



**Golden Valley Mines Ltd.**  
**Mines de la Vallée de l'Or ltée**

**Unaudited Interim Consolidated Financial Statements,  
as at March 31, 2011**

Golden Valley Mines Ltd.  
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**Golden Valley Mines Ltd**  
**as at March 31, 2011**  
(unaudited)

**Interim Consolidated Balance Sheets**

	Notes	March 31, 2011 CAN\$	December 31, 2010 CAN\$	January 1, 2010 CAN\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		1,917,190	2,759,136	674,030
Cash held for exploration expenses	5	335,042	615,042	1,200,000
Short-term investments	6	1,797,437	1,756,825	2,882,419
Fees and other accounts receivable		78,849	179,098	164,989
Sales taxes recoverable		277,008	199,623	111,353
Tax credits and credit on duties receivable		275,919	275,919	361,655
Prepaid expenses		70,038	65,007	26,712
		<u>4,751,483</u>	<u>5,850,650</u>	<u>5,421,158</u>
<b>Non-current assets</b>				
Property and equipment	7	132,486	140,038	132,175
Exploration and evaluation assets	8	<u>14,609,197</u>	<u>14,173,766</u>	<u>13,294,901</u>
		<u>14,741,683</u>	<u>14,313,804</u>	<u>13,427,076</u>
<b>Total assets</b>		<u>19,493,166</u>	<u>20,164,454</u>	<u>18,848,234</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities:				
Related companies	15.1	25,443	25,209	46,932
Others	10	317,549	489,623	231,493
Other liabilities			128,960	296,470
<b>Non-Current liabilities</b>				
Deferred income taxes		<u>1,532,137</u>	<u>1,354,188</u>	<u>3,191,937</u>
<b>Total liabilities</b>		<u>1,875,129</u>	<u>1,997,980</u>	<u>3,766,832</u>
<b>EQUITY</b>				
Capital stock	11.1	19,830,013	19,830,013	16,750,206
Contributed surplus		1,829,706	1,825,856	1,447,273
Deficit		<u>(4,041,682)</u>	<u>(3,489,395)</u>	<u>(3,116,077)</u>
<b>Total equity</b>		<u>17,618,037</u>	<u>18,166,474</u>	<u>15,081,402</u>
<b>Total liabilities and equity</b>		<u>19,493,166</u>	<u>20,164,454</u>	<u>18,848,234</u>

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

These consolidated financial statements were approved and authorized for issue by the Board of Director on June 29, 2011.

*"Glenn J. Mullan"*

Glenn J. Mullan  
Director

*"Blair F. Morton"*

Blair F. Morton  
Director

**Golden Valley Mines Ltd**  
**For the three-month period ended March 31, 2011**  
(unaudited)

**Interim Consolidated Statement of Comprehensive Income**

	Notes	Three-month period ended	
		March 31, 2011 CAN\$	March 31, 2010 CAN\$
<b>Revenues</b>			
Geological fees		18,321	1,069
		<u>18,321</u>	<u>1,069</u>
<b>Operating Expenses</b>			
Salaries, employee benefits and office expenses	12.1	176,748	95,384
Management fees		8,250	8,250
Director's fees			30,000
Professional and legal fees		131,074	76,700
Advertising and exhibitions		75,656	149,158
Travelling		48,755	27,741
Impairment exploration and evaluation assets		8,757	
Income taxes			2,196
Amortization of property and equipment		9,215	13,324
		<u>458,455</u>	<u>402,753</u>
<b>Operating loss</b>		<u>(440,134)</u>	<u>(401,684)</u>
Finance income and costs	13	33,477	5,437
Foreign exchange loss		(2,348)	
Changes in fair value of held-for-trading financial assets		(94,291)	(16,238)
		<u>(63,162)</u>	<u>(10,801)</u>
<b>Loss before income taxes</b>		<u>(503,296)</u>	<u>(412,485)</u>
Deferred income taxes		77,266	28,276
<b>Loss and total comprehensive loss for the period</b>		<u><u>(580,562)</u></u>	<u><u>(440,761)</u></u>
<b>Loss per share</b>			
Basic and diluted loss per share		(0.008)	(0.007)

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

**Golden Valley Mines Ltd**  
**For the three-month period ended March 31, 2011**  
(unaudited)

**Interim Consolidated Statement of Changes in Equity**

	Common shares outstanding Number	Capital Stock CAN\$	Contributed Surplus CAN\$	Retained Deficit CAN\$	Total Equity CAN\$
<b>Balance at January 1, 2010</b>	63,936,138	16,750,206	1,447,273	(3,116,077)	15,081,402
Share issue expense:		(370,800)			(370,800)
Share-based payments:			10,032		10,032
Transactions with owners	63,936,138	(370,800)	10,032	-	(360,767)
Loss and total comprehensive loss for the period				(412,486)	(412,486)
<b>Balance at March 31, 2010</b>	63,936,138	16,379,406	1,457,305	(3,528,563)	14,308,149
Units issued by private placement	6,666,664	2,999,999			2,999,999
Shares issued by flow-through private placement	992,003	486,081			486,081
Share issue expense:		(35,474)			(35,474)
Share-based payments:			372,401		372,401
Transactions with owners	71,594,805	3,450,607	372,401	-	3,823,008
Loss for the period				(513,119)	(513,119)
Loss and total comprehensive loss for the period				(513,119)	(513,119)
<b>Balance at March 31, 2011</b>	71,594,805	19,830,013	1,829,706	(4,041,682)	17,618,037

The accompanying notes are an integral part of the consolidated financial statement

**Golden Valley Mines Ltd**  
**For the three-month period ended March 31, 2011**  
(unaudited)

**Interim Consolidated Statement of Cash Flows**

	Three-month period ended	
	March 31, 2011 CAN\$	March 31, 2010 CAN\$
<b><i>OPERATING ACTIVITIES</i></b>		
Loss before income taxes:	(503,296)	(409,367)
Adjustments		
Amortization of property and equipment	9,215	13,324
Share based payments	3,851	6,915
Write-down of mineral properties	8,757	
Gain on investments disposed	(24,156)	
Changes in fair value of held for trading financial asset	94,291	16,238
Changes in non-cash working capital items:		
Fees and other accounts receivable	100,249	84,448
Sales taxes recoverable	(77,385)	(43,385)
Prepaid expenses	(5,031)	(1,618)
Accounts payable and accrued liabilities:	(171,840)	(45,789)
Cash flows from operating activities	<u>(565,345)</u>	<u>(379,234)</u>
<b><i>INVESTING ACTIVITIES</i></b>		
Cash held for exploration expenses:	280,000	141,057
Acquisition of short-term investments:	(2,246,870)	(18,604)
Disposal of short-term investments:	2,136,120	
Tax credit receivable		26,126
Exploration and evaluation assets:	(440,748)	(175,806)
Purchase of property and equipment	(5,103)	(4,405)
Cash flows from investing activities	<u>(276,601)</u>	<u>(31,632)</u>
<b>Net change in cash and cash equivalents</b>	<b>(841,946)</b>	<b>(410,866)</b>
Cash, beginning of period	<u>2,759,136</u>	<u>674,030</u>
Cash, end of period	<u><u>1,917,190</u></u>	<u><u>263,164</u></u>

**Cash transactions:**

Interest received	9,959	5,688
Interest paid	17	179
Amounts paid or received for interest are reflected as operating cash flow:		

**Additional cash flow information**

Amortization of property and equipment charged to exploration and evaluation assets	3,440	2,498
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The accompanying notes are an integral part of the interim consolidated financial statements.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**1. GOVERNING STATUTES AND PURPOSE OF THE ORGANIZATION**

The Corporation is still in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether its properties and projects contain ore reserves that are economically recoverable.

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

In 2010, the Corporation has formed three subsidiaries to hold advanced projects and/or projects that are peripheral to its core business plan (grassroots exploration) and/or outside of its main area of operations (Abitibi Greenstone Belt) and has made applications for the listing of their shares on the TSX Venture Exchange (the "Exchange"), namely:

(1) AbitibiRoyalties Inc. (which holds the Malartic CHL project, an option/joint venture project with Osisko Mining Corp. ("Osisko"), a 2% NSR on a claim vended to Osisko and adjacent to the Canadian Malartic deposit held by Osisko, and the Luc Bourdon and Luc Bourdon West Projects, an option/joint venture project with Noront Resources Ltd. and White Pine Resources Inc.), (2) Nunavik Nickel Mines Ltd. (which holds the Company's advanced nickel-copper-PGE projects situated in the Nunavik Region of Québec, including the Fortin property), and (3) Uranium Valley Mines Ltd. (which holds the Company's 40% interest in the Beartooth Island Project, a joint venture with Ditem Explorations Inc., and the Company's 50% interest in the Otish/Mistassini Project, a joint venture with Lexam VG Gold Inc. (formerly Lexam Explorations Inc.) and which is anticipated to hold other advanced uranium joint venture projects).

There can be no assurance that the reorganization will be accepted by the Exchange as proposed, or at all. In addition, completion of the proposed reorganization is subject to the approval of the Company's shareholders and the Supreme Court of British Columbia. Golden Valley will not, at this time, be making an application to list the common shares of Calone Mining Ltd., one of its subsidiaries, on the Exchange as previously announced.

**2. BASIS OF PREPARATION AND ADOPTION OF IFRS**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting Standards and International Financial Reporting Standards ("IFRS") 1, First-time Adoption of International Financial Reporting Standards, taking into account the accounting policies that the Corporation intends to adopt for its financial statements for the year ending December 31, 2011. Accordingly, these interim consolidated financial statements do not include all of the information required for full annual financial statements required by IFRS. The accounting policies set out below have been applied consistently to all periods presented in these unaudited interim consolidated financial statements except where the Corporation has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Corporation and effects of transition to IFRS are presented Note 17.1.

The condensed interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 17 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements and is considered material in understanding the interim consolidated financial statements.

The interim consolidated financial statements have been prepared on the historical cost basis except for the short-term investments in the balance sheet.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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Golden Valley Mines Ltd is the parent company of the following subsidiaries: Abitibi Royalties Inc., Calone Mining Ltd., Calone Mining Company (S.L.) Ltd., James Bay Gold Corp., Nunavik Nickel Mines Ltd., and Uranium Valley Mines Ltd. With the exception of Calone Mining Company (S.L.) Limited which is incorporate under the laws of Sierra Leone, Golden Valley Mines Ltd.'s other subsidiaries have all been incorporated under the Business Corporations Act (British Columbia).

The Corporation 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, Québec, J9P 0B9. Golden Valley Mines Ltd.'s shares are listed on the TSX Venture Exchange.

The consolidated financial statements for the reporting period ended March 31, 2011 (including comparatives) were approved and authorized for issue by the Board of Directors on June 29, 2011.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 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 the 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.

#### Financial Instruments

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Corporation. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

#### Consolidated Financial Statements (effective from January 1, 2013)

This new standard replaces IAS 27, Consolidated and Separate Financial Statements SIC-12, Consolidation—Special Purpose Entities. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

#### Disclosure of Interests in Other Entities (effective from January 1, 2013)

This new standard provides minimum disclosure requirements when a reporting entity holds an interest in other entities. This standard combines disclosures required for interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities, which were previously located in each applicable individual standard.

#### Fair Value Measurement (effective from January 1, 2013)

This new standard is meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

#### 3.2 Basis of consolidation

The Corporation's financial statements consolidate the accounts of Golden Valley Mines and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

#### Subsidiaries

Details of the Company's subsidiaries at March 31, 2011 are as follows:

Name of subsidiaries	Principal activity	Country of incorporation	Percentage of ownership	
			Interest and voting	Power held
Abitibi Royalties Inc	Mineral exploration in Canada	Canada	100%	100%
Nunavik Nickel Mines Ltd	Mineral exploration in Canada	Canada	100%	100%
Uranium Valley Mines Ltd	Mineral exploration in Canada	Canada	100%	100%
Calone Mining Company (S.L.) Ltd	Mineral exploration in Africa	Sierra Leone	99%	99%
Calone Mining Ltd	Mineral exploration in Africa	Canada	100%	100%
James Bay Gold Corp	Mineral exploration in Canada	Canada	100%	100%

#### 3.3 Jointly controlled assets and exploration activities

A jointly controlled asset involves joint control and offers joint ownership by the Corporation and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

Where the Corporation's activities are conducted through jointly controlled assets and exploration activities, the Corporation uses the proportionate consolidation method, whereby it recognizes its share of the jointly controlled assets, liabilities, related revenue and operating costs on a line-by-line basis in the consolidated financial statements.

The amounts of jointly controlled assets have been adjusted as necessary, as they conform with the Corporation's accounting policies.

#### 3.4 Foreign currency translation

The consolidated financial statements are presented in CAN dollars currency, which is also the functional currency of the parent company and all subsidiaries. The functional currency of the entities in the Corporation have remained unchanged during the reporting periods.

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

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.



## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### 3.5 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.

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 liabilities

Financial assets and financial liabilities are evaluated and subsequently recognized as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at their fair value and changes in fair value are recognized in profit or loss. Changes in fair value that are recognized in operations and realized and unrealized gains or losses, are presented under change in fair value of held-for-trading financial assets.

The Corporation's short-term investments, except listed shares and mutual funds fall into this category.

#### 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, exploration funds, guaranteed investment certificates, fees and other accounts receivable fall into this category of financial instruments.

Impairment charges are recognized in profit or loss

Reversals of impairment losses are recognized in other comprehensive income

#### 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 Corporation 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;
- 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. Receivables that are not considered to be individually impaired are reviewed for impairment in Corporations, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write-down is then based on recent historical counterparty default rates for each identified Corporation. Impairment of receivables are presented in profit or loss within Other operating expenses.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### Financial Liabilities

The Corporation's financial liabilities include trade accounts and accounts due to related parties. Financial liabilities are measured subsequently at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss within Finance costs.

#### Revenue recognition

Property option proceeds are credited to the cost of the related mineral property except that when the proceeds exceed the cost, the excess is credited to operations.

The geological fees 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.

Investment transactions are recorded on the transaction date and resulting revenues are recognized using the accrual method of accounting. Interim income is recognized based on the number of days the investment was held during the year. Dividends are recognized as of the ex-dividend date. Gains or losses on the disposal of investments are determined using the average cost method. Transaction costs related to the acquisition or disposal of investments are recognized in operations and presented under administrative expenses.

#### 3.6 *Basic and diluted loss per share*

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, at the date of issue of the potential ordinary shares.

For the purpose of calculating diluted loss per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding options and warrants as explained in Note 14.

#### 3.7 *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments with original maturities of three months or less, and that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 3.8 *Tax credits and credit on duties*

The Corporation is entitled to a refundable credit on duties for losses under the Mining Duties Act. This refundable credit on duties for losses is applicable on exploration costs incurred in the Province of Québec, since the Corporation intends to realize the value of its exploration and evaluation assets through sale.

Furthermore, the Corporation is entitled to a refundable tax credit for resources for mining companies on qualified expenditures incurred. In accordance with IAS 20, the credit on duties and the exploration tax credit have been applied against the costs incurred.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### 3.9 Property and equipment

Property and equipment are recognized at cost less accumulated depreciation and amortization and accumulated impairment losses.

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.

Costs of day-to-day servicing of property and equipment are recognized in profit or loss when incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are transferred to property and equipment under Mining assets under construction. Upon this transfer, 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. To date, neither the technical feasibility nor the commercial viability of a mineral resource has been demonstrated.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. 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. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The periods generally applicable are as follows:

	<u>Useful life</u>
Office furniture	5 years
Computer equipment	3 years
Leasehold improvement	5 years
Automotive equipment	3 years
Exploration equipment	3 years

The amortization 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 amortization expense is included in the carrying amount of an exploration and evaluation asset when it relates to a specific exploration and evaluation project. Depreciation of an asset ceases when it is classified as held for sale (or included in a disposal group that is classified as held for sale) or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**3.10 Exploration and evaluation expenditures and exploration and evaluation assets**

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential<sup>1</sup>. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

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 and refundable tax credits and credits on duties related to these expenses are charged to the cost of exploration and evaluation assets to the extent that management considers that it is probable that costs will be recovered through future development or the sale of the property. 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 expenses 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 3.12); 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 3.12) 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, however 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.

**3.11 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 statement of comprehensive income on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged to income as they are incurred.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**3.12 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. 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. To determine the value in use, management estimates expected future cash flows from each asset or cash-generating unit, and then determines an appropriate interest rate for the calculation of the expected present value of the cash flows.

The impairment loss reduces the asset or is charged pro rata on the basis of the carrying amount of each asset in the cash-generating unit.

All the assets are assessed whether there is any indication that an impairment loss recognized in prior periods may no longer exist. An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

**3.13 Employee benefits**

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) is recognized in the period in which the services are rendered and is not discounted.

**3.14 Deferred income taxes**

Deferred income 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 goodwill, or 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 joint ventures is not provided if reversal of these temporary differences can be controlled by the Corporation and it is probable that reversal will not 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 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 Corporation 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 income tax 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.

Under the provisions of tax legislation relating to flow-through shares, the Corporation is required to renounce tax deductions for expenses related to exploration activities to the benefit of the investors. Deferred income taxes relating to temporary differences are recorded when the renouncement forms are filed with the tax authorities.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### 3.15 *Equity*

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs.

##### **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 is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability 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 the liability.

Gains and losses on certain financial instruments are included in reserves for available-for-sale financial assets.

Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised.

Retained deficit includes all current and prior period retained profits or loss.

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

The Corporation operates equity-settled share-based remuneration plans (share options plans) for its eligible directors, officers, employees and consultants. None of the Corporation's plans 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. Where employees are rewarded using share-based payments, the fair value of the services rendered by the employees is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments 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.

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 share 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 share 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 share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are recorded as share capital. The accumulated charges related to the share options recorded in contributed surplus are then transferred to share capital.

## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### 3.17 Segmental reporting

The Corporation presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the Chairman and the Board of Directors. The Chairman and the Board of Directors have joint responsibility for allocating resources to the Corporation's operating segments and assessing their performance.

The Corporation's operating segments were determined based on the information reported to the Executive Chairman and the Board of Directors. This information is predominantly based on geographical areas which are managed separately. At March 31, 2011, all the Corporation's projects are at the exploration stage in Canada and in Africa, and are regarded as separate segments.

All intersegment transfers are carried out at arm's length prices. The accounting policies of the reportable segments are consistent with the accounting policies of the Corporation as a whole, except that:

- share-based payments
- profit and loss for exchange differences
- finance incomes and costs
- deferred income taxes

are not included in determining the operating loss of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial periods under review, this primarily applies to the Corporation's assets at the headquarters.

Segmental information is presented in accordance with IFRS 8 for all periods presented. IFRS 8 only requires disclosure of segmental information. There was no effect on the recognition and measurement of financial statement items upon transition to IFRS.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**4. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS 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. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

**Technical feasibility and commercial viability**

Decisions regarding the technical feasibility and commercial viability of the exploration and evaluation assets involves a number of assumptions, such as estimated reserves, resource price forecasts, expected production volumes and discount rates, which could all change significantly in the future.

**Impairment of property and equipment and 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 judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs must be determined. Identifying the cash generating units requires considerable management judgment. In testing an individual asset or cash generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Corporation's assets and earnings may occur during the next period.

The total impairment loss of the exploration and evaluation assets recognized in profit or loss amounts to \$8,757 for the three-month period ended March 31, 2011 and (\$1,353,303 for the year ended December 31, 2010. No reversal of impairment losses has been recognized for the reporting periods.



**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**Deferred taxes**

The assessment of availability of future taxable profits involves 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.

**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 share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Corporation is the Black-Scholes valuation model.

**5. CASH**

Cash includes the following components

	March 31, 2011 CAN\$	December 31, 2010 CAN\$	January 1, 2010 CAN\$
Cash at bank and in hand	2,252,232	3,374,178	1,874,030
Less: cash held for exploration expenses (a)	335,042	615,042	1,200,000
Cash	<u>1,917,190</u>	<u>2,759,136</u>	<u>674,030</u>

(a) The cash held for exploration expenses represents the balance on flow-through financing not spent according to the restrictions imposed by these financing arrangements. The Corporation has to dedicate these funds to mining properties exploration.

**6. SHORT-TERM INVESTMENTS**

	March 31, 2011 CAN\$	December 31, 2010 CAN\$	January 1, 2010 CAN\$
Guaranteed investment certificates	1,000,000		
2.8688% interest rate, maturing in March 2011		1,035,989	1,018,171
Money market investment funds	349,275	102,809	1,376,985
Mutual funds	102,774	102,373	101,542
Marketable securities in quoted mining exploration companies)	345,388	515,654	385,721
Short-term investments	<u>1,797,437</u>	<u>1,756,825</u>	<u>2,882,419</u>

As at March 31, 2011, short-term investments include guaranteed investment certificates from a Canadian financial institution bearing interest at 1% of which \$1,000,000 is cashable at any time without penalties until the maturity on March 1st, 2012.

## Golden Valley Mines Ltd

## Notes to the interim consolidated financial statements

7. *PROPERTY AND EQUIPMENT*

	<b>Property and equipment</b>				<b>Exploration equipment</b>				<b>Total</b> CAN\$
	Office furniture CAN\$	Computer equipment CAN\$	Leasehold improvement CAN\$	Total CAN\$	Automotive equipment CAN\$	Machinery and equipment CAN\$	Computer equipment CAN\$	Total CAN\$	
<b>Gross carrying amount</b>									
Balance at January 1, 2010	28,503	50,446	119,358	198,307	22,362	27,725		50,087	248,394
Additions	1,240	2,339	4,100	7,679	32,972		35,567	68,539	76,218
Balance at December 31, 2010	29,743	52,785	123,458	205,986	55,334	27,725	35,567	118,626	324,612
<b>Accumulated depreciation and impairment</b>									
Balance at January 1, 2010	10,414	34,540	36,220	81,174	13,362	21,683		35,045	116,219
Depreciation	4,874	16,313	30,249	51,436	13,135	2,417	1,367	16,919	68,355
Balance at December 31, 2010	15,288	50,853	66,469	132,610	26,497	24,100	1,367	51,964	184,574
<b>Carrying amount at December 31, 2010</b>	14,455	1,932	56,989	73,376	28,837	3,625	34,200	66,662	140,038
	<b>Property and equipment</b>				<b>Exploration equipment</b>				
	Office furniture CAN\$	Computer equipment CAN\$	Leasehold improvement CAN\$	Total CAN\$	Automotive equipment CAN\$	Machinery and equipment CAN\$	Computer equipment CAN\$	Total CAN\$	Total CAN\$
<b>Gross carrying amount</b>									
Balance at January 1, 2011	29,743	52,785	123,458	205,986	55,334	27,725	35,567	118,626	324,612
Additions		2,831		2,831			2,272	2,272	5,103
Balance at March 31, 2011	29,743	55,616	123,458	208,817	55,334	27,725	37,839	120,898	329,715
<b>Accumulated depreciation and impairment</b>									
Balance at January 1, 2011	15,288	50,853	66,469	132,610	26,497	24,100	1,367	51,964	184,574
Depreciation	1,220	330	7,665	9,215	1,374	604	1,462	3,440	12,655
Balance at March 31, 2011	16,508	51,183	74,134	141,825	27,871	24,704	2,829	55,404	197,229
<b>Carrying amount at March 31, 2011</b>	13,235	4,433	49,324	66,992	27,463	3,021	35,010	65,494	132,486

All depreciation and impairment charges (or reversals, if any) are included within Depreciation and amortization and Impairment of non-financial assets, and depreciation charges related to specific exploration projects are capitalized as Exploration and evaluation assets.

## Golden Valley Mines Ltd

## Notes to the interim consolidated financial statements

**8. EXPLORATION AND EVALUATION ASSETS**

The carrying amount can be analyzed as follows:

	Balance as at January 1, 2011 <u>CAN\$</u>	Additions <u>CAN\$</u>	Tax credits and credit on duties <u>CAN\$</u>	Impairment <u>CAN\$</u>	Balance as at March 31 2011 <u>CAN\$</u>
<b>All Canadian Properties (Combined)</b>					
Acquisition and claims maintenance	111,919	54,516			166,435
Drilling, excavation and related costs	737,553	81,591			819,144
Technical and field staff	582,652	136,731			719,383
Geophysics	127,749	91,172			218,921
Line cutting	137,966	41,145			179,111
Sampling and testing	176,354	48,246			224,600
Travel and transport	81,288	6,553			87,841
Program management and consultants	25,797				25,797
Professional Fees	246				246
Amortization, insurance and office expenses	43,507	10,953			54,460
Communications	3,323				3,323
Option payments received	(252,500)				(252,500)
Write-down of Mineral properties	(1,353,303)			-	(1,353,303)
Government assistance	(228,661)				(228,661)
Net expenses incurred during the year	193,890	470,907			664,797
Balance, beginning of the year	13,124,172				13,124,172
Balance, end of the year	<u>13,318,062</u>	<u>470,907</u>			<u>13,788,969</u>
<b>Sierra Leone Properties (held by the Corporation's subsidiary: Calone Mining (S.L.) Ltd.)</b>					
Acquisition and claims maintenance	290,398	(66,750)			223,648
Airborne Geophysics	182,125				182,125
Travel and transport	181,754	21,026			202,780
Remote Sensing Study	66,356				66,356
Technical and field staff	53,418	48			53,466
Professional Fees	73,438	8,681			82,119
Sampling and testing	2,695	1,320			4,015
Office expenses	3,590				3,590
Geophysics	1,320				1,320
Communications	610	199			809
Total	<u>855,704</u>	<u>(35,476)</u>			<u>820,228</u>
<b>Summary</b>					
Mining rights	402,317	(12,234)			390,083
Exploration	647,277	447,665			1,094,942
	<u>1,049,594</u>	<u>435,431</u>			<u>1,485,025</u>

## Golden Valley Mines Ltd

## Notes to the interim consolidated financial statements

	Balance as at January 1, 2010 CAN\$	Additions CAN\$	Tax credits and credit on duties CAN\$	Impairment CAN\$	Balance as at December 2010 CAN\$
<b>All Properties (Combined)</b>					
Acquisition and claims maintenance	177,549	(65,630)			111,919
Drilling, excavation and related costs	32,327	705,226			737,553
Technical and field staff	483,827	98,825			582,652
Geophysics	138,335	(10,586)			127,749
Line cutting	64,641	73,325			137,966
Sampling and testing	20,421	155,933			176,354
Travel and transport	53,338	27,950			81,288
Program management and consultants	11,667	14,130			25,797
Professional Fees		246			246
Amortization, insurance and office expenses	40,762	2,745			43,507
Communications		3,323			3,323
Option payments received		(252,500)			(252,500)
Write-down of Mineral properties				#####	(1,353,303)
Government assistance	(138,944)		(89,717)		(228,661)
Net expenses incurred during the year	883,923	752,987	(89,717)	(1,353,303)	193,890
Balance, beginning of the year	12,995,512				13,124,172
Balance, end of the year	13,879,435	752,987	(89,717)	(1,353,303)	13,318,062
<b>Sierra Leone Properties (held by the Corporation's subsidiary: Calone Mining (S.L.) Ltd.)</b>					
Acquisition and claims maintenance	90,690	109,008			199,698
Airborne Geophysics		182,125			182,125
Travel and transport	35,004	111,746			146,750
Remote Sensing Study		66,356			66,356
Technical and field staff	15,543	22,332			37,875
Professional Fees	27,431	18,576			46,007
Sampling and testing	266	2,163			2,429
Office expenses	1,464	662			2,126
Geophysics		1,320			1,320
Communications	332	(44)			288
Total	170,730	514,244			684,974
<b>Summary</b>					
Mining rights	268,239	43,378			311,617
Exploration	786,414	1,223,853	(89,717)	(1,353,303)	567,247
	1,054,653	1,267,231	(89,717)	(1,353,303)	878,864

All impairment charges (or reversals, if any) are included within Impairment of non-financial assets in profit or loss

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

**9. LEASES**

The Corporation's future minimum operating lease payments are as follows

	Minimum lease payments due			
	Within 1 year	1 to 5 years	After 5 years	Total
	CAN\$	CAN\$	CAN\$	CAN\$
March 31, 2011	38,904	12,331	nil	51,235
December 31, 2010	51,349	14,798	nil	80,945
January 1, 2010	49,531	41,276	nil	90,807

The Corporation leases its offices under a lease expiring in October, 2011.

The Corporation leases one vehicle under a lease expiring in June 2013.

Lease payments recognized as an expense during the reporting period amount to \$14,911 (\$12,383 in 2010). This amount consists of minimum lease payments. No surface payments or contingent rent payments were made or received. The Corporation's operating lease agreements do not contain any contingent rent clauses, renewal options or escalation clauses or any restrictions, such as those concerning dividends, additional debt, and further leasing. No sublease income is expected as all assets held under lease agreements are used exclusively by the Corporation.

**10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2011	December 31, 2010	January 1, 2010
	CAN\$	CAN\$	CAN\$
Trade accounts	236,412	374,965	200,530
Wage and salaries payable	34,917	31,517	13,495
Social securities costs	24,022	16,645	6,923
Current charges		41,830	10,545
Other	22,199	24,665	
Accounts payable and accrued liabilities	317,549	489,623	231,493

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

**11. EQUITY**

**11.1 Capital Stock**

The Capital Stock of Golden Valley Mines Ltd consists of fully paid ordinary shares

**Authorized**

Unlimited number of 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 Golden Valley Mines Ltd.

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

	March 31 2011	December 31 2010	March 31 2010
	Number of shares	Number of shares	Number of shares
Shares issued and fully paid			
Shares issued and fully paid, beginning of reporting period	71,594,805	63,936,138	63,936,138
Private placements		6,666,664	
Flow-through private placements		992,003	
Total shares issued and fully paid, end of reporting period	<u>71,594,805</u>	<u>71,594,805</u>	<u>63,936,138</u>

On December 20, 2010, the Corporation closed a non-brokered private placement consisting of 992,003 flow-through common shares (the "FT Shares") at a subscription price of \$0.62 per FT Share and of 6,666,664 units (the "Units") at a subscription price of \$0.45 per Unit, resulting in gross aggregate proceeds of \$3.61 million. Each Unit consists of one common share (a "Common Share") and one-half of a share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to acquire one additional common share of the Corporation at a price of \$0.75 per common share for a period of eighteen months following the "Closing Date". The Common Shares, the Warrants, and the FT Shares acquired by the places are subject to a hold period of four months plus one day from the Closing Date in accordance with applicable securities legislation. Directors and officers of the Corporation subscribed under the offering.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

**11.2 Warrants**

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

	<u>March 31, 2011</u>		<u>December 31, 2010</u>		<u>March 31, 2010</u>
	Number	Weighted	Number	Weighted	Number
	of warrants	average	of warrants	average	of warrants
		exercise price		exercise price	
		CAN\$		CAN\$	
Balance, beginning of reporting period	3,333,329	\$ 0.75			
Granted			3,333,329	\$ 0.75	
Balance, end of reporting period	<u>3,333,329</u>	<u>\$ 0.75</u>	<u>3,333,329</u>	<u>\$ 0.75</u>	<u>Nil</u>

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

	<u>March 31, 2011</u>		<u>December 31, 2010</u>		<u>March 31, 2010</u>
<u>Expiry date</u>	Number	Exercise price	Number	Exercise price	Number
		CAN\$		CAN\$	
June 20, 2012	333,329	\$ 0.75	333,329	\$ 0.75	
	<u>333,329</u>		<u>333,329</u>		<u>Nil</u>

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

**12. EMPLOYEE REMUNERATION**

**12.1 Salaries and employee benefits expense**

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

	2011	2010
	CAN\$	CAN\$
Salaries and group insurance	187,197	286,078
Share-based payments		259,241
Defined contribution State plans	14,274	48,854
	<u>201,471</u>	<u>594,173</u>
Less: salaries capitalized in exploration and evaluation asset:	<u>(71,725)</u>	<u>(191,540)</u>
Salaries and employee benefits expense	<u><u>273,196</u></u>	<u><u>785,713</u></u>

**12.2 Share-based payments**

The Corporation has in place a stock option plan under which officers, directors, 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 11,175,595 shares. The exercise price of each option is fixed by the Board of Directors, but 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, 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.

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

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

	March 31, 2011		December 31, 2010		March 31, 2010	
	Number of options	Weighted average exercise price CAN\$	Number of options	Weighted average exercise price CAN\$	Number of options	Weighted average exercise price CAN\$
Balance, beginning of reporting period	6,135,000	\$ 0.33	6,196,100	\$ 0.30	6,196,100	\$ 0.30
Granted			1,050,000	\$ 0.50		
Cancelled			(456,100)	\$ 0.28		
Expired			(655,000)	\$ 0.32		
Balance, end of reporting period	<u><u>6,135,000</u></u>	<u><u>\$ 0.33</u></u>	<u><u>6,135,000</u></u>	<u><u>\$ 0.33</u></u>	<u><u>6,196,100</u></u>	<u><u>\$ 0.30</u></u>



**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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

The table below summarizes the information related to share options as at March 31, 2011

Expiry date	Outstanding options			Exercisable options	
	Number of options	Weighted average exercise price	Remaining life (years)	Number of options	Weighted average exercise price
		CAN\$			CAN\$
June 16, 2011	300,000	0.31	0.21	300,000	0.31
September 27, 2011	1,505,000	0.30	0.49	1,505,000	0.30
August 6, 2012	600,000	0.30	1.35	600,000	0.30
February 7, 2013	795,000	0.35	1.86	795,000	0.35
June 27, 2013	425,000	0.36	2.24	425,000	0.36
December 22, 2013	800,000	0.20	2.73	800,000	0.20
June 22, 2014	300,000	0.30	3.23	300,000	0.30
August 6, 2014	360,000	0.30	3.35	360,000	0.30
December 22, 2015	1,050,000	0.50	4.73	975,000	0.50
	<u>6,135,000</u>	<u>0.33</u>		<u>6,060,000</u>	<u>0.33</u>

The weighted fair value of the granted options of \$0.15 (\$0.18 to \$0.41 in 2010) was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	March 31 2011	December 31 2010	March 31 2010
Average share price at date of grant	\$ 0.26	\$ 0.41	\$ 0.28
Dividends yield	0%	0%	0%
Expected weighted volatility of Golden Valley Mines Ltd's stock	89%	89%-93.42%	93.42%
Risk-free interest average rate	2.44%	2.44%-2.56%	2.56%
Expected average life	5 years	5 years	5 years
Average exercise price at date of grant	\$ 0.26	\$0.30-\$0.50	\$ 0.30

The underlying expected volatility was determined by reference to historical data of Golden Valley Mines Ltd Corporation's shares over a period of time since its listing on the TSX Venture Exchange. No special features inherent to the options granted were incorporated into measurement of fair value.

In total, \$3,851 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) were included in profit or loss for the reporting period ended March 31, 2011 (\$10,033 for the reporting period ended March 31, 2010) and credited to Contributed surplus.

**Golden Valley Mines Ltd**  
**Notes to the interim consolidated financial statements**

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**13. FINANCE INCOME**

Finance income may be analyzed as follows for the reporting periods presented:

	March 31 2011 <u>CAN\$</u>	March 31 2010 <u>CAN\$</u>
Interest and dividend income from cash and cash equivalent	10,827	6,474
Bank fees	(1,506)	(1,037)
Realized investment gains	<u>24,156</u>	<u>          </u>
Finance income	<u><u>33,477</u></u>	<u><u>5,437</u></u>

**14. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potential ordinary shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 11 and 12.

Both the basic and diluted loss per share have been calculated using the loss attributable to owners of the Corporation as the numerator, i.e. no adjustment to the loss were necessary in 2011 and 2010.

	March 31 2011 <u>CAN\$</u>	December 31 2010 <u>CAN\$</u>
Loss and total comprehensive loss for the period	(580,562)	(698,066)
Weighted average number of shares in circulation	71,594,805	64,166,947
Basic and diluted loss per share	(0.008)	(0.011)

Between the reporting date and the date of authorization of these consolidated interim financial statements, 500,000 common shares have been issued pursuant to the exercise of incentive stock options.

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**Notes to the interim consolidated financial statements**

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**15. RELATED PARTY TRANSACTIONS**

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

Expenses incurred to related parties, including those expenses incurred following the preceding agreements, were concluded in the normal course of operations at the exchange amount accepted by the parties and are:

**15.1 Transaction with other related parties**

	March 31	
	2011	2010
Rent	3,000	3,000
Director's fees (paid to Calone Mining (S.L.) Ltd.'s independent directors)		30,000

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 above, there were no other direct transactions with related parties other than routine payments for management and exploration services and grants of stock options.

**15.2 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.

	March 31	
	2011	2010
	CAN\$	CAN\$
Short-term employee benefits:		
Salaries including bonuses and benefits	98,869	17,629
Social security costs	22,340	1,937
Total short-term employee benefits	121,209	19,567
Other transaction with consultants		
Management Fees	8,250	8,250
Professional fees	13,224	9,000
Expenses capitalized in exploration and evaluation assets	49,561	80,507
Total transactions with consultants	71,035	97,757
Total remuneration	263,279	215,081

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**16. CONTINGENCIES AND COMMITMENTS**

The Corporation is partially financed through the issuance of flow-through shares. 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.

Moreover, tax rules regarding flow-through placements set deadlines for carrying out the exploration work 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

Commitments to carry out exploration work that are not respected are subject to a combined tax rate of 30% (Canada and Quebec).

During the year ended December 31, 2010, the Corporation received \$615,042 (Nil in 2011) following flow-through placements for which the Corporation renounced tax deductions after December 31, 2010. The Corporation has renounced tax deductions of \$177,950 as at February 28, 2011 and management is required to fulfill its commitments within the stipulated deadline of one year from this date. The amount has been presented as Cash held for exploration expenses.

**17. FIRST-TIME ADOPTION OF IFRS**

These are the Corporation's first IFRS condensed interim consolidated financial statements for part of the period covered by the first annual financial statements. The date of transition to IFRS is January 1, 2010.

The Corporation's IFRS accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the reporting period ended March 31, 2011, the comparative information and the opening consolidated statement of financial position at the date of transition.

The Corporation has applied IFRS 1 in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive loss and reported cash flows already established are presented in this section and are further explained in the notes that accompany the tables.

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**Notes to the interim consolidated financial statements**

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**17.1 First-time adoption – exemptions applied**

Upon transition, IFRS 1 dictate certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Corporation are set out below:

**Mandatory exceptions**

The estimates established by the Corporation in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP, after adjustments to reflect any difference in accounting principles, if applicable.

Financial assets and liabilities that were derecognized before January 1, 2010 pursuant to Canadian GAAP were not recognized under IFRS. The Corporation has early applied the change in IFRS1 in this respect regarding the application date of the exception, i.e. January 1, 2010.

**Optional exemptions**

The Corporation has chosen not to apply IFRS 2, Share-based Payment, retrospectively to options granted on or before November 7, 2002 or granted after November 7, 2002 and vested before the date of transition to IFRS.

The Corporation has elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition (January 1, 2010). See Note 17.5 for an explanation of the effect of the exemption.

**17.2 Reconciliation of equity**

Equity at the date of transition and at December 31, 2010 can be reconciled to the amounts reported under pre-change accounting standards as follows

	Note 17.5	January 1, 2010 CAN\$	March 31, 2010 CAN\$	December 31, 2010 CAN\$
Equity under pre-change accounting standard:		17,046,676	16,750,206	20,255,444
Increases (decreases) in equity reported in accordance with pre-change accounting standards as a result of the following differences between pre-change accounting standards and IFRS				
Shares issued by flow-through private placement	a	(296,470)	(296,470)	(425,431)
Share-based payments				
Income taxes – Income tax impact of above adjustments				
Equity under IFRS		<u>16,750,206</u>	<u>16,453,736</u>	<u>19,830,013</u>

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**17.3 Reconciliation of comprehensive loss**

Total comprehensive loss for the reporting period ended March 31, 2010 can be reconciled to the amounts reported under pre-change accounting standards as follows:

	Note 17.5	March 31, 2010 CAN\$	December 31, 2010 CAN\$
Comprehensive loss under pre-change accounting standards		409,367	318,015
Increases (decreases) in total comprehensive income reported in accordance with pre-change accounting standards, as a result of the following differences between pre-change accounting standards and IFRS			
Shares issued by flow-through private placement	a	28,276	353,023
Share-based payments	c	3,118	27,028
Income taxes – Income tax impact of above adjustments			
Total comprehensive loss under IFRS		<u>440,761</u>	<u>698,066</u>

**17.4 Presentation differences**

Certain presentation differences between pre-change accounting standards and IFRS have no impact on reported loss or total equity.

As can be seen in the following tables, some line items are described differently (renamed) under IFRS compared to pre-change accounting standards, although the assets and liabilities included in these line items are unaffected.

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The following table shows the total effect of the transition on the consolidated statement of financial position

Pre-change accounting standards descriptor	Note 17.5	January 1, 2010			March 31, 2010			December 31, 2010			IFRS description
		Previous GAAP CAN\$	Effect of transition to IFRS CAN\$	IFRS CAN\$	Previous GAAP CAN\$	Effect of transition to IFRS CAN\$	IFRS CAN\$	Previous GAAP CAN\$	Effect of transition to IFRS CAN\$	IFRS CAN\$	
<b>ASSETS</b>											
<b>Current assets</b>											
Cash		674,030		674,030	263,164		263,164	2,759,136		2,759,136	Cash
Fees and other accounts receivable		164,989		164,989	80,541		80,541	179,098		179,098	Cash held for exploration expenses
Short-term investment		2,882,419		2,882,419	2,884,786		2,884,786	1,756,825		1,756,825	Fees and other accounts receivable
Sales taxes recoverable		111,353		111,353	154,738		154,738	199,623		199,623	Short-term investment
Tax credits receivable		361,655		361,655	335,529		335,529	275,919		275,919	Sales taxes recoverable
Prepaid expenses		26,712		26,712	28,330		28,330	65,007		65,007	Tax credits and credit on duties receivable
		4,221,158		4,221,158	3,747,088		3,747,088	5,235,608		5,235,608	Prepaid expenses
<b>Non-current</b>											
Exploration funds		1,200,000		1,200,000	1,058,943		1,058,943	615,042		615,042	Property and equipment
Property and equipment		132,175		132,175	120,759		120,759	140,038		140,038	
Mining properties		13,294,901		13,294,901	13,473,204		13,473,204	14,173,766		14,173,766	
		14,627,076		14,627,076	14,652,906		14,652,906	14,928,846		14,928,846	
		18,848,234		18,848,234	18,399,994		18,399,994	20,164,454		20,164,454	<b>Total assets</b>
<b>LIABILITIES</b>											
<b>Current liabilities</b>											
Accounts payable and accrued liabilities:											Accounts payable and accrued liabilities:
Related companies		46,932		46,932	14,674		14,674	25,209		25,209	Related companies
Others		231,493		231,493	217,962		217,962	489,623		489,623	Others
	a		296,470	296,470	(296,470)		(296,470)		128,960	128,960	Other liability
Future incomes taxes		3,191,937		3,191,937	3,562,737		3,562,737	1,029,441		1,354,188	Deferred income tax
		3,470,362	296,470	3,766,832	3,795,373	28,276	3,823,649	1,544,273	453,707	1,997,980	<b>Total liabilities</b>
<b>SHAREHOLDERS' EQUITY</b>											
Capital stock	a	17,046,676	(296,470)	16,750,206	16,675,877		16,675,877	20,255,444	(425,430)	19,830,014	Capital Stock
Contributed surplus	c	1,447,273		1,447,273	1,454,188	3,118	1,457,306	1,798,828	23,910	1,822,738	Contributed surplus
Deficit	c	(3,116,077)		(3,116,077)	(3,525,444)	(31,394)	(3,556,838)	(3,434,091)	(52,186)	(3,486,277)	Deficit
		15,377,872	(296,470)	15,081,402	14,604,621	(28,276)	14,576,345	18,620,181	(453,707)	18,166,474	<b>Total equity</b>
		18,848,234		18,848,234	18,399,994	0	18,399,994	20,164,454	0	20,164,454	<b>Total liabilities and equity</b>

## Golden Valley Mines Ltd

## Notes to the interim consolidated financial statements

The following table shows the total effect of the transition on the consolidated statement of comprehensive loss:

Canadian GAAP description	Note 17.5	Year ended December 31, 2010			Three month ended March 31, 2010			IFRS description
		Previous GAAP CAN\$	Effect of transition to IFRS CAN\$	IFRS CAN\$	Previous GAAP CAN\$	Effect of transition to IFRS CAN\$	IFRS CAN\$	
Revenue								Revenue
Geological Fees		12,085		12,085	1,069		1,069	Geological Fees
Options on properties		5,000		5,000				
		17,085		17,085	1,069		1,069	
Operating expenses								Operating expenses
Salaries, rent and office expenses	c	450,838	27,028	477,866	92,266	3,118	95,384	Salaries, employee benefits and office expenses
Stock-based compensation		256,501		256,501				
Stock-based payments for services		2,739		2,739				
Management fees		33,000		33,000	8,250		8,250	Management fees
Director's fees (Note 15)		30,000		30,000	30,000		30,000	Director's fees
Professional and legal fees		474,039		474,039	76,700		76,700	Professional and legal fees
Advertising and exhibition		319,663		319,663	149,158		149,158	Advertising and exhibition
Travelling		149,094		149,094	27,741		27,741	Travelling
Part XII.6 and other taxes		21,566		21,566	2,196		2,196	Income taxes
Write-down of mineral properties		1,353,303		1,353,303				Impairment exploration and evaluation asset
Amortization of property and equipment		51,437		51,437	13,324		13,324	Amortization of property and equipment
		3,142,180		3,169,208	399,635		402,753	
Operating loss		(3,125,095)		(3,152,123)	(398,566)		(401,684)	<b>Operating loss</b>
Other revenue (expenses)								
Interest		35,207		35,207	5,437		5,437	Finance income and cost
Dividend		2,700		2,700				
Bank charges		(4,660)		(4,660)				
Loss on exchange		(11,229)		(11,229)				Foreign exchange loss
Gain on investments disposal		114,943		114,943				
Changes in fair value of held-for-trading financial assets		194,876		194,876	(16,238)		(16,238)	Changes in fair value of held-for-trading financial assets
Loss before income taxes		(2,793,258)		(2,820,286)	(409,367)		(412,485)	<b>Loss before income taxes</b>
Future income taxes	a	(2,475,243)	353,023	(2,122,220)		28,276	28,276	Deferred income taxes
<b>Net loss and comprehensive loss</b>		<b>(318,015)</b>		<b>(698,066)</b>	<b>(409,367)</b>		<b>(440,761)</b>	<b>Loss and total comprehensive loss for the period</b>



## Golden Valley Mines Ltd

### Notes to the interim consolidated financial statements

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#### 17.5 Notes to reconciliation

##### a) Shares issued by flow-through placement

Under Pre-change accounting standards, the entire proceeds received on the issuance of flow-through shares were credited to share capital. When the renouncement of the tax deductions related to the resource expenditure for income tax purposes, temporary taxable differences were created and a deferred income tax was recorded, and the related charge was treated as share issue costs.

Under IFRS, issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private placements are allocated between shares issued and a liability 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 the liability.

As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retrospectively.

The impact on the Corporation's transition to IFRS is to decrease share capital by \$128,960 (\$425,430 as at December 31, 2010), and increase retained deficit and other liabilities.

##### b) Business combination

The Group has elected not to restate business combinations that occurred before the date of transition to IFRS. There are only minor differences between the accounting for business combinations under pre-change accounting standards and IFRS. No difference has been recorded for the acquisitions, i.e. there is no adjustments to the acquired identifiable assets and liabilities.

##### c) Share-based payment:

Under pre-change accounting standards, for grants of share-based payments with graded vesting, the total fair value of the awards is recognized on a straight-line basis over the employment period necessary to vest the awards. Moreover, forfeitures of awards are recognized as they occur.

Under IFRS 2, each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. Also, an estimate of the number of share-based payments expected to be forfeited is required, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Corporation adjusted its expense for share-based payments to reflect these accounting method differences, resulting in an adjustment of contributed surplus and the retained earnings in the amount of \$27,028.

##### d) Deferred taxes

Deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first-time adoption of IFRS as discussed above.

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**Notes to the interim consolidated financial statements**

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**17.6 Consolidated statement of cash flows**

There are no material adjustments to the consolidated statement of cash flows. The components of cash under pre-change accounting standards are similar to those presented under IFRS.

**17.7 Impairment losses recognized at the date of transition**

The Corporation applied IAS 36, *Impairment of assets*, in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified.

The estimates used for this analysis were consistent with the estimates used under pre-change accounting standards at the same date, adjusted for accounting policy differences, if applicable.

**18. POST-REPORTING DATE EVENTS**

In March 2011, as amended, the Corporation entered into an Arrangement Agreement with three of its subsidiaries, being Abitibi Royalties Inc., Nunavik Nickel Mines Ltd. and Uranium Valley Mines Ltd. (the “Subsidiaries”) to effect its previously announced corporate reorganization. It has also submitted to the TSX Venture Exchange (the “Exchange”) formal applications to list the common shares of the Subsidiaries on the Exchange. Golden Valley intends to seek shareholder approval of this proposed reorganization at an annual and special meeting of its shareholders scheduled to be held on June 30, 2011.