ABITIBI ROYALTIES INC.

# Interim Financial Statements
# Second Quarter 2016

**Unaudited**

**Content**



**IMPORTANT NOTICE**

The attached financial statements have been prepared by Management of Abitibi Royalties Inc. The Company's independant auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# Abitibi Royalties Inc.
## Interim Statements of Financial Position
(In Canadian dollars) Unaudited

| | Notes | June 30, 2016 $ | December 31, 2015 $ |
|---|---|---|---|
| ***ASSETS*** | | | |
| Current | | | |
| Cash and cash equivalents | 6 | 2,547,436 | 1,697,573 |
| Receivables | 7 | 23,820 | 76,750 |
| Sales taxes recoverable | | 14,761 | 8,965 |
| Prepaid expenses | | 831 | 10,805 |
| Total current assets | | 2,586,848 | 1,794,093 |
| Non-current | | | |
| Exploration and evaluation assets | 8 | 38,891 | 35,147 |
| Investments | 9 | 54,565,731 | 25,278,161 |
| Total non-current assets | | 54,604,622 | 25,313,308 |
| Total assets | | 57,191,470 | 27,107,401 |
| ***LIABILITIES*** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 153,143 | 173,033 |
| Derivative financial instruments | 9 | 3,883,822 | 124,579 |
| Short term portion of success fee liability | 20 | - | 3,383,000 |
| Total current liabilities | | 4,036,965 | 3,680,612 |
| Non-current | | | |
| Long term portion of success fee liability | 20 | - | 790,000 |
| Deferred tax liabilities | | 6,346,644 | 2,640,798 |
| Total non-current liabilities | | 6,346,644 | 3,430,798 |
| Total Liabilities | | 10,383,609 | 7,111,410 |
| ***EQUITY (DEFICIENCY)*** | | | |
| Capital stock | 10 | 7,300,142 | 5,358,952 |
| Contributed surplus | | 2,400,738 | 2,849,709 |
| Retained earnings (deficit) | | 37,106,981 | 11,787,330 |
| Total Equity (Deficiency) | | 46,807,861 | 19,995,991 |
| Total liabilities and equity | | 57,191,470 | 27,107,401 |

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

These financial statements were approved and authorized for issue by the Board of Directors on August 25, 2016

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

*"Ian J. Ball"*
(signed Ian J. Ball)
Director

# Abitibi Royalties Inc.
## Interim Statements of Comprehensive Income (Loss)
(In Canadian dollars)

| | Notes | Three-month period ended June 30, 2016 | Three-month period ended June 30, 2015 | Six-month period ended June 30, 2016 | Six-month period ended June 30, 2015 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Revenues** | | | | | |
| Royalties | | - | 17,568 | 1,542 | 272,105 |
| Dividend | | 68,381 | 112,522 | 138,343 | 180,053 |
| | | 68,381 | 130,090 | 139,885 | 452,158 |
| **Operating expenses** | | | | | |
| Exploration expenses | | 285 | 2,064 | 285 | 2,064 |
| Royalty purchase | 8 | 19,243 | 10,000 | 41,193 | 10,000 |
| Office expenses | 13 | 11,096 | 16,182 | 20,712 | 28,087 |
| Shared-based payments | 11.2 | - | - | 526,925 | - |
| Salaries and employee benefits expense | 11.1 | 200,166 | 95,118 | 355,881 | 200,920 |
| Travel and transport | | 7,340 | 4,923 | 7,786 | 9,936 |
| Professional fees | 14 | 136,568 | 152,039 | 246,295 | 271,786 |
| Management fees | 15 | 24,000 | 24,000 | 48,000 | 48,000 |
| Advertising and promotion | | - | 1,491 | 2,500 | 3,991 |
| Reversal of success fee liability | 20 | - | - | (4,157,110) | - |
| Gain on disposal of exploration and evaluation assets | 16 | - | 4,288,110 | - | (25,246,624) |
| | | 398,698 | 4,593,927 | (2,907,533) | (24,671,840) |
| **Operating income (loss)** | | (330,317) | (4,463,837) | 3,047,418 | 25,123,998 |
| **Financial costs (income)** | | | | | |
| Interest income | | (2,267) | - | (4,528) | (238) |
| Interest expense | | 146 | 74 | 405 | 901 |
| Commissions | | 3,199 | - | 18,549 | - |
| Foreign exchange gains | | (11,038) | - | (117,010) | - |
| Change in fair value of financial assets at fair value through profit and loss | 9 | (16,744,208) | 741,149 | (25,875,495) | 1,766,799 |
| | | (16,754,168) | 741,223 | (25,978,079) | 1,767,462 |
| **Net income (loss) before income tax** | | 16,423,851 | (5,205,060) | 29,025,497 | 23,356,536 |
| **Deferred income tax expense** | | 2,571,324 | (1,401,813) | 3,705,846 | 1,804,521 |
| **Net income (loss) and comprehensive income (loss) for the period** | | 13,852,527 | (3,803,247) | 25,319,651 | 21,552,015 |
| **Earnings (loss) per share** | | | | | |
| Basic | 12 | $ 1.26 | $ (0.35) | $ 2.31 | $ 2.01 |
| Diluted | 12 | $ 1.16 | $ (0.35) | $ 2.14 | $ 1.88 |
| **Weighted average number of common shares outstanding** | | | | | |
| Basic | 12 | 11,034,515 | 10,897,346 | 10,975,231 | 10,703,693 |
| Diluted | 12 | 11,966,185 | 10,897,346 | 11,820,450 | 11,468,410 |

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

# Abitibi Royalties Inc.

## Interim Statement of Changes in Equity

(In Canadian dollars) Unaudited

| | Notes | Common shares outstanding | Capital Stock | Contributed Surplus | Retained earnings (deficit) | Total Equity (Deficiency) |
|---|---|---|---|---|---|---|
| | | Number | $ | $ | $ | $ |
| **Balance at January 1, 2016** | | 10,929,368 | 5,358,952 | 2,849,709 | 11,787,330 | 19,995,991 |
| Common shares issued upon the exercise of options | **10.2** | 458,975 | 1,966,752 | (819,653) | | 1,147,099 |
| Common shares repurchased and cancelled | **10.4** | (52,100) | (25,562) | (156,243) | | (181,805) |
| Restricted share units | **11.3** | | | 526,925 | | 526,925 |
| Net income and total comprehensive income | | | | | 25,319,651 | 25,319,651 |
| **Balance at June 30, 2016** | | 11,336,243 | 7,300,142 | 2,400,738 | 37,106,981 | 46,807,861 |
| **Balance at January 1, 2015** | | 10,466,555 | 3,523,469 | 3,635,646 | (5,977,102) | 1,182,013 |
| Common shares issued upon the exercise of options | **10.2** | 330,000 | 1,257,022 | (636,772) | - | 620,250 |
| Common shares issued in payment of professional fees | **10.3** | 100,791 | 367,500 | | | 367,500 |
| Net income and total comprehensive income | | | | | 0 | 0 |
| **Balance at June 30, 2015** | | 10,897,346 | 5,147,991 | 2,998,874 | (5,977,102) | 2,169,763 |

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

# Abitibi Royalties Inc.
## Interim Statements of Cash Flows
(In Canadian dollars)

| | Notes | Three-month period ended June 30, 2016 | Three-month period ended June 30, 2015 | Six-month period ended June 30, 2016 | Six-month period ended June 30, 2015 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| ***OPERATING ACTIVITIES*** | | | | | |
| Net income (loss) | | **13,852,527** | (3,803,247) | **25,319,651** | 21,552,015 |
| Adjustment | | | | | |
| Share-based payments | | - | - | **526,925** | |
| Gain on disposal of exploration and evaluation assets | | - | 4,288,110 | - | (25,246,624) |
| Reversal of success fee liability | | - | | **(4,157,110)** | |
| Change in fair value of financial assets and liabilities | | **(16,744,208)** | 741,149 | **(25,875,495)** | 1,766,799 |
| Deferred income tax expense | | **2,571,324** | (1,401,813) | **3,705,846** | 1,804,521 |
| Changes in working capital items | | | | | |
| Sales taxes recoverable | | **16,141** | 15,178 | **(5,796)** | (5,444) |
| Receivables | | **1,565** | 255,650 | **52,930** | (66,418) |
| Prepaid expenses | | **4,987** | 7,418 | **9,974** | 14,837 |
| Accounts payable and accrued liabilities | | **(57,156)** | (34,146) | **(20,074)** | 83,912 |
| Cash flows from operating activities | | **(354,820)** | 68,299 | **(443,149)** | (96,402) |
| ***INVESTING ACTIVITIES*** | | | | | |
| Additions to exploration and evaluation assets | | - | (2,583) | **(3,560)** | (7,602) |
| Disposal of exploration and evaluation assets transaction costs | | - | 1,890 | - | (74,562) |
| Payment of success fee | | - | | **(15,890)** | |
| Cash flows from investing activities | | | (693) | **(19,450)** | (82,164) |
| ***FINANCING ACTIVITIES*** | | | | | |
| Issuance of capital stock | | **1,144,790** | | **1,147,099** | 620,250 |
| Capital stock repurchased and cancelled | | **(63,424)** | | **(181,805)** | |
| Disposal of derivative financial instruments | | **36,343** | | **347,168** | |
| Cash flows from financing activities | | **1,117,709** | | **1,312,462** | 620,250 |
| **Net decrease in cash and cash equivalents** | | **762,889** | 67,606 | **849,863** | 441,684 |
| Cash and cash equivalents, beginning of period | | **1,784,547** | 1,607,385 | **1,697,573** | 1,233,307 |
| Cash and cash equivalents, end of period | | **2,547,436** | 1,674,991 | **2,547,436** | 1,674,991 |

| | | | | |
|---|---|---|---|---|
| Additional cash flow information (Note 16) | | | | |
| Cash transactions: | | | | |
| Interest received related to operating activities: | **2,267** | - | **4,528** | 238 |

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

## *1 - NATURE OF OPERATIONS*

Abitibi Royalties Inc. (the "Company") has the objective to build a premium quality royalty company by acquiring of first class royalties and by exploring, evaluating and promoting its mineral properties and other projects.

## *2 - BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE WITH IFRS*

These interim financial statements are covering the six months and three month periods ended June 30, 2016 and were prepared in accordance with International Financing Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), under International Accounting Standard ("IAS") 34 - Interim Financial Reporting and the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. These interim financial statements were prepared using the same accounting policies, methods of computation and basis of presentation as outlined in Note 5 - Summary of Accounting Policies, as described in the Company's annual audited financial statements for the year ended December 31, 2015. Interim financial statements do not include all the notes required in annual financial statements and, accordingly, should be read in conjunction with with the annual financial statements for the year ended December 31, 2015.

The financial statements of the Company will be included in the consolidation perimeter of its controlling shareholder Golden Valley Mines Ltd. ("Golden Valley").

## *3 - GENERAL INFORMATION*

The Company was incorporated on February 18, 2010 under the Business Corporations Act of British Columbia. The head office of the Company is located at 152 Chemin de la Mine École, Val-d'Or, Quebec, Canada. The Company's registered and records office is located at #1810 - 1111 West Georgia Street, Vancouver, B.C. V6E 4M3. The Company also has administrative offices located at 800 René-Lévesque Boulevard West, Suite 425, Montréal, Quebec, H3B 1X9.

## *4 - SUMMARY OF ACCOUNTING POLICIES*

### *4.1 - Overall considerations*

The significant accounting policies that have been applied in the preparation of these financial statements are summarized in Note 5 - Summary of Accounting Policies, of the Company's annual audited financial statements for the year ended December 31, 2015.

### *4.2 - Functional and presentation currency*

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

### *4.3 - Earnings per share*

Basic earnings per share is calculated by dividing net income attributable to common equity holders of the Company 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.

(In Canadian dollars)

*4.3 - Earnings per share* **(continued)**

To determine the dilutive impact of stock options, the Company 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 Company 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.

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the same period. Diluted earnings per share is calculated by adjusting loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares which includes stock options. 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.

## *5 - JUDGEMENTS, ESTIMATES AND ASSUMPTIONS*

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. These judgements, estimates and assumptions are summarized in Note 6 - Judgements Estimates and Assumptions, of the Company's annual audited financial statements for the year ended December 31, 2015.

### *5.1 - Impairment of exploration and evaluation assets*

In assessing impairment, the Company 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 Company'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.

No impairment loss was recognized during the period ended June 30, 2016 and during the year ended December 31, 2015.

## *6 - CASH AND CASH EQUIVALENTS*

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| | $ | $ | $ |
| Cash | 2,548,953 | 1,697,573 | 108,307 |
| Demand deposit, 0.925% redeemable at any time | - | - | 1,125,000 |
| | 2,548,953 | 1,697,573 | 1,233,307 |

## *7 - RECEIVABLES*

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| | $ | $ | $ |
| Dividend receivable | 23,820 | 76,750 | 66,418 |

(In Canadian dollars)

### *8 - EXPLORATION AND EVALUATION ASSETS*

The summary of carrying amount can be analyzed as follows:

| Properties | Balance as at January 1, 2016 $ | Additions $ | Disposal $ | Balance as at June 30, 2016 $ |
|---|---|---|---|---|
| Bourdon Prospect (Ontario) | 35,147 | 3,744 | - | 38,891 |
| | 35,147 | 3,744 | - | 38,891 |

| Properties | Balance as at January 1, 2015 $ | Additions $ | Disposal $ | Balance as at June 30, 2015 $ |
|---|---|---|---|---|
| Malartic CHL Prospect (Quebec) | 135,500 | 770 | 136,270 | - |
| Bourdon Prospect (Ontario) | 32,564 | 2,583 | | 35,147 |
| | 168,064 | 3,353 | 136,270 | 35,147 |

***8 - EXPLORATION AND EVALUATION ASSETS*** **(continued)**

*Malartic CHL Prospect - Malartic, Quebec*

On March 19, 2015, the Company 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 16 - Sale of Malartic CHL Prospect.

*Malartic CHL 3% Royalty - Malartic, Quebec*

The area covered by the 3% net smelter royalty 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 Zones and the recent Odyssey North discovery. No value has been assigned to the 3% NSR royalty.

Odyssey North is proximate to the Odyssey South Zone and together, these zones comprise the "Odyssey Zones", "Odyssey deposit" or "Odyssey" that is east of the main Canadian Malartic Mine open pit. The mine operators recently reported that as of the end of the fourth quarter (December 30, 2015) 44 holes totaling 35,870 metres had been completed on the Odyssey Zones. Yamana states in its Q4-2015 news release (February 18, 2016) that exploration drilling of the Odyssey deposit transitioned to definition drilling in the fourth quarter with the goal of completing a 100 metre by 100 metre grid on the current defined mineral extents by the third quarter of 2016. The tighter grid spacing will allow for the reclassification of the mineralization as inferred mineral resources, will provide a basis for an in house scoping study and will aid the optimization of subsequent infill drill programs. There are no assurances that all or any of the recent drilling at Odyssey has encountered additional mineralization on the Malartic CHL property that is covered by the Company's 3% NSR.

The Company holds a 3% NSR on the Barnat Extension and the Jeffrey Zone located inside the Malartic CHL property. Both areas were included in the submitted initial Environmental Impact Assessment ("EIA") Project Notification Form. The formal EIA was submitted in February 2015. The mine operators have indicated that the process remains on schedule for receipt of the necessary permits by year-end 2016 and that initial production from areas where the Company holds a royalty is set for 2017.

*Canadian Malartic 2% Royalty - Malartic, Quebec*

The NSR is located on a single claim located just to the south of the Canadian Malartic main pit, and covers the historic Charlie Zones and the Eastern portion of the Gouldie 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. The Company has 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.

*Luc Bourdon Prospect - James Bay, Ontario*

The Luc Bourdon Prospect (the "Bourdon Prospect") was acquired from Golden Valley pursuant to an Amended and Restated Transfer, Assignment, and Assumption Agreement dated March 30, 2011 among Abitibi Royalties, then Optionees, and Golden Valley. The Company owns a 100% interest in the Bourdon Prospect located in the lowland region of James Bay, Ontario. The Company is seeking new partnerships to fund future exploration programs and, if warranted by the results, to further develop the Bourdon Prospect.

(In Canadian dollars)

*Abitibi Royalty Search*

On June 9, 2015, the Company 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, 2015, the Company had closed eight NSR royalty acquisitions for a total investement of $79,774. In the first six months ended on June 30, 2016 the Company had invested an additional $41,193. The amounts spent to acquire mining royalties are accounted in profit or loss.

***9 - INVESTMENTS***

| | June 30, 2016 | | December 31, | June 30, |
|---|---|---|---|---|
| | Number of shares | Fair value | 2015 | 2015 |
| | | $ | $ | $ |
| Yamana Gold Inc | 3,549,695 | 23,853,950 | 9,122,716 | 13,346,853 |
| Agnico Eagle Mines Limited | 444,197 | 30,711,781 | 16,155,445 | 16,283,126 |
| | | 54,565,731 | 25,278,161 | 29,629,979 |
| Fair value of mandatory retention period | | - | - | (1,281,821) |
| | | 54,565,731 | 25,278,161 | 28,348,158 |

Investments are presented at their fair value.

*Sale of Agnico Eagle Shares*

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

*Derivative financial instruments*

The Company sold 11,346 call option contracts in the first six months of 2016, covering 1,134,600 shares of its investment in Yamana and Agnico, for total cash proceeds of $451,318 (USD $347,168). As of June 30, 2016, the Company has 15,341 (3,995 at December 31, 2015) call options contracts outstanding covering a total of 1,534,100 (399,500 at December 31, 2015) shares of its investment in Yamana and Agnico. The call options are exercisable until January 20, 2017 and January 19, 2018 at prices varying from US $40 to $55 for the contracts covering the Agnico shares and from US $5 to $12 for those on Yamana shares.

***10 - EQUITY***

***10.1 - Capital stock***

The capital stock of the Company consists only of fully paid common shares.

Authorized
Unlimited number of common shares, without par value, voting and participating.

Unlimited number of preferred shares, without par value, non-participating. The directors will define the rights, privileges, restrictions and conditions of these shares upon issuance.

(In Canadian dollars)

### *10.2 - Options exercised*

During the first six months ended on June 30, 2016, the Company issued 458,975 of its common shares for a total consideration of $1,147,099 from the exercise of stock options at prices of $2.18 (1,059 shares) and $2.50 (457,916 shares) per share . The capital stock increased from the $1,147,099 in cash received plus $819,653 transferred from the contributed surplus representing the fair value of the options.

On March 3, 2015 an ex-director of the Company exercised 90,000 options at $2.50 for a total consideration of $225,000. The share price at the day before the exercise was $3.65. On March 27, 2015, one ex-director, one officer and two consultants exercised 240,000 options, 135,000 at $2.50 and 105,000 at $0.55 for a total consideration of $395,250. The share price at the day before the exercise was $3.65.

### *10.3 - Shares for professionnal fees*

The Company 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.

### *10.4 - Normal Course issuer Bid*

On October 2, 2015, the Company received the Exchange acceptance of its notice to commence a normal course issuer bid ("NCIB"). This approval allows the Company to purchase back up to 546,300 of its common shares (representing 5% of the Company's 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. As of June 30, 2016, the Company 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.

## *11 - EMPLOYEE REMUNERATION*

### *11.1 - Salaries and employee benefits expense*

The Company has implemented an Executive Compensation Policy which approved certain payments being paid and accrued to directors and officers. The Company's executives are receiving a salary in accordance with the amounts approved in the Policy and monthly accruals are being recorded to cover the total estimated meeting fee remuneration payable to directors. The directors and executive officers are also entitled to receive incentive stock options and the Company has adopted a Restricted Share Unit Plan. The Company does not offer any other benefits or perquisites to its directors and executive officers.

The compensation paid or payable to directors and executive officers for the periods indicated are shown below:

| | Quarters ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Salaries and benefits | 118,556 | 62,000 | 231,055 | 124,000 |
| Meeting fees | 30,000 | 30,000 | 60,000 | 38,629 |
| Payroll levies (1) | 51,610 | 3,118 | 64,826 | 38,291 |
| | 200,166 | 95,118 | 355,881 | 200,920 |
| Share-based compensation | - | - | 526,925 | - |
| | 200,166 | 95,118 | 882,806 | 200,920 |

(1) The payroll levies are the Company's contributions to mandatory governmental benefits plans related to salaries, meetings fees and taxable benefits on exercise of incentive stock options.

(In Canadian dollars)

***11.2 - Share-based payments***

The Company 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 the Company's 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 (the "Exchange").

There has been no incentive stock option issued in the six month periods ended June 30, 2016 and June 30, 2015.

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

The Company's stock options are as follows for the reporting periods presented:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding at January 1 | 1,224,978 | 1.61 | 1,612,500 | 1.69 |
| Granted | - | - | - | - |
| Exercised | (458,975) | 2.50 | (330,000) | 1.88 |
| Cancelled | - | - | - | - |
| Outstanding at June 30 | 766,003 | 1.08 | 1,282,500 | 1.64 |
| Exercisable at June 30 | 766,003 | 1.08 | 1,282,500 | 1.64 |

The weighted average share price at the date of exercise was $5.67 ($3.65 in 2015).

The table below summarizes the information related to outstanding share options as at June 30, 2016 and 2015:

| Range of exercise price | 2016 Outstanding options | | 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 | 2.24 | 587,500 | 3.24 |
| $1.01 to $3.00 | 98,503 | 2.92 | 615,000 | 1.90 |
| $3.01 to $4.00 | 80,000 | 3.21 | 80,000 | 4.21 |
| | 766,003 | | 1,282,500 | |

(In Canadian dollars)

*11.3 - Restricted Share Unit Plan*

The Company's Board of Directors has implemented a RSU (the "RSU Plan"), which provides that restricted share units ("Share Units") may be granted by the Company'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, or in satisfaction of dividends declared by the Company 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 the Company. As of June 30, 2016, 583,365 Share Units had been granted (None at December 31, 2015).

| | |
|---|---|
| Unit Granted | 583,365 |
| Unit Vested | 145,841 |
| Unit Forfeited | - |
| Outstanding at June 30, 2016 | 583,365 |

In February and March 2016, the Company granted 583,365 RSU to officers, directors and consultant of which 145,841 vested immediately. The market price of the Company 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 immediately for a cost of $526,925 (included in contributed surplus) and none of the RSU vested were converted to common shares as at June 30, 2016.

## *12 -EARNINGS (LOSS) PER SHARE*

| | Quarter ended | Six months ended | |
|---|---|---|---|
| | June 30, 2016 | June 30, 2016 | June 30, 2015 |
| Net income (loss) for the period attributable to shareholders | $ 13,852,527 | $ 25,319,651 | $ 21,552,015 |
| Weighted average number of common shares outstanding - basic | 11,034,515 | 10,975,231 | 10,703,693 |
| Dilutive effect of stock options | 931,670 | 845,219 | 764,717 |
| Weighted average number of common shares outstanding - diluted | 11,966,185 | 11,820,450 | 11,468,410 |
| Basic earnings (loss) per share | $ 1.26 | $ 2.31 | $ 2.01 |
| Diluted earnings (loss) per share | $ 1.16 | $ 2.14 | $ 1.88 |

## Abitibi Royalties Inc.

**Notes to Financial Statements**
June 30, 2016 and 2015
(In Canadian dollars)

*12 -EARNINGS (LOSS) PER SHARE* **(continued)**

Both the basic and diluted earnings (loss) per share have been calculated using the net loss attributable to owners of the Company as the numerator, i.e. no adjustment to the net loss were necessary in either of the periods ended June 30, 2016 and 2015.

Only share equivalents with exercise prices exceeding the average market price for the period ($4.54 for the six month period and $5.56 for the quarter) have been considered in the calculation of the diluted earnings per share.

*13 - OFFICE EXPENSES*

| | Three months June 30, 2016 | Six months June 30, 2016 | Six months June 30, 2015 |
|---|---|---|---|
| | $ | $ | $ |
| Insurance premium | 4,987 | 9,973 | 14,837 |
| Communications | 3,278 | 5,120 | 6,962 |
| Office rental | 1,764 | 3,749 | 3,735 |
| Others | 1,067 | 1,870 | 2,553 |
| | 11,096 | 20,712 | 28,087 |

*14 - PROFESSIONAL FEES*

| | Three months June 30, 2016 | Six months June 30, 2016 | Six months June 30, 2015 |
|---|---|---|---|
| | $ | $ | $ |
| Audit, tax and accounting fees | 26,000 | 48,048 | 43,160 |
| Legal fees | 49,463 | 88,093 | 133,236 |
| Exchange, regulatory and transfer agent fees | 25,049 | 39,016 | 25,592 |
| Media relations and other | 36,056 | 71,138 | 69,798 |
| | 136,568 | 246,295 | 271,786 |

*15 - MANAGEMENT FEES*

On October 1, 2010 the Company entered into a Management and Administrative Services Agreement (the "Management Agreement") with Golden Valley pursuant to which Golden Valley will provide certain administrative, management and financial services such as office space, administrative support, including the use of Golden Valley's in house legal counsel for day to day general enquiries, services of a chief financial officer and investors relations services to the Company in consideration of $96,000 per year (the "Fee"), payable on a monthly basis, plus applicable taxes. The provision of services by Golden Valley commenced on October 1, 2010, but payment of monthly fees started as of July 15, 2011 (the "Trading Date").

***15 - MANAGEMENT FEES (continued)***

From July 1, 2013, Golden Valley agreed to provide the services but suspended the management fees to enable the Company to conserve cash for its operations. Accordingly, from July 1, 2013 to March 31, 2014, the Company did not pay any management fees to Golden Valley. Effective April 1, 2014, as its cash situation permitted such payment, the Company resumed payment of the management fees. For the six months ended June 30, 2016, the Company has paid management fees of $48,000 (same for the six months ended June 30, 2015) to Golden Valley.

The Management Agreement is for an initial term of two years commencing on the Trading Date, and will be automatically renewed after the initial term for successive period of 12 months. The Management Agreement can be terminated at any time and by either party, upon delivery of a twelve month written notice. The Management Agreement provides for the Fee to be reviewed on an annual basis.

The Company entered into an amending agreement (an "Amending Agreement") with Golden Valley dated as of May 21, 2014, amending the terms of the Management Agreement. The Amending Agreement confirms, among other things, that:

- if there is a change of control of the Company and Golden Valley terminates the Management Agreement within six months of the change of control;
- if the Company terminates the Management Agreement within twelve months of the change of control; or
- if the Company and Golden Valley agree to terminate the Management Agreement within six months of the change of control.

Then the Company will pay Golden Valley a termination payment equal to the aggregate of the amounts that would have been payable by the Company to Golden Valley as the fee for the period from the date of the Amending Agreement to the date on which the Management Agreement is terminated if payment of the fee had not been suspended during such period.

***16- SALE OF MALARTIC CHL PROSPECT***

On March 19, 2015, the Company entered into an acquisition agreement with Canadian Malartic GP, a general partnership, Yamana and Agnico Eagle 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 Eagle and a 3% net smelter return royalty on the Project. Based on the closing prices of the shares of Yamana ($4.74) and Agnico Eagle ($36.29) on the TSX the day before the closing of the transaction 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.

After this transaction the Company retains the following:

a) Shares in Yamana and Agnico Eagle for a value of $33.5 million (as at March 19, 2015)

b) a 3% net smelter return royalty on the Project

c) a 2% net smelter return royalty on a portion of the Gouldie gold deposit at the Canadian Malartic mine

d) its 100% interest in the Luc Bourdon and Bourdon West Prospects in the McFauld's Lake ("Ring of Fire") area, Ontario.

The Company has engaged Maxit Capital LP as its financial advisor and Getz Prince Wells LLP as its legal advisor in connection with this transaction. The Company has elected to settle the $367,500 advisory fees payable to Maxit Capital LP by the issue of 100,791 common shares. The common shares were issued in April 2015.

(In Canadian dollars)

## *16- SALE OF MALARTIC CHL PROSPECT* (continued)

| | 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 | (443,953) |
| Fair value of consideration received net of transaction costs | 29,671,004 |
| Less Book value of exploration and evaluation asset sold | (136,270) |
| Gain on the sale of the Malartic CHL Prospect (no tax impact) reported on March 31, 2015 | 29,534,734 |
| Variation in Transaction costs | 1,890 |
| Success fee payable as a result of the sale of the Malartic CHL prospect | (4,290,000) |
| Gain on the sale of the Malartic CHL Prospect (no tax impact) reported on June 30, 2015 | 25,246,624 |

(1) As per securities regulations, shares received from Agnico Eagle and Yamana are subject to a mandatory retention period of four months and one day.

## *17 - ADDITIONAL CASH FLOW INFORMATION*

Non-cash activities:

| | June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | $ | $ |
| Accounts payable and accrued liabilities included in exploration and evaluation assets | 184 | 2,091 |
| Success fee payable included in gain on disposal of exploration and evaluation assets | - | 4,290,000 |
| Common shares issued in consideration of payment of transaction costs included in gain on disposal of exploration and evaluation assets | - | 367,500 |
| Common shares received in consideration of disposal of exploration and evaluation assets net of the fair value of the retention period | - | 30,114,957 |

### *18 - RELATED PARTY TRANSACTIONS*

#### 18.1 - Transactions with the parent company

During the six month period ended June 30, 2016, the Company was charged $48,000 for services received from Golden Valley pursuant to the Management Agreement ($48,000 for the six months ended June 30, 2015). For more information about the management fees refer to Note 15 - Management Fees .

In addition, pursuant to the terms of the Management Agreement, Golden Valley has agreed to provide the Company with the services of a qualified geologist at an hourly charge equal to the hourly charge to Golden Valley, plus 10%. During the six months period ended June 30, 2016 the Company incurred geological fees in the amount of $4,419 ($6,213 for the period ended June 30, 2015) of this amount $3,744 was included in exploration and evaluation assets. As at June 30, 2016, the Company had net indebtedness of $5,060 ($3,430 at June 30, 2015) to Golden Valley of which $468 ($2,091 at June 30, 2015) were for geological services.

In April 2016, after obtaining approval from the Exchange, the Company acquired from Golden Valley a 2% NSR on the Bogside Prospect, the Bogside NW and Riverside Prospects for $11,692.92.

#### 18.2 - Transactions with key management

Key management personnel of the Company are the members of the board of directors, as well as the chief executive officer, the president and the chief financial officer. In accordance with its Executive Compensation Policy the Company has, during the six month period ended June 30, 2016, paid or accrued salaries of $231,055 ($124,000 for the same period in 2015) to its executive officers and meeting fees of $60,000 ($38,629 for the same period in 2015) to board members. In addition, the Company has made contributions of $64,826 ($38,291 as of June 30, 2015) to mandatory governmental benefit plans in relation with salaries paid and taxable benefit calculated on exercise of incentive stock options.

In February and March 2016, the Company granted 583,365 RSU (of which 145,841 vested immediately) to officers, directors and consultant for a value of 514,153. The market price of the Company 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. For more information about the RSU granted and the Company's RSU Plan refer to Note 11.3.

At June 30, 2015, the Company also had bonus of $30,000 payable to one officer and two consultants, who are officers of Golden Valley.

The president is using the Toronto Property as an office for the Company and is being reimbursed the expenses related to the premises (rent and municipal taxes representing about $2,000 per quarter). During the six month period ended on June 30, 2016, the Company has paid $3,749 for the Toronto office ($3,735 for the period ended June 30, 2015).

During the six month period ended on June 30, 2016, 458,975 incentive stock options were exercised. The exercise prices of the options were as follows: 1,059 at $2.18 and 457,916 at $2.50. The share price the day before the exercises was $3.00 and $3.05 for the $2.18 options and $5.67 for the $2.50 options.

During the period ended on June 30, 2015, 330,000 incentive stock options were exercised by two former directors, one officer and two consultants. The exercise prices of the options were as follows: 225,000 at $2.50 and 105,000 at $0.55. The share price the day before the exercises was $3.65 in all cases.

The Company entered into an agreement with 2973090 Canada Inc., a company owned and controlled by Glenn J. Mullan, the Company's CEO, to provide for payment of success fees to some or all of the Company's management upon completion by the Company of certain types of transactions. Total amount payable under this agreement has been determined to be $4,290,000. No disbursement has been made under this agreement as of June 30, 2015. On March 11, 2016, the Board made the decision to terminate the agreement (as of the termination date a total of $132,890 had been paid), for more information on this agreement refer to Note 20.

**18.2 - Transactions with key management (continued)**

Other than those mentioned above, the Company did not pay any other compensation nor any other form of employment benefits or perquisites to its Directors and officers in the periods ended June 30, 2016 and 2015.

## *19 - COMMITMENT*

The Company has no commitments other than those disclosed in these notes.

## *20 - MANAGEMENT SUCCESS FEES AGREEMENT*

On May 27, 2014, (as subsequently amended and restated and further amended) the Company entered into a Management Success Fees Agreement with 2973090 Canada Inc., a company of which Glenn J. Mullan is the sole shareholder, director and officer, as the "Trustee" and the CEO of the Company. This agreement provides that upon the Company completing a transaction or series of transactions (in either case, a "Transaction") pursuant to which:

*Management success fees agreement* (continued)

a) the Company is acquired by or combined with a third party,

b) a third party acquires any of the Company's assets or operations,

c) the Company completes an equity or debt financing that meet particular thresholds, subject to Exchange approval, or

d) there is a change of control of the Company.

The Company will get an independant determination of the value of the Transaction based on the value of the consideration received by the Company or its shareholders for the shares or assets subject to the Transaction. Once the value of the transaction has been determined, the Company will pay to the Trustee a success fee (the "Success Fee") which the Trustee will then allocate among the members of the Company's management (including its President, Chief Executive Officer and its Chief Financial Officer) and/or its key consultants. After consultation with the Company's Compensation and Corporate Governance Committee, the Trustee will have sole discretion to determine how the Success Fee is to be allocated. The amount of the Success Fee is to be based on the value of the Transaction.

Following the sale of the Malartic CHL Property, the Board of Directors and the Trustee opened discussions which resulted, on May 16, 2015, in a second amendment to the Management Success Fees Agreement. On May 22, 2015, the Board of Directors approved the Management Success Fees Agreement by virtue of the sale of the Malartic CHL Prospect, and established the amount of the Success Fee payable with respect to the sale to $4,290,000 of which $3,500,000 of the Success Fee is payable in one or more payments, from time to time as and when the Company has the funds available to do so, as determined by its Board of Directors, in accordance with the Management Success Fees Agreement. A first tranche of $75,000 was paid in August 2015 and a second tranche of $42,000 in November 2015. The Company and the Trustee have agreed, however, that portions of the remaining $790,000 (the "Contingent Amount") will become payable in the same way but only as Proven and Probable Reserves are established on the Malartic CHL Project in accordance with National Instrument 43-101, provided that if the Company undergoes a Change of Control (as defined in the Management Success Fees Agreement), any remaining portion of the Contingent Amount that has not already become payable will be paid on the Change of Control.

*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 (including an amount of $15,890 paid in January 2016) 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 has been reversed in the first quarter of 2016.