

ABITIBI ROYALTIES INC.



Management's Discussion and Analysis
for the second quarter ended June 30, 2012.

Introduction

The following Management's Discussion and Analysis ("MD&A") reviews the financial position and results of operations of Abitibi Royalties Inc. (TSXV: RZZ, hereinafter "Abitibi Royalties" or the "Company") for the second quarter ended June 30, 2012. It should be read in conjunction with the unaudited financial statements and notes thereto for the quarter ended June 30, 2012, and with the audited financial statements for the nine month period ended December 31, 2011 and related notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board (IASB). All these documents can be viewed through the internet at the SEDAR website (www.sedar.com) by accessing the Company's issuer profile.

All figures are in Canadian dollars unless otherwise specified.

The technical content in this MD&A has been prepared under the supervision of Glenn J. Mullan, P. Geo. (OGQ and APGO (Temporary)) who is a "Qualified Person" as such term is defined in National Instrument 43-101.

The following information is prepared as at August 29, 2012.

Forward-Looking Statements

This document contains certain forward-looking statements. In some cases, words such as "plans", "expects", or "does not expect", "budget", "scheduled", "estimates", "forecasts", "anticipate" or "does not anticipate", "believe", "intend" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur, be achieved or continue, have been used to identify these forward-looking statements. These forward-looking statements are subject to a variety of risks and uncertainties beyond the Company's ability to control or predict and are not to be interpreted as guarantees for future performance. These forward-looking statements could cause actual events or results to differ materially from those anticipated in such forward-looking statements. All forward-looking statements speak only as of the date hereof and, except as required by law, the Company does not undertake any obligation to update or publicly release any revisions to such forward-looking statements to reflect events, circumstances, or changes in expectations after the date hereof. Accordingly, readers should not place undue reliance on such forward-looking statements.

COMPANY OVERVIEW, NATURE OF OPERATIONS, AND OVERALL PERFORMANCE

The Company was incorporated on February 18, 2010, pursuant to the *Business Corporations Act* (British Columbia) as a wholly owned subsidiary of Golden Valley Mines Ltd. (“**Golden Valley**”), a Canadian public corporation with an office located in Val-d’Or, Québec, Canada, involved, together with its various subsidiaries, in initial grassroots exploration projects.

In 2011, as part of a plan of arrangement (the “**Arrangement**”) Golden Valley transferred certain of its properties and carried interests in certain properties to the Company along with a \$600,000 cash infusion against the issuance of 8,701,000 common shares and subsequently, distributed to its shareholders, by way of a dividend, a part of its holding in the Company’s capital stock. As a result of the Arrangement Abitibi Royalties became a reporting issuer in Alberta, British Columbia, Ontario and Québec. Abitibi Royalties is considered a “venture issuer” as such term is defined by applicable securities legislation. Since July 15, 2011 (the “**Trading Date**”) the Company’s common shares are trading on the TSX Venture Exchange (the “**Exchange**”) under the symbol RZZ.

The business objectives of the Company are to hold title and to promote and develop certain advanced projects, and to acquire, manage, and promote, royalty interests by capturing the upside potential inherent to the various stages of the mining sector, while limiting the risks related to the difficulties in assessing the rate of success and accurately predicting the costs for exploration, development, and mine operation.

Property Interests

Malartic CHL Property

The Malartic CHL Property was acquired through staking by Golden Valley in 2006 and is located immediately east of the Canadian Malartic Mine operated by Osisko Mining Corporation (“**Osisko**”), including the proposed South Barnat open pit. The Malartic CHL Property covers a number of known mineralized zones including the historic Shaft zone and Porphyry 12 zones hosted in the Malartic CHL Porphyry Intrusion (located within the Cadillac fault), the deep Norrie zone (located approximately 1500 metres east of the known eastern limit of Osisko’s Canadian Malartic deposit. The zone straddles the boundary between the Malartic CHL Property and the Canadian Malartic Property, the Mammoth zone (is the eastern extension of the Barnat zone) and further along strike to the east, the Jeffrey zone (located some 800 metres east of the Mammoth zone).

Golden Valley and Osisko entered into an option agreement pursuant to which Osisko was granted an option to acquire a 70% interest in the Malartic CHL property (the “**Malartic Option**”) and which provided, among other things, that Osisko incur \$2 million in exploration expenditures and pay an aggregate \$150,000 in cash. Pursuant to an Amended and Restated Transfer and Assignment and Assumption Agreement dated March 31, 2011 (the “**Malartic Agreement**”), among Abitibi Royalties, Golden Valley, and Osisko, Golden Valley’s interest in the property was assigned to Abitibi Royalties. During the quarter ended September 30, 2011, Osisko provided notice to the Company of its intent to exercise the Malartic Option and as a result, the Company and Osisko are deemed to have entered into a joint venture agreement in respect of the Malartic CHL

Property. The Company retains a 30% free carried interest in the Malartic CHL property with no further expenditure requirements until it achieves commercial production. For details of the expenditures made on this property by Osisko, and the anticipated timing and costs to take the Malartic CHL Property to the next stage of the project plan, please refer to Osisko's continuous disclosure documents available for viewing by the public through the internet at the SEDAR website (www.sedar.com) by accessing Osisko's issuer profile.

On January 17, 2012 the Company announced the results of the technical audit completed by Micon International Limited ("Micon") on the internal mineral resource estimate prepared by Osisko on the Jeffrey Zone, which form part of the Malartic CHL Property. Details of the results of this audit can be found in the Company's news releases of January 17, 2012 and March 2, 2012. Further details can also be accessed from the technical report entitled "A Review of Osisko Mining Corporation's Mineral Resource Estimate for the Jeffrey Zone, Malartic CHL Joint Venture Property, Val-d'Or, Quebec" dated March 1, 2012 (the "Report") by accessing Abitibi Royalties' issuer profile through the internet on the SEDAR website at www.sedar.com.

Canadian Malartic 2% NSR

Also pursuant to the Malartic Agreement, Golden Valley assigned to Abitibi Royalties a 2% net smelter royalty interest (the "NSR") on a claim block originally acquired by Golden Valley through staking and subsequently sold to Osisko. The NSR is located on a single claim held by Osisko; such claim is located just to the south of the Canadian Malartic main pit, and covers the historic Charlie Zone. At this time, there is no production on this claim block, and the Company does not receive any revenue from this NSR.

Luc Bourdon and Bourdon West Prospects

The Luc Bourdon and Bourdon West Prospects (the "**Bourdon Prospects**") are the object of an option agreement in favour of White Pine Resources Inc. ("**White Pine**") and Noront Resources Ltd. ("**Noront**") (together, the "**Optionees**") pursuant to which each of the Optionees can earn a 35% interest in the Bourdon Prospects upon incurring an aggregate of \$5,000,000 in exploration expenditures (the "**Bourdon Prospects Option**"). Should the Bourdon Prospects Option be exercised, the Company will retain a 30% free carried interest in the Bourdon Prospects, with no further expenditure requirements until the Bourdon Prospects achieve commercial production. The Company acquired the Bourdon Prospects from Golden Valley pursuant to an Amended and Restated Transfer, Assignment, and Assumption Agreement dated March 30, 2011 among Abitibi Royalties, the Optionees, and Golden Valley (the "**Bourdon Agreement**"). White Pine is the Operator on this property.

The Bourdon Prospects were acquired by Golden Valley in 2007 by staking and are located in the James Bay Lowlands region, Ontario. There is currently no production on this property. Pursuant to an Amended and Restated Amending Agreement the Company and the Optionees agreed to extend to October 10, 2013 the time by which the Optionees must incur an aggregate \$5,000,000 in exploration expenditures. Subsequently, the

Company was advised that the Optionees engaged the services of a geophysical consultancy firm to complete a geophysical interpretation over the Bourdon West claims with the objective of defining new drill targets. For additional details of the expenditures made on this property by the Optionees, and the anticipated timing and costs to this property to the next stage of the project plan, please refer to the Optionees' continuous disclosure documents available for viewing by the public through the internet at the SEDAR website (www.sedar.com) by accessing their issuer profiles.

Available Funds:

The following table summarizes the expenditures anticipated by the Company, required to achieve its business objectives during the 12 months following the Trading Date:

Principal purpose		Planned	Spent to date	Balance
Fees pursuant to the Management Agreement with Golden Valley	(1)	\$ 109,368	\$ 92,000	\$ 17,368
Other general & administrative expenses	(2)	\$ 75,504	\$ 75,504	\$ -
Unallocated working capital	(3)	\$ 415,128	\$ 97,645	\$ 317,483
Total		<u>\$ 600,000</u>	<u>\$ 265,149</u>	<u>\$ 334,851</u>

- 1) See "Contractual Obligations" below.
- 2) Other general and administrative expenses for 12 months following the Company's listing date are comprised of the following estimates: geological consulting \$10,000; claims maintenance \$504; regulatory and transfer agent fees \$25,000; professional services including legal and audit fees \$30,000; travel, shareholder relations and related expenses \$5,000; and miscellaneous general expenses \$5,000.
- 3) Exploration expenditures of \$236,900 are recommended on the Bourdon Prospects. This work program is to be carried out by the Optionees (see "Property Interests" above). In the event, however, that the Optionees do not fulfill this obligation, the Company will have sufficient funds to carry out the work program itself.

Results of Operations

During the six month period ended June 30, 2012 the Company incurred a loss of \$116,998 compared to a loss of \$ 554 in the six month period ended June 30, 2011. Management fees in the amount of \$48,000 paid to Golden Valley pursuant to the Management Agreement (as hereinafter defined in the "Contractual Obligations" section), and professional fees of \$56,465 (refer to Summary of Quarterly Results below) were the two major components of this loss. There are no operations to report for the quarters prior to the Trading Date (July 15, 2011).

Summary of Quarterly Results

The following table presents selected quarterly information for the last six quarters (no expenses were incurred in the quarters prior to March 31, 2011):

	(1) Mar 31, 2011	(2) Jun 30, 2011	(3) Sep 30, 2011	(4) Dec 31, 2011	(5) Mar 31, 2012	(6) Jun 30, 2012
	\$	\$	\$	\$	\$	\$
Total Revenues	-	-	-	-	-	-
Net Loss	(486)	(68)	(1,581,699)	(43,981)	(55,546)	(61,452)
Net Loss per shares						
Basic & diluted	(0.001)	-	(0.228)	(0.005)	(0.006)	(0.007)

- (1) Legal fees of \$358 and office expenses of \$128 amounted to a loss of \$486.
- (2) Bank fees of \$68 were the only expenses incurred in this quarter.
- (3) Stock based remuneration of \$1,536,100 represented the largest expense for the quarter. The stock based remuneration is the fair value of the 860,000 stock options granted to directors, officers and consultants by the Company, calculated using the Black-Scholes model as of September 29, 2011. Other expenses were: management fees of \$20,000 paid to Golden Valley, professional fees of \$23,100 (made of audit, tax and accounting fees of \$5,600, external legal counsel fees of \$8,345 and Exchange, regulatory and transfer agent fees of \$9,155), insurance premiums (office expenses) of \$2,480 and bank fees of \$18.
- (4) Management fees of \$24,000 paid to Golden Valley, professional fees of \$9,901 (made of external legal counsel fees of \$2,693 and exchange, regulatory and transfer agent fees of \$7,208), office expenses of \$8,048 (comprised of insurance premium of \$2,976, web site development cost of \$5,020 and communication expense of \$52), travel expenses of \$2,011 and bank fees of \$21.
- (5) Management fees of \$24,000 paid to Golden Valley, professional fees of \$27,665 (made of audit and accounting fees of \$14,000, external legal counsel fees of \$3,886 and exchange, regulatory and transfer agent fees of \$9,779), office expenses of \$3,437 (comprised of insurance premium of \$2,976, and communication expense of \$461), travel expenses of \$375 and bank fees of \$69.
- (6) See description of results for second quarter ended June 30, 2012 below:

During the second quarter ended June 30, 2012 the Company incurred a loss of \$61,452 or \$0.007 per share. The loss was comprised of: i) payment of \$24,000 in management fees to Golden Valley pursuant to the Management Agreement; ii) professional fees of \$28,800 (audit, tax and accounting fees of \$6,000, legal fees from external counsel of \$7,442 and Exchange, regulatory and transfer agent expenses of \$15,358); iii) office expenses of \$7,254 (comprised mainly of insurance premiums of \$2,976, and communication expenses of \$3,838); iv) advertising expenses of \$542; v) travel expenses of \$837; and vi) bank fees of \$19.

The Company did not become a reporting issuer under applicable securities legislation until completion of the Arrangement on July 19, 2011. Accordingly, the Company was

not required to and did not prepare quarterly statements for any period prior to the quarter ended June 30, 2011.

Liquidity and Capital Resources

As at June 30, 2012, the Company had cash of \$ 334,851 and working capital of \$342,143 compared to cash of \$456,278 and working capital of \$485,093 at December 31, 2011.

The Company's objectives in managing its capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may issue new shares to improve its financial performance and flexibility. The Company's capital is composed of its shareholders' equity. The Company is not subject to any externally imposed capital requirements. The Company has not issued any dividends.

As at June 30, 2012, shareholders' equity amounted to \$423,691 compared to \$540,689 at December 31, 2011. Shareholder's equity was reduced as a result of the \$116,998 loss incurred in the six month period ended June 30, 2012 (refer to Results of Operations and Summary of Quarterly Results above). The Company's investment policy is to keep its cash treasury on deposit with a Canadian chartered bank. Provided that no extraordinary circumstances arise, the Company anticipates it has enough capital resources to satisfy its general working capital requirements for the next twelve-month period.

Contractual Obligations

Golden Valley and the Company entered into a Management and Administrative Services Agreement dated October 1, 2010 (the "**Management Agreement**"), pursuant to which Golden Valley has agreed to provide certain administrative, management and financial services to the Company, such as office space and administrative support, including the use of Golden Valley's in house legal counsel, for day to day general inquiries, services of a chief financial officer and investor relations services in consideration of a fee of \$96,000 per year.

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.

Off balance Sheet Arrangements

The Company has no off balance sheet arrangements as at June 30, 2012 or as at the date of this MD&A.

Commitments and Proposed Transactions

As of the date of this MD&A, there are no undisclosed pending proposed transactions that would materially affect the performance or operation of the Company.

Related Party Transactions

The following transactions took place among the Company and Golden Valley:

In accordance with the terms of the Management Agreement the Company has paid management fees of \$48,000 for the six months ended June 30, 2012. For additional details with respect to the Management Agreement please see "Contractual Obligations" above.

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 rate equal to the hourly charge to Golden Valley, plus 10% ("**Geological Fees**"). During the six month period ended June 30, 2012 the Company incurred Geological Fees in the amount of \$5,176 (\$3,026 for the first quarter and \$2,150 for the second quarter); such amount was included in exploration and evaluation assets (there were none for the period ended June 30, 2011). The Company did not pay any compensation or any other form of employment benefits or perquisites to its directors and officers in the six month period ended June 30, 2012.

CAPITAL STOCK

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value, issuable in one or more series with restrictions as determined by the Company's Board of Directors.

Issued and Outstanding

The following details the issued and outstanding securities of the Company as at the date of this MD&A:

	<u>Total outstanding</u>	<u>Escrowed</u>
Common shares	8,701,000	3,463,147
Preferred shares	Nil	Nil
Incentive stock options	860,000	Nil

Incentive Stock Options

On September 29, 2011, the Company granted incentive stock option (the "**Options**") to directors, officers and consultants pursuant to its Amended and Restated 2010 Stock Option Incentive Plan to purchase an aggregate 860,000 of the Company's common shares. The Options are exercisable at a price of \$2.50 until September 29, 2016 and vested immediately.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable, and accounts payable and accrued liabilities. The Company's management manages the Company's financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes. The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk relates to the risk that one party to a financial instrument will not fulfill some or all of its obligations, thereby causing the Company to sustain a financial loss. The main risk related to credit risk through cash which is managed by dealing with one reputable financial institution.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has the financial resources such as bank loans for a sufficient authorized amount. The Company establishes budget and cash estimates so as to ensure it has the necessary funds to fulfill its obligations.

Accounts payable and accrued liabilities are due within less than 90 days.

The fair value of these financial instruments approximates their carrying value given their short-term maturity date. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

At June 30, 2012, the Company had cash in hand amounting to \$334,851 and sales taxes receivable of \$7,859 from Canada Revenue Agency and Quebec Revenue Agency combined. The Company had accounts payable and accrued liabilities of \$12,876, of which \$3,037 was payable to Golden Valley, all of which are current liabilities of the Company. See also "Liquidity and Capital Resources" above.

CRITICAL RISKS INHERENT TO THE COMPANY'S BUSINESS

Mineral exploration and mining involve considerable financial and technical risk. Substantial expenditures are usually required to establish ore reserves, to evaluate metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to assure that the current exploration programs planned by the Company or its joint venture partners will result in profitable commercial mining operations. Unusual or unexpected geological formations, unstable ground conditions that could result in cave-ins or land slides, floods, power outages or fuel shortages, labour disruptions, fires, explosions, and the inability to obtain suitable or adequate machinery, equipment or labour are risks associated with the conduct of exploration programs and the operation of mines.

The operations of the Company require licenses and permits from various governmental and non-governmental authorities. There can be no assurances that the Company will be able to obtain all necessary licenses and permits required to carry out exploration, development and mining operations for its proposed projects.

Investing in the Company, at this early stage of its development, is of a highly speculative nature. The Company was only recently listed, It has no history of earnings,

and will not generate earnings or pay dividends in the foreseeable future. There can be no assurance that the Company's shares will continue to meet the Exchange's continued listing requirements. The lack of an active public market could have a material adverse effect on the price of the Company's shares.

The directors and officers of the Company will only devote part of their time and attention to the affairs of the Company and some of them are or will be engaged in other projects or businesses that could give rise to potential conflicts of interest.

The Company may be liable for environmental contamination and natural resource damages relating to properties that it currently owns, operates or have an interest in, or at which environmental contamination occurred while or before it owned, operated or acquired an interest in the properties. No assurance can be given that potential liabilities for such contamination or damages caused by past activities at these properties do not exist.

The Company does not have insurance to adequately protect itself against all or certain risks associated with mineral exploration. Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards, these procedures do not guarantee the Company's title. The Company's claims may be subject to unregistered agreements or transfers or third party and native land claims and title may be affected by undetected defects. There is no assurance that the interests of the Company in its properties may not be challenged or impugned.

ADDITIONAL INFORMATION

Additional information about the Company may be obtained on SEDAR at www.sedar.com by accessing the Company's issuer profile.