | 90 |
| Changes in cash flow estimates | 87 | 298 |
| Balance, end of the period | \$ 1,483 | \$ 1,366 |

Reclamation Financial Assurance

The Company is required to provide the Bureau of Land Management, the State Office of Mine Reclamation and Kern County, California with a revised reclamation cost estimate annually. The financial assurance is adjusted once the cost estimate is approved. The Company's provision for reclamation of the property is estimated each year by an independent consulting engineer. This estimate, once approved by state and county authorities, forms the basis for a cash deposit of reclamation financial assurance. The reclamation assurance provided as at March 31, 2017 was \$1.5 million (December 31, 2016 - \$1.5 million).

The Company is also required to provide financial assurance with the Lahontan Regional Water Quality Control Board (the "Regional Board") for closure and reclamation costs related to the lined impoundments, which are defined as the Stage 1 heap leach pad, the overflow pond, and the solution collection channel. The reclamation financial assurance estimate for as of March 31, 2017, is \$1.9 million (December 31, 2016 - \$1.2 million).

In addition to the above, the Company is required to obtain and maintain financial assurance for initiating and completing corrective action and remediation of a reasonably foreseeable release from the Project's waste management units as required by the Regional Board. The reclamation financial assurance estimate for as of March 31, 2017, is \$0.3 million (December 31, 2016 - \$0.3 million).

During 2016, the Company entered into \$3.0 million in surety bond agreements in order to release its reclamation deposits. The Company pays a yearly premium of \$0.1 million. Golden Queen Mining Co. Ltd. has provided a corporate guaranty on the surety bonds (see Note 12).

9. Related Party Transactions

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

(i) Management Agreement

During the three months ended March 31, 2017, the Company paid a total of \$0.03 million (Three months ended March 31, 2016 - \$0.03) to the three (3) independent directors of the Company. Additionally, the Company paid \$0.02 million for consulting services to one of its directors.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

9. Related Party Transactions (continued)

(ii) Note Payable

On December 31, 2014, the Company entered into a loan (the “December 2014 Loan”) with the Clay family for \$12.5 million, due on July 1, 2015 and bore an annual interest rate of 10%. The loan was guaranteed by GQM Holdings, and secured by a pledge of the Company's interests in GQM Canada, GQM Canada’s interest in GQM Holdings and GQM Holdings’ 50% interest in GQM LLC.

The Company also incurred a financing fee to secure the loan in the amount of \$1.0 million, of which, \$0.8 million was paid on December 31, 2014 and the remaining \$0.3 million was paid on January 5, 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 \$12.5 million to \$37.5 million (the “June 2015 Loan”). The Company also issued to the lenders 10,000,000 common share purchase warrants exercisable for a period of five years expiring June 8, 2020. The common share purchase warrants have an exercise price of \$0.95. All other terms remained the same as the December 2014 Loan. The Company also incurred financing fees to secure the loan in the amount of \$1.5 million. The Company agreed to pay the legal fees incurred by the lenders relating to this debt instrument which amounted to \$0.04 million. The total legal fees were expensed as the transaction met the definition of a debt extinguishment.

On November 18, 2016, the Company repaid \$12.2 million of the June 2015 Loan and accrued interest with cash on hand and the net proceeds of \$10.1 million from an equity financing. The Company restructured the remaining debt with a new loan with a principal amount of \$31.0 million (the “November 2016 Loan”). The new loan has a thirty-month term and an annual interest rate of 8%, payable on a quarterly basis commencing during the first quarter of 2017. Quarterly principal payments of \$2.5 million commence during the first quarter of 2018, with a payment of the remaining balance at the maturity date. The first four quarterly interest payments under the November 2016 Loan can be added to the loan principal balance rather than paid in cash, at the Company’s option. The Company exercised this option on January 1, 2017.

In connection with the new 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 Company also incurred a financing fee to secure the loan in the amount of \$0.9 million, all of which was paid on November 18, 2016.

The table below summarizes the activity on the November 2016 Loan:

| | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| Balance, beginning of the period | \$ 26,347 | \$ 36,053 |
| Interest payable transferred to principal balance | 296 | 2,977 |
| Accretion of discount on loans | 286 | 1,996 |
| Capitalized financing fee and legal fees | - | (930) |
| Reduction of debt upon issuance of warrants | - | (3,090) |
| Repayment of loans and interest | - | (10,659) |
| Balance, end of the period | \$ 26,929 | \$ 26,347 |
| Current portion | \$ 2,500 | \$ - |
| Non-current portion | \$ 24,429 | \$ 26,347 |

(iii) Amortization of Discounts and Interest Expense

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

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

9. Related Party Transactions (continued)

(iii) Amortization of Discounts and Interest Expense (continued)

| | Three Months Ended March 31, | Three Months Ended March 31, |
|--|---------------------------------|---------------------------------|
| | 2017 | 2016 |
| Accretion of the Nov 2016 Loan discount | \$ 286 | \$ - |
| Interest expense related to the Nov 2016 Loan | 626 | - |
| Interest expense related to Komatsu financial loans ⁽¹⁾ | 135 | 167 |
| Accretion of the June 2015 Loan discount | - | 606 |
| Interest expense related to the June 2015 Loan | - | 994 |
| Accretion of discount and interest on loan | <u>\$ 1,047</u> | <u>\$ 1,767</u> |

The Company's loans were contracted to fund significant development costs.

| | Three Months Ended March 31, | Three Months Ended March 31, |
|--|---------------------------------|---------------------------------|
| | 2017 | 2016 |
| Accretion of discounts and interest on loan ⁽¹⁾ | \$ 1,047 | \$ 1,767 |
| Less: Interest costs capitalized ⁽²⁾ | - | (1,005) |
| Interest expense | <u>\$ 1,047</u> | <u>\$ 762</u> |

(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) Interest capitalization ended on March 31, 2016 because the mine went into production on April 1, 2016.

(iv) 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. GQM 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 National Corporation (NYSE: LUK) ("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 LLC ("Auvergne", the Clay Group's investment entity). Pursuant to the transaction, Leucadia was paid a transaction fee of \$2.0 million and \$0.3 million was paid to Auvergne through GQM LLC in 2014. The Company expensed these transaction costs.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

9. Related Party Transactions (continued)

(iv) Joint Venture Transaction (continued)

Variable Interest Entity

In accordance with ASC 810-10-30, the Company has determined that GQM LLC meets the definition of a VIE and that the Company is part of a related party group that, in its entirety, would meet the definition of a primary beneficiary. Although no individual variable interest holder individually meets the definition of a primary beneficiary in the absence of the related party group, Golden Queen has determined it is considered the member of the related party group most closely associated with GQM LLC. As a result, the Company has condensed consolidated interim 100% of the accounts of GQM LLC in these condensed consolidated interim 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 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 provides 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 unit interest will (ultimately) be terminated through one of three (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 of March 31, 2017, and December 31, 2016 are as follows:

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------|-----------------------|--------------------------|
| Assets, GQM LLC | \$ 152,976 | \$ 151,802 |
| Liabilities, GQM LLC | <u>(22,663)</u> | <u>(20,710)</u> |
| Net assets, GQM LLC | <u>\$ 130,313</u> | <u>\$ 131,092</u> |

Included in the assets above, is \$9.4 million (December 31, 2016 - \$11.1 million) in cash held as at March 31, 2017. The cash in GQM LLC is directed specifically to fund capital expenditures required to continue with production and settle GQM LLC's obligations. The liabilities of GQM LLC do not have recourse to the general credit of Golden Queen except for two (2) mining drill loans and \$3.0 million 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.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

9. Related Party Transactions (continued)

(iv) Joint Venture Transaction (continued)

| | Three Months Ended March 31, | Three Months Ended March 31, |
|---|--|--|
| | 2017 | 2016 |
| Net and comprehensive loss in GQM LLC | \$ (779) | \$ (709) |
| Non-controlling interest percentage | 50% | 50% |
| Net and comprehensive loss attributable to non-controlling interest | \$ (390) | \$ (355) |
| Net and comprehensive loss attributable to permanent non-controlling interest | \$ (234) | \$ (213) |
| Net and comprehensive loss attributable to temporary non-controlling interest | \$ (156) | \$ (142) |
| | <u>Permanent Non- Controlling Interest</u> | <u>Temporary Non- Controlling Interest</u> |
| Carrying value of non-controlling interest, December 31, 2016 | \$ 39,327 | \$ 26,220 |
| Net and comprehensive loss for the period | (234) | (156) |
| Carrying value of non-controlling interest, March 31, 2017 | \$ 39,093 | \$ 26,064 |

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 gain on dilution with the book value of the investment in GQM LLC increasing as well. 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 APIC based on guidance provided in ASC 810-10-55-4D and -4E.

The deferred tax liability resulted from the increase in the book value over tax value of the investment in GQM LLC.

Capital Contribution Agreement

Pursuant to the Joint Venture Transaction, GQM Holdings made a single capital contribution to GQM LLC of \$12.5 million on June 15, 2015. Gauss funded an amount equal to GQM Holdings' capital contribution to GQM LLC. Both partners maintain their 50% ownership of the Project.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

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

On November 18, 2016, the Company issued 8,000,000 share purchase warrants to the Clay family in connection with the November 2016 Loan. 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. 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 liabilities related to the share purchase warrants as at March 31, 2017 is \$5.9 million (December 31, 2016 - \$5.5 million). 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 | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| Risk-free interest rate | 0.87% | 0.84% |
| Expected life of derivative liability | 3.19 years | 3.44 years |
| Expected volatility | 73.66% | 78.79% |
| Dividend rate | 0.00% | 0.00% |

| Warrants related to November 2016 Loan | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| Risk-free interest rate | 1.12% | 1.11% |
| Expected life of derivative liability | 4.65 years | 4.89 years |
| Expected volatility | 88.21% | 77.21% |
| Dividend rate | 0.00% | 0.00% |

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

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------|-----------------------|--------------------------|
| Balance, beginning of the period | \$ 5,458 | \$ 2,498 |
| Fair value at inception | - | 3,090 |
| Change in fair value | 427 | (130) |
| Balance, end of the period | \$ 5,885 | \$ 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. 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 instrument liabilities recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to income.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

10. Derivative Liabilities (continued)

Share Purchase Warrants – July 2016 financing (continued)

As at March 31, 2017, the Company had re-measured the share purchase warrants and determined the fair value of the derivative liability to be \$1.0 million (December 31, 2016 - \$1.0 million) using the Black-Scholes option pricing model with the following assumptions:

| | March 31, 2017 | December 31, 2016 |
|--|----------------|-------------------|
| Risk-free interest rate | 0.87% | 0.84% |
| Expected life of derivative liability in years | 2.32 years | 2.56 years |
| Expected volatility | 77.18% | 79.40% |
| Dividend rate | 0.00% | 0.00% |

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

| | March 31, 2017 | December 31, 2016 |
|----------------------------------|----------------|-------------------|
| Fair value of warrants issued | \$ 972 | \$ 2,701 |
| Change in fair value of warrants | 54 | (1,729) |
| Balance, end of the period | \$ 1,026 | \$ 972 |

11. Supplementary Disclosures of Cash Flow Information

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|--|---|---|
| Cash paid during the period for: | | |
| Interest on loan payable | \$ 135 | \$ 144 |
| Non-cash financing and investing activities: | | |
| Asset retirement costs charged to mineral property interests | \$ 87 | \$ 97 |
| Mining equipment acquired through issuance of debt | \$ 2,481 | \$ 295 |
| Mineral property expenditures included in accounts payable | \$ 1,524 | \$ 2,311 |
| Interest cost capitalized to mineral property interests | \$ - | \$ 839 |
| Inventory expenditures included in accounts payable | \$ - | \$ 867 |
| Non-cash finder fess | \$ 59 | \$ - |
| Non-cash amortization of discount and interest expense | \$ 286 | \$ 606 |
| Interest payable converted to principal balance | \$ 296 | \$ 975 |

12. Commitments and Contingencies

Royalties

The Company has acquired a number of mineral properties outright. It has acquired exclusive rights to explore, develop and mine other portions of the Project under various mining lease agreements with landowners. Royalty amount due to each landholder over the life of the Project varies 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 project, and cause changes or delays in the Company's activities.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

12. Commitments and Contingencies (continued)

Corporate Guaranties

The Company has provided corporate guaranties for two (2) of GQM LLC's mining drill loans. The Company has also provided corporate a guaranty for GQM LLC's surety bonds.

13. 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.

Fair Value Measurements (continued)

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

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

| | March 31, 2017 | | | |
|---|----------------|---------|----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | |
| Share purchase warrants – Related Party (Note 10) | \$ 5,885 | \$ - | \$ 5,885 | \$ - |
| Share purchase warrants – (Note 10) | 1,026 | - | 1,026 | - |
| | \$ 6,911 | \$ - | \$ 6,911 | \$ - |

| | December 31, 2016 | | | |
|---|-------------------|---------|----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | |
| Share purchase warrants – Related Party (Note 10) | \$ 5,458 | \$ - | \$ 5,458 | \$ - |
| Share purchase warrants – (Note 10) | 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.

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

13. Financial Instruments (continued)

Credit Risk

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

The Company maintains its US Dollar and Canadian Dollar cash in bank accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the FDIC for up to \$0.3 million and Canadian Dollar cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation (“CDIC”) for up to C\$0.1 million.

Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they relate to US Dollar deposits held in Canadian financial institutions. As of March 31, 2017, the Company’s cash balances held in United States and Canadian financial institutions include \$9.5 million, which are not fully insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

Interest Rate Risk

The Company holds 93% 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 three months ended March 31, 2017 a 1% decrease in interest rates would have reduced the interest income for 2017 to a immaterial amount.

Foreign Currency Exchange Risk

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

Commodity Price Risk

The Company’s primary business activity is the development of the open pit, gold and silver, heap leach project on the Project. Decreases in the price of either of these metals from current levels has the potential to negatively impact the future viability of the Project.

14. 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:

| | Three Months Ended March 31, | Three Months Ended March 31, |
|---|---------------------------------|---------------------------------|
| | 2017 | 2016 |
| Audit, legal and professional fees | \$ 288 | \$ 774 |
| Salaries and benefits and director fees | 560 | 342 |
| Regulatory fees and licenses | 53 | 22 |
| Insurance | 133 | 124 |
| Corporate administration | 382 | 265 |
| | <u>\$ 1,416</u> | <u>\$ 1,527</u> |

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

15. Loss Per Share

| | Three Months Ended March 31, <u>2017</u> | Three Months Ended March 31, <u>2016</u> |
|--|--|--|
| Numerator: | | |
| Net loss attributable to the shareholders of the Company - numerator for basic and diluted LPS | \$ <u>(2,426)</u> | \$ <u>(8,925)</u> |
| Denominator: | | |
| Weighted average number of common shares outstanding -basic and diluted | <u>111,080,008</u> | <u>99,893,341</u> |
| Loss per share – basic and diluted | \$ <u>(0.02)</u> | \$ <u>(0.09)</u> |

Weighted average number of shares for the three months ended March 31, 2017 excludes 1,955,002 options (March 31, 2016 -1,070,000) and 24,317,700 warrants (March 31, 2016 – 10,000,000) that were antidilutive.

16. Loan Payable

During the three months ended March 31, 2017, the Company sold two (2) (December 31, 2016 –Nil) pieces of equipment with a net book value of \$1.0 million in consideration for settlement of two (2) loans by \$0.6 million plus \$0.1 million in cash. The Company also booked \$0.3 million as a loss in disposition of fixed assets.

During the three months ended March 31, 2017, the Company entered into three (3) new loan agreements for a total of \$3.8 million for the acquisition of three (3) (December 31, 2016 –two (2)) pieces of mining equipment from Komatsu.

As at March 31, 2017 and December 31, 2016, the finance agreement balances are as follows:

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------|-----------------------|--------------------------|
| Balance, beginning of the period | \$ 15,150 | \$ 18,373 |
| Additions | 3,737 | 2,047 |
| Down payments and taxes | (700) | (264) |
| Settlements | (556) | - |
| Principal repayments | <u>(1,405)</u> | <u>(5,006)</u> |
| Balance, end of the period | \$ <u>16,226</u> | \$ <u>15,150</u> |
| Current portion | \$ 6,137 | \$ 5,656 |
| Non-current portion | <u>\$ 10,089</u> | <u>\$ 9,494</u> |

For the three months ended March 31, 2017, the Company made total down payments of \$0.7 million (2016 - \$0.3 million). The down payments consist of the sales tax on the assets and a 10% payment of the pre-tax purchase price. All of the loan agreements are for a term of four (4) years, except two (2) which are for three (3) years, and are secured by the underlying asset except for two (2) mining drill loans for which GQM Ltd. has provided a corporate guarantee. Interest rates range from 0.00% to 4.50% with monthly payments in the range of \$0.005 to \$0.03 million.

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

| <u>Years</u> | <u>Principal Payments</u> |
|--------------|---------------------------|
| 2017 | 6,137 |
| 2018 | 6,142 |
| 2019 | 3,118 |
| 2020 | <u>829</u> |
| Total | <u>\$ 16,226</u> |

GOLDEN QUEEN MINING CO. LTD.
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017 and 2016
(amounts expressed in thousands of US dollars - Unaudited)

17. Subsequent Events

On April 1st, 2017, the Company was to make a quarterly interest payment on the November 2016 loan. In accordance with the terms of the November 2016 loan agreement, the Company chose to exercise its right to add the interest owed on April 1st, 2017 to the principal balance. The principal balance of the loan was increased by \$0.6 million.