# Golden Valley Mines Ltd.

## Audited Consolidated Annual Financial Statements
## as at December 31, 2016 and 2015

Golden Valley Mines Ltd.
152 chemin de la Mine Ecole
Val-d'Or, Québec, J9P 7B6
www.goldenvalleymines.com
Tel: 819.824.2808 fax: 819.824.3379

MNP SENCRL srl / LLP

## Independent Auditors' Report

To the Shareholders of Golden Valley Mines Ltd.:

We have audited the accompanying consolidated financial statements of Golden Valley Mines Ltd., and its subsidiaries (the "Corporation"), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Golden Valley Mines Ltd., and its subsidiaries, as at December 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*
The consolidated financial statements as of December 31, 2015 were audited by other auditors whose report dated April 29, 2016 expressed an unqualified opinion on those financial statement

MNP SENCRL, srl [1]

Montréal, Québec

April 28, 2017

[1] CPA auditor, CA, public accountancy permit No. A126822

**Golden Valley Mines Ltd.**
**Consolidated Statement of Financial Position**
(in Canadian dollars)

| | Notes | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| | | $ | $ |
| ***ASSETS*** | | | |
| **Current** | | | |
| Cash and cash equivalents | 7 | 2,725,177 | 1,905,367 |
| Short-term financial assets | 8 | 2,322,465 | 1,243,206 |
| Other accounts receivable | 9 | 46,572 | 106,523 |
| Sales taxes recoverable | | 37,139 | 24,389 |
| Tax credits receivable | | 85,035 | 54,399 |
| Prepaid expenses | | 21,965 | 36,984 |
| | | 5,238,353 | 3,370,868 |
| **Non-current** | | | |
| Property and equipment | | 11,642 | 9,968 |
| Exploration and evaluation assets | 10 | 3,029,712 | 6,687,723 |
| Investment | 12 and 15 | 38,457,271 | 25,278,161 |
| | | 41,498,625 | 31,975,852 |
| **Total assets** | | 46,736,978 | 35,346,720 |
| ***LIABILITIES*** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | | |
| Related parties controlled by directors | | 36,154 | 23,219 |
| Others | | 284,037 | 336,656 |
| Derivative financial instrument | 12 | 489,131 | 124,579 |
| Short term portion of success fee liability | 15 | - | 3,383,000 |
| | | 809,322 | 3,867,454 |
| **Non-Current** | | | |
| Long term portion of success fee liability | 15 | - | 790,000 |
| Deferred income taxes | 16 | 3,826,422 | 2,640,798 |
| | | 3,826,422 | 3,430,798 |
| **Total liabilities** | | 4,635,744 | 7,298,252 |
| ***EQUITY*** | | | |
| Capital stock | 13.1 | 25,317,470 | 24,847,407 |
| Warrants | 13.2 | 424,448 | 161,250 |
| Contributed surplus | | 3,843,686 | 2,812,260 |
| Deficit | | (7,993,947) | (10,947,451) |
| **Total equity attributable to owners of the parent company** | | 21,591,657 | 16,873,466 |
| Non-Controlling interest | | 20,509,577 | 11,175,002 |
| **Total equity** | | 42,101,234 | 28,048,468 |
| **Total liabilities and equity** | | 46,736,978 | 35,346,720 |

The accompanying notes are an integral part of the consolidated financial statements.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 28, 2017.

*"Glenn J. Mullan"*
(signed Glenn J. Mullan)
Director

*"William D. McCartney"*
(signed William D. McCartney)
Director

**Golden Valley Mines Ltd.**
**Consolidated Income Statement and Statement of Comprehensive Income**
(in Canadian dollars)

| | Notes | For the year ended December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| | | $ | $ |
| **Revenues** | | | |
| Dividends | | 341,424 | 420,117 |
| Royalties | | 1,542 | 348,795 |
| Geological fees | | - | 1,494 |
| | | 342,966 | 770,406 |
| **Operating Expenses** | | | |
| Salaries and other employee benefits | 14.1 and 19.1 | 3,382,638 | 953,467 |
| Office expenses | | 141,910 | 176,411 |
| Management fees | | 130,932 | 27,075 |
| Professional and legal fees | | 985,164 | 771,642 |
| Advertising and exhibitions | | 144,610 | 32,143 |
| Travelling | | 80,187 | 76,792 |
| Exploration and evaluation expenditures | | 31,107 | 22,867 |
| Royalty purchase | 11 | 93,624 | 74,774 |
| Impairment of exploration and expenditures | | 2,117,177 | 2,092,434 |
| Depreciation of property and equipment | | 5,562 | 11,856 |
| Reversal of success fee liability | | (4,157,110) | |
| Loss / (gain) on the disposal of exploration and evaluation assets | 10 | 1,106,927 | (25,158,174) |
| | | 4,062,728 | (20,918,713) |
| **Operating income (loss)** | | (3,719,762) | 21,689,119 |
| **Other income (loss)** | | | |
| Finance cost | | (27,152) | (7,090) |
| Finance income | | 18,820 | 16,693 |
| Foreign exchange gain / (loss) | | (6,985) | 39,906 |
| Change in fair value of financial assets at fair value through profit or loss | | 14,375,391 | (4,317,716) |
| | | 14,360,074 | (4,268,207) |
| **Net income before income taxes** | | 10,640,312 | 17,420,912 |
| Deferred income taxes | 16 | 1,185,624 | 2,640,798 |
| **Net income and total comprehensive income for the year** | | 9,454,688 | 14,780,114 |
| Net income and total comprehensive income attributable to: | | | |
| Shareholders of Golden Valley Mines Ltd. | | 3,340,426 | 7,388,988 |
| Non-controlling interest | | 6,114,262 | 7,391,126 |
| | | 9,454,688 | 14,780,114 |
| **Earnings per share attributable to Golden Valley Mines Ltd. shareholders** | | | |
| Basic earnings per share | 18 | 0.029 | 0.080 |
| Diluted earning per share | 18 | 0.028 | 0.070 |

The accompanying notes are an integral part of the consolidated financial statements.

**Golden Valley Mines Ltd.**
**Consolidated Statement of Changes in Equity**
(in Canadian dollars)

| | Note | Capital Stock | Capital Stock | Warrants | Contributed Surplus | Deficit | Total attributable to owners of the parent company | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Number | $ | $ | $ | $ | $ | $ | |
| **Balance at January 1, 2016** | | 109,974,974 | 24,847,407 | 161,250 | 2,812,260 | (10,947,451) | 16,873,466 | 11,175,002 | 28,048,468 |
| Share-based payments | | | | | 1,065,883 | | 1,065,883 | | 1,065,883 |
| Units issued for a debt settlement | 13.1 | 148,603 | 52,011 | | | | 52,011 | | 52,011 |
| Units issued by exercise of stock options | 14.2 | 330,000 | 71,457 | | (34,457) | | 37,000 | | 37,000 |
| Units issued by exercise of warrants | 13.2 | 1,500,000 | 210,000 | | | | 210,000 | | 210,000 |
| Share issue expenses | | | (15,207) | | | | (15,207) | | (15,207) |
| Shares issued for conversion of debenture | 13.1 | 4,150,000 | 151,802 | 263,198 | | | 415,000 | | 415,000 |
| Change in interest of subsidiaries | | | | | | (386,922) | (386,922) | 3,220,313 | 2,833,391 |
| Transactions with owners | | 116,103,577 | 25,317,470 | 424,448 | 3,843,686 | (11,334,373) | 18,251,231 | 14,395,315 | 32,646,546 |
| **Net income and total comprehensive income for the year** | | | | | | 3,340,426 | 3,340,426 | 6,114,262 | 9,454,688 |
| **Balance at December 31, 2016** | | 116,103,577 | 25,317,470 | 424,448 | 3,843,686 | (7,993,947) | 21,591,657 | 20,509,577 | 42,101,234 |
| **Balance at January 1, 2015** | | 94,933,664 | 23,494,150 | 45,571 | 2,752,785 | (18,855,041) | 7,437,465 | 2,509,108 | 9,946,573 |
| Share issue expenses | | | (51,488) | | | | (51,488) | | (51,488) |
| Share-based payments | | | | | 93,055 | | 93,055 | | 93,055 |
| Units issued for a debt settlement | 13.1 | 1,831,310 | 201,444 | | | | 201,444 | | 201,444 |
| Shares issued by exercise of stock options | 14.2 | 550,000 | 72,080 | | (33,580) | | 38,500 | | 38,500 |
| Shares issued by exercise of warrants | 13.2 | 1,910,000 | 217,471 | (45,571) | | | 171,900 | | 171,900 |
| Units issued by private placements | 13.1 | 10,750,000 | 913,750 | 161,250 | | | 1,075,000 | | 1,075,000 |
| Changes in interest of subsidiaries | | | | | | 518,602 | 518,602 | 1,274,768 | 1,793,370 |
| Transactions with owners | | 109,974,974 | 24,847,407 | 161,250 | 2,812,260 | (18,336,439) | 9,484,478 | 3,783,876 | 13,268,354 |
| **Net income and total comprehensive income for the year** | | | | | | 7,388,988 | 7,388,988 | 7,391,126 | 14,780,114 |
| **Balance at December 31, 2015** | | 109,974,974 | 24,847,407 | 161,250 | 2,812,260 | (10,947,451) | 16,873,466 | 11,175,002 | 28,048,468 |

The accompanying notes are an integral part of the consolidated financial statements.

**Golden Valley Mines Ltd.**
**Consolidated Statement of Cash Flows**
(in Canadian dollars)

| | For the year ended December 31, 2016 | December 31, 2015 |
|---|---|---|
| ***OPERATING ACTIVITIES*** | $ | $ |
| Net income | 9,454,688 | 14,780,114 |
| Adjustments | | |
| Depreciation of property and equipment | 5,562 | 11,856 |
| Loss (gain) on the disposal of exploration and evaluation assets | 1,106,927 | (25,158,174) |
| Reversal of success fee liability | (4,157,110) | - |
| Share-based payments | 2,308,887 | 85,300 |
| Write-off of exploration and evaluation assets | - | 108,255 |
| Impairment of exploration and evaluation assets | 2,117,177 | 1,984,179 |
| Changes in fair value of financial assets at fair value through profit or loss | (14,375,391) | 4,317,716 |
| Deferred tax expense | 1,185,624 | 2,640,798 |
| | (2,353,636) | (1,229,956) |
| Changes in working capital items | | |
| Other accounts receivable | 59,951 | (66,397) |
| Sales taxes recoverable | (12,750) | 4,804 |
| Prepaid expenses | 15,019 | 5,880 |
| Accounts payable and accrued liabilities | 8,454 | (283,902) |
| Cash flows used by operating activities | (2,282,962) | (1,569,571) |
| ***INVESTING ACTIVITIES*** | | |
| Acquisition of short-term financial assets | - | (1,250,000) |
| Disposal of short-term financial assets | 660,000 | 663,922 |
| Tax credits received | 46,843 | 33,327 |
| Additions to exploration and evaluation assets | (255,112) | (303,308) |
| Purchase of property and equipment | (8,660) | (7,505) |
| Payment of success fees | (15,890) | (117,000) |
| Disposal of investment less transaction costs | - | 427,350 |
| Disposal of exploration and evaluation assets transaction costs | - | (74,563) |
| Cash flows from (or used by) investing activities | 427,181 | (627,777) |
| ***FINANCING ACTIVITIES*** | | |
| Issuance of shares by exercise of stock options | 37,000 | 38,500 |
| Issuance of units by private placements | - | 1,075,000 |
| Convertible unsecured debenture | 415,000 | - |
| Share issue expenses | (15,207) | (51,488) |
| Issuance of units by exercise of warrants | 210,000 | 171,900 |
| Derivative financial instruments | 521,574 | 134,646 |
| Change in interest of subsidiaries | 1,507,224 | 1,386,537 |
| Cash flows from financing activities | 2,675,591 | 2,755,095 |
| **Net change in cash and cash equivalents** | 819,810 | 557,747 |
| Cash, beginning of year | 1,905,367 | 1,347,620 |
| Cash, end of year | 2,725,177 | 1,905,367 |

See Note 21 for additional information on cash flows

**Cash transactions:**

| | | |
|---|---|---|
| Interest received | 18,820 | 16,394 |
| Interest paid | 1,256 | 126 |

Amounts paid or received for interest and dividend are reflected as operating cash flows

The accompanying notes are an integral part of the consolidated financial statements.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

## 1. *NATURE OF OPERATIONS*

Golden Valley Mines Ltd. and its subsidiaries (hereinafter "The Corporation") specialize in identifying, acquiring and developing exploration and evaluation minerals in Canada as well as acquiring royalties.

## 2. *GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS*

The Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

Golden Valley Mines Ltd. is the parent company (and the ultimate parent company) of the following subsidiaries: Abitibi Royalties Inc., Calone Mining Ltd., Nunavik Nickel Mines Ltd., and Uranium Valley Mines Ltd. Subsidiaries have all been incorporated under the Business Corporations Act (British Columbia).

Golden Valley Mines Ltd. was incorporated on August 15, 2000 under the Business Corporations Act (Canada).

The address of Golden Valley Mines Ltd.'s registered office is 152 Chemin de la Mine École, Val-d'Or, J9P 7B6, Quebec, Canada. The address of Golden Valley Mines Ltd.'s principal place of business is 2864 chemin Sullivan, Val-d'Or, Quebec, J9P 0B9. Golden Valley Mines Ltd.'s shares are listed on the TSX Venture Exchange.

## 3. *CHANGES IN ACCOUNTING POLICIES*

***Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Corporation***

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Corporation.

Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policy for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

IFRS 9 - Financial Instruments

In July 2014, the IASB published IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected credit loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation is currently evaluation the impact of IFRS 9 on its consolidated financial statements.

## 3. *CHANGES IN ACCOUNTING POLICIES (continued)*

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued "IFRS 15". The new standard is effective for fiscal years beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Corporation is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB published IFRS 16 – Leases, which will replace IAS 17 – Leases. This IFRS eliminates the classification as an operating lease and requires lessees to recognise a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Corporation is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

## 4. *SUMMARY OF ACCOUNTING POLICIES*

### 4.1 *Overall considerations*

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

(in Canadian dollars)

### 4.2 *Basis of consolidation*

The Corporation's financial statements consolidate the accounts of Golden Valley Mines Ltd., the parent company, and all of its subsidiaries until December 31, 2016. The parent company controls a subsidiary if it is exposed, or has rights to variable returns from its involvement with the subsidiary and the ability to affect those returns through its power over the subsidiary. For Uranium Valley Mines Ltd., Golden Valley Mines Ltd. exercises control through its own percentage holding in Uranium Valley Mines Ltd. combined with interest of certain members of its Board of Directors in Uranium Valley as well as its ability to appoint key management who have the ability to direct its activities. For Abitibi Royalties Inc., the Corporation has control through its own percentage holding in Abitibi Royalties Inc. combined with interest of certain members of its Board of Directors in Abitibi Royalties as well as its ability to appoint members of the Board of Directors and key management who have the ability to direct activities. All subsidiaries have a reporting date of December 31. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

**Subsidiaries**

Details of the Corporation's subsidiaries at December 31, 2016 are as follows (see Note 6):

| | | | Percentage of ownership | |
|---|---|---|---|---|
| | | | December 31, 2016 | December 31, 2015 |
| Name of subsidiaries | Principal activity | Country of incorporation | Interest and voting / Power held | Interest and voting / Power held |
| Abitibi Royalties Inc. ("Abitibi Royalties") | Mineral exploration in Canada | Canada | 49.45% | 51.29% |
| Nunavik Nickel Mines Ltd. ("Nunavik Nickel") | Mineral exploration in Canada | Canada | 60.27% | 60.27% |
| Uranium Valley Mines Ltd. ("Uranium Valley") | Mineral exploration in Canada | Canada | 22.36% | 37.13% |
| Calone Mining Ltd. ("Calone") | Mineral exploration | Canada | 100% | 100% |

### 4.3 *Foreign currency translation*

**Functional and presentation**

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company and all subsidiaries.

**Foreign currency transactions**

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rates). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not re-translated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the dates when fair value was determined.

### 4.4 *Revenue recognition*

**Dividends**

Dividends are recognized at the time the right to receive payment is established.

**Royalties**

Royalties consist of revenues earned directly from royalty agreement. Revenue recognition generally occurs in the month of production from the royalty property. Revenue is measured at fair value of the consideration received or receivable when management can reliably estimate the amounts pursuant to the terms of the royalty agreement. In some instances, the Corporation will not have access to sufficient information to make a reasonable estimate of revenue and accordingly, revenue recognition is deferred until management can make a reasonable estimate. Differences between estimated and actual amounts are adjusted and recorded in the period that the actual amounts are known.

**Geological fees**

The geological fees are measured by reference to the fair value of consideration received or receivable by the Corporation for services provided. They are recognized when there is reasonable evidence that an agreement has occurred, that the services were rendered, that the amount of the fees is fixed or measurable and that the collection is reasonably assured.

### 4.5 *Basic and diluted earnings per share*

Basic earnings per share is calculated by dividing the net income attributable to common equity holders of the Corporation by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants.

When a loss is incurred during a period, basic and diluted loss per share are the same because the exercise of share equivalents is then considered to be anti-dilutive.

To determine the dilutive impact of stock options, the Corporation uses the Treasury Stock Method which assumes that any proceeds from the exercise of in-the-money stock options would be used to purchase the maximum number of common shares of the Corporation at the average market price during the period. The assumption of exercise is not reflected in the calculation of earnings per share when the exercise price of the share equivalents considered individually exceeds the average market price for the period.

### 4.6 *Cash and cash equivalents*

Cash and cash equivalents comprise cash in bank and demand deposits, which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. It also includes highly liquid short-term investments initially maturing within three months of their acquisition date.

### 4.7 *Financial instruments*

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

The Corporation classifies its financial instruments by category according to their nature and their characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below:

**Financial assets**

For the purpose of subsequent measurement, financial assets of the Corporation are classified into the category loans and receivables or financial assets at fair value through profit or loss upon initial recognition.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within dividends, finance income, finance cost or change in fair value of financial assets at fair value through profit or loss, if applicable.

**4.7 *Financial instruments (continued)***

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at their fair value with all finance income or loss and gains and losses recognized in profit or loss. The fair value of financial assets in this category are determined by reference to active market transactions.

The Corporation's money market investment funds and marketable securities in quoted mining exploration companies are classified into this category. The Corporation designated the investments in quoted mining companies at fair value through profit or loss on initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Corporation's cash and cash equivalents, guaranteed investment certificates and other accounts receivable fall into this category of financial instruments.

**Impairment of financial assets**

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

**Financial Liabilities**

The Corporation's financial liabilities include accounts payable and accrued liabilities (excluding Wages and salaries payable and Benefits of $168,338; $131,943 as at December 31, 2015), success fee liability and derivative financial instruments. Financial liabilities are measured subsequently at amortized cost using the effective interest method except for derivatives, which are carried subsequently at fair value with gains or losses recognized in profit or loss. All interest-related charges are reported in profit or loss within Finance costs, if applicable.

### 4.8 *Tax credits receivable*

The Corporation is entitled to a refundable tax credit on qualified exploration expenditures incurred and a refundable credit on duties for losses under the Mining Tax Act. These tax credits are recognized against the exploration and evaluation expenditures incurred, based on estimates made by management. The Corporation records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Corporation will comply with the conditions associated to them.

### 4.9 *Property and equipment*

Property and equipment are recognized at cost less accumulated depreciation.
Cost includes all costs incurred initially to acquire or construct an item of property and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part of it. Recognition of costs in the carrying amount of an item of property and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Upon the transfer of exploration and evaluation assets to property and equipment under Mining assets under construction, all subsequent expenditures on the construction, installation or completion of equipment and infrastructure facilities are capitalized within Mining assets under construction. When development stage is completed, all assets included in the Mining assets under construction category are then transferred to Mining assets.

Depreciation is recognized on a straight-line basis to write down the cost to its estimated residual value, with a constant charge over the useful life of the asset. The periods generally applicable are as follows:

| | Useful life |
|---|---|
| Office furniture | 5 years |
| Computer equipment | 3 years |
| Leasehold improvement | 5 years |
| Exploration and evaluation equipment | 3 years |

The depreciation expense for each period is recognized in profit or loss except for certain items of property and equipment related to exploration and evaluation activities where the depreciation expense is included in the carrying amount of an exploration and evaluation asset when it relates to a specific exploration and evaluation project.
The residual value, depreciation method and the useful life of each asset are reviewed at least at each financial year-end.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

### 4.10 *Exploration and evaluation expenditures and exploration and evaluation assets*

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

### 4.10 *Exploration and evaluation expenditures and exploration and evaluation assets (continued)*

Once the legal right to undertake exploration and evaluation activities has been obtained, the costs of acquiring mineral rights, expenses related to the exploration and evaluation of mining properties less refundable tax credits related to these expenses are recognized as exploration and evaluation assets. Expenses related to exploration and evaluation include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expense is recognized for these assets during the exploration and evaluation phase.
Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts (see Note 4.12); the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment (see Note 4.12) and any impairment loss is recognized in profit or loss before reclassification. To date, neither the technical feasibility nor the commercial viability of a mineral resource has been demonstrated.

Although the Corporation has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the Corporation's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

**Disposal of interest in connection with option agreement**
On the disposal of interest in connection with an option agreement, the Corporation does not recognize expenses related to the exploration and evaluation performed on the property by the acquirer. In addition, the cash or the share consideration received directly from the acquirer is credited against the costs previously capitalized to the property, and the surplus is recognized as a gain on the disposal of exploration and evaluation asset in profit or loss.

**Royalty purchase**
Royalty purchase consist of acquiring royalties in exploration and evaluation stage properties. These properties represent early stage exploration properties that are speculative and are expected to require more than two years to generate revenues, if ever, or are currently not active. Acquisition cost of royalty purchase are recorded in profit or loss in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resource.

### 4.11 *Operating lease agreement*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the consolidated income statement and statement of comprehensive loss on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged as they are incurred.

### 4.12 *Impairment of property and equipment and exploration and evaluation assets*

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

Impairment reviews for exploration and evaluation assets are carried out on a project by project basis with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances apply:

a) the right to explore the area has expired or will expire in the near future with no expectation of renewal;

b) no further exploration or evaluation expenditures in the area are planned or budgeted;

c) no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;

d) sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

### 4.13 *Provisions*

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Corporation and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Provisions are discounted when the time value of money is significant.

### 4.13 *Provisions (continued)*

The Corporation's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Corporation's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is a constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

As at December 31, 2016 and 2015, there was no provision recognized in the consolidated statement of financial position.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 4.14 *Income taxes*

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and associates is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

**4.14 *Income taxes (continued)***

According to the provisions of tax legislation relating to flow-through placements, the Corporation has to transfer its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Corporation has fulfilled its obligation to transfer its right, which happens when the Corporation has incurred, eligible expenditures and has renounced (or has the intention to renounce) its right to tax deductions, a deferred tax liability is recognized for taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax basis.

**4.15 *Equity***

**Capital stock**

Capital stock represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs. If shares are issued when stock options, warrants and conversion of convertible unsecured debenture are exercised, the capital stock account also comprises the compensation costs and the fair value of the options, warrants and equity of convertible debenture previously recorded as contributed surplus and warrants.

**Unit placements**

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

**Flow-through placements**

Issuance of flow-through shares units represents in substance an issue of common shares, warrants and the sale of a right to tax deduction to the investors. When the flow-through share units are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the consolidated statement of financial position. The proceeds received from flow-through units placements are allocated between common shares, warrants and other liabilities using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance then to warrants according to their fair value at the time of issuance and the residual proceeds are allocated to the other liabilities. The fair value of warrants is determined using the Black-Scholes evaluation model. The other liabilities component recorded initially on the issuance of shares is reversed on the renouncement or the intention of renouncement of the right to tax deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in reduction of deferred income tax expense.

**Other elements of equity**

Contributed surplus includes charges related to stock options and call options on shares of a subsidiary until such stock options are exercised and charges related to warrants expired.

Warrants include expenses relating to warrants until the exercise of the warrants.

Conversion option of convertible unsecured debenture represent the equity component of convertible debenture.

Deficit includes all current and prior period retained profits or losses.

### 4.16 *Equity-settled share-based payments*

The Corporation operates equity-settled share-based remuneration plans (stock options plans) for its eligible directors, officers, employees and consultants. The Corporation's plans do not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Corporation cannot estimate reliably the fair value of the goods or services received, the Corporation shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Corporation measured the fair value of the services received by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excluded the impact of non-market vesting conditions.

All equity-settled share-based payments (except compensation warrants) are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to Contributed Surplus, in equity. Compensation warrants, in respect of an equity financing, are recognized as shares issue expenses of the equity instruments with a corresponding credit to Warrants, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of stock options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if stock options ultimately exercised are different to that estimated on vesting.

**Restricted Share Unit Plan**

Abitibi Royalties operates a Restricted Share Unit ("RSU") plan for its directors, executive officers, full or part-time employees and consultants. RSUs that have been vested will be payable, in cash or common shares, at the sole discretion of Abitibi Royalties. The share-based remuneration expense of the RSUs is based on the fair value of Abitibi Royalties' common shares at the grant date.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of RSU expected to vest. Non-market vesting conditions are included in assumptions about the number of RSU that are expected to be issued or paid. Estimates are subsequently revised if there is any indication that the number of RSU expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if the number of RSU that are ultimately issued or paid is different to that estimated on vesting.

The accumulated charges related to the RSU recorded in contributed surplus are transferred to capital stock on issuance of shares in payment of vested RSU or against cash if settled in cash.

### 4.17 *Segmental reporting*

The Corporation presents and discloses segmental information based on information that is regularly reviewed by the Executive Chairman and the Board of Directors.

The Corporation has determined that it has only one operating segment, the sector of identifying, acquiring and developing exploration and evaluation minerals and acquisition of royalties. All its exploration and evaluation assets and royalties projects are located in Canada.

## 5. *JUDGEMENTS, ESTIMATES AND ASSUMPTIONS*

When preparing the consolidated financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

### 5.1 *Significant management judgements*

The following are significant management judgements in applying the accounting policies of the Corporation that have the most significant effect on the consolidated financial statements.

**Recognition of deferred income tax assets and measurement of income tax expense**

Management continually evaluates the likelihood that its deferred tax could be realized. The assessment of availability of future taxable profits involves significant judgement. A deferred tax asset is recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. To date, management has not recognized any tax assets in excess of existing temporary differences expected to reverse within the carry-forward period (see Note 4.14).

**Control assessment**
See Note 4.2.

### 5.2 *Estimation uncertainty*

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

**Impairment of exploration and evaluation assets**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgement and a number of estimates and assumptions in many cases (see Note 4.12).

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

In assessing impairment, the Corporation must make some estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expenses will be recovered from either exploitation or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Corporation's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

See Note 10 for the exploration and evaluation assets impairment analysis.

The impairment loss of the exploration and evaluation assets recognized in profit or loss amounts to $2,117,177 and write-off of exploration and evaluation assets in profit of loss amounts to nil for the year ended December 31, 2016 ($1,984,179 and $108,255 for the year ended December 31, 2015). No reversal of impairment losses has been recognized for the reporting periods.

(in Canadian dollars)

**5.2 *Estimation uncertainty (continued)***

**Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Corporation has made estimates as to the volatility of its own shares, the probable life of share options and compensation warrants granted and the time of exercise of those share options and compensation warrants. The model used by the Corporation is the Black-Scholes valuation model.

**Tax credits receivable**

The calculation of the Corporation's refundable tax credit on qualified exploration expenditure incurred and refundable tax credit involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Difference arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit, exploration and evaluation assets, and income tax expense in future periods.

**Revenue recognition - Royalties**

The determination of royalties revenue is recognized based on management estimates (see note 4.4).

## 6. *INVESTMENT IN SUBSIDIARIES*

The aggregate amount of subsidiaries are summarized as follows:

Abitibi Royalties Inc.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Current assets | 2,106,393 | 1,794,093 |
| Non-current assets | 38,496,268 | 25,313,308 |
| Current liabilities | 648,204 | 3,680,612 |
| Non-current liabilities | 3,826,422 | 3,430,798 |
| Total equity attributable to non-controlling interest | 20,117,810 | 10,526,726 |
| Net income and total comprehensive income | 13,861,370 | 17,764,432 |
| Net income and total comprehensive income attributable to non-controlling interest | 6,778,055 | 7,597,079 |
| Cash flows used by operating activities | (1,104,530) | (580,611) |
| Cash flows from investing activities | (19,740) | 228,185 |
| Cash flow from financing activities | 1,486,868 | 816,692 |

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**6. *INVESTMENT IN SUBSIDIARIES (continued)***

Following transactions detailed in notes 13.3 and 14.3, the Corporation owned 5,605,246 common shares or 49.45% (51,29% in 2015) of Abitibi Royalties and changed the investment in the subsidiary for a total amount of $2,611,354, recorded as an increase of non-controlling interest.

Nunavik Nickel Mines Ltd.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Current assets | 13,482 | 77,156 |
| Non-current assets | 60,009 | 1,460,725 |
| Current liabilities | 42,175 | 6,100 |
| Total equity attributable to non-controlling interest | 71,939 | 619,224 |
| Net loss and total comprehensive loss | (1,521,253) | (92,631) |
| Net loss and total comprehensive loss attributable to non-controlling interest | (604,394) | (32,162) |
| Cash flows form operating activities | (73,968) | (121,287) |
| Cash flows form investing activities | (14,757) | (37,949) |
| Cash flow from financing activities | 30,000 | 228,337 |

Following transactions detailed in notes 13.3 and 14.3, the Corporation owned 7,763,634 common shares or 60.27% (60,27% in 2015) of Nunavik Nickel and changed the investment in the subsidiary for a total amount of $57,109, recorded as an increase of non-controlling interest.

Uranium Valley Mines Ltd.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Current assets | 534,933 | 37,408 |
| Non-current assets | 14,474 | 11,725 |
| Current liabilities | 46,390 | 2,169 |
| Total equity attributable to non-controlling interest | 521,978 | 29,527 |
| Net loss and total comprehensive loss | (88,860) | (276,605) |
| Net loss and total comprehensive loss attributable to non-controlling interest | (59,399) | (173,790) |
| Cash flows form operating activities | (61,935) | (66,845) |
| Cash flows form investing activities | (2,749) | (1,136) |
| Cash flows form financing activities | 564,854 | - |

(in Canadian dollars)

## 6. *INVESTMENT IN SUBSIDIARIES (continued)*

Following transactions detailed in notes 13.3 and 14.3, the Corporation owned 4,170,910 common shares or 22.36% (37.13% in 2015) of Uranium Valley and changed the investment in the subsidiary for a total amount of $551,850, recorded as an increase of non-controlling interest.

Calone Mining Ltd.
There is no significant operations in Calone.

## 7. *CASH AND CASH EQUIVALENTS*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Cash | 2,725,177 | 1,825,367 |
| Demand deposits, 0.7% and 0.65%, redeemable at any time | - | 80,000 |
| | 2,725,177 | 1,905,367 |

The balance on flow through financings not spent according to the restrictions imposed by these financing arrangements amounts to $35,000 as at December 31, 2016 (Nil as at December 31, 2015). The Corporation has to dedicate these funds to the exploration of Canadian mining properties which will need to be incurred prior to December 31, 2017.

## 8. *SHORT-TERM FINANCIAL ASSETS*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Guaranteed investment certificates 0.5% maturing in December 2017 | 250,000 | 910,000 |
| Money market investment funds | 854 | 854 |
| Marketable securities in quoted mining exploration companies | 2,071,611 | 332,352 |
| Short-term financial assets | 2,322,465 | 1,243,206 |

## 9. OTHER ACCOUNTS RECEIVABLE

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Dividends receivable | 23,700 | 76,750 |
| Others | 22,872 | 29,773 |
| | 46,572 | 106,523 |

None of the receivables are past due or impaired.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**10. *EXPLORATION AND EVALUATION ASSETS***

The carrying amount can be analyzed as follows:

| | Balance at January 1, 2016 | Additions | Disposition | Impairment Write-off | Balance at December 31, 2016 |
|---|---|---|---|---|---|
| | $ | $ | | | $ |
| **Golden Valley Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 3,182,402 | 56,867 | - | - | 3,239,269 |
| Property option payments | 312,500 | - | - | - | 312,500 |
| Drilling, excavation and related costs | 3,227,329 | - | - | - | 3,227,329 |
| Technical and field staff | 4,359,835 | 129,143 | - | - | 4,488,978 |
| Airborne geophysics | 780,702 | - | - | - | 780,702 |
| Geophysics | 2,310,378 | 5,250 | - | - | 2,315,628 |
| Line cutting | 1,099,431 | - | - | - | 1,099,431 |
| Sampling and testing | 727,987 | 8,976 | - | - | 736,963 |
| Travel and transport | 1,681,148 | 1,381 | - | - | 1,682,529 |
| Program management and consultants | 331,506 | 89,261 | - | - | 420,767 |
| Professional Fees | 4,715 | - | - | - | 4,715 |
| Depreciation, insurance and office expenses | 541,435 | 25,525 | - | - | 566,960 |
| Communications | 44,769 | 666 | - | - | 45,435 |
| Option payments received | (1,638,650) | (200,000) | - | - | (1,838,650) |
| Write-off of exploration and evaluation assets | (4,082,705) | - | - | - | (4,082,705) |
| Impairment of exploration and evaluation assets | (6,156,626) | - | - | (697,161) | (6,853,787) |
| Government assistance | (1,546,030) | (76,875) | - | - | (1,622,905) |
| Net expenses incurred during the year | 5,180,126 | 40,194 | - | (697,161) | 4,523,159 |
| Exploration and evaluation assets sold to third parties | | - | (1,606,927) | - | (1,606,927) |
| Balance, end of the year | 5,180,126 | 40,194 | (1,606,927) | (697,161) | 2,916,232 |
| | | | | | |
| **Abitibi Royalties Inc. Properties** | | | | | |
| Acquisition and claims maintenance | 25,185 | 2,606 | - | - | 27,791 |
| Technical and field staff | 8,655 | - | - | - | 8,655 |
| Program management and consultants | 1,307 | 1,244 | - | - | 2,551 |
| Net expenses incurred during the year | 35,147 | 3,850 | - | - | 38,997 |
| | | | | | |
| **Nunavik Nickel Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 1,839,734 | 10,584 | - | - | 1,850,318 |
| Technical and field staff | 5,577 | 4,048 | - | - | 9,625 |
| Program management and consultants | 3,203 | 5,054 | - | - | 8,257 |
| Airborne geophysics | 290,304 | - | - | - | 290,304 |
| Amortization, insurance, administration | | 219 | - | - | 219 |
| Government assistance | (127,852) | (604) | - | - | (128,456) |
| Impairment of exploration and evaluation assets | (550,241) | - | - | (1,420,017) | (1,970,258) |
| Net expenses incurred during the year | 1,460,725 | 19,301 | - | (1,420,017) | 60,009 |
| | | | | | |
| **Uranium Valley Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 1,577,472 | 50 | - | - | 1,577,522 |
| Technical and field staff | 3,270 | 724 | - | - | 3,994 |
| Travel and transport | 41,452 | - | - | - | 41,452 |
| Program management and consultants | 2,782 | 2,027 | - | - | 4,809 |
| Communication | 60 | - | - | - | 60 |
| Government assistance | (654) | (52) | - | - | (706) |
| Write-off of exploration and evaluation assets | (1,612,657) | - | - | - | (1,612,657) |
| Net expenses incurred during the year | 11,725 | 2,749 | - | - | 14,474 |
| | | | | | |
| **Summary** | | | | | |
| Mining rights | 6,863,024 | 70,107 | - | - | 6,933,131 |
| Exploration and evaluation assets | 230,708 | (4,013) | - | (2,117,178) | (1,890,483) |
| Exploration and evaluation assets sold to third parties | - | - | (1,606,927) | - | (1,606,927) |
| Disposal of a subsidiary | (406,009) | - | - | - | (406,009) |
| | 6,687,723 | 66,094 | (1,606,927) | (2,117,178) | 3,029,712 |

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**10. *EXPLORATION AND EVALUATION ASSETS (continued)***

The carrying amount can be analyzed as follows

| | Balance at January 1, 2015 | Additions | Disposition | Impairments/ Write-offs | Balance at December 31, 2015 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Golden Valley Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 3,138,562 | 43,840 | - | - | 3,182,402 |
| Property option payments | 312,500 | - | - | - | 312,500 |
| Drilling, excavation and related costs | 3,227,329 | - | - | - | 3,227,329 |
| Technical and field staff | 4,229,098 | 130,737 | - | - | 4,359,835 |
| Airborne geophysics | 780,702 | - | - | - | 780,702 |
| Geophysics | 2,310,378 | - | - | - | 2,310,378 |
| Line cutting | 1,099,431 | - | - | - | 1,099,431 |
| Sampling and testing | 727,414 | 573 | - | - | 727,987 |
| Travel and transport | 1,678,499 | 2,649 | - | - | 1,681,148 |
| Program management and consultants | 301,353 | 30,153 | - | - | 331,506 |
| Professional Fees | 4,715 | - | - | - | 4,715 |
| Depreciation, insurance and office expenses | 520,978 | 20,457 | - | - | 541,435 |
| Communications | 43,562 | 1,207 | - | - | 44,769 |
| Option payments received | (1,638,650) | - | - | - | (1,638,650) |
| Write-off of exploration and evaluation assets | (3,974,450) | - | - | (108,255) | (4,082,705) |
| Impairment of exploration and evaluation assets | (4,381,156) | - | - | (1,775,470) | (6,156,626) |
| Government assistance | (1,498,698) | (47,332) | - | - | (1,546,030) |
| Net expenses incurred during the year | 6,881,567 | 182,284 | - | (1,883,725) | 5,180,126 |
| **Abitibi Royalties Inc. Properties** | | | | | |
| Acquisition and claims maintenance | 31,647 | - | (6,462) | - | 25,185 |
| Technical and field staff | 10,456 | 2,583 | (4,384) | - | 8,655 |
| Program management and consultants | 125,511 | 770 | (124,974) | - | 1,307 |
| Depreciation, insurance and office expenses | 450 | - | (450) | - | - |
| Net expenses incurred during the year | 168,064 | 3,353 | (136,270) | - | 35,147 |
| **Nunavik Nickel Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 1,760,625 | 79,109 | - | - | 1,839,734 |
| Technical and field staff | 5,268 | 309 | - | - | 5,577 |
| Program management and consultants | 2,701 | 502 | - | - | 3,203 |
| Airborne geophysics | 290,304 | - | - | - | 290,304 |
| Government assistance | (127,220) | (632) | - | - | (127,852) |
| Impairment of exploration and evaluation assets | (550,241) | - | - | - | (550,241) |
| Net expenses incurred during the year | 1,381,437 | 79,288 | - | - | 1,460,725 |
| **Uranium Valley Mines Ltd. Properties** | | | | | |
| Acquisition and claims maintenance | 1,574,016 | 3,456 | - | - | 1,577,472 |
| Technical and field staff | 3,139 | 131 | - | - | 3,270 |
| Travel and transport | 41,452 | - | - | - | 41,452 |
| Program management and consultants | 2,726 | 56 | - | - | 2,782 |
| Communication | 60 | - | - | - | 60 |
| Government assistance | (654) | - | - | - | (654) |
| Write-off of exploration and evaluation assets | (1,403,948) | - | - | (208,709) | (1,612,657) |
| Net expenses incurred during the year | 216,791 | 3,643 | - | (208,709) | 11,725 |
| **Summary** | | | | | |
| Mining rights | 6,743,081 | 126,405 | (6,462) | - | 6,863,024 |
| Exploration and evaluation assets | 2,310,787 | 142,163 | (129,808) | (2,092,434) | 230,708 |
| Disposal of a subsidiary | (406,009) | - | - | - | (406,009) |
| | 8,647,859 | 268,568 | (136,270) | (2,092,434) | 6,687,723 |

All impairment charges are included within Write-off of exploration and evaluation assets or Impairment of exploration and evaluation assets in profit or loss. During the year and the previous year, some mining claims and exploration and evaluation assets were written off or impaired for the following reasons: abandoned mining claims, negative results obtained after exploration surveys and/or absence of exploration expenditures over the past three years.

**10. *EXPLORATION AND EVALUATION ASSETS (continued)***

The Corporation holds (together with its subsidiaries) 99 exploration and evaluation properties located in: (i) the Abitibi Greenstone Belt; (ii) the James Bay, Mistassini and Otish regions of northern Quebec; (iii) the Nunavik (Ungava and Labrador) region of northern Quebec; (iv) the Athabasca Basin of Saskatchewan, and (v) James Bay Lowlands of Ontario.

**Golden Valley properties**

***Abitibi Greenstone Belt Properties – Integra Gold Corp. (formerly Kalahari Resources Inc.) – Québec and Ontario***

On February 21, 2005, the Corporation was granted an option by Integra to acquire up to a 85% interest in nine mineral properties provided that, amongst other things, it incur an aggregate $1,000,000 in exploration expenditures on any one of or a combination of the nine properties ($500,000 for 70%, completed). The Corporation provided Integra with notice of its intent to vest as to a 70% interest in the properties and, a joint venture agreement was concluded as at December 8, 2008 (the “GZZ-I JV”). The GZZ-I JV is subject to underlying royalties ranging between 3% and 3½% in favour of the original vendors, one of which is a director and an officer of the Corporation.

***Sirios Resources Ltd. - Sharks and Chechoo Joint Venture - James Bay Northern Quebec***

Pursuant to an agreement dated October 23, 2013, Golden Valley granted Sirios Resources Ltd. (“Sirios”) an option to acquire Golden Valley’s remaining 55% interest in the Cheechoo prospect. Also on October 23, 2013, Sirios abandoned the claims comprising the Cheechoo B East and Sharks property claims resulting in Golden Valley Mines retaining a 100% interest in the Cheechoo B East and Sharks Prospects. The option was conditional on certain obligations being fulfilled by Sirios. On May 11, 2016, Sirios provided notice to Golden Valley that it had completed all its obligations under the agreement to earn a 100% interest in the Cheechoo prospect, including the issuance of 1,250,000 common shares to the Company at a deemed price of $0.40 per share for a total value of $500,000. As a result, Sirios now holds 100% of the Cheechoo prospect, subject to the royalty described below. The Company recorded a loss of $1,106,927 as a result of the transfer to Sirios of its remaining 55% interest in the Cheechoo prospect.

As additional consideration for the grant of the option, Sirios granted to Golden Valley Mines a royalty (the “Royalty”) equal to 4% of the net returns from all mineral products mined or removed from the Cheechoo gold project. Notwithstanding the foregoing, the royalty relevant to gold mineral products mined or removed from the Cheechoo gold prospect may vary between 2.5% and 3.5% depending on the market price of gold at the time of the payment. The parties are currently finalizing a royalty agreement that reflects the grant of the Royalty. For accounting purposes, no value has been assigned to the Royalty, as the project is still at an early stage of exploration and future cash flow cannot be reliably estimated.

***Golden Cariboo Resources Ltd. – Abitibi Greenstone Belt, Québec and Ontario***

On January 11, 2012, the Corporation granted an option to Golden Cariboo Resources Ltd. ("GCC") to acquire a 70% interest in certain properties held 100% by the Corporation and located in the Abitibi Greenstone Belt of northwestern Quebec and northeastern Ontario. Concurrently, the Corporation and Integra granted an option to GCC to acquire a 70% interest in certain properties located in the Abitibi Greenstone Belt of northwestern Québec. In order to maintain in force and exercise both the options above, GCC was required to comply with certain obligations under the agreements. As those obligations were not complied with in accordance with the terms of the agreements, the options were terminated in January 2016.

**10. *EXPLORATION AND EVALUATION ASSETS (continued)***

***Lac Barry property - BonTerra Resources - Val-d'Or, Québec***

On March 16, 2016, the Corporation entered into an option agreement with BonTerra Resources Inc. ("BonTerra"), which was subsequently amended on March 30, 2017, on the Lac Barry Prospect located in the Abitibi Greenstone Belt, northeast of Val-d'Or, Québec. In accordance with the option agreement, (i) BonTerra issued to Golden Valley Mines 519,480 common shares in the capital of BonTerra having an aggregate value of $200,000, and (ii) BonTerra must incur expenditures in an aggregate amount of $2,000,000 over a three (3) year period. As Bonterra did not incur $250,000 in exploration expenditures by March 15, 2017 in accordance with the terms of the option agreement, the Corporation agreed to extend this date to April 15, 2017, in consideration for which Bonterra paid $25,000 to the Corporation.

Upon BonTerra exercising the option, Bonterra will acquire an 85% interest in the property and the Corporation shall retain a 15% free carried interest in the Lac Barry Prospect and a 3% net smelter royalty ("NSR"), with 1% of the NSR being subject to a buyback in favour of BonTerra for $1 million payable by BonTerra to Golden Valley Mines.

BonTerra has agreed to a $250,000 work commitment in the first year, which will consist of a detailed evaluation of all existing technical data on the property with the objective of implementing a follow-up drill program to Golden Valley Mines' initial results which confirmed three target categories.

**Abitibi Royalties properties**

***Malartic CHL Prospect - Malartic, Québec***

On March 19, 2015, Abitibi Royalties sold its 30% free carried interest in the Malartic CHL Prospect for a consideration in shares and a 3% net smelter return royalty. For more information on the transaction, please refer to Note 13 - Sale of Malartic CHL Prospect.

***Malartic CHL 3% Royalty- Malartic, Québec***

The area covered by the 3% net smelter royalty ("NSR") is located immediately east of the Canadian Malartic Mine operated by Agnico and Yamana. The 3% net smelter royalty covers a number of known mineralized zones; the eastern extension of the Barnat Zone, the Jeffrey Zone, the Shaft Zone and Porphyry 12 Zone, the Norrie Zone, the Hal Zone, the Geo Zone and the recent Odyssey North discovery. No value for accounting purposes has been assigned to the 3% NSR royalty.

***Canadian Malartic 2% Royalty- Malartic, Québec***

The area covered by the 2% NSR is on a single claim located just to the south of the Canadian Malartic main pit, and covers the eastern portion of the Gouldie Zone and the historic Charlie Zone. Production on the 2% net smelter royalty area started in 2014 and total royalty payments of $348,795 were received in 2015: $191,869, covering the last two quarters of 2014, $80,236 for the first quarter of 2015, $48,492 for the second quarter of 2015 and a last payment of $28,198 received in October 2015. Abitibi Royalties received a final adjustment payment of $1,542 on April 29, 2016. Canadian Malartic GP (50% owned by Agnico Eagle Mines Limited ("Agnico") and Yamana Gold Inc. ("Yamana") reported that mining at the Gouldie deposit, stopped at the end of June 2015.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

## 11. *ROYALTY PURCHASES*

### *Abitibi Royalty Search*

On June 9, 2015, Abitibi Royalties launched the "Abitibi Royalty Search", by which it would reimburse a company for the renewal fees on existing claims or staking fees on new claims and will receive in exchange a net smelter return royalty. The program offers junior mining companies an alternative to dropping potentially interesting claims or projects due to a lack of funds. Projects have to meet specific criteria to be eligible, such as being located in the close vicinity of an existing mine and showing good geology or signs of mineralization. As of December 31, 2016, Abitibi Royalties closed ten NSR royalty acquisitions for a total investment of $173,398 ($93,624 in 2016 and $79,774 in 2015). These amounts were expensed in the corresponding years.

## 12. *INVESTMENTS*

| **Abitibi Royalties Inc. Investments** | December 31, 2016 | | December 31, |
|---|---|---|---|
| | Number of shares | Fair Value | 2015 |
| | | | $ |
| Yamana Gold Inc. ("YRI") | 3,549,695 | 13,382,350 | 9,122,716 |
| Agnico Eagle Mines Limited ("AEM") | 444,197 | 25,074,921 | 16,155,445 |
| | | 38,457,271 | 25,278,161 |

**Sale of Agnico Eagle Shares**

On August 5, 2015, Abitibi Royalties sold 15,000 of its Agnico Eagle shares at a price of $28.49 per share.

**Derivative financial instrument**

Abitibi Royalties sold 14,734 call option contracts during the year, covering 1,350,400 shares of its investment in Yamana and 123,000 in Agnico, for total net cash proceeds of $521,574 ($382,991 USD). Abitibi's position regarding call options at December 31, 2016 and 2015 is presented in the table below. Refer to Subsequent Events Note 24 for call options with expiry date January 20, 2017.

The total call options sold outstanding at the end of the year are as follows for the reporting periods presented:

| | | | Exercise price range | Market Value (CA) as at December 31, | |
|---|---|---|---|---|---|
| | Expiry date | Number of shares | (US) | 2016 | 2015 |
| | | | $ | $ | $ |
| Yamana Gold Inc. | January 20, 2017 | 1,166,500 | $4.50 to $12 | 15,954 | 40,903 |
| Yamana Gold Inc. | January 19, 2018 | 538,900 | $5 to $10 | 128,780 | |
| Agnico Eagle Mines Ltd | January 20, 2017 | 167,500 | $40 to $55 | 344,397 | 83,676 |
| | | 1,872,900 | | 489,131 | 124,579 |

## 13. *EQUITY*

### 13.1 *Capital Stock*

The Capital Stock of the Corporation consists of fully paid common shares.

**Authorized**

Unlimited number of common shares without par value. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote each at the shareholders' meeting of the Corporation.

Unlimited number of preferred shares, issuable in series with rights and restrictions to be determined by the directors.

**ISSUED SHARE CAPITAL - 2016**
**Share capital issued as part of convertible unsecured debenture**

On January 25, 2016, the Corporation issued a $415,000 principal amount convertible debenture at a deemed price of $0.10 per share, to an arm’s length existing shareholder, which constituted the second and final tranche of a non-brokered private placement offering.

The debenture was converted on March 18, 2016, into 4,150,000 Units of the Corporation. Each Unit would be comprised of one common share in the capital of the Corporation and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share of the Corporation at a per share price of $0.14 for two years from the date of issuance of the warrants. The warrants are subject to the condition that they cannot be exercised until such time as the Corporation obtains disinterested shareholder approval for the potential creation of the lender as a new control person.

All common shares issued on conversion of the debenture and shares which may be acquired upon the exercise of the warrants issued on conversion of the debenture were subject to a hold period until May 26, 2016, in accordance with applicable securities legislation and Exchange policy.

**Share capital issued as part of debt settlement**

On November 15, 2016, the Corporation issued 148,603 common shares in settlement of an aggregate of $52,011.05 in accrued management and director fees covering the period July 1, 2015 to June 30, 2016. Shares issued by the Corporation in settlement of the debt was issued at a deemed per share price of $0.35 in accordance with the policies of the TSX Venture Exchange and was subject to a hold period of four months and one day from the date of issuance in accordance with applicable securities legislation.

**ISSUED SHARE CAPITAL - 2015**

On November 30, 2015, the Corporation closed the first tranche of a non-brokered private placement pursuant to which it issued 10,750,000 units at a per unit price of $0.10 for gross proceeds of $1,075,000. Each unit consist of one common share in the capital of the Corporation and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share of the Corporation at a per share price of $0.14 until November 30, 2017. An amount of $161,250 related to issued warrants was recorded to contributed surplus.

**Share capital issued as part of debt settlement**

On September 1, 2015, the Corporation issued 1,831,310 common shares in settlement of an aggregate of $201,444 in accrued management and director fees covering the period April 1, 2012 to June 30, 2015. Shares issued by the Corporation in settlement of the debt was issued at a deemed per share price of $0.11 in accordance with the policies of the TSX Venture Exchange and was subject to a hold period of four months and one day from the date of issuance in accordance with applicable securities legislation.

(in Canadian dollars)

**13.2 *Warrants***

Outstanding warrants entitle their holders to subscribe to an equivalent number of ordinary shares, as follows:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| | | $ | | $ |
| Balance, beginning of reporting period | 12,250,000 | 0.14 | 3,410,000 | 0.15 |
| Granted | 4,150,000 | 0.14 | 10,750,000 | 0.14 |
| Exercised | (1,500,000) | 0.14 | (1,910,000) | 0.09 |
| Balance, end of reporting period | 14,900,000 | 0.14 | 12,250,000 | 0.14 |

The number of outstanding warrants which could be exercised for an equivalent number of common shares is as follows:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Expiry date | Number | Exercise price | Number | Exercise price |
| | | $ | | $ |
| November 30, 2017 | 10,750,000 | 0.14 | 11,750,000 | 0.14 |
| December 5, 2017 | - | | 83,333 (*) | 0.22 |
| December 5, 2017 | - | | 416,667 | 0.14 |
| March 18, 2018 | 4,150,000 | 0.14 | - | |
| | 14,900,000 | 0.14 | 12,250,000 | 0.14 |

2016 warrants granted
The fair value of $0.064 ($0.015 in 2015) each to the warrants issued as compensation warrants was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

| | 2016 | 2015 |
|---|---|---|
| Share price at date of grant | $ 0.13 | $ 0.085 |
| Expected dividends yield | 0% | 0% |
| Expected weighted volatility | 96% | 85% |
| Risk-free interest average rate | 0.54% | 0.59% |
| Expected average life | 2 years | 2 years |
| Exercise price at date of grant | 0.14 | 0.14 |

The underlying expected volatility was determined by reference to historical data of the Corporation's shares over the expected average life of the warrants. No special features inherent to the warrants granted were incorporated into measurement of fair value.

(*) These options were repriced in 2015 to $0.14. However, approval from securities exchange was only obtained in 2016.

(in Canadian dollars)

**13.3** ***Share capital and warrants transaction of subsidiaries***

**a) Abitibi Royalties Inc.**

During the year ended on December 31, 2015, Abitibi Royalties Inc. issued 387,522 of its common shares for a total consideration of $747,914 from the exercise of stock options.

Abitibi Royalties Inc. elected to settle the fairness opinion fee and the advisory fee of $367,500, incurred in the sale process of its Malartic CHL Property by issuing 100,791 of its common shares.

On October 2, 2015, Abitibi Royalties Inc. received the Exchange acceptance of its notice to commence a normal course issuer bid ("NCIB"). This approval allows Abitibi to purchase back up to 546,300 of its common shares (representing 5% of its total issued and outstanding common shares as of September 21, 2015) from October 6, 2015 to October 5, 2016. Common shares that will be purchased under the NCIB will be cancelled. During the year ended December 31, 2016, Abitibi had repurchased and cancelled 52,100 of its common shares at prices varying from $2.90 to $4.15 for a total of $181,805 (from October 6, 2015 to December 31, 2015, 25,500 common shares were repurchased and cancelled at prices from $2.45 to $2.70 for a total of $65,868. On October 6, 2016, Abitibi renewed its NCIB for another year until October 5, 2017. This new approval allows Abitibi to purchase back up to 566,812 of its common shares.

During the year ended on December 31, 2016, Abitibi Royalties Inc. issued 458,975 of its common shares for a total consideration of $1,147,099 from the exercise of stock options.

**b) Nunavik Nickel Mines Ltd.**

On January 30, 2015, Nunavik Nickel closed a non-brokered private placement financing pursuant to which it has issued 2,500,000 units at a price of $0.10 per unit for a gross proceeds of $250,000, of which 800,000 units were issued to the Corporation. Each unit consists of one common share in the capital of Nunavik Nickel and one-half of one non-transferable share purchase warrant, each whole warrant entitling the purchase of one common share at a per share price of $0.12 until January 30, 2017. In connection with this private placement, Nunavik Nickel paid finder's fees of $3,300 and issued compensation warrants entitling the purchase of 41,250 of its common shares at a per share price of $0.10 until January 30, 2017. The fair value of compensation warrants has been estimated using the Black-Scholes option-pricing model at $4,877. The total share issue expenses related to this private placement amounted to $26,540 (including finder's fees and compensation warrants).

On April 10, 2015, after having received Exchange acceptance of the Mining Option Agreement to acquire the Boston Bulldog Prospect, Nunavik Nickel issued 300,000 common shares at a price of $0.12 per share.

On January 30, 2015, 1,250,000 warrants were issued at an exercise price of $0.12 and 41,250 compensation warrants were issued at an exercise price of $0.10.

Outstanding warrants entitle their holders to subscribe to an equivalent number of ordinary shares, as follows:

| | December 31, 2015 | |
|---|---|---|
| | Number of warrants | Weighted average exercise price |
| | | $ |
| Balance, beginning of reporting year | - | - |
| Granted | 1,291,250 | 0.12 |
| Balance, end of reporting year | 1,291,250 | 0.12 |

(in Canadian dollars)

**13.3 *Share capital and warrants transaction of subsidiaries***

The number of outstanding warrants which could be exercised for an equivalent number of common shares is as follows:

| | December 31, 2015 | |
|---|---|---|
| Expiry date | Number of warrants | Exercise price |
| | | $ |
| January 30, 2017 | 1,291,250 | 0.12 |

When granted, the fair value of the 41,250 warrants issued as compensation warrants was measured by the reference to the fair value of the equity instruments granted, the fair value of services received cannot be estimated reliably. The fair value of $4,877 was recorded for these warrants.

The fair value of $0.12 each to the warrants issued as compensation warrants was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

| | 2015 |
|---|---|
| Share price at date of grant | $0.18 |
| Expected dividends yield | 0% |
| Expected weighted volatility | 100% |
| Risk-free interest average rate | 0.39% |
| Expected average life | 2 years |
| Exercise price at date of grant | $0.10 |

The underlying expected volatility was determined by reference to historical data of the Nunavik Nickel's shares over the expected average life of the warrants. No special features inherent to the warrants granted were incorporated into measurement of fair value.

**c) <u>Uranium Valley Mines Ltd.</u>**

On July 17, 2015 Uranium Valley issued 66,667 common shares in accordance with the Porcupine Miracle Prospect Mining Option Agreement. This was the second tranche of a total of 200,000 common shares to be issued under this agreement.

On September 23, 2016, Uranium Valley closed a non-brokered private placement offering for gross proceeds of $390,000: 291,666 flow through units (the "FT Units") at a per FT Unit price of $0.12 for gross proceeds of $35,000 and 4,733,333 units (the "Units") at a per Unit price of $0.0.75 for gross proceeds of $355,000. Each FT Unit consist of one common share in the capital of Uranium Valley issued on a flow-through basis and one-half of one non-transferable non-flow-through common share purchase warrant, each whole warrant entitling the holder to purchase one non-flow-through common share in the capital of Uranium Valley at a per share price of $0.15 until September 23, 2017. Each Unit consists of one common share in the capital of Uranium Valley and one non-transferable common share purchase warrant, entitling the holder to purchase one common share in the capital of Uranium Valley at a per share price of $0.10 until September 23, 2017.

**13.3 *Share capital and warrants transaction of subsidiaries (continued)***

On October 31, 2016, Uranium Valley closed a non-brokered private placement offering by issuing 2,050,000 units (the "Units") at a per Unit price of $0.10 for gross proceeds of $205,000. Each Unit consists of one common share in the capital of Uranium Valley and one non-transferable common share purchase warrant, entitling the holder to purchase one common share in the capital of Uranium Valley at a per share price of $0.13 until October 31, 2017.

In addition, Uranium Valley issued an aggregate of 88,000 common shares at a deemed price per share of $0.10 and 104,000 non-transferable common share purchase warrants, entitling the holder to purchase one common share in the capital of Uranium Valley at a per share price of $0.13 until October 31, 2017.

On September 23, 2016, 5,137,832 warrants were issued as part of the private placement described above; 4,733,333 warrants at an exercise price of $0.10, valued at $123,067; 145,833 warrants at an exercise price of $0.15, valued at $767; 258,666 warrants at an exercise price of $0.10, valued at $6,725. All warrants expire on September 23, 2017.

In connection with the above financing, the Company paid finder's fees to various parties with the issuance of an aggregate of 258,666 common shares at a deemed price per share of $0.075 in satisfaction of an aggregate $19,400 representing 8% of the purchase proceeds received from subscribers introduced to the Company by the finders and 258,666 non-transferable finders warrants entitling the purchase of an aggregate 258,666 common shares at a price of $0.10 per share until September 23, 2017, representing 8% of the number of Units placed with the assistance of the finders. When granted, the fair value of the 258,666 non-transferable finders warrants of $6,725, issued as compensation warrants to settle finder's fees, was established based on the value of the service received and recorded as an increase of issuance costs, deducted from share capital, and as an increase of Warrants in the statement of changes in equity. The Company also incurred legal fees in relation with the private placement of $20,132.

On October 31, 2016, 2,154,000, warrant were issued as part of the second private placement described above; 2,050,000 warrants at an exercise price of $0.13, valued at $51,250; 104,000 warrants at an exercise price of $0.13, value at $2,200. The fair value was estimated at $0.025 using the Black-Scholes pricing model.

In connection with the financing, the Company paid a finder's fee of $1,600 in cash, issued an aggregate 88,000 common shares at a deemed per share price of $0.10 for $8,800 representing 8% of the purchase proceeds received from subscribers introduced to the Company by the finders and issued 104,000 non-transferable finders warrants entitling the purchase of an aggregate 104,000 common shares of the Company at a per share price of $0.13 until October 31, 2017, representing 8% of the number of units placed with the assistance of the finders. When granted, the fair value of the 104,000 non-transferable finders warrants of $2,200, issued as compensation warrants to settle finder's fees, was established based on the value of the service received and recorded as an increase of issuance costs, deducted from share capital, and as an increase of Warrants in the statement of changes in equity. The Company also incurred legal fees in relation with the private placement of $8,414.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

### 13.3 *Share capital and warrants transaction of subsidiaries (continued)*

Outstanding warrants entitle their holders to subscribe to an equivalent number of ordinary shares, as follows:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Balance, beginning of reporting period | | | | |
| Granted | 7,291,832 | 0.11 | - | - |
| Balance, end of reporting period | 7,291,832 | 0.11 | - | - |

The number of outstanding warrants which could be exercised for an equivalent number of common shares is as follows:

| | December 31, 2016 | |
|---|---|---|
| Expiry date | Number of warrants | Exercise price |
| | | $ |
| September 23, 2017 | 4,991,999 | 0.10 |
| September 23, 2017 | 145,833 | 0.15 |
| October 31, 2017 | 2,154,000 | 0.13 |
| | 7,291,832 | 0.11 |

The fair value of the warrants issued as part of the flow-through units and non flow-through units was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

| | Flow-through units | Non Flow-through units | October 31, 2016 financing |
|---|---|---|---|
| Share price at date of grant | $ 0.05 | $ 0.15 | $ 0.12 |
| Expected dividends yield | 0% | 0% | 0% |
| Expected weighted volatility | 100.0% | 100% | 100% |
| Risk-free interest average rate | 0.52% | 0.52% | 0.55% |
| Expected average life | 1 year | 1 year | 1 year |
| Exercise price at date of grant | $ 0.15 | $0.10 | $0.10 |

The expected volatility used above in the assumptions was determined by reference to historical data of Uranium Valley' shares over the expected average life of the warrants. No special features inherent to the warrants granted were incorporated into measurement of fair value.

(in Canadian dollars)

## 14. *EMPLOYEE REMUNERATION*

### 14.1 *Salaries and other employee benefits expense*

Salaries and other employee benefits expense recognized for employee benefits are analyzed below:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Salaries and other employee benefits | 924,151 | 889,850 |
| Share-based payments | 2,418,860 | 85,300 |
| Payroll levies [1] | 149,598 | - |
| | 3,492,609 | 975,150 |
| Less: salaries capitalized in exploration and evaluation assets | (109,971) | (21,683) |
| Salaries and other employee benefits expense | 3,382,638 | 953,467 |

[1] The payroll levies are the Corporation's contributions to mandatory governmental benefits plans related to salaries, director's fees and taxable benefits on the exercise of incentive stock options.

### 14.2 *Share-based payments*

The Corporation has in place a stock option incentive plan under which directors, officers, employees and consultants are eligible to receive incentive stock options for the purchase of common shares of the Corporation. Under the terms of the option plan, the aggregate number of shares issuable upon the exercise of options may not exceed 19,006,732, which represents 20% of the Corporation's issued and outstanding common shares on May 25, 2015, the date of adoption of the option plan by the Corporation's Board of Directors. The option plan was approved by the Corporation's disinterested shareholders on June 25, 2015, and subsequently accepted by the TSX Venture Exchange. The exercise price of each option is fixed by the Board of Directors at the time of grant and shall not be less than the closing price of the Corporation's shares on the trading day immediately prior to the date of grant less any discount permitted by the TSX Venture Exchange; if no sales were reported on such day, the exercise price shall be based on the closing sales price on the last trading day prior to the time of determination on which sales were reported. The term of any options granted under the option plan will be fixed by the Board of Directors and may not exceed ten years and the vesting period of options granted under the plan, if any, shall be determined by the Board of Directors at the time of grant. All options granted under the option plan will be in accordance with the rules and regulations of the TSX Venture Exchange.

All share-based payments will be settled in equity. The Corporation has no legal or constructive obligation to repurchase or settle the options in cash.

The Corporation's share options are as follows for the reporting period presented:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding, beginning of reporting year | 6,114,025 | 0.17 | 7,369,025 | 0.22 |
| Granted | 12,180,934 | 0.34 | 1,200,000 | 0.11 |
| Exercised | (330,000) | 0.11 | (550,000) | 0.07 |
| Cancelled | - | - | (1,250,000) | 0.26 |
| Expired | (1,615,000) | 0.35 | (655,000) | 0.50 |
| Outstanding, end of reporting year | 16,349,959 | 0.28 | 6,114,025 | 0.17 |
| Exercisable, end of reporting year | 7,044,025 | 0.18 | 6,114,025 | 0.17 |

(in Canadian dollars)

**14.2 *Share-based payments (continued)***

The table below summarizes the information related to share options as at December 31, 2016:

| | Outstanding options | | | Exercisable options |
|---|---|---|---|---|
| Expiry date | Number of options | Weighted average exercise price | Weighted average remaining contractual life (years) | Number of options |
| | | $ | | |
| July 23, 2017 | 490,000 | 0.15 | 0.56 | 490,000 |
| August 1, 2018 | 2,000,000 | 0.07 | 1.58 | 2,000,000 |
| June 30, 2019 | 579,025 | 0.17 | 2.50 | 579,025 |
| July 24, 2020 | 1,100,000 | 0.11 | 3.56 | 1,100,000 |
| January 1, 2021 | 100,000 | 0.10 | 4.01 | 100,000 |
| June 30, 2021 | 2,775,000 | 0.30 | 4.50 | 2,775,000 |
| September 30, 2026 | 9,305,934 | 0.35 | 9.75 | - |
| | 16,349,959 | 0.28 | | 7,044,025 |

The table below summarizes the information related to share options as at December 31, 2015:

| | Outstanding options | | | Exercisable options |
|---|---|---|---|---|
| Expiry date | Number of options | Weighted average exercise price | Weighted average remaining contractual life (years) | Number of options |
| | | $ | | |
| October 5, 2016 | 1,615,000 | 0.35 | 0.76 | 1,615,000 |
| July 23, 2017 | 520,000 | 0.15 | 1.56 | 520,000 |
| August 1, 2018 | 2,125,000 | 0.07 | 2.59 | 2,125,000 |
| June 30, 2019 | 654,025 | 0.17 | 3.50 | 654,025 |
| July 24, 2020 | 1,200,000 | 0.11 | 4.57 | 1,200,000 |
| | 6,114,025 | 0.17 | | 6,114,025 |

**Incentive stock options**

During the year ended December 31, 2016, certain employees and consultants exercised 330,000 incentive stock options at prices ranging from $0.07 to $0.17 for gross proceeds of $43,120.

On January 1, 2016, the Corporation granted 100,000 incentive stock options with an exercise price of $0.10 to a consultant. The options are exercisable for a period of 5 years from the date of grant. All options are exercisable immediately. The fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model at $7,565.

On June 27, 2016, the Corporation granted an aggregate 2,775,000 incentive stock options with an exercise price of $0.30 to its directors, officers, employees and consultants. The options are exercisable for a period of 5 years from the date of grant. All options are exercisable immediately. The fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model at $643,469.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**14.2 *Share-based payments (continued)***

On September 30, 2016, the Corporation granted to its directors, officers, employees and consultants incentive stock options entitling the purchase of an aggregate 9,305,934 common shares at an exercise price of $0.35 per share. The options are exercisable for a period of 10 years until September 30, 2026, subject to earlier termination in accordance with the terms of the Corporation's Stock Option Plan. All of the options vest equally over a period of 3 years unless there is a change of control event (as determined by the Board of Directors acting reasonably), in which case the options will vest immediately on occurrence of the change of control. To date, none of the options have been vested. The fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model at $2,715,377. The estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested is 10%. This percentage is derived from historical experience. The 10% forfeiture rate has decreased compensation expense by $46,094 in 2016.

The fair value of the granted options of $0.08 (January 1, 2016 grant), $0.23 (June 27, 2016 grant), $0.32 (September 30, 2016 grant) ($0.12 in 2015) was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

| | January 1, 2016 | June 27, 2016 | September 30, 2016 | 2015 |
|---|---|---|---|---|
| Share price at date of grant | $ 0.095 | $ 0.29 | $ 0.34 | $ 0.12 |
| Expected dividends yield | 0% | 0% | 0% | 0% |
| Expected weighted volatility | 114.00% | 114.67% | 125.00% | 85.3% |
| Risk-free interest average rate | 0.73% | 0.56% | 1.00% | 0.79% |
| Expected average life | 5 years | 5 years | 10 years | 5 years |
| Exercise price at date of grant | $ 0.10 | $ 0.30 | $ 0.35 | $ 0.11 |

The underlying expected volatility was determined by reference to historical data of the Corporation's shares over the expected life of the options. No special features inherent to the options granted were incorporated into measurement of fair value.

**14.3 *Share-based payments of subsidiaries***

**a) Abitibi Royalties Inc.**
**Incentive stock options**

Abitibi Royalties has adopted a 20% fixed option plan (the "New Plan") in 2013. Pursuant to the New Plan, options, for an aggregate total of 1,740,200 common shares, may be granted to its directors, officers, employees, consultants or management companies employees from time to time. The exercise price of each option is fixed by the Board of Directors, but shall not be less than the closing price of Abitibi Royalties' share on the trading day immediately prior to the date of grant less any discount permitted by the Exchange; if no sales were reported, it shall be the sales closing price on the last trading day immediately prior to the date of grant on which sales were reported. The vesting period of the options shall be determined by the Board of Directors, in accordance with the rules and regulations of the TSX Venture Exchange.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**14.3 *Share-based payments of subsidiaries (continued)***

A summary of the status of Abitibi Royalties' incentive stock option plan for the reporting period is presented below:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding, beginning of reporting period | 1,224,978 | 1.69 | 1,612,500 | 1.69 |
| Exercised | (458,975) | 2.50 | (387,522) | 1.93 |
| Outstanding, end of reporting period | 766,003 | 1.08 | 1,224,978 | 1.69 |
| Exercisable, end of reporting period | 766,003 | 1.08 | 1,224,978 | 1.69 |

The Weighted average price at the date of exercise was $5.66 ($3.49 in 2015).

The table below summarizes the information related to outstanding share options as at December 31, 2016:

| Range of exercise price | December 31, 2016 Outstanding options | | December 31, 2015 Outstanding options | |
|---|---|---|---|---|
| | Number of options | Weighted average remaining contractual life (year) | Number of options | Weighted average remaining contractual life (year) |
| $0.55 to $1.00 | 587,500 | 1.74 | 587,500 | 2.74 |
| $1.01 to $3.00 | 98,503 | 0.23 | 557,478 | 1.22 |
| $3.01 to $4.00 | 80,000 | 2.71 | 80,000 | 3.71 |
| | 766,003 | | 1,224,978 | |

(in Canadian dollars)

**14.3 *Share-based payments of subsidiaries (continued)***

**Restricted Share Unit Plan**

Abitibi Royalties' Board of Directors has implemented a RSU Plan (the "RSU Plan"), which provides that restricted share units ("Share Units") may be granted by Abitibi Royalties Compensation and Corporate Governance Committee (the "Committee") to executive officers, directors, employees and consultants (each a "Participant") as a bonus or similar payment in respect of services rendered or otherwise as compensation, including as an incentive for future performance, or in satisfaction of dividends declared by Abitibi Royalties and payable to Participants. The aggregate number of common shares issuable pursuant to Share Units granted under the RSU Plan will not, at any given time, exceed 896,769 common shares, among other limits with respect to individual grants under the RSU Plan. At the time Share Units are granted to a Participant, the Committee will determine any time-based or other conditions as to the vesting of the Share Units and the expiry date (the "Expiry Date") for such Share Units. The Expiry Date of a Share Unit will be the tenth anniversary of its date of grant, unless the Committee determines an earlier date, or subject to accelerated expiry in the event of a change of control of Abitibi Royalties. As of December 31, 2016, 583,365 Share Units were granted (none as at December 31, 2015).

| | |
|---|---|
| Units Granted | 583,365 |
| Units Vested | 145,841 |
| Units Forfeited | - |
| Outstanding at December 31, 2016 | 583,365 |

In February and March 2016, Abitibi Royalties granted 583,365 RSU to its officers, directors and consultant of which 145,841 vested immediately. The market price of its shares at the time of grant was as follows: $3.00 for the first grant of 72,500 RSU and $3.70 for the second grant of 510,865 RSU. Expiration dates for the two grants were respectively February 4, 2019 and March 16, 2019. Of the RSU granted, 25% vested on the date of grant and then an additional 25% will vest on each anniversary date of grant. An amount of $1,305,380 representing the cost of the RSU granted was included in the statement of comprehensive income for the year ended on December 31, 2016 (Nil at December 31, 2015). None of the RSU vested were converted to common shares as at December 31, 2016.

**b) Nunavik Nickel Mines Ltd.**

**Incentive stock options**

Nunavik Nickel Mines has adopted an incentive stock option plan pursuant to which directors, officers, employees and consultants are eligible to receive incentive stock options. Under the terms of this plan, the aggregate number of shares issuable upon the exercise of all options granted thereunder may not exceed 10% of Nunavik Nickel Mines' common shares issued and outstanding at the time of grant. The exercise price of each option is fixed by the Board of Directors, but shall not be less than the closing price of Nunavik Nickel Mines' share on the trading day immediately prior to the date of grant less any discount permitted by the Exchange; if no sales were reported, it shall be the sales closing price on the last trading day immediately prior to the date of grant on which sales were reported. The vesting period of the options shall be determined by the Board of Directors, in accordance with the rules and regulations of the Exchange.

(in Canadian dollars)

### 14.3 *Share-based payments of subsidiaries (continued)*

On May 16, 2016, Nunavik Nickel granted an aggregate 446,801 incentive stock options to directors, officers and consultants. The options are exercisable at a price of $0.065 until May 16, 2021 and are vested immediately. The total fair value of the stock options granted was estimated using the Black-Scholes option-pricing model at $20,788.

A summary of the status of Nunavik Nickel's incentive stock option plan for the reporting period is presented below

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding, beginning of reporting year | 793,199 | 0.18 | 1,008,199 | 0.18 |
| Granted | 446,801 | 0.065 | | |
| Cancelled | (675,000) | 0.20 | (215,000) | 0.19 |
| Outstanding, end of reporting year | 565,000 | 0.07 | 793,199 | 0.18 |

The table below summarizes the information related to share options for the reporting period :

| | | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|---|
| | | Outstanding and exercisable options | | Outstanding and exercisable options | |
| Exercise price | Expiry date | Number of options | Weighted average remaining contractual life (year) | Number of options | Weighted average remaining contractual life |
| 0.20 | July 24, 2017 | - | - | 675,000 | 1.58 |
| 0.065 | April 3, 2019 | 60,000 | 2.25 | 60,000 | 3.25 |
| 0.08 | November 20, 2019 | 58,199 | 2.89 | 58,199 | 3.87 |
| 0.065 | May 16, 2021 | 446,801 | 4.39 | - | - |
| | | 565,000 | | 793,199 | |

The fair value of the stock options granted during the year ended December 31, 2016, has been estimated on the date of issue, using the Black-Scholes option-pricing model with the following assumptions:

| | 2016 |
|---|---|
| Share price at date of grant | $0.065 |
| Expected dividend yield | 0% |
| Expected volatility | 100% |
| Risk-free interest rate (based on 5 years Canada Bonds) | 0.64% |
| Expected life | 5 years |
| Exercise price at the date of grant | $0.065 |

In reason of the limited trading history of Nunavik Nickel's common shares, the underlying expected volatility was determined by reference to historical data of comparable mining exploration companies' share on the TSX Venture Exchange over the expected average life of the options. No special features inherent to the options granted were incorporated into measurement of fair value.

**14.3 *Share-based payments of subsidiaries (continued)***

**Restricted Share Unit Plan**

At the annual general and special meeting of shareholders of Nunavik Nickel held on June 27, 2016, the shareholders approved the adoption and implementation of a Restricted Share Unit Plan (the " RSU Plan"). The RSU Plan will be adopted and implemented by Nunavik Nickel's Board upon receipt of acceptance by the Exchange. The RSU Plan provides that restricted share units ("Share Units") may be granted by Nunavik Nickel's Compensation and Corporate Governance Committee (the "Committee") to executive officers, directors, employees and consultants (each a "Participant") as a bonus or similar payment in respect of services rendered or otherwise as compensation, including as an incentive for future performance. At the time Share Units are granted to a Participant, the Committee will determine any time-based or other conditions as to the vesting of the Share Units and the expiry date (the "Expiry Date") for such Share Units. The Expiry Date of a Share Unit will be the third anniversary of its date of grant. The aggregate number of common shares issuable pursuant to Share Units granted under the RSU Plan will not, at any given time, exceed 896,769 common shares. Nunavik Nickel has yet to make the submission to the Exchange to obtain its acceptance of the RSU Plan.

**c) Uranium Valley Mines Ltd.**

**Incentive stock options**

Uranium Valley Mines has adopted an incentive stock option plan pursuant to which directors, officers, employees and consultants are eligible to receive incentive stock options. Under the terms of this plan, the aggregate number of shares issuable upon the exercise of all options granted thereunder may not exceed 10% of Uranium Valley Mines' common shares issued and outstanding at the time of grant. The exercise price of each option is fixed by the Board of Directors, but shall not be less than the closing price of Uranium Valley Mines' share on the trading day immediately prior to the date of grant less any discount permitted by the Exchange; if no sales were reported, it shall be the sales closing price on the last trading day immediately prior to the date of grant on which sales were reported. The vesting period of the options shall be determined by the Board of Directors, in accordance with the rules and regulations of the Exchange. As of December 31, 2016 and 2015, no options had been granted.

(in Canadian dollars)

## 15. *SALE OF MALARTIC CHL PROSPECT BY ABITIBI ROYALTIES*

On March 19, 2015, Abitibi Royalties entered into a sell agreement with Canadian Malartic GP, a general partnership, Yamana and Agnico to sell its 30% free carried interest in the Malartic CHL Prospect (the "Project") in consideration for 3,549,695 shares of Yamana and 459,197 shares of Agnico and a 3% net smelter return royalty on the Project. Based on the prices of the shares of Yamana ($4.74) and Agnico ($36.29) on the TSX the consideration received is worth $33,489,813 excluding the 3% NSR royalty. No value has been assigned to the 3% NSR royalty: the Project still being at the early stage of exploration, future cash flow could not be reliably estimated.

Abitibi Royalties engaged Maxit Capital LP as its financial advisor and Getz Prince Wells LLP as its legal advisor in connection with this transaction. The $367,500 advisory fees of Maxit Capital LP were paid by issuing 100,791 common shares. These fees are included in the transaction costs below.

The gain on this transaction has been determined as follows:

| | March 19, 2015 |
|---|---|
| | $ |
| Market value of consideration received | 33,489,813 |
| Less: Fair value of mandatory retention period [1] | (3,374,856) |
| Fair value of consideration received | 30,114,957 |
| Less: Transaction costs [2] | (530,513) |
| Success fee payable as a result of the sale of the Malartic CHL prospect [3] | (4,290,000) |
| Fair value of consideration received net of transaction costs | 25,294,444 |
| Less: Book value of exploration and evaluation asset sold [4] | (136,270) |
| Gain on the sale of the Malartic CHL Prospect (no tax impact) | 25,158,174 |

[1] As per securities regulations, shares received from Agnico and Yamana were subject to a mandatory retention period of four months and one day.

[2] As at December 31, 2015, transaction costs included in Accounts payable and accrued liabilities amounted to $88,450.

[3] The success fee agreement was cancelled effective March 11, 2016 and the related liability reversed (Note 19.1).

[4] Please refer to Note 10.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

## 16. *INCOME TAXES*

The relationship between the expensed tax expense based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the consolidated statement of comprehensive income can be reconciled as follows:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Income before income taxes | 10,640,314 | 17,420,912 |
| Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.9% | 2,862,244 | 4,686,225 |
| Adjustments for the following items | | |
| Impairment of resources assets | 314,714 | - |
| Change in deferred tax assets not recognized | 526,188 | 293,255 |
| Non-taxable dividends | (91,843) | - |
| Share-based payments | 621,091 | 24,214 |
| Non-taxable portion of gain on investments | (1,931,982) | 4,487,811 |
| Non taxable disposition of mining property | - | (6,767,549) |
| Capital losses recognized | - | (18,683) |
| Change in enacted tax rates | 39,026 | - |
| Non-taxable reversal of success fee | (1,122,537) | - |
| Other non deductible expenses | (31,277) | (64,475) |
| | 1,185,624 | 2,640,798 |

**Composition of deferred taxes in the income statements**

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Inception and reversal of temporary differences | 659,436 | 2,347,543 |
| Deferred tax assets not recognized | 526,188 | 293,255 |
| | 1,185,624 | 2,640,798 |

**Variation of 2016 deferred taxes**

| | January 1, 2016 | Deferred taxes Recognized in equity | Deferred taxes Recognized in profit or loss | December 31, 2016 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Exploration and evaluation assets | (207,706) | - | 305,622 | 97,916 |
| Property and equipment | 3,512 | - | (3,512) | - |
| Tax credits receivable | (4,671) | - | (4,170) | (8,841) |
| Investments | (3,307,364) | - | (1,747,437) | (5,054,801) |
| Share issue expenses | 28,256 | - | (28,256) | - |
| Derivative financial instruments | - | - | 64,810 | 64,810 |
| Capital losses | 588,844 | - | (588,844) | - |
| Non-capital losses | 258,331 | - | 816,163 | 1,074,494 |
| Deferred taxes liability | (2,640,798) | | (1,185,624) | (3,826,422) |

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(in Canadian dollars)

**16. *INCOME TAXES (continued)***

**Variation of 2015 deferred taxes**

| | | Deferred taxes | | |
|---|---|---|---|---|
| | January 1, 2015 | Recognized in equity | Recognized in profit or loss | December 31, 2015 |
| | $ | $ | $ | $ |
| Exploration and evaluation assets | (620,742) | - | 413,036 | (207,706) |
| Property and equipment | 105,577 | - | (102,065) | 3,512 |
| Tax credits receivable | (3,972) | - | (699) | (4,671) |
| Investments | - | - | (3,307,364) | (3,307,364) |
| Share issue expenses | 30,488 | - | (2,232) | 28,256 |
| Capital losses | - | - | 588,844 | 588,844 |
| Non-capital losses | 488,649 | - | (230,318) | 258,331 |
| Deferred taxes liability | - | | (2,640,798) | (2,640,798) |

As at December 31, 2016 and 2015, the Corporation had deductible temporary differences which it did not record in deferred tax assets:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Exploration and evaluation assets | 2,410,691 | 3,743,970 |
| Property and equipment | 412,163 | - |
| Short-term finance assets | - | 329,495 |
| Share issue costs | 119,024 | - |
| Other | 14,542 | - |
| Non-capital losses | 6,296,029 | 4,607,925 |
| | 9,252,449 | 8,681,390 |

The Corporation has the following tax losses available to reduce future years' taxable income. Taxable losses, for which the total tax effect has not been recorded in the statement of balance sheet, are maturing as follows:

| | Federal | Québec |
|---|---|---|
| | $ | $ |
| 2029 | 562,664 | 289,673 |
| 2030 | 1,389,166 | 1,368,264 |
| 2031 | 173,876 | 173,876 |
| 2032 | 1,426,308 | 1,414,982 |
| 2033 | 523,844 | 520,882 |
| 2034 | 564,377 | 558,885 |
| 2035 | 1,019,115 | 1,014,660 |
| 2036 | 636,679 | 609,992 |
| | 6,296,029 | 5,951,214 |

The Corporation has an amount of $319,859 in 2016 ($319,859 in 2015) in investment tax credits that has not been recorded. These credits can be used to reduce federal income tax and will expire between 2025 and 2033

The Corporation has an amount of ($22,216) as at December 31, 2016 ($54,861 as at December 31, 2015), in resources tax credit that has not been recorded. These credits can be used to reduce Québec income tax and will expire in 2018.

## 17. *FAIR VALUE MEASUREMENT*

**Fair value measurement of financial instrument**

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of the significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the assets or liabilities that are not based on observable market data

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Cash and cash equivalent (Level 1), Other accounts receivable (Level 3) and Accounts payable and accrued liabilities (Level 3) are carried at amortized costs which approximate their fair value due to their short term nature.

Money market investment funds, marketable securities in quoted mining exploration companies, investments and derivative financial instrument at fair value in the consolidated statement of financial position as at December 31, 2016 and 2015 are classified in Level 1 and are recorded at fair value by reference to their quoted prices at the reporting date.

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(Unaudited)
(in Canadian dollars)

## 18. *EARNINGS PER SHARE*

Both the basic and diluted earnings per share have been calculated using the net loss attributable to owners of the Corporation as the numerator, i.e. no adjustment to the net loss were necessary in either periods ended December 31, 2016 and 2015.

As at December 31, 2016, 12,080,934 stock options (13,846,039 warrants and stock option in 2015) were excluded from the calculation of diluted earnings per share attributable to shareholders of the Corporation.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Net income attributable to shareholders of Golden Valley Mines Ltd. | $ 3,340,426 | $ 7,388,988 |
| Weighted average number of shares in circulation - basic | 114,183,973 | 97,800,920 |
| Dilutive effect of stock options and warrants | 6,407,010 | 1,584,977 |
| Weighted average number of shares in circulation - basic | 120,590,983 | 99,385,897 |
| Basic earnings per share | $ 0.029 | 0.08 |
| Diluted earnings per share | $ 0.028 | 0.07 |

## 19. *RELATED PARTY TRANSACTIONS*

The Corporation's related parties include its joint key management and related companies, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash. Other than the related party transactions disclosed below, there were no other direct transactions with related parties other than routine payments for management and exploration services and grants of stock options.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(Unaudited)
(in Canadian dollars)

### 19.1 *Transaction with key management*

Key management includes directors and senior executives. The compensation paid to key management for employee and consulting services is presented below.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | | |
| Salaries including bonuses | 598,331 | 469,490 |
| Benefits | 112,354 | 100,801 |
| Director's fees [1] | 268,863 | 226,129 |
| Total short-term employee benefits | 979,548 | 796,420 |
| Other transactions with key management | | |
| Rent [2] | 19,588 | 49,816 |
| Management Fees | 130,932 | 27,075 |
| Professional Fees [3] | 74,071 | 8,177 |
| Expenses capitalized in exploration and evaluation assets | 113,448 | 154,468 |
| Success Fee included in gain on the disposal of exploration and evaluation assets [4] | (4,157,110) | 4,290,000 |
| Total other transactions with key management | (3,819,071) | 4,529,536 |
| Share-based payments capitalized in exploration and evaluation assets [5] | 55,517 | - |
| Share-based payments [5] | 2,230,085 | 85,250 |
| Total remuneration | (553,921) | 5,411,206 |

[1] All 2016 and 2015 amounts have been paid.

[2] $12,000 ($42,000 in 2015) paid to 2973090 Canada Inc., a company controlled by Mr. Glenn J. Mullan who is an officer and a director of the Corporation. $7,588 ($7,816 in 2015) paid by Abitibi Royalties to its President.

[3] Consulting Fees paid to the spouse of the President and CEO of Golden Valley, pursuant to a consulting agreement related to corporate finance services dated January 1, 2016.

[4] The success fee agreement entered into in 2015 was cancelled effective March 11, 2016. Therefore, the remaining liability was reversed.

[5] Please refer to note 14.2 and 14.3 for information on incentive stock options and restricted share units granted to key management.

## 19. *RELATED PARTY TRANSACTIONS (continued)*

### 19.1 *Transactions with key management (continued)*

Termination of Management Success Fees Agreement

Effective March 11, 2016, the Board of Directors terminated the Management Success Fees Agreement. Prior to its termination, an amount of $132,890 was paid out under the terms of the Management Success Fees Agreement, with no further amounts payable. Following this termination, the remaining liability of $4,157,110 was reversed in the first quarter of 2016.

On May 16, 2016, the Nunavik Nickel granted incentive stock options to directors, officers and consultants to purchase an aggregate 446,801 of the Nunavik Nickel's common shares. The fair value of the stock options granted has been estimated at $20,788. The stock options are described in Note 13.2.

With the exception of the stock options granted on May 16, 2016, no remuneration or compensation of any sort has been paid by Nunavik Nickel to its directors or officers for the years ended December 31, 2016 and 2015.

In connection with the private placement on January 30, 2015 as per note 13.3, Nunavik Nickel paid finder's fees of $3,300 and issued finder's fee warrants entitling the purchase of 41,250 of its common shares at a per share price of $0.10 until January 30, 2017, to an individual related to the President and CEO of Nunavik Nickel . The fair value of finder's fee warrants has been estimated using the Black-Scholes option-pricing model at $4,877.

In April 2015, Nunavik Nickel issued 300,000 of its common shares to acquire the Boston Bulldog Prospect from 2973090 Canada Inc. a private company wholly-owned and controlled by Glenn J. Mullan the CEO and a director of Nunavik Nickel.

In connection with the private placement on September 23, 2016 as per note 13.3, Uranium Valley issued 58,666 shares in payment of finder's fees of $4,400 and issued 58,666 finder's fee warrants entitling the purchase of 58,666 of its common shares at a per share price of $0.10 until September 23, 2017, to an individual related to the Chairman of the Board of the Company. The fair value of finder's fee warrants has been estimated using the Black-Scholes option-pricing model at $1,525.

On July 4, 2016, the Mining Option Agreement between Uranium Valley and 2973090 Canada Inc., which provided the Uranium Valley with the option to acquire a 100% ownership interest in the Porcupine Miracle Prospect, was amended to postpone the third share payment of 66,667 common shares and the requirement to incur exploration expenditures of $50,000 to July 17, 2017.

**Golden Valley Mines Ltd.**
**Notes to the consolidated financial statements**
**December 31, 2016 and 2015**
(Unaudited)
(in Canadian dollars)

## 20. *CONTINGENCIES AND COMMITMENTS*

The Corporation is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Corporation is engaged in realizing mining exploration work.

These tax rules set deadlines for carrying out the exploration work, which must be performed no later than the first of the following dates:

- Two years following the flow-through placements;
- One year after the Corporation has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that its expenses will qualify as Canadian exploration expenses, even if the Corporation is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

## 21. *ADDITIONAL INFORMATION - CASH FLOWS*

Non-cash transactions included in the statement of financial position are the following :

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Accounts payable and accrued liabilities included in exploration and evaluation assets | 3,269 | 47,364 |
| Accounts payable and accrued liabilities of transaction costs related to the disposal of exploration and evaluation assets | - | 88,450 |
| Share-based compensation included in exploration and evaluation assets | 83,163 | 7,755 |
| Depreciation of exploration and evaluation equipment charged to exploration and evaluation assets | 1,424 | 839 |
| Common shares issued for a debt settlement | 52,011 | 201,444 |
| Common shares issued by subsidiary in consideration of payment of transaction costs included in gain on disposal of exploration and evaluation assets | - | 367,500 |
| Options on exploration and evaluation assets received as shares of quoted mining exploration companies included in short-term financial assets | 200,000 | - |
| Success fee payable included in gain on disposal of exploration and evaluation assets | - | 4,290,000 |
| Common shares received in consideration of disposal of exploration and evaluation assets | 500,000 | 39,333 |
| Common shares received in consideration of disposal of exploration and evaluation assets net of the fair value of the retention period | - | 30,114,957 |
| Tax credits deducted from exploration and evaluation assets | 77,479 | 632 |

## 22. *CAPITAL MANAGEMENT POLICIES AND PROCEDURES*

The Corporation’s capital management objectives are:

- to ensure the Corporation’s ability to continue as a going concern;
- to increase the value of the assets of the business; and
- to provide an adequate return to owners.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Corporation's own means.

The Corporation monitors capital on the basis of the carrying amount of equity. Capital for the reporting periods under review is comprised of share capital, warrants and contributed surplus.

The Corporation is not exposed to any externally imposed capital requirements as at December 31, 2016 and 2015.

The Corporation sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may return capital to shareholders, issue new shares, or sell assets to reduce payables. When financing conditions are not optimal, the Corporation may enter into option agreements or other solutions to continue its exploration and evaluation activities or may slow its activities until conditions improve.

No changes were made in the objectives, policies and processes for managing capital during the reporting periods.

## 23. *FINANCIAL INSTRUMENT RISKS*

The Corporation is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Corporation focuses on actively securing short-to medium-term cash flows by minimizing the exposure to financial markets. The Corporation does not actively engage in the trading of financial instruments for speculative purposes.

The most significant financial risks to which the Corporation is exposed are described below.

### 23 *FINANCIAL INSTRUMENT RISKS (continued)*

### 23.1 *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to the following two types of market risk: foreign currency risk and other price risk.

Foreign currency risk sensitivity

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most of the Company's transactions are carried out in Canadian dollars. Currency risk arises from the Company's dividends in foreign currency, which are primarily denominated in U.S. dollars. The Company does not enter into arrangements to hedge its foreign exchange risk.

Foreign currency denominated financial assets and liabilities in U.S. dollars, translated into Canadian dollars at the closing rate, and which expose the Corporation to the currency risk are as follows:

| | Short-term exposure |
|---|---|
| December 31, 2016 | $ |
| Cash | 37,078 |
| Dividends receivable | 23,700 |
| Derivative financial instruments | 489,131 |
| | 549,909 |

A ± 1% change in the Canadian /U.S. exchange rate as at December 31, 2016 would have had an impact of $5,500 at December 31, 2015 on profit or loss of the period and equity.

Other price risk sensitivity

The Corporation is exposed to fluctuations in the market prices of its investments in quoted mining companies, derivative financial instrument, marketable securities in quoted mining exploration companies. The fair value of these financial instruments represents the maximum exposure to price risk.

If the quoted price of these instruments had changed by ± 1% as at December 31, 2016 (± 1% as at December 31, 2015), comprehensive loss and equity would have changed by $405,297 ($257,351 in 2015).

(in Canadian dollars)

## 23. *FINANCIAL INSTRUMENT RISKS (continued)*

### 23.2 *Credit risk*

Credit risk is the risk that another party to a financial instrument fails to discharge its obligation and, thus, leads the Corporation to incur a financial loss

The Corporation's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 2,725,177 | 1,905,367 |
| Guaranteed investment certificates 0.5% (0.65 to 1% in 2015) maturing in December 2017 | 250,000 | 910,000 |
| Other accounts receivables | 46,572 | 106,523 |
| Carrying amounts | 3,021,749 | 2,921,890 |

The other accounts receivable are dividends receivable from quoted mining companies and receivables from partners on mineral properties options. The exposure to credit risk for the Corporation's receivable is considered immaterial. The Corporation continuously monitors defaults of counterparties. No impairment loss has been recognized in the periods presented.

(in Canadian dollars)

**23. *FINANCIAL INSTRUMENT RISKS (continued)***

**23.3 *Liquidity risk***

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Corporation has financing sources such as private and public investments for a sufficient amount.

Over the past years, the Corporation has financed its exploration and evaluation programs, its working capital requirements and acquisitions of mining properties through private and flow-through placements.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Within three months | | |
| Accounts payable and accrued liabilities (excluding salaries and employee benefits) | 164,430 | 227,932 |
| | 164,430 | 227,932 |
| Twelve to thirty six months | | |
| Derivative financial instrument | 489,131 | 124,579 |
| | 489,131 | 124,579 |

The Corporation's objective is to maintain cash and cash equivalents and short-term investments to meet its liquidity requirements. This objective was met for the reporting periods.

The Corporation considers cash flows from financial assets in assessing and managing liquidity risk, in particular its cash and cash equivalents and short-term investments. The Corporation's existing cash and cash equivalents and short-term investments receivable significantly exceeds the current cash outflow requirements.

## 24. *SUBSEQUENT EVENTS*

Subsequent to year end, the Corporation issued 3,590,000 of its common shares for a total consideration of $468,500. 590,000 common shares were issued from the exercise of stock options at prices from $0.07 (500,000 shares) to $0.15 (90,000 shares) per share. 3,000,000 common shares were issued from the exercise of share purchase warrants at $0.14 per share.

**Island 27 property - Battery Mineral Resources - Mathachewan, Kirkland Lake, Ontario**

On March 4, 2017, the Corporation entered into a term sheet with Battery Mineral Resources Limited pursuant to which the Corporation will grant to Battery Minerals an option to acquire up to an 80% interest in the Island 27 Property, located in the Mathachewan area, west of Kirkland Lake, Ontario, in consideration for which the Corporation will receive $500,000 in cash payments and Battery Minerals will incur $5,000,000 in expenditures over a 4 year period. Once the option is exercised, the Corporation will have a 20% free carried interest in the property and a 1% NSR. The Corporation received a $25,000 non-refundable deposit in accordance with the term sheet. The term sheet is subject to a definitive agreement being entered into on or before June 4, 2017.

**Centremaque property - Alexandria Minerals Corporation - Bourlamaque Township, Québec**

On April 20, 2017, the Corporation entered into an mining option agreement with Alexandria Minerals Corporation (“Alexandria”) on the Centremaque Prospect located in the Abitibi Greenstone Belt, northeast of Val-d'Or, Québec. In accordance with the option agreement, (i) Alexandria must issue to Golden Valley Mines such number of common shares in its capital having an aggregate value of $250,000 based on the closing price of Alexandria's shares on the Exchange the day prior to the date of issuance of each tranche of payment shares, and (ii) Alexandria must incur expenditures in an aggregate amount of $4,000,000 over a four (4) year period. In return, Alexandria will acquire an 80% interest in the property. Once the option is exercised, the Corporation will have a 20% free carried interest in the property and a 1.5% NSR, with 0.5% of the NSR being subject to a buyback in favour of Alexandria for $1 million.

**Derivative Financial Instruments - covered call options exercised**

On January 20, 2017, Abitibi Royalties was called to deliver 108,700 shares of Agnico (43,600 at US $45 and 65,100 at US $40) and received CA $6,071,202 (using a conversion rate of 1.33) from the covered call options it had sold. None of the other Agnico covered call options nor any of the Yamana call options expiring on January 20, 2017 have been called.

**Nunavik Nickel Mines**

On January 30, 2017, a total of 890,000 warrants were exercised at a price of $0.12 for a total gross proceeds of $106,800.

On March 30, 2017, Nunavik Nickel closed a non-brokered private placement financing pursuant to which it issued 4,353,461 units at a price of $0.065 per unit for a gross proceeds of $282,975. Each unit consists of one common share in the capital of Nunavik Nickel and one non-transferable share purchase warrant, each whole warrant entitling the purchase of one common share at a per share price of $0.085 until March 30, 2019.