

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

Form 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-21777

(Commission File Number)

GOLDEN QUEEN MINING CO. LTD.

(Exact name of registrant as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation)

Not Applicable

(IRS Employer Identification No.)

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

(Address of principal executive offices)

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

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

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 9, 2016 the registrant's outstanding common stock consisted of 111,048,683 shares.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation**

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing under Item 1 of this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under the heading “Risk Factors and Uncertainties” in our Annual Report on Form 10-K filed with the SEC on March 30, 2016, and elsewhere in this Quarterly Report on Form 10-Q.*

### **Cautionary Note Regarding Forward-Looking Statements**

Certain statements made in this Quarterly Report on Form 10-Q may constitute “forward-looking statements”. These forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Except for historical information, the matters set forth herein, which are forward-looking statements, involve certain risks and uncertainties that could cause actual results to differ. Potential risks and uncertainties include, but are not limited to, unexpected changes in business and economic conditions; significant increases or decreases in gold prices; changes in interest and currency exchange rates; unanticipated grade changes; changes in recovery rates of gold and silver; metallurgy, processing, access, availability of materials, equipment, supplies and water; determination of reserves; results of current and future drilling activities; joint venture relationships; economic volatility, either globally or in the U.S.; local and community impacts and issues; accidents and labor disputes; environmental costs and risks; and ability to refinance debt at reasonable rates or at all. Forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continues” or the negative of these terms or other comparable terminology, or which by their nature refer to future events. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements are made based on management’s beliefs, estimates, and opinions on the date the statements are made, and we undertake no obligation to update such forward-looking statements if these beliefs, estimates, and opinions should change, except as required by law.

The following discussion of the operating results and financial condition of Golden Queen Mining Co. Ltd. (“Golden Queen”, “Company”, “we”, “our” or “us”) is as at November 9, 2016 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the quarter ended September 30, 2016 and the notes thereto.

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

### ***The Soledad Mountain Project***

#### *Overview*

The Company is an emerging gold and silver producer utilizing an open pit, heap leach operation on its Soledad Mountain property, located just outside the town of Mojave in Kern County in southern California. The Soledad Mountain Project (the “Project”) utilizes conventional open pit mining methods and the cyanide heap leach and Merrill-Crowe processes to recover gold and silver from crushed, agglomerated ore.

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

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

Please refer to the Company’s Form 10-K dated March 30, 2016 for information on the Project and the Joint Venture Transaction.

The Company commenced commissioning of the facilities in the last quarter of 2015. The first gold and silver doré was poured, as part of the testing and commissioning process, on March 1, 2016. Testing and commissioning continued in March 2016 and production commenced on April 1, 2016.

### ***Commissioning of the Facilities***

Commissioning of the crushing-screening plant commenced in the fourth quarter of 2015 as scheduled. Leaching of the agglomerated ore was initiated in early February and the commissioning of the Merrill-Crowe facility was completed mid-February. A significant milestone was achieved when the inaugural gold and silver doré bar was poured on March 1, 2016.

The crushing and screening plant continued to be ramped up during the third quarter and 24-hour, 7-day per week operations commenced in June. Irrigation rates of ore on the heap were at the upper level of anticipated flow. The Company anticipates achieving an average throughput of 10,000-11,000 tons per day by the end of 2016.

In accordance with US GAAP, the Company started recognizing revenues and expenses related to the sale of metals in the second quarter of 2016. Please refer to the ***Operating performance*** section below for further details.

### ***Feasibility Study***

The Company filed a technical report pursuant to National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) titled “Soledad Mountain Technical Report and Updated Feasibility Study” with an effective date of February 25, 2015 (the “Technical Report”) on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on February 27, 2015 and the Electronic Data Gathering, Analysis, and Retrieval system (“EDGAR”) on March 2, 2015.

Please refer to the Company’s news release dated February 10, 2015 and Form 10-K dated March 30, 2016 for further details on the Technical Report and updated feasibility study. The Technical Report and updated feasibility study are also available on the Company’s website or on SEDAR.

### ***The Center for Biodiversity Petition to List the Mohave Shoulderband Snail as an Endangered Species***

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

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

On April 22, 2014, the Company learned that the USFWS had determined that there is no emergency to justify listing the Mohave Shoulderband snail as threatened or endangered under the Endangered Species Act of 1973, as amended. The USFWS reviewed the petition filed by the CBD and concluded that there was no imminent threat to the snail that would cause them to believe an emergency listing was required.

Even though an emergency listing was not warranted, the USFWS is required by the Endangered Species Act to continue processing the listing petition. A public comment period on the petition commenced on April 10, 2015 for a period of 60 days. On September 9, 2015, the USFWS and the CBD entered into a Stipulated Settlement Agreement that established a 12 Month Finding date of April 11, 2016.

In November 2015, the Company, the USFWS, and the CBD entered into a Memorandum of Understanding under which the USFWS and the CBD agreed to defer the 12 Month Finding date to June 30, 2017, and the Company agreed not to disturb until June 30, 2017 certain points on Soledad Mountain where snails or snail shells had been identified. The Company, the USFWS, and the CBD have jointly selected a third party environmental consultant that will conduct a survey to better understand the snail's range and distribution on Soledad Mountain before the USFWS prepares its 12 Month Finding. Surveying is anticipated to take place between the fall of 2016 and the spring of 2017.

The ongoing review by the USFWS does not affect the Project's regulatory approvals or interfere with the Project's operation. The November 2015 Memorandum of Understanding caused no material adjustments to the Project's mine plan. The Company believes that conservation of any snail habitat areas can be accomplished without material adjustments to the Project's mine plan and is preparing a conservation plan accordingly. If the USFWS ultimately finds that the snail is 'endangered' or 'threatened' and no agreed conservation plan is established, material adjustments to the Project's mine plan may be required.

### ***Other Legal Matters***

#### National Labor Relations Board

The Company filed a charge with the National Labor Relations Board (the "NLRB") against the Building and Construction Trades Council of Kern, Inyo, and Mono Counties (the "Union") on May 23, 2014. The charge was in response to the action taken by the Union related to a 1997 project labor agreement (PLA) that the Company believes is not applicable to the Project and unenforceable under federal labor law.

The NLRB issued a Complaint against the Union and the matter was heard by an NLRB Administrative Law Judge resulting in a December 2015 finding by the judge that the PLA violates Section 8(e) of the National Labor Relations Act and is therefore unenforceable. The Union has appealed that decision to the NLRB in Washington, D.C., and the North America's Building Trades Unions have filed an amicus curiae brief in support. The Company has filed its Responses to both briefs.

### ***Results of Operations***

The following are the results of operations for the three and nine months ended September 30, 2016, and the corresponding periods ended September 30, 2015.

The Company had \$13,450,545 and \$16,914,638 revenues from operations during the three and nine months ended September 30, 2016.

The Company incurred general and administrative expenses of \$657,305 and \$3,166,970 during the three and nine months ended September 30, 2016 as compared to \$672,738 and \$3,403,485 for the same periods in 2015. Costs were lower by \$15,433 and \$236,515 for the three and nine months ended September 30, 2016 when compared with the same periods in 2015. The reasons for the variance in costs are highlighted below.

The following significant general and administrative expenses were incurred during the nine months ended September 30, 2016:

- \$551,856 (2015 - \$700,912) for legal expenses. Legal costs were lower during the nine months ended September 30, 2016 as compared to the same period in 2015 due to the legal fees related to the financing activities and the snail and union issues in 2015 (see ***Other Legal Matters*** section above).
- \$544,503 (2015 - \$372,976) for audit, tax and accounting fees. Audit and accounting costs were higher during the nine months ended September 30, 2016 as compared to the same period in 2015 mainly due to the increased complexity of the audit work as the Soledad Mountain entered production and the additional costs relating to the calculations of the deferred tax liability.
- \$355,756 (2015 - \$217,515) for insurance expenses. The insurance expense increase is related to the general increase in corporate and site activities. Enhanced insurance coverage is required because construction of the processing facilities is complete and the Project has transitioned into the production phase.

- \$Nil (2015 - \$201,312) for consulting expenses. The 2015 consulting fees were payments for the services provided by the Company's former CEO. The current CEO salary is now included under corporate salary.
- \$Nil (2015 - \$108,545) for feasibility study expenses. The 2015 feasibility study expenses were related to the preparation of the Company's revised feasibility study, which was completed in February 2015.

The following significant general and administrative expenses were incurred during the three months ended September 30, 2016:

- \$115,980 (2015 - \$81,613) for insurance expenses. The insurance expense increase is related to the general increase in corporate and site activities. Enhanced insurance coverage is required because construction of the processing facilities is complete and the Project has transitioned into the production phase.
- \$19,507 (2015 - \$85,590) for legal expenses. Legal costs were significantly lower during the three months ended September 30, 2016 as compared to the same period in 2015 due to the legal fees related to the financing activities and the snail and union issues in 2015. (see *Other Legal Matters* section above).

The Company experienced net foreign exchange gains of \$273,470 and \$271,365 during the three and nine months ended September 30, 2016, as compared with gains of \$319,600 and \$786,688 for the same period in 2015. The net foreign exchange gain is made up by realized and unrealized gains and losses related to the Company's Canadian expenditures, the Canadian balances of cash, accounts payable and, in 2015, the convertible debentures. During the third quarter of 2015 the net foreign exchange gain was mainly the result of the unrealized gain on the convertible debentures, which were denominated in Canadian dollars while the Company's functional currency is the US dollar. The exchange rate, stated in US dollar per one Canadian dollar, moved from \$0.72 as of December 31, 2015 to \$0.76 on September 30, 2016.

For the three and nine months ended September 30, 2016, the Company incurred a total interest expense of \$1,814,561 and \$4,369,026 respectively (three months ended September 30, 2015 - \$981,390, nine months ended September 30, 2015 - \$2,999,254) related to its various loans. The increase is mainly due to the amortization of the discount of the June 2015 Loan (as defined in the *Transactions with Related Parties* section below) and the fact that the Company no longer capitalizes a portion of the interest payable. Please refer to the *Transaction with Related Parties* section for a complete breakdown of the interest expenses.

During the third quarter of 2016 the amount of the Company's derivative liability includes the warrants issued in conjunction with the June 2015 Loan and the fair value of hedging instruments and the warrants issued in conjunction with the July 2016 financing. During the third quarter of 2015 the Company's derivative liability included the convertible debentures and the warrants issued in conjunction with the June 2015 Loan. The Company recorded a decrease in the derivative liability including foreign exchange of \$3,944,411 mostly as a result of a decrease in the Company's share price during the three months ended September 30, 2016 as compared to an increase of \$598,770 for the same quarter in 2015. For the nine months ended September 30, 2016, the Company recorded an increase in the derivative liability including foreign exchange of \$1,951,581 as a result of a significant increase in the Company's share price during the nine months ended September 30, 2016 as compared to a decrease of \$1,868,329 for the same period in 2015. Refer to Notes 7(iii), 8 and 9 of the unaudited condensed consolidated interim financial statements for a detailed analysis of the changes in fair value of the derivative liability.

Interest income of \$33,313 (2015 - \$49,805) was lower during the three months ended September 30, 2016 as compared with the same period in 2015 due to a decrease in the cash balances. For the nine months ended September 30, 2016, the interest income was \$116,215 (2015 - \$168,330) as compared with the same period in 2015 also due to a decrease in the cash balances. Interest rates remained low during the second quarter and are projected to remain low for the remainder of 2016.

The Company recorded net income and comprehensive income of \$2,738,207\* and a net loss and comprehensive loss of \$8,296,349\* (or \$0.03 and \$(0.08) income and (loss) per basic share) during the three and nine months ended September 30, 2016 respectively as compared to a net loss and comprehensive loss of \$1,924,167\* and \$4,739,168\* respectively (or \$0.02 and \$0.05 loss per basic share) during the same periods of 2015. The difference between the three and nine months ended September 30, 2016 and 2015 is mainly due to the significant increase in the derivative liability related to the Company's warrants and increase in interest expense. The Company also recorded revenue of \$13,450,545 and \$16,914,638 during the three and nine months ended September 2016 respectively.

\* Attributable to the Company.

### **Summary of Quarterly Results**

Results for the eight most recent quarters are set out in the table below and can be found in the respective interim reports:

<b>Results for the quarter ended on:</b>	<b>Sept. 30,</b>	<b>June 30,</b>	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>
Item	\$	\$	\$	\$
Revenue	13,450,545	3,464,093	Nil	Nil
Net income (loss) for the quarter *	2,738,207	(2,108,781)	(8,925,777)	(721,587)
Basic net income (loss) per share	0.03	(0.02)	(0.09)	(0.01)
Diluted net income (loss) per share	0.03	(0.02)	(0.09)	(0.01)
	<b>Sept. 30,</b>	<b>June 30,</b>	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
Item	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net income (loss) for the quarter *	(1,924,167)	(1,379,265)	(1,436,187)	1,543,120
Basic net income (loss) per share	(0.02)	(0.01)	(0.01)	0.02
Diluted net income (loss) per share	(0.02)	(0.01)	(0.01)	0.00

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

Although the Company generated revenues in the second and third quarter respectively, for the quarters illustrated in the above table, the main reasons for the significant fluctuations in net income (loss) between periods are the fluctuations in the Company's derivative liabilities from warrants, interest expense and the costs related to the Joint Venture Transaction. The Company's derivative liabilities are a function of the Company's stock price as compared to the instruments' strike price and the exchange rate between the Canadian dollar and the US dollar. As the stock price rises, the derivative liabilities increase resulting in the Company recognizing losses. When the stock price decreases, the Company recognizes gains.

For fiscal 2015, the Company experienced a loss related to its derivative liabilities in the amount of \$101,749 (2014 – Loss of \$5,747,376) in the first quarter whereas it recorded a gain of \$2,568,849 (2014 – Gain of \$1,634,681) during the second quarter. The second quarter gain was however off-set by higher interest expense and a one-time financing fee of \$1,500,000 paid in connection with the June 2015 Loan. In the third quarter of 2015, the Company experienced a loss of \$598,770 (2014 – Gain of \$2,861,314) related to the derivative liabilities. Adding to the losses for the three months ended September 30, 2015 were the interest expense and amortization of the discount on the June 2015 Loan and the convertible debenture and the interest expense related to the Komatsu loans. In the fourth quarter of 2015, the Company experienced a gain of \$1,465,895 (2014 – Gain of \$2,255,598) related to the derivative liabilities. This gain was partially off-set by interest expense and amortization of the discount on the June 2015 Loan and the interest expense related to the Komatsu loans.

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

Please refer to the **Results of Operations** section above for the results of operations for the three and nine months ended on September 30, 2016.

### **Reclamation Financial Assurance and Asset Retirement Obligation**

#### **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. The Company's provision for reclamation of the property is estimated each year by an independent consulting engineer. This estimate, once approved by state and county authorities, forms the basis for the reclamation financial assurance. The reclamation assurance provided as at September 30, 2016 was \$1,460,592 (December 31, 2015 - \$624,142).

The Company is also required to provide financial assurance with the Lahontan Regional Water Quality Control Board (the "Regional Board") for closure and reclamation costs related to the lined impoundments, which are defined as the Stage 1 heap leach pad, the overflow pond, and the solution collection channel. The reclamation financial assurance estimate for as of September 30, 2016 is \$1,210,889 (December 31, 2015 - \$Nil).

In addition to the above, the Company is required to obtain and maintain financial assurance for initiating and completing corrective action and remediation of a reasonably foreseeable release from the Project's waste management units as required by the Regional Board. The reclamation financial assurance estimate for as of September 30, 2016 is \$278,240 (December 31, 2015 - \$278,240).

The Company entered into \$3.0 million in surety bond agreements in order to release its reclamation deposits and post a portion of the financial assurance due in 2016. The Company pays a yearly premium. Golden Queen Ltd. has provided a corporate guarantee on the surety bonds.

#### Asset Retirement Obligation

The total asset retirement obligation as of September 30, 2016 is \$1,268,541 (December 31, 2015 - \$978,453).

The Company estimated its asset retirement obligations based on its understanding of the requirements to reclaim and clean-up its property based on its activities to date. During the three and nine months ended September 30, 2016, there was an increase of \$96,696 and \$290,088 (Three and nine months ended September 30, 2015 - \$Nil and \$278,240) to the asset retirement obligations. Of these totals, \$74,167 and \$245,030 was capitalized to property, plant, equipment and mineral interests as the asset portion of the asset retirement obligation for the three and nine months ended September 30, 2016 (Three and nine months ended September 30, 2015 - \$Nil and \$71,892). The remaining amount of \$22,529 and \$45,058, for the three and nine months ended September 30, 2016, was expensed to operations as accretion expense (Three and nine months ended September 30, 2015 - \$Nil and \$Nil).

The Company estimates that the cash outflows related to these reclamation activities will be incurred primarily in 2028. Reclamation provisions are measured at the expected value of future cash flows discounted to their present value using a credit adjusted risk-free interest rate and adjusted for inflation. The Company used a credit adjusted risk-free rate of 9.20% (December 31, 2015 - 9.20%) and an inflation rate of 2.27% (December 31, 2015 - 2.27%).

#### Property Rent Payments and Production Royalties

The Company has acquired a number of mineral properties outright. It has acquired exclusive rights to explore, develop and mine other portions of the Project under various mining lease agreements with landowners.

The Company is required to make property rent payments related to its mining lease agreements with landholders, in the form of advance minimum royalties. The total property rent payments for the three and nine months ended September 30, 2016 were \$Nil and \$18,206 (three months ended September 30, 2015 - \$8,539 and nine months ended September 30, 2015 - \$68,706), and the Company expects to pay approximately \$30,000 in property rent payments in 2016.

Production royalty payments commenced during the first quarter of 2016. The Company has paid \$345,184 and \$406,147 in production royalties during the three and nine months ended September 30, 2016, respectively.

There are multiple third party landholders and the royalty amount due to each landholder over the life of the Project varies with each property.

#### Contractual Obligations

GQM LLC's contractual obligations as of September 30, 2016 are shown in the table below:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations (mostly mobile mining equipment financing)	\$ 14,931,787	\$ 5,175,113	\$ 9,514,785	\$ 241,889	\$ -
Asset retirement obligations (Undiscounted)	\$ 2,949,625	-	-	-	\$ 2,949,625
<b>Total</b>	<b>\$ 17,881,412</b>	<b>\$ 5,175,113</b>	<b>\$ 9,514,785</b>	<b>\$ 241,889</b>	<b>\$ 2,949,625</b>

GQM LTD's contractual obligations as of September 30, 2016 are shown in the table below:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Interest payable - June 2015 Clay loan (July 1, 2016 payment)	\$ 1,050,023	\$ 1,050,023	-	-	-
2015 June Clay Loan (Face value)	\$ 41,658,535	\$ 41,658,535	-	-	-
<b>Total</b>	<b>\$ 42,708,558</b>	<b>\$ 42,708,558</b>	-	-	-

### ***Off-balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

### ***Stock Option Plan***

The Company's current stock option plan (the "Plan") was adopted by the Company in 2013 and approved by shareholders of the Company in 2013. The Company also adopted a house keeping amendment to the plan on April 27, 2015 to clarify the procedure for fixing the early termination date of stock options. The Plan provides a fixed number of 7,200,000 common shares of the Company that may be issued pursuant to the grant of stock options. The exercise price of stock options granted under the Plan shall be determined by the Company's board of directors (the "Board"), but shall not be less than the volume-weighted, average trading price of the Company's shares on the Toronto Stock Exchange (the "TSX") for the five trading days immediately prior to the date of the grant. The expiry date of a stock option shall be the date so fixed by the Board subject to a maximum term of five years. The Plan provides that the expiry date of the vested portion of a stock option will be the earlier of the date so fixed by the Board at the time the stock option is awarded and the early termination date (the "Early Termination Date"). The Early Termination Date will be the date the vested portion of a stock option expires following the option holder ceasing to be a director, employee or consultant, as determined by the Board at the time of grant, or in the absence thereof at any time prior to the time the option holder ceases to be a director, employee or consultant, in accordance with and subject to the provisions of the Plan. All options granted under the 2013 Plan will be subject to such vesting requirements as may be prescribed by the TSX, if applicable, or as may be imposed by the Board.

A total of 1,070,000 (1,023,334 exercisable) (December 31, 2015 – 1,070,000 (976,667 exercisable); September 30, 2015 – 1,270,000 (1,176,666 exercisable)) common shares were issuable pursuant to such stock options as at September 30, 2016.

### ***Transactions with Related Parties***

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

#### **(i) Consulting Fees**

For the three and nine months ended September 30, 2015, the Company paid \$Nil and \$201,312 to Mr. H. Lutz Klingmann for services as President of the Company. Included in these consulting fees was \$151,428 related to 150,000 bonus shares (Refer to Note 4 – Share Capital of the unaudited condensed consolidated interim financial statements). There were no consulting fees paid during the three and nine months ended September 30, 2016.

During the three and nine months ended September 30, 2016, the Company paid a total of \$27,447 and \$83,685 (Three and nine months ended September 30, 2015 - \$44,732 and \$81,584) to the three independent directors of the Company. During the three and nine months ended September 30, 2016, Thomas M. Clay did not receive director fees.

#### **(ii) Notes Payable**

On January 1, 2014, the Company entered into an agreement to secure a \$10,000,000 loan (the "January 2014 Loan"). The January 2014 Loan was provided by members of the Clay family, who are shareholders of the Company, including \$7,500,000 provided by an investment vehicle managed by Thomas M. Clay, a Director and insider of the Company. The January 2014 Loan had a twelve-month term and an annual interest rate of 5%, payable on the maturity date.

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

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

On December 31, 2014 the Company also entered into a new loan (the “December 2014 Loan”) with the same parties for an amount of \$12,500,000. The December 2014 Loan was due on demand on July 1, 2015 and bore an annual interest rate of 10% payable at the end of each quarter. The loan was guaranteed by GQM Holdings, and secured by a pledge of the Company's interests in GQM Canada, GQM Canada's interest in GQM Holdings and GQM Holdings' 50% interest in GQM LLC.

The Company also incurred a financing fee to secure the loan in the amount of \$1,000,000, of which \$750,000 was paid on December 31, 2014 and the remaining \$250,000 was paid on January 5, 2015. The Company agreed to pay the legal fees incurred by the lenders relating to this instrument which amounted to \$90,916. The total legal fees paid for the transaction were \$118,695.

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

	September 30, 2016	December 31, 2015
Balance, beginning of the period	\$ 36,053,012	\$ 13,881,305
Accretion of discount on the June 2015 Loan	1,853,023	1,374,228
Interest payable transferred to principal balance of the June 2015 loan	2,977,029	1,181,507
Fair value at inception, notes payable	-	33,497,277
Repayment of loans	-	(2,500,000)
Accretion of financing and legal fees	-	967,156
Extinguishment of the December 2014 Loan	-	(12,500,000)
Loss on extinguishment of debt	-	151,539
Balance, end of the period	<u>\$ 40,883,064</u>	<u>\$ 36,053,012</u>

Interest payable relating to the June 2015 Loan as at September 30, 2016 was \$1,050,023 (December 31, 2015 - \$969,645). Subsequent to September 30, 2016, the \$1,050,023 interest payable was paid in cash. Please refer to Note 15 of the unaudited condensed consolidated interim financial statements for complete details.

### (iii) Share Purchase Warrants

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

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

The fair value of the derivative liability related to the share purchase warrants as at September 30, 2016 is \$4,870,193 (December 31, 2015 - \$2,498,269). The derivative liability was calculated using an option pricing valuation model with the following assumptions:

	2016	2015
Risk-free interest rate	0.51% - 0.68%	0.73% - 1.02%
Expected life of derivative liability	3.69 - 4.19 years	4.44 - 5 years
Expected volatility	79.45% - 83.3%	72.29% - 76.11%
Dividend rate	0.00%	0.00%

The estimated fair value of the share purchase warrants is as follows:

	September 30, 2016	December 31, 2015
Balance, beginning of the period	\$ 2,498,269	\$ -
Fair value at inception	-	4,002,723
Change in fair value	2,371,924	(1,504,454)
Balance, end of the period	\$ 4,870,193	\$ 2,498,269

**(iv) Amortization of Discounts and Interest Expense**

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Accretion of the June 2015 Loan discount	\$ 620,971	\$ 600,797	\$ 1,853,024	\$ 743,866
Interest expense related to the June 2015 Loan	1,050,023	937,500	3,057,406	1,166,667
*Interest expense related to Komatsu financial loans	143,567	91,301	463,819	135,859
Interest expense related to the convertible debentures	-	14,321	-	94,907
Amortization of the convertible debentures	-	262,203	-	1,852,754
Interest expense related to the december 2014 Loan	-	-	-	547,945
Accretion of the december 2014 loan financing fees	-	-	-	967,155
Accretion of discount and interest on loan and convertible debentures	\$ 1,814,561	\$ 1,906,122	\$ 5,374,250	\$ 5,509,153

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Accretion of discounts and interest on loan, advance and convertible debenture*	\$ 1,814,561	\$ 1,906,122	\$ 5,374,249	\$ 5,509,153
Less: Interest costs capitalized**	-	(924,732)	(1,005,223)	(2,509,899)
Interest expense	\$ 1,814,561	\$ 981,390	\$ 4,369,026	\$ 2,999,254

\*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.

\*\*Interest capitalization ended on March 31, 2016 as the mine went into production on April 1, 2016.

(v) **Joint Venture Transaction**

*Variable Interest Entity*

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

The net assets of GQM LLC as of September 30, 2016 and December 31, 2015 are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Assets, GQM LLC	\$ 154,296,007	\$ 158,209,916
Liabilities, GQM LLC	(20,599,036)	(22,591,211)
Net assets, GQM LLC	<u>\$ 133,696,971</u>	<u>\$ 135,618,705</u>

Included in the assets above, is \$15,414,250 (December 31, 2015 - \$31,530,900) in cash held as at September 30, 2016. The cash in GQM LLC is directed specifically to fund working capital until the Project reaches positive cash flows. The liabilities of GQM LLC do not have recourse to the general credit of the primary beneficiary except in two situations. Please refer to notes 5 and 13 of the unaudited condensed consolidated interim financial statements for details on the exceptions.

*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.

	<u>Three Months Ended September 30, 2016</u>	<u>Three Months Ended September 30, 2015</u>	<u>Nine Months Ended September 30, 2016</u>	<u>Nine Months Ended September 30, 2015</u>
Net and comprehensive income (loss) in GQM LLC	\$ 1,706,349	\$ (557,852)	\$ (1,921,733)	\$ (2,556,001)
Non-controlling interest percentage	50%	50%	50%	50%
Net and comprehensive income (loss) attributable to non-controlling interest	<u>\$ 853,173</u>	<u>\$ (278,926)</u>	<u>\$ (960,867)</u>	<u>\$ (1,278,001)</u>
Net and comprehensive income (loss) attributable to permanent non-controlling interest	\$ 511,904	\$ (167,355)	\$ (576,520)	\$ (766,801)
Net and comprehensive income (loss) attributable to temporary non-controlling interest	<u>\$ 341,269</u>	<u>\$ (111,571)</u>	<u>\$ (384,347)</u>	<u>\$ (511,200)</u>

	<u>Permanent Non- Controlling Interest</u>	<u>Temporary Non- Controlling Interest</u>
Carrying value of non-controlling interest, December 31, 2015	\$ 40,685,611	\$ 27,123,741
Net and comprehensive loss for the period	<u>(576,520)</u>	<u>(384,347)</u>
Carrying value of non-controlling interest, September 30, 2016	<u>\$ 40,109,091</u>	<u>\$ 26,739,394</u>

## Operating performance

### Metal revenues\*

	<u>Q3 2016</u>	<u>Q2 2016</u>
Gold Sold (oz)	8,715	2,362
Silver Sold (oz)	97,430	26,500
Average realized gold price	\$1,329	\$1,276
Average London PM fix gold price	\$1,335	\$1,259
Average realized silver price	\$19.22	\$17.02
Average London PM fix silver price	\$19.61	\$16.78
Metal Revenues	\$13,450,545	\$3,464,093

\* Figures are shown on a 100% basis

The Company recorded revenue for the first time during the second quarter of 2016. For the third quarter GQM LLC sold 8,715 gold ounces at an average realized gold price of \$1,329 per ounce and 97,430 silver ounces at an average realized silver price of \$19.22 per ounce.

### Operating Metrics

	<u>Q3 2016</u>	<u>Q2 2016</u>
Ore mined (ton)	808,000	660,000
Waste mined (ton)	1,773,000	1,193,000
Total mined (ton)	2,581,000	1,853,000
Strip ratio (waste: ore)	2.2	1.8
Ore Processed (tons)	763,157	646,211
Average ore processed Gold grade (oz/ton)	0.016	0.013
Average ore processed Silver grade (oz/ton)	0.362	0.404
Gold loaded on pad (contained oz)	11,928	8,636
Silver loaded on pad (contained oz)	276,043	261,021
Average ore processing throughput (tons per scheduled operating )	8,479	8,852
Gold produced (oz)	7,975	2,830
Silver produced (oz)	87,849	33,335

### Mining

808K tons of ore were mined during the third quarter with a strip ratio of 2.2:1 waste to ore. A total of 1,759K tons of ore has now been mined since January 2016 with a strip ratio of 2.2:1 waste to ore. The lower stripping ratio, compared to the mine plan is due to more ore encountered on most benches mined during the third quarter in the Northwest Pit and in the Main Pit, Phase-1. This has resulted in more ore and less waste available for mining. Seven-day per week operations started in the Mining function in June.

Northwest Pit: Mining of the Northwest Pit commenced in 2015 and will continue into late 2017.

Main Pit: Mining of the Main Pit, Phase 1, commenced in early January of this year. Mining of the Main pit, Phase-1, will continue throughout 2017.

Reconciliation of the three most recently mined benches in the Northwest Pit showed 35% more ore and 42% more Au than expected at 4% higher grade than predicted by the mine plan (based on the block model). In the Main Pit, Phase 1, the five most recently mined benches showed 14% more ore and 8% more Au at 5% lower grade. The foregoing ore quantities and grades are based on the results of mining activity to date, and may not necessarily be indicative of future results.

East Pit: The development of the East Pit access road is completed. Bench mining started in the East Pit in June for waste and overburden. An in-fill drilling program of the East Pit, for optimization of resources and mine planning, was completed in September. The results of the program are not available at this time but the presence of the geologic structures was confirmed. The access road from the Primary Crusher to the East Pit was completed in the third quarter and ore mining is expected begin in 2017 with substantial ore delivery in the 4<sup>th</sup> quarter of 2017.

## Processing and Production

The Company has made steady progress with the production rate of the crushing-screening plant and the pad-loading systems. HPGR performance continues to exceed expectations. The hourly throughput of the plant, when operating, was above the design rate by 2% in the third quarter. Run-time was below expectations but continues to improve. It was hampered by higher than expected wear on some components. Total pad-loading production was 763K tons in the third quarter or 18% higher than the second quarter. The daily average throughput for placing ore on the pad was 8,479 tons per scheduled operating day for the quarter. Seven-day per week operations started in the Process function in June.

At the end of September, 1,770,922 tons, loaded during 2016, were under leach on the heap-leach pad. In the third quarter, agglomerate quality and the porosity and permeability of the heap-leach pad continued to be good.

The average grade of ore processed during Q3 2016 was 0.016 oz/t Au and 0.362 oz/t Ag. A total of 11,928 gold ounces and 276,043 silver ounces were placed on the heap leach pad during the third quarter.

Au production commenced in April 2016. GQM LLC produced 7,975 gold ounces and 87,849 silver ounces during third quarter of 2016.

### *Cost of sales*

The Project is still in the ramp-up phase and it is anticipated that operating costs will decrease as the average throughput increases.

Mining costs averaged \$1.53 per ton mined during the third quarter of 2016. Mining unit costs were somewhat higher than anticipated due to the lower than anticipated tonnage moved during the quarter. However, total mining costs were 26% lower than expected. Equipment availability remained high.

Processing costs averaged \$5.48 per ton processed during the third quarter of 2016. Processing unit costs were higher than anticipated due to the lower than anticipated tonnage loaded on the pad. Higher total costs were also due to greater than anticipated wear in some parts of the process plant. This excessive wear due to the ore abrasiveness is being addressed by a retro-fit program in the plant including crusher liner improvements.

Site support, maintenance and site G&A averaged \$2.47 per ton processed during the third quarter of 2016. Site support and Administrative unit costs were higher than expected due to the lower than anticipated pad-loading production and also for dust control initiatives and unanticipated insurance and legal costs. Maintenance costs were higher in the processing plant due to higher wear and start-up.

Total site operating costs averaged \$13.13 per ton processed during the third quarter of 2016. Cash costs per ounces of gold sold were \$854/oz net of silver by-product. The Project is still in the ramp-up phase, and cash costs are expected to decrease as gold production increases. Please refer to ***Non-GAAP Financial Performance Measures*** section below for further details.

### ***Select Non-Consolidated Figures***

The Company has 50% interest in GQM LLC, which, meets the definition of a Variable Interest Entity (“VIE”). The Company consolidates entities which meet the definition of a VIE for which it is the primary beneficiary. The Company, 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 following table shows figures attributable to the Company only as of September 30, 2016

	GQM LLC 100%	GQM LLC 50% Attributable to LTD (1)	LTD on a Non- Consolidated Basis * (2)	LTD Attributable (1) + (2)
Cash	\$15,414,250	\$7,707,125	\$15,741,169	\$23,448,294
Short Term Debt	\$5,175,113	\$2,587,556	\$41,933,087	\$44,520,643
Long Term Debt	\$9,756,674	\$4,878,337	\$0	\$4,878,337
Working Capital / (Deficit)	\$15,764,581	\$7,882,290	(\$33,192,955)	(\$25,310,664)

\* Includes GQM Holdings

Figures shown for the three months ended September 30, 2016

	GQM LLC 100%	GQM LLC 50% Attributable to LTD (1)	LTD on a Non- Consolidated Basis * (2)	LTD Attributable (1) + (2)
Revenue	\$13,450,545	\$6,725,273	\$0	\$6,725,273
Cost of sales including depreciation and depletion	(\$11,144,024)	(\$5,572,012)	(\$198,467)	(\$5,770,479)
Accretion expense	(\$22,530)	(\$11,265)	\$0	(\$11,265)
G&A Expenses	(\$656,455)	(\$328,228)	(\$270,521)	(\$598,748)
Share based payments	\$0	\$0	(\$3,799)	(\$3,799)
Foreign exchange gain (loss)	\$0	\$0	\$273,470	\$273,470
(Increase) / Decrease in fair value of derivative liability	\$206,239	\$103,120	\$3,738,172	\$3,841,292
Interest Expense	(\$143,566)	(\$71,783)	(\$2,345,120)	(\$2,416,903)
Interest Income	\$16,139	\$8,070	\$691,299	\$699,368
Net Loss (Income)	\$1,706,349	\$853,173	\$1,885,035	\$2,738,208

### ***Liquidity and Capital Resources***

The Company has generated \$16,914,638 revenues from operations since inception and as at September 30, 2016 had an accumulated deficit of \$88,202,370 and a working capital deficit of \$17,428,374. Cash used in operations for the nine months ended September 30, 2016 was \$3,105,079.

As at September 30, 2016, Golden Queen, on a non-consolidated basis, currently does not have sufficient funds to repay the \$37,500,000 loan plus the accrued interest. However, in order to secure the necessary funds to meet this upcoming obligation and mitigate the going concern issue, management is actively exploring several options including debt financing and equity issuance.

In July 2016, the Company completed an equity financing and raised gross proceeds of C\$16.1 million. The net proceeds of C\$15.0 million will be used to repay a portion of the loan on December 8, 2016.

While Golden Queen has been successful at certain of these efforts in the past, there can be no assurance that future efforts will be successful. This raises substantial doubt about this entity's ability to continue as a going concern.

At the Project level, GQM LLC has sufficient funds to meet its contractual obligations for the next 12 months.

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

These condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company's 50%-owned subsidiary, GQM LLC, which holds the Company's interest in the Soledad Mountain project, held \$15,414,250 in cash as of September 30, 2016 as compared to \$45,643,060 on September 30, 2015. It is expected that the current cash on hand will fund remaining working capital needs until in the end of the year 2016 when the Project is expected to reach positive cash flow.

*Cash used in Operating Activities:*

Cash used to fund operating activities, was \$3,105,079 (nine months ended September 30, 2015 - \$4,815,347) for the nine months ended September 30, 2016. The decrease in cash used in operating activities is mostly due to the increase in revenues since the Company started production in the second quarter of 2016. Additionally, during this quarter the Company invested \$6,116,952 building-up ore on leach pad inventory (\$182,865 third quarter 2015).

*Cash used in Investing Activities:*

Cash used in investing activities totaled \$10,498,491 during the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$60,161,928). The decrease is due to the decreased level of construction activity on site as the Project construction was finalized.

*Cash from Financing Activities:*

Cash provided by financing activities totaled \$7,171,678 during the nine months ended September 30, 2016 (nine months ended September 30, 2015 – cash provided by financing activities \$25,575,000) and relates to the July equity financing and repayments of loans payable at the project level. The January 1, April 1, and July 1, 2016 interest payments due on the June 2015 Loan of \$2,977,028 have been added to the principal balance. The cash provided by financing activities for the nine months ended September 30, 2015 was the result of the June 2015 Loan and our JV partner's Top-Up contribution.

*Working Capital:*

	<b>LTD on a Non- Consolidated Basis *</b>	<b>LTD on a Consolidated Basis **</b>
Current Assets	\$15,864,191	\$41,152,913
Current Liabilities	(\$49,057,145)	(\$58,581,288)
Working Capital / (Deficit)	(\$33,192,955)	(\$17,428,375)

\* Includes GQM Holdings

\*\* Includes GQM Holdings and GQM LLC

As at September 30, 2016, the Company, on a consolidated basis, had current assets of \$41,152,913 (December 31, 2015 - \$39,979,225) and current liabilities of \$58,581,288 (December 31, 2015 - \$47,722,334) or working capital deficit of \$17,428,374 (December 31, 2015 – working capital deficit of \$7,743,109). The increase in current assets from December 31, 2015 is mostly the result of construction and working capital expenditures on site. The increase in current liabilities is mainly due to the increase in the derivative liability.

GQM LLC will use its cash on hand for working capital related expenditures until in the end of the year 2016 when the Project is expected to be generating positive cash flows.

The Company will use its cash for general corporate expenditures such as accounting fees, legal fees, interest expense and corporate salary expenses.

Please refer also to *Outlook* below.

### ***Outstanding Share Data***

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

<b>Item</b>	<b>No. of Shares</b>		
<b>Shares issued and outstanding on December 31, 2015</b>	<b>99,928,683</b>		
Shares issued pursuant to the exercise of stock options	Nil		
Shares Issued in Connection with July 2016 Financing	11,120,000		
<b>Shares issued and outstanding on September 30, 2016</b>	<b>111,048,683</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Shares to be issued on exercise of directors and employees stock options	1,070,000	\$0.58 to \$1.59	From 06/03/18 to
Shares to be issued on exercise of warrants	10,000,000	\$0.95	6/8/2020
Shares to be issued as a finder's fee (due upon commercial production)	100,000	Not Applicable	Not Applicable
Shares to be issued on exercise of warrants in conjunction with July 2016 financing	5,560,000	C\$2.00	7/25/2019
Shares to be issued on exercise of warrants in conjunction with July 2016 financing broker warrants (non-tradable)	757,700	C\$2.00	7/25/2019
<b>Fully diluted September 30, 2016</b>	<b>128,536,383</b>		
The company has an unlimited authorized share capital			

### ***Outlook***

The Company is evaluating its options, including debt financing and equity issuance, to refinance the June 2015 Loan which matures on December 8, 2016. The Company has raised gross proceeds of C\$16.1 million in July to repay a portion of the loan.

The ability of the Company to operate a mine on the property is subject to numerous risks, certain of which are disclosed in the Company's latest Form 10-K filing with the SEC, dated March 30, 2016. Readers should evaluate the Company's prospects in light of these and other risk factors.

### ***Subsequent Events***

On October 1st, 2016, the Company made an interest payment of \$1,050,023 in accordance with the terms of the June 2015 Loan agreement.

### ***Non-GAAP Financial Performance Measures***

Non-GAAP financial measures are intended to provide additional information only and do not have any standard meaning prescribed by generally accepted accounting principles. These measures should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

### ***Total Cash Costs***

Total cash costs are common financial performance measures in the gold mining industry but with no standard meaning under US GAAP. Management believes that, in addition to conventional measures prepared in accordance with US GAAP, certain investors use this information to evaluate our performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with US GAAP. The measure, along with sales, is considered to be a key indicator of a Company's ability to generate earnings and cash flow from its mining operations.

Total cash cost figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is the accepted standard of reporting cash cost of production in North America. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. Other companies may calculate these measures differently. Total cash costs are derived from amounts included in the statement of operations and include direct mining costs and site general and administrative costs. The direct mining costs shown on the table below include mine site operating costs such as mining, processing, smelting, refining, third party transportation costs, advanced minimum royalties and production costs less silver metals revenues. Management has determined that silver metals revenues when compared with gold metals revenues, are immaterial and therefore are considered a by-product of the production of gold. The table below shows a reconciliation of total cash costs per gold ounce and cash costs per gold ounce on a by-product basis:

	Three Months Ended September 30, 2016	Three Months Ended June 30, 2016
Direct mining costs (US GAAP)	\$ 9,110,596	\$ 3,563,009
Indirect mining cost	656,455	620,923
Cash costs before by product credits	\$ 9,767,051	\$ 4,183,932
Divided by gold sold (oz)	8,715	2,362
<b>Cash costs per ounce of gold sold (\$/oz)</b>	<b>\$ 1,121</b>	<b>\$ 1,771</b>
Less: By-product silver credits per ounce (\$/oz)	(267)	(191)
<b>Total cash cost per gold ounce sold on a by-product basis (\$/oz)</b>	<b>\$ 854</b>	<b>\$ 1,580</b>

#### *All-in Sustaining Costs*

In September 2013, the World Gold Council, a non-regulatory association of the world's leading gold mining companies established to promote the use of gold to industry, consumers and investors, provided guidance for the calculation of the measure "All-in sustaining costs", which has no standard meaning under US GAAP. These standards became effective January 1, 2014. Management believes that the all-in sustaining costs measure provides additional insight into the costs of producing gold by capturing all of the expenditures required for the discovery, development and sustaining of gold production and allows the Company to assess its ability to support capital expenditures to sustain future production from the generation of operating cash flows. Management believes that, in addition to conventional measures prepared in accordance with US GAAP, certain investors use this information to evaluate our performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with US GAAP.

Golden Queen defines all-in sustaining costs as the sum of direct mining costs (as defined under total cash costs), site and corporate general and administrative costs, share based payments, reclamation liability accretion and capital expenditures that are sustaining in nature. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies. Other companies may calculate these measures differently.

The table below shows a reconciliation of all-in sustaining costs per ounce to the unaudited condensed interim consolidated financial statements:

	Three Months Ended September 30, 2016	Three Months Ended June 30, 2016
Direct mining costs (US GAAP)	\$ 9,110,596	\$ 3,563,009
Indirect mining cost	656,455	620,923
Cash costs before by product credits	9,767,051	4,183,932
Less: By-product silver credits	(2,323,313)	(450,925)
<b>Total cash cost</b>	<b>\$ 7,443,739</b>	<b>\$ 3,733,007</b>
Corporate general and administrative expenses	270,521	-
Share based payments	3,799	-
Accretion expense	22,530	22,529
Sustaining capital	915,434	330,479
<b>All-in sustaining costs</b>	<b>\$ 8,656,023</b>	<b>\$ 4,086,015</b>
Divided by gold sold (oz)	8,715	2,362
<b>All-in sustaining costs per gold ounce on a by-product basis</b>	<b>\$ 993</b>	<b>\$ 1,730</b>

General and administrative expenses in Income Statement include a foreign exchange gain of \$273,470 for the three months ended September 30, 2016.

### ***Summary of Significant Accounting Policies and Estimates***

Revenue is recognized when title to gold and silver passes to the buyer and when collectability is reasonably assured. Title passes 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.

Besides of the revenue recognition policy mentioned above, full disclosure of the Company's significant accounting policies and estimates in accordance with generally accepted accounting principles in the United States can be found in notes of its audited consolidated financial statements as at December 31, 2015.

### ***Recent Accounting Standards***

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

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

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

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

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

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

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

The ASU will be effective for periods beginning after December 15, 2015, for public companies. The Company have adopted the ASU effective January 1, 2016 and it had no impact on the Company's results or financial position.

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

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

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

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

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

(v) 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 is currently evaluating this guidance and the impact it will have on the consolidated financial statements and disclosures.

(vi) 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.

### ***Qualified Person and Caution With Respect to Forward-looking Statements***

Mr. Timothy Mazanek, PE and Mr. Peter Herrera, PG are all qualified persons for the purpose of NI 43-101 and have reviewed and approved the technical information in this Form 10Q.

This Form 10-Q contains certain forward-looking statements, which relate to the intent, belief and current expectations of the Company's management, as well as assumptions and parameters used in the Soledad Mountain Project Technical Report and Updated Feasibility Study, February 25, 2015. These forward-looking statements are based upon numerous assumptions that involve risks and uncertainties and other factors that may cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include among other things the receipt and compliance with the terms of required approvals and permits, the costs of and availability of sufficient capital to fund the projects to be undertaken by the Company and commodity prices. In addition, projected mining results, including quantity of ore, grade, production rates, and recovery rates, are subject to numerous risks normally associated with mining activity of the nature described in this report and in the feasibility study, and as a result actual results may differ substantially from projected results. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date the statements were made.

### ***Additional Information***

Further information on Golden Queen Mining Co. Ltd. is available on the SEDAR web site at [www.sedar.com](http://www.sedar.com) and on the Company's web site at [www.goldenqueen.com](http://www.goldenqueen.com).

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Credit Risk*

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

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

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 September 30, 2016 and December 31, 2015, the Company's cash balances held in United States and Canadian financial institutions include \$31,155,419 and \$37,587,311 respectively, which are not fully insured by the FDIC or CDIC. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

#### *Interest Rate Risk*

The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash balances during the three months ending September 30, 2016, a 1% decrease in interest rates would have reduced the interest income to a trivial amount.

#### *Foreign Currency Exchange Risk*

Certain labour costs are denominated in Canadian dollars. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of the Canadian dollar against the U.S. dollar may result in an increase in the Canadian operating expenses in U.S. dollar terms. As of September 30, 2016, the Company maintained the majority of its cash balance in U.S. dollars.

#### *Commodity Price Risk*

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

### **Item 4. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

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

Our Chief Executive Officer and Chief Financial Officer, and our external Sarbanes-Oxley consultants carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2016 and concluded that our disclosure controls and procedures were operating effectively.

#### *Changes in Internal Control*

Since the Company started production during the second quarter of 2016 new processes and internal controls over such areas as revenue recognition, cost accounting and inventory valuation have been implemented. There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *Fraud Analysis*

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

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

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

- Insider Trading Policy & Addendum
- Confidential Information Policy
- Whistleblower Policy
- Anti-corruption Policy
- Code of Business Conduct
- Code of Ethics
- Environmental Safety & Health

All policies can be viewed in full on the Company's website at [www.goldenqueen.com](http://www.goldenqueen.com)

For the three and nine months ended September 30, 2016 and year ended December 31, 2015, there were no reported instances of fraud.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal period ended December 31, 2015, as filed with the SEC on March 30, 2016.

### Item 4. Mine Safety Disclosures

GQM LLC is the operator of the Project, which is located in Mojave in Kern County, California. The mine safety disclosures required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K are included in Exhibit 95.1 of this Quarterly Report. There was one lost-time accident at GQM LLC during the third quarter of 2016.

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>	<u>Manner of Filing</u>
3.1	Notice of Articles	Incorporated by reference to Exhibit 3.1 to the Form 10-K of the Company, filed with the SEC on March 30, 2016
3.2	Articles	Incorporated by reference to Exhibit 3.2 to the Form 8-K of the Company, filed with the SEC on September 2, 2010
4.1	Warrant Indenture dated July 25, 2016	Incorporated by reference to Exhibit 4.1 to the Form 8-K of the Company, filed with the SEC on July 25, 2016
4.2	Form of Warrant Certificate	Incorporated by reference to Exhibit 4.1 to the Form 8-K of the Company, filed with the SEC on July 28, 2016
31.1	Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange Act of 1934	Filed herewith
31.2	Certification of the Principal Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange Act of 1934	Filed herewith
32.1	Section 1350 Certification of the Principal Executive Officer	Filed herewith
32.2	Section 1350 Certification of the Principal Financial Officer	Filed herewith
95	Mine Safety Disclosure	Filed herewith
101	Financial Statements from the Quarterly Report on Form 10-Q of the Company for the nine months ended September 30, 2016, formatted in XBRL	Filed herewith

