

**ATLANTIC GOLD CORPORATION  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED – DECEMBER 31, 2016 AND 2015**

## **INTRODUCTION**

*This MD&A has been prepared as of April 27, 2017, and should be read in conjunction with the Company's audited consolidated financial statements with accompanying notes for the years ended December 31, 2016 and 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.*

*The objective of this MD&A is to help the reader understand the factors affecting the Company's past and future financial performance. All amounts are reported in Canadian dollars, unless otherwise stated. Additional information on the Company, including the Company's Annual Information Form can be found in the filings with Canadian security commissions on SEDAR at [www.sedar.com](http://www.sedar.com).*

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

*This MD&A contains "forward-looking statements". Forward-looking statements include, but are not limited to, statements with respect to the Company's current review of potential mineral project investments and/or acquisitions, the estimation of mineral resources, the timing and content of upcoming programs, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, actual results of planned expansion activities; changes in project parameters as plans continue to be refined; future prices of resources; exchange rates for Canadian and other currencies; possible variations in grade or recovery rates, accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. In making the forward-looking statements in this MD&A, the Company has made certain key assumptions, including, but not limited to, the assumptions that merited mineral assets or projects can be acquired and financings are available. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements or information made in this MD&A, except as required under applicable securities legislation.*

## **COMPANY PROFILE**

Atlantic Gold Corporation ("Atlantic", or the "Company") is a company listed on the TSX Venture Exchange with a registered office at Suite 3083, Three Bentall Centre, 595 Burrard Street, Vancouver, B.C. Canada.

The Company is a Canadian-based exploration and development gold mining company engaged in the acquisition, exploration and development of precious metal mineral properties. Atlantic's strategic focus is a counter cyclical strategy of acquiring advanced projects in mining-friendly jurisdictions.

### **KEY MILESTONES AND OUTLOOK**

Significant development milestones that have been met during the year include the following:

#### Q4 2016

- Executed 2 additional lease agreements under the Equipment Facility with respective mining equipment delivered to site;
- Made its second draw in the amount of \$14 million under the PLF.

#### Q3 2016

- Announced the completion of a bought deal private placement financing for gross proceeds of \$5,747,700 through the issuance of 5,474,000 flow-through common shares of the Company at a price of \$1.05 per share. The Company also announced a non-brokered private placement financing for gross proceeds of \$3,449,828 through the issuance of 3,285,550 flow-through common shares of the Company;
- Executed 14 lease agreements under the Equipment Facility with respective mining equipment delivered to site;
- Commenced a resource definition drilling program with an objective of bringing the resources at the Company's Cochrane Hill and Fifteen Mile Stream deposits to measured and indicated status;
- On September 30, 2016, the Company made its first draw in the amount of \$20 million under the PLF;

#### Q2 2016

- Executed a syndicated project facility agreement (the "Credit Agreement") in respect to a \$115 million Project Loan Facility ("PLF") to fund the majority of the construction costs of the Company's Moose River Consolidate ("MRC") Project;
- Executed a definitive Master Lease Agreement pursuant to which the Company's lender has agreed to underwrite up to \$20 million in mining fleet equipment financing (the "Equipment Facility") to fund the Company's acquisition of mining equipment for the Company's MRC Project;
- Announced the completion of a non-brokered financing of \$13 million by way of issuance of convertible debentures (the "Convertible Debentures"). The Convertible Debentures, together with the \$115 million PLF, completed funding requirements for the initial capital costs for its MRC Project of approximately \$127 million contained in the August 2015 feasibility study, excluding environmental bonding. Refer to *Convertible Debenture* discussion below;

- Announced the completion of a bought deal private placement financing of \$14,375,046 through the issuance of 23,958,410 common shares of the Company at a price of \$0.60 per share. The Company also announced the completion of a non-brokered private placement financing for gross proceeds of \$13,544,000 through the issuance of 22,573,329 common shares of the Company at a price of \$0.60 per share. Refer to *Liquidity and Capital Resources* discussion below;
- Announced that pursuant to the terms of the Company's hedging facility of up to 215,000 ounces, as required by the Company's PLF, the Company entered into gold price hedging contracts (the "Contracts") covering 215,000 ounces of production from the Company's Moose River Consolidated Project. The Contracts are scheduled out for delivery over the term of the Company's PLF at a flat forward price of \$1,550 per ounce;
- Finalized a contract (the "EPC Contract") with Ausenco Engineering Canada Ltd. ("Ausenco") to build a 2 million tonne per annum process plant, a truck shop and office facilities, as well as other supporting infrastructure related to these facilities on an Engineering Procurement and Construction ("EPC") basis, for the Company's MRC Project for a fixed price of \$86.34 million, fixing most of the initial construction and development capital costs of the MRC Project;
- Received acceptance from the Nova Scotia Department of Natural Resources ("NSDNR") and Nova Scotia Environment ("NSE"), (together, the "Province") for the Company's proposal to provide a phased reclamation security in the amount of \$10.4 million for Touquoy. The reclamation security represents the total cost to reclaim the Touquoy site as estimated by the Province. Additionally, the Company has executed an agreement with a reputable surety company specializing in contract and commercial surety bonds, including underwriting surface mining reclamation to financial sound companies with adequate reserves. The surety company completed its underwriting process and committed to providing a surety bond in the Company's name to the Province, 80% of which was collateralized by way of letter of credit provided by the Company, for a negotiated premium. On May 26, 2016, the Company posted its initial reclamation bond for \$3.43 million with the Province;
- Commenced construction of the Touquoy deposit, with commissioning scheduled for September 2017;

Other corporate development milestones achieved or ongoing include the following:

- In December 2015, the Company received a Notice of Determinations from the Canadian Environmental Assessment Agency ("CEAA"), representing the commencement of the environmental approval process at the Company's Beaver Dam Mine Project ("Beaver Dam") under the Canadian Environmental Assessment Act, 2012;

### ***Corporate and Organizational Changes***

Maryse Belanger was appointed as Chief Operating Officer of the Company effective July 17, 2016. Ms. Belanger has succeeded Mr. John Morgan, who retired in August 2016. Mr. Morgan remains with the Company as a Director and will remain as an advisor to the Company. Ms. Belanger brings over 30 year of experience with senior gold companies globally with strengths in studies, technical services and operational excellence and efficiency. Further, effective August 2, 2016, the Company appointed Sean Thompson as Manager of Investor Relations of the Company. Mr. Thompson brings over 7 years of experience in the natural resources (metals & mining) industry.

## **Construction Development Update**

Construction is progressing as planned with commissioning scheduled for September 2017. During Q4 2016, the Company completed the construction of the mill building, reagent building, ROM pad and crusher wall. As at the date of this report, plant site construction was 60% complete. The Company continues to focus on infrastructure construction and tailings facility construction. All major equipment for pre-production has been delivered and the fleet will be expanded as the mine moves towards full operation. The project remains on schedule and on budget in all material respects. The Company has incurred approximately \$52.5 million in construction and development expenditures as of December 31, 2016.

## **Next Steps**

Over the coming months, the Company will be focused on:

- Completion of construction of the Touquoy Project and commissioning in September 2017
- Completion of the resource definition drilling program at the Company's Cochrane Hill and Fifteen Mile Stream Projects, with preparation of a mineral resource update for both properties.

## **OVERVIEW OF THE COMPANY'S HOLDINGS**

### **MRC PROJECT**

The MRC Project currently comprises two deposits in close proximity, Touquoy and Beaver Dam, which have been the subject of a feasibility study for development. A technical report is available on the Company's website at [www.atlanticgoldcorporation.com](http://www.atlanticgoldcorporation.com). Upon finalization of the feasibility study technical report, the Company made the decision to move forward with the development of the MRC Project. The two deposits are planned to be mined and processed through a central milling facility presently under construction at Touquoy.

#### **A. Touquoy Deposit**

##### Description and Ownership

The Touquoy deposit is located at the former village of Moose River Mines about 70 minutes' drive via 110km of sealed road north-east from the provincial capital of Nova Scotia, Halifax.

The Touquoy deposit is secured under a Mineral Lease (ML11-1) comprising 49 claims and a surrounding exploration license (EL10377) comprising 64 claims, the total of both titles covering an area of approximately 1,760 ha.

The Company's effective ownership interest in Touquoy is 63.5%. The Company is entitled to recover all operational, overhead, financing and sunk costs prior to any distributions to its non-public partner, in the project.

A net smelter return royalty ("NSR") of 3% is also payable in respect of the Touquoy deposit, two-thirds of which can be purchased for \$2.5 million. The Company expects to exercise this buy-back option on Touquoy. In addition to the NSR, Touquoy is subject to a 1% royalty payable to the government of Nova Scotia.

The Touquoy deposit is well advanced with all major environmental permits. Environmental assessment approval and industrial approval are in place and a mineral lease has been granted.

In addition, ownership of all 63 private properties required for the development of the Touquoy deposit has now been secured. For 11 of these properties, the final compensation settlement related to land expropriation has not yet been finalized and is under review with legal representatives of former landowners, but Atlantic Gold has full rights to utilize these properties.

In relation to the seven parcels of Crown land required within the footprint of the Touquoy deposit the Company finalized a lease agreement in February 2016, providing the Company with all remaining surface and sub-surface rights necessary to progress the MRC Project to construction.

## **B. Beaver Dam**

### **Description and Ownership**

The 100% owned Beaver Dam Property is located in Halifax County, in central Nova Scotia, approximately 85km northeast of the provincial capital of Halifax (Figure 4.1). The property covers the historical Beaver Dam Gold District located on NTS sheet 11E02/A with central coordinates of 521319 E / 4990700 N (UTM NAD 83 Zone 20). The area is uninhabited with the closest residences situated 5 km away.

The property is held under a single exploration license, EL50421, currently held by Annapolis Properties Corporation, a wholly owned subsidiary of the Company. EL50421 is comprised of 76 contiguous claims which cover an area of approximately 1,184 ha.

For Beaver Dam, a 0.6% NSR is payable to a private third-party. There are no buyback options for this private royalty. Similar to Touquoy, Atlantic must remit a 1% NSR on production from Beaver Dam to the government of Nova Scotia.

## ***OTHER PROPERTIES IN NOVA SCOTIA***

### **Cochrane Hill Project**

#### **Description and Ownership**

The Cochrane Hill Gold Project is a 100% owned earlier stage development project. It is located approximately 80 km east of the Touquoy Property and about 35 kilometres south of the town of Antigonish. It is accessible via Highway #7 which passes within 300 metres of the old Cochrane Hill mine site.

The Cochrane Hill Property is secured under a single exploration license (EL6310) comprising 53 claims. The Cochrane Hill deposit is located entirely within ungranted Crown lands.

A private 3% NSR is payable on production from Cochrane Hill, of which two-thirds can be repurchased by Atlantic Gold for \$1.5 million. The Company expects to exercise this buy-back option on Cochrane Hill. In addition to the private NSR, Cochrane Hill is subject to a 1% royalty payable to the government of Nova Scotia.

On September 29, 2014, the Company released the results of a Preliminary Economic Assessment ("PEA") which included the Company's Cochrane Hill Project. The technical report can be located on the Company's website [www.atlanticgoldcorporation.com](http://www.atlanticgoldcorporation.com) and on SEDAR, [www.sedar.com](http://www.sedar.com).

## **Fifteen Mile Stream**

### **Description and Ownership**

Fifteen Mile Stream is a 100% owned property located in eastern Halifax County, Nova Scotia, approximately 95 km northeast of Halifax. It comprises the historic Fifteen Mile Stream gold district.

Access to the area is provided by highway #374 which transects the province from Sheet Harbour in the south to Stellarton in the north.

The Fifteen Mile Stream Property is secured under two exploration licenses (ELs 10406 and 05889) comprising 31 claims, as well as a special license (SL 11/90) comprising eight claims. All licenses cover a total of 701 hectares. The claims are currently held by 6179053 Inc. and Atlantic Mining NS Ltd. ("Atlantic Mining"), both of which are wholly owned subsidiaries of the Company.

### **Other Exploration Properties**

The Company's regional land package in Nova Scotia presently comprises approximately 210 km<sup>2</sup> of claims located throughout the Meguma Terrane specifically selected, or retained to explore for potential disseminated gold mineralization, similar to the Company's Touquoy and Beaver Dam properties. The exploration claims of prime interest are those which secure the 80km of key ground along the Touquoy–Beaver Dam–Fifteen Mile Stream–Cochrane Hill trend. The Company also holds existing royalty interests on the Goldenville (1% NSR), Dufferin (2% NSR) and Tangier (1% NSR) properties located in Nova Scotia. None of these properties are currently in production and no royalty income is currently being generated.

### **Feasibility Study – MRC Project**

On July 02, 2015, the Company announced the results of a Feasibility Study (the "Study"), led and prepared by Ausenco Engineering Canada Inc. ("Ausenco") in accordance with National Instrument 43-101 ("NI 43-101") in respect of the Company's MRC Project. The Study considers the co-development of Touquoy as well as Beaver Dam.

The Company engaged a team of specialized consultants, led by Ausenco, with the assistance of Moose Mountain Technical Services ("MMTS") in respect of mine design and pit optimization as well as compiling the economic results for the project. The Company also engaged Stantec Consulting Ltd. in respect of the design of the Tailings Management Facility, Mr. Neil Schofield, a principal of FSSI Consultants (Australia) Pty Ltd. ("FSSI") in respect of the resource modelling, and Conestoga-Rovers & Associates ("CRA") in respect of environmental and permitting aspects of the Feasibility Study.

## Production Profile

The table below sets out gold production from the MRC Project over the life of mine:

### MRC Project Life of Mine Production

Description	Waste (000's tonnes)	Ore Processed (000's tonnes)	Gold Production (000's oz.)
Pre-Production	2,639	0	0
Year 1	5,616	1,800	74
Year 2	4,897	2,000	96
Year 3	4,174	2,000	94
Year 4	3,274	2,000	92
Year 5	14,384	2,000	77
Year 6	14,368	2,000	90
Year 7	9,170	2,000	90
Year 8	2,686	2,000	85
Year 9	99	652	16
<b>Total LoM Production</b>	<b>61,307</b>	<b>16,452</b>	<b>714</b>
<b>Overall Strip Ratio</b>		<b>3.73</b>	

The Study is based on the deposits being developed as conventional surface open pit mining operations with drill/blast/load/haul activities utilizing a leased production fleet operated by Company employees. Initial production will commence at Touquoy where the relatively low strip ratio and short haul to external waste dumps translates to a smaller production fleet, minimizing production costs in the process.

Beaver Dam, as a satellite operation, will require minimal infrastructure to supply basic office facilities and equipment maintenance requirements. The mining fleet at Touquoy will be transitioned to Beaver Dam and expanded due to the higher rate of material movement. Ore will be crushed at a location adjacent to the Beaver Dam pit near Highway 224 and then loaded onto highway trucks which will transport it along a combination of private logging and public roads to the Touquoy processing facility. Beaver Dam waste rock will be placed as close to the pit as practical to minimize waste haulage costs. Other than primary crushing, there will be no treatment of material at Beaver Dam and therefore no plant or tailings management facility is required there. A PEA prepared for the MRC Project released in October, 2014 estimated a total of 294,000 oz. of gold to be recovered at Beaver Dam. As a result of the resource drilling program conducted in 2015 at Beaver Dam to raise the majority of the resource to measured and indicated classifications following the PEA, the recovered gold at Beaver Dam has increased to 315,000 oz., with a related increase in tonnes processed as well as waste tonnes mined.

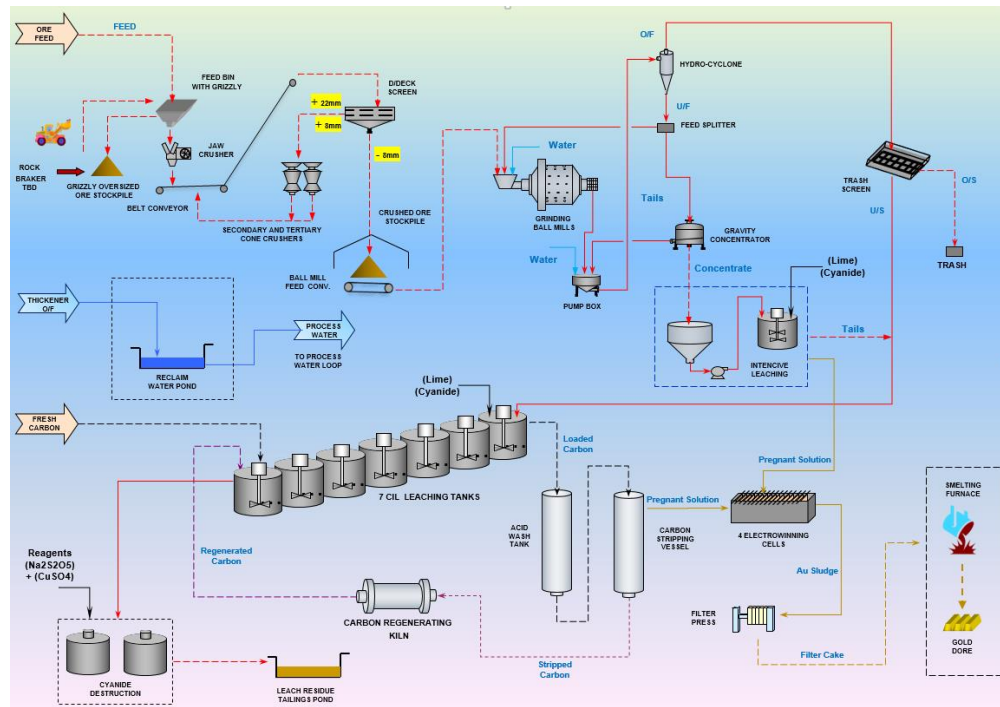
Metallurgical testing indicates that Beaver Dam ore will have treatment characteristics similar to the Touquoy ore and will therefore be processed in the same manner as the Touquoy ore. Tailings generated from treating the Beaver Dam ore is planned to be placed in the mined-out Touquoy open pit. After all mining is complete, the Touquoy pit will continue to fill with water and the tailings will be settled well below the expected final maximum water surface level. Permanently sealing tailings below water is globally considered a preferred method for long term tailings disposal.



## Processing and Metallurgy

The processing of Touquoy ore has been extensively tested and the flow sheet to be constructed has been defined. The plant will have a capacity of 2 million tonnes per year with an expected gold recovery of 94%.

### MRC Project Flowsheet



The flow sheet is conventional and consists of three stage crushing, ball milling to a grind of 80% passing 150 microns, with cyclones being used to close the grinding circuit. A centrifugal concentrator will be used to treat a portion of the cyclone underflow to recover coarse gold, with gold being recovered from the gravity concentrate by intensive cyanidation. The cyclone overflow will be screened to remove organic particles and then leached in a CIL circuit with a two stage pre-leach. Loaded carbon will be treated in a pressure Zadra circuit with the electrowinning sludge smelted to doré. The tailings from leaching will be treated for cyanide destruction using sulfur dioxide / air with a copper catalyst.

As previously mentioned, material from the Beaver Dam pit will be crushed and transported to the Touquoy plant. The metallurgical characteristics at Beaver Dam are very similar to the material from the Touquoy pit and as such, no modifications of the plant will be necessary. A similar recovery of 94% is expected.

## Geology and Mineralization

Touquoy and Beaver Dam are geologically similar, being located about 20km apart within the same sedimentary stratigraphy of the Meguma Terrane and along the same structural corridor – the Moose River-Beaver Dam-Fifteen Mile Stream Anticline. In both deposits, gold is disseminated throughout the host rocks – quartz-veined grey argillites (shales), though with a lower work index (~10) at Touquoy than Beaver Dam (~15) owing to a lower proportion of quartz veining at Touquoy. Both deposits extend to the near surface glacial till boundary and are amenable to open pit mining with relatively low strip ratios (2.4:1 at Touquoy and 5.5:1 at Beaver Dam). At Touquoy, most mineralization is disposed around the anticlinal hinge, and at Beaver Dam, mineralization is disposed in a tabular zone within one limb of the anticline.

## **Infrastructure and Power**

The infrastructure requirements for Touquoy are relatively modest, with minor public road realignment required; and electrical power required to be accessed from a substation at Caribou Mines, a total distance of 13 km, with a large part of the line using existing poles. The power line is being provided by Nova Scotia Power, which has provided a cost estimate for this installation.

No mine site accommodation is required as the labour force will come from surrounding communities.

The tailings management facility will be constructed from mine waste rock and low permeability till from the mine area, avoiding importation of materials from more distant locations. The tailings management facility will have a positive water balance and therefore will provide process water requirements, but extraction from nearby Scraggy Lake will provide water for startup and in case of dry periods.

As all ore mined from Beaver Dam will be trucked to the Touquoy plant for treatment, a significant investment in forestry road upgrades (approximately 20 km in all) will be required. Three bridges and a number of culverts will need upgrading. These improvements will enhance the quality of the existing water crossings for the community and will also provide benefits from an environmental standpoint. Costs will be reduced by using crushed mine waste rock for the majority of the road bed and running surfaces. Road upgrading will be carried out during the fourth year of operation at Touquoy. As only primary crushing will be carried out at Beaver Dam, the electrical power demand at Beaver Dam is relatively small. As there is no appropriate power supply close to the facility, temporary diesel generators will be utilized. Tailings from the treatment of Beaver Dam ore will be stored in the Touquoy pit and no significant cost will be associated with their management. The buildings at Touquoy will remain in use and only temporary workshop, office and change room facilities will be built at Beaver Dam.

## **Environmental and Permitting**

All major environmental permits are in place for mining and processing operations at Touquoy and background environmental information has been collected at Beaver Dam since the late summer and fall of 2014. The permitting process at Beaver Dam is underway with the relevant authorities. As mentioned earlier, the Company made its formal submission of the Company's Beaver Dam Project Description to CEAA, of which subsequent notice has been received from CEAA for the commencement of the environmental approval process. Approvals from both the federal and provincial environmental offices are expected to be received within the second half of 2017.

## **Mineral Reserve Estimate**

The mineral reserve estimate for the Touquoy portion of the MRC Project is based on a mineral resource estimate contained within the Company's PEA reported in a Company news release dated September 29, 2014 and filed on SEDAR on October 14, 2014, prepared by MMTS with an effective date of August 1, 2014.

The mineral reserve estimate for the Beaver Dam portion of the MRC Project is based on a mineral resource estimate reported in a Company news release dated March 3, 2015 and filed on SEDAR on April 16, 2015, prepared by Mr. Neil Schofield of FSSI with an effective date of March 2, 2015.

MRC mineral reserves, shown below, have been developed by Moose Mountain Technical Services with an effective date of July 2, 2015. The mineral reserve is contained within the mineral resource, and is based on the following assumptions:

- Only Measured and Indicated Resource Class materials are included in the reserves;
- A cutoff gold grade of 0.40 g/t is applied;
- In addition to the modelled in-block dilution, a further dilution factor of 1.6% at 0.28g/t gold grade has been applied to account for mining face dilution;

- Additional tonnes from mining dilution are assumed balanced with lost tonnes due to an estimated mining recovery of 98.4% at the average diluted reserve grades;
- Mining recovery is reduced to 40% for material between 0.40 g/t and 0.50 g/t gold cutoff grades.

### Summary of Estimated MRC Mineral Reserves

Classification	Mt	Diluted Grade (g/t Au)	Mined Au oz's (000)
<i>Cut-Off Grade: 0.4 g/t Au</i>			
<b><u>Touquoy</u></b>			
Proven Reserves	2.62	1.41	119
Probable Reserves	6.58	1.45	306
<b>Total Proven and Probable Reserves</b>	<b>9.2</b>	<b>1.44</b>	<b>425</b>
<b><u>Beaver Dam</u></b>			
Proven Reserves	4.03	1.47	191
Probable Reserves	3.22	1.39	144
<b>Total Proven and Probable Reserves</b>	<b>7.25</b>	<b>1.44</b>	<b>335</b>
<b><u>Moose River Consolidated</u></b>			
<b>Proven Reserves</b>	<b>6.65</b>	<b>1.45</b>	<b>310</b>
<b>Probable Reserves</b>	<b>9.80</b>	<b>1.43</b>	<b>450</b>
<b>Total Proven and Probable Reserves</b>	<b>16.45</b>	<b>1.44</b>	<b>760</b>

- (1) Mineral Reserves are classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Definition Standards on Mineral Resources and Mineral Reserves, whose definitions are incorporated by reference into National Instrument 43-101 -- Standards of Disclosure for Mineral Projects ("NI 43-101").
- (2) CIM Standards on Mineral Resources and Reserves Definitions and Guidelines defines a 'Proven Mineral Reserve' as the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that eventual economic extraction is justified.
- (3) CIM Standards on Mineral Resources and Reserves Definitions and Guidelines defines a 'Probable Mineral Reserve' as the economically mineable part of an Indicated, and in some circumstances a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that eventual economic extraction can be justified.
- (4) Mineral Reserves are mined tonnes and grade; the reference point is mill feed at the crusher.
- (5) Diluted grades refer to mining dilution factors applied to the in situ resource grade estimates.
- (6) The Mineral Reserves information is based on estimates prepared as of July 2, 2015, by independent Qualified Person, Mr. Marc Schulte, P.Eng., who has the appropriate relevant qualifications, and experience in mining and reserves estimation practices.

There are no known legal, political, environmental or other risks that could materially affect the potential development of the mineral reserve.

The Feasibility Study mine schedule and economic analysis does not include Inferred Resources at MRC of approximately 1.10 million tonnes at 1.40 g/t Au. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

### Feasibility Study Metrics

The table below lists the key Feasibility Study economic metrics for the MRC Project. The economics take into account the fact that the Company's effective ownership in Touquoy is 63.5%, and that the Company will recover all operational, overhead, financing and sunk costs plus cost of capital, prior to any distributions to its privately-owned partner in Touquoy. As of December 31, 2016, the total estimated cost to be recovered under the agreement is approximately \$106 million. The Company holds 100% of Beaver Dam.

#### Highlights of the MRC Project from the Study

<b>Gold price: US \$1,200/oz @ \$0.80</b>	<b>MRC Project</b>
Pre-tax NPV (5%)	\$236 million
Post-tax NPV (5%)	\$168 million
Pre-tax IRR	34.9%
Post-tax IRR	30.0%
Post-tax Payback	2.0 years

The economics have been calculated on an unlevered basis, based on a gold price of US \$1,200/oz. and a foreign exchange rate of CAD\$1 = USD\$0.80. The Feasibility Study has estimated its capital and operating costs, which are detailed in the below table, in Canadian dollars. Substantially all operating costs are Canadian dollar denominated. The tables below show the sensitivity of after-tax NPV and IRR to changes in the US dollar gold price and the CAD/USD exchange rate.

#### Sensitivity Analysis on After-Tax NPV

CAD/USD Rate	US\$ Gold Price					
	\$ 1,000	\$ 1,100	\$ 1,200	\$ 1,300	\$ 1,400	\$ 1,500
<b>0.75</b>	\$ 121,644	\$ 159,007	\$ 195,961	\$ 232,870	\$ 269,627	\$ 306,338
<b>0.80</b>	\$ 98,248	\$ 133,306	\$ 168,263	\$ 202,873	\$ 237,465	\$ 271,924
<b>0.85</b>	\$ 77,643	\$ 110,651	\$ 143,596	\$ 176,431	\$ 208,972	\$ 241,519
<b>0.90</b>	\$ 59,142	\$ 90,469	\$ 121,644	\$ 152,751	\$ 183,672	\$ 214,393
<b>0.95</b>	\$ 42,310	\$ 72,354	\$ 101,932	\$ 131,465	\$ 160,956	\$ 190,140

#### Sensitivity Analysis on After-Tax IRR

CAD/USD Rate	US\$ Gold Price					
	\$ 1,000	\$ 1,100	\$ 1,200	\$ 1,300	\$ 1,400	\$ 1,500
<b>0.75</b>	24%	29%	33%	37%	40%	43%
<b>0.80</b>	21%	26%	30%	34%	37%	40%
<b>0.85</b>	19%	23%	27%	31%	34%	37%
<b>0.90</b>	16%	20%	24%	28%	32%	35%
<b>0.95</b>	13%	18%	22%	26%	29%	32%

The Feasibility Study economics take into account a 1% royalty payable to the Nova Scotia government (no other mining taxes apply), in addition to the following NSR's:

- 1% relating to production from Touquoy, post exercise of buyback options

- 0.6% relating to production from Beaver Dam

Income taxes are also accounted for using a 15% Federal and 16% Provincial income tax rate.

## Capital Costs

### Summary of MRC Project Capital Costs (\$CDN)

Description	Total Initial Capital Cost (\$ 000)	Total Sustaining Capital Cost*** (\$ 000)	Total Capital Cost (\$ 000)
Mine Development	16,948	2,041	18,989
Processing	51,045	3,948	54,993
Tailings Management Facility	9,158	8,572	17,730
Infrastructure	15,447	10,600	26,047
EPCM	9,955	500	10,455
Indirect and Other Costs*	21,523	(4,787)	16,736
Contingency**	13,260	1,903	15,163
<b>Total</b>	<b>137,336</b>	<b>22,777</b>	<b>160,113</b>

\*Sustaining Indirect and other costs includes a credit representing the principal balance of a reclamation bond being returned to the Company.

\*\*Contingencies are applied according to the degree of certainty of the relevant line item.

\*\*\*Total sustaining capital costs includes construction capital expenditures at Beaver Dam.

## Operating Costs

### Summary of MRC Project Operating Costs (\$CDN)

Description	Unit Cost/ tonne (\$ 000)	Unit Cost/ oz. (\$ 000)
Mining*	2.89	304
Processing	11.94	275
Site G&A	2.03	47
<b>Total Cash Operating Costs</b>		<b>626</b>
<b>Total All-In Sustaining Costs**</b>		<b>690</b>

\*Excludes pre-production mining, which is captured under initial capital

\*\*All-In Sustaining Costs excludes Corporate G&A expenses

## Mineral Resources

The table below is a summary of the mineral resources at the Touquoy, Beaver Dam and Cochrane Hill Projects, as well as the resource relating to the Company's Fifteen Mile Stream Gold Project.

	Tonnes (m)	Grade (g/t)	Contained Gold (oz)
<b>Touquoy*</b>			
<b>Measured &amp; Indicated</b>	10.1	1.5	480,000
<b>Inferred</b>	1.6	1.5	77,000
<b>Beaver Dam*</b>			
<b>Measured &amp; Indicated</b>	9.3	1.4	427,000
<b>Inferred</b>	1.8	1.4	81,000
<b>Cochrane Hill*</b>			
<b>Measured &amp; Indicated</b>	4.5	1.8	252,000
<b>Inferred</b>	5.6	1.6	298,000
<b>Fifteen Mile Stream*</b>			
<b>Inferred</b>	11.7	1.6	584,000
<b>Total Measured &amp; Indicated</b>	<b>23.9</b>	<b>1.5</b>	<b>1,159,000</b>
<b>Total Inferred</b>	<b>20.7</b>	<b>1.6</b>	<b>1,040,000</b>

\*The Mineral Resources estimates relate to the Touquoy, Cochrane Hill and Beaver Dam deposits summarized in this report and are based on the following key parameters: (1) There are two main styles of gold mineralization, which are reflected in the geological domaining used in the resource modeling; (2) Drill hole sampling has provided a reasonably representative set of samples of the gold mineralization, (3) Multiple Indicator Kriging is an appropriate method for estimating the Mineral Resources in these deposits. Mineral Resources that are not mineral reserves do not have demonstrated economic viability.

Touquoy - The Touquoy Mineral Resource estimates presented herein are based on a National Instrument 43-101 technical report entitled "Mineral Resource Estimate for The Touquoy Gold Project, Halifax County, Nova Scotia, Canada" dated August 1, 2014 which has been prepared in respect of the Touquoy Gold Project by FSS International Consultants (Aust) Pty. Ltd. ("FSSI") of Beecroft, NSW, Australia. These estimates are inclusive of the Touquoy Mineral Reserves presented in the 'Summary of Estimated MRC Mineral Reserves' table above. The report is available for review on the Company's website and on SEDAR ([www.sedar.com](http://www.sedar.com)).

Cochrane Hill - The Cochrane Hill Mineral Resource estimates are based on a National Instrument 43-101 technical report entitled "Technical Report of the Cochrane Hill Gold Project, Nova Scotia" dated August 1, 2014 which has been prepared in respect of the Cochrane Hill Gold Project by FSS International Consultants (Aust) Pty. Ltd. ("FSSI") of Beecroft, NSW, Australia. The report is available for review on the Company's website and on SEDAR ([www.sedar.com](http://www.sedar.com)).

Beaver Dam - The Beaver Dam Mineral Resource estimates are based on a National Instrument 43-101 technical report entitled "Technical Report of the Beaver Dam Gold Project, Nova Scotia" dated March 2, 2015 which has been prepared in respect of the Beaver Dam Gold Project by FSS International Consultants (Aust) Pty. Ltd. ("FSSI") of Beecroft, NSW, Australia. The report is available for review on the Company's website and on SEDAR ([www.sedar.com](http://www.sedar.com)).

Fifteen Mile Stream - The Fifteen Mile Stream Mineral Resource estimates presented herein are based on a National Instrument 43-101 technical report entitled "Mineral Resource Estimate for The Fifteen Mile Stream Gold Project, Halifax County, Nova Scotia, Canada" dated February 18, 2015 which has been prepared in respect of the Fifteen Mile Stream Gold Project by FSS International Consultants (Aust) Pty.

Ltd. ("FSSI") of Beecroft, NSW, Australia. The report is available for review on the Company's website and on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Economic Impact Study

In February 2015, the Company announced the results of an Economic Impact Study conducted in respect of the Company's MRC Projects based on the two potential open-pit production scenarios reported in the Company's PEA.

The Company engaged KPMG to produce the Study to be used as the basis for its continuing discussions with the Federal and Provincial governments in respect of the development of the Moose River Consolidated Gold Projects. The Study focuses on job creation, fiscal revenues, and overall economic wealth for the province as well as Canada.

The tables below provide a summary of the economic impact on the province as well as federally under the Base Case and Base plus Cochrane Case, respectively:

### Summary of Economic Impact (direct and indirect) on Canada and Nova Scotia – Base Case\*

	Economic Benefits to Canada		Economic Benefits to Nova Scotia	
	Construction Phase (Cumulative - 2 years before commencement of production)	Production Phase (Per year)	Construction Phase (Cumulative - 2 years before commencement of production)	Production Phase (Per year)
Value-added <sup>1</sup> (millions \$)	93.0	26.5	69.3	19.7
Jobs created (person-year equivalent)	1,005	278	781	228
Government revenues <sup>2</sup> (millions \$)	5.5	8.1	4.1	10.2

\*Base case assumes initial production from Touquoy and Beaver Dam

### Summary of Economic Impact (direct and indirect) on Canada and Nova Scotia – Base plus Cochrane Case\*\*

	Economic Benefits to Canada		Economic Benefits to Nova Scotia	
	Construction Phase (Cumulative - 2 years before commencement of production)	Production Phase (Per year)	Construction Phase (Cumulative - 2 years before commencement of production)	Production Phase (Per year)
Value-added <sup>1</sup> (millions \$)	162.3	43.6	120.1	31.5
Jobs created (person-year equivalent)	1,749	455	1,352	367
Government revenues <sup>2</sup> (millions \$)	9.7	13.1	7.1	17.0

\*\*Base case plus Cochrane Case assumes Base Case (defined above) plus Cochrane Hill Project.

1 – Value added refers to the economic definition of wealth created by a project (or its impact in terms of Gross domestic production). It is presented on an undiscounted basis but in 2014 constant dollars. Some of the major contributors to the Value added figures include, (a) salaries and benefits paid to employees by either Atlantic or its suppliers; (b) net revenues to individual businesses and c) the return on capital of businesses

2 – Government Revenues in Canada and Nova Scotia comprise corporate taxes (paid by Atlantic only), personal income taxes, provincial mining taxes (Nova Scotia only), as well as taxes on products.

The total impact on the Canadian economy as a whole compared to the province of Nova Scotia are approximately 30% to 35% higher under the Base case scenario, and 30% to 40% higher under the Base plus Cochrane case, as some of Atlantic's suppliers would likely be based in other Canadian provinces.

The technical information contained in this MD&A was reviewed by Wally Bucknell, Bsc (Hons), FAusIMM, is a Qualified Person as defined by NI 43-101.

### **SELECTED ANNUAL INFORMATION**

The following table presents selected annual information extracted from the relevant audited annual consolidated financial statements under IFRS:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total Assets, December 31,	\$ 145,689,217	\$ 43,922,204	\$ 46,022,028
Total long-term financial liabilities	-	-	-
Cash dividends declared per-share	-	-	-
Net loss before income taxes	(5,313,132)	(3,125,206)	(1,737,441)
- From continuing operations	(5,313,132)	(3,125,206)	(1,737,441)
- From discontinued operations	N/A	N/A	N/A
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)	\$ (0.02)
- From continuing operations	(0.03)	(0.03)	(0.02)
- From discontinued operations	N/A	N/A	N/A
Weighted average number of common shares outstanding	148,802,041	114,493,370	79,355,260

As the Company has yet to achieve commercial production from its mineral related assets, the Company has no revenues to report during the financial reporting periods noted above.

### **OVERALL PERFORMANCE AND RESULTS OF OPERATIONS**

Total assets increased to \$145,689,217 at December 31, 2016 from \$43,922,204 at December 31, 2015. The most significant assets at December 31, 2016 were property, plant and equipment of \$95,805,269 (December 31, 2015 - \$4,411,126), mineral properties of \$17,749,731 (December 31, 2015 - \$27,630,686), cash and cash equivalents of \$14,396,987 (December 31, 2015 - \$10,764,172), and restricted cash of \$9,337,346 (December 31, 2015 - \$nil). The Company's net working capital deficit at December 31, 2016 was \$48,373,020.

The net increase in property, plant, and equipment of approximately \$91 million was partially a result of a \$23 million reclassification from mineral properties. Effective May 10, 2016, the Company commenced capitalization of all direct costs related to the development of Touquoy to property, plant and equipment under IAS 16, as management determined that the technical feasibility and commercial viability had been



established through the achieved project financing and board approval to develop the project, thereby making it a development stage asset under IFRS. Accordingly, the Company reclassified capitalized costs associated with Touquoy from mineral property exploration costs to mine property and mine construction and development costs within property, plant and equipment.

Further increase in the property, plant and equipment balance was a result of \$52.5 million of additions to mine property - construction and development for the expenditures incurred on Touquoy subsequent to May 10, 2016, with a majority of the balance relating to engineering, procurement and construction costs, and owners' costs including earthworks, tailings management facility construction, and development of site infrastructure. Subsequent to May 10, 2016, the following expenditures were incurred in respect of the Touquoy deposit capitalized to mine property - construction and development (excluding amortization of equipment and capital leases that were capitalized to mine property):

<b>Year Ended December 31, 2016</b>	
Engineering, procurement and construction	46,986,217
Salaries & Consulting Fees	2,385,624
Environmental	753,545
Permitting & claims	634,910
Office and Admin.	152,673
Travel & Accommodation	184,779
Drilling & Fieldwork	222,864
Equipment & Supplies	948,189
Project Insurance	215,781
<b>Expenditures for the year</b>	<b>52,496,542</b>

Additionally, during the year the Company entered into 16 finance lease agreements which formed part of the \$20 million Equipment Facility (refer to Liquidity and Capital Resources discussion below). The equipment lease contracts were accounted for as financing leasing contracts under IAS 17. As at December 31, 2016, the Company recognized \$10,695,747 as a non-cash addition to equipment, within PP&E, with a corresponding amount recognized as a finance lease obligation. Direct transaction costs of \$560,722 were also added to the cost base of the lease asset.

The Company also recognized a reclamation provision of \$1,581,624 (2015 – nil) which has been capitalized to mine property – construction and development.

Lastly, a non-cash accretion of \$986,092 in respect of the Convertible Debenture was capitalized as borrowing costs, as well as interest and finance charges of \$501,750.

The decrease in mineral properties of \$9.9 million was largely a result of the reclassification of capitalized Touquoy costs to property, plant and equipment, as discussed above, partially offset by \$3 million incurred in respect to the continued development of the Company's other Nova Scotia projects, including the Company's exploration program at its Fifteen Mile Stream and Cochrane Hill Projects, as well as environmental study work for the Company's Beaver Dam Project.

The increase in cash and cash equivalents during the year of \$3.6 million resulted from \$3.98 million cash outflow used in operating activities and, \$61.8 million cash outflow from investing activities of the Company, partially offset by \$69.4 million cash inflow from financing activities. Cash inflow from financing activities was in respect of \$35.5 million proceeds raised from brokered and non-brokered financing, net of issuance costs, which occurred in May 2016 and September 2016 (refer to Liquidity and Capital Resources discussion below), \$935 thousand of proceeds received from stock option and share purchase

warrant exercises, \$12.4 million proceeds, net of issuance costs, raised from the Convertible Debenture which was also issued in May 2016 (refer to Liquidity and Capital Resources discussion below), \$593 thousand transferred to the Company's Debt Service Reserve Account ("DSRA") as part of the Equipment Facility (refer to Liquidity and Capital Resources discussion below), \$6 million in cash transferred to the Company's designated account in respect of the PLF (refer to Liquidity and Capital Resources discussion below), and \$29.7 million proceeds, net of issuance costs, from the Company's initial draw down of its PLF. These were partially offset by \$1.7 million lease payments and transaction costs in respect of the Company's Equipment Facility, \$568 thousand interest payments made on the Convertible Debenture, and \$298 thousand interest payments made on the PLF.

Cash outflows from investing activities included approximately \$13 million spent in respect of mineral property expenditures, of which a majority of the cost incurred was in respect to the Company's EPC agreement with Ausenco, and other owner's costs in respect to pre-construction work at the Company's Touquoy deposit which have subsequently been reclassified to mine property - construction and development within property, plant and equipment. In addition, \$46.2 million was spent on further Touquoy expenditures also largely in respect of engineering, procurement and construction costs, and owners' costs including earthworks, tailings management facility construction, and development of site infrastructure. Further, the Company had a cash outflow of \$2.7 million invested in a restricted GIC related to the surety bond (refer to Liquidity and Capital Resources discussion below).

#### **Year ended December 31, 2016**

The Company incurred a net loss of \$4,891,453 during the year ended December 31, 2016 (2015: \$3,125,206). The most significant operating expenses incurred were management fees, salaries and benefits of \$1,797,875 (2015: 1,072,419), share-based payments of \$948,733 (2015: 535,819), corporate development and investor relations of \$352,212 (2015: \$376,297), and professional fees of \$374,674 (2015: \$626,479). The increase in management fees, salaries and benefits is a result of the growth of the Company largely stemming from the increased activity within the Company, specifically, the construction and development activities at MRC and other Nova Scotia deposits. \ Share-based payments represents the Black-Scholes calculated fair value of stock options issued to directors, officers, consultants and employees which vested during the year. The increase in share-based payments is due to an increased number of options vesting during the year as a result of three stock option grants which occurred during the year. Corporate development and investor relations remained relatively consistent with the prior year prior year. The decrease in professional fees from the prior year is a result of a prior year increase in legal fees resulting from the final share settlement of the Company's acquisition of Acadian Mining Ltd. in addition to fees paid to the Company's debt advisor as the Company was in the process of seeking project financing.

During the year ended December 31, 2016, the Company incurred \$1.1 million of finance costs in respect of standby fees charged on the undrawn balance of the PLF and Equipment Facility (2015: nil). Additionally, the Company recognized interest income of \$145,931 (2015: \$129,431). The increase in income is a result of interest earned on the Company's cash position. As discussed below in Liquidity and Capital Resources, the Company must maintain a minimum of \$6 million in a designated account for the duration of the PLF. Such account was not held in the same period in the prior year.

The Company recorded a deferred tax recovery during the year ended December 31, 2016 of \$421,679 as a result of the following. An amount of \$97,646 was recognized to reflect the book to tax difference in value of the Company's convertible debenture that was issued in May 2016 (refer to Convertible Debenture discussion below). As the Company has excess tax assets to offset the deferred tax liability, which was created from the book to tax difference in value of the debenture, the deferred tax liability was reversed, resulting in a deferred tax recovery. Additionally, \$324,033 was recognized to reflect the fulfillment of a portion of the Company's flow-through liability due to eligible expenditures being incurred during the year.

## Summary of Quarterly Results

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total Revenue (Note 1)	N/A	N/A	N/A	N/A
Net loss for the period	\$ (1,678,439)	\$ (1,554,027)	\$ (930,763)	\$ (728,224)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Total Revenue (Note 1)	N/A	N/A	N/A	N/A
Net loss for the period	\$ (946,534)	\$ (649,305)	\$ (732,313)	\$ (797,054)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

**Note 1** – As the Company has yet to secure a mineral related asset in production, the Company has no revenue to report during the financial reporting periods noted above.

The net loss in Q2 2015 remained relatively consistent with the net loss in Q1 2015. The net loss in Q3 2015 compared to Q2 2015 decreased slightly as a result of lower corporate development and investor relations expenditures, in addition to lower share-based payments recognized during the quarter as a result of fewer stock options vesting during the period as compared to the prior quarter. The net loss in Q4 2015 compared to Q3 2015 increased as a result of increased professional fees resulting from the Company's efforts in obtaining project financing, which was subsequently secured in Q1 2016. The net loss in Q1 2016 compared to Q4 2015 decreased as a result of these same professional fees expensed during Q4 2015. The net loss in Q2 2016 compared to Q1 2016 increased as a result of standby fees charged on the Company's undrawn balance of its PLF. This was partially offset by the deferred tax recovery that was recognized on the issuance of the Convertible Debenture. The net loss in Q3 2016 compared to Q2 2016 increased as a result of increased share based payments due to a higher number of stock options vesting during the quarter from two stock option grants, an increase in management fees, salaries and benefits as a result of the growth of the Company stemming from the development of the Company's Touquoy deposit during the period, in addition to further accrued standby fees charged on the Company's undrawn balance of its PLF. The net loss in Q4 2016 compared to Q3 2016 increased as a result of increased management fees, salaries and benefits due to annual performance bonus payments accrued in Q4, partially offset by \$324 thousand deferred tax recovery that was recognized on the fulfillment of a portion of the Company's flow-through liability from eligible expenditures incurred during the period.

### Fourth Quarter Results

The Company incurred a net loss of \$1,678,439 during the three months ended December 31, 2016 (2015: \$946,534). The most significant operating expenses incurred were management fees, salaries and benefits of \$978,509 (2015: \$523,626) share-based payments of \$117,688 (2015 - \$71,147), corporate development and investor relations of \$150,837 (2015: \$62,275), and professional fees of \$193,076 (2015: 140,165). The increase in management fees, salaries and benefits is a result of the growth of the Company largely stemming from increased activity within the Company, specifically, the construction and development activities at MRC and other Nova Scotia deposits. Share-based payments represents the Black-Scholes calculated fair value of stock options issued to directors, officers, consultants and employees which vested during the period. The increase in share-based payments is due to an increased number of options vesting during the period. Corporate development and investor relations increased from the same period in the prior year due to increased marketing and investor relations activity around the construction of the Company's Touquoy Project. The increase in professional fees from the same

period in the prior year is a result of increased accounting fees in respect of the Company's year end audit.

During the three months ended December 31, 2016, the Company incurred \$365,382 of finance costs in respect of standby fees charged on the undrawn balance of the PLF (2015: nil). Additionally, the Company recognized interest income of \$78,617 (2015: \$26,913). The increase in interest income is a result of interest earned on the Company's cash position. As discussed below in Liquidity and Capital Resources, the Company must maintain a minimum of \$6 million in a designated account for the duration of the PLF. Such account was not held in the same period in the prior year. Further, the Company recorded a deferred tax recovery of \$324,033 (2015: nil) during the period to reflect the fulfillment of a portion of the Company's flow-through liability due to eligible expenditures being incurred during the period.

## ***LIQUIDITY and CAPITAL RESOURCES***

As at December 31, 2016, the Company had a balance of \$14,396,987 in cash deposits and short-term GICs with major Canadian financial institutions (December 31, 2015 - \$10,764,172). The Company also holds a restricted cash balance of \$9,337,346 which includes \$6,000,000 minimum proceeds account held as working capital contingency, as required. During the year, the Company received the following sources of funding:

### Brokered/Non-brokered private placements

On May 16, 2016, the Company completed a bought deal private placement financing for gross proceeds of \$14,375,046 (the "Brokered Offering") through the issuance of 23,958,410 common shares of the Company at a price of \$0.60 per share (the "Offering Price"), as well as the completion of a non-brokered private placement financing for gross proceeds of \$13,543,997 (the "Non-Brokered Offering"), through the issuance of 22,573,329 common shares of the Company at the Offering Price.

On September 22, 2016, the Company completed a bought deal private placement financing for gross proceeds of \$5,747,700 through the issuance of 5,474,000 flow-through common shares of the Company at a price of \$1.05 per share. The Company also completed a non-brokered private placement financing for gross proceeds of \$3,449,828 through the issuance of 3,285,550 flow-through common shares of the Company. The proceeds from the September 2016 private placements will be used in conjunction with the Company's resource definition drilling program on the Company's Cochrane Hill and Fifteen Mile Stream deposits and regional drilling program on other exploration prospects within Nova Scotia.

### Stock option exercise

During the year ended December 31, 2016, the exercise of stock option awards provided the Company with additional liquidity. A total of 2,530,000 stock options were exercised for total proceeds of \$923,400.

### Project Loan Facility

Additionally, to provide further funding of the development of the Company's MRC Project, on May 6, 2016, the Company, through its wholly owned subsidiary Atlantic Mining, executed a syndicated project facility agreement in respect to a \$115 million PLF to fund construction costs of the Company's MRC Project. The PLF carries an interest rate of the Canadian Dealer Offered Rate, or CDOR, plus a margin 5% (pre-Project Completion), reducing to a margin of 4.5% post-Project Completion, and is repayable in quarterly installments over three years' post commencement of construction. Project Completion is when physical construction of all project facilities has been completed in accordance with the terms of the PLF, and the Company has achieved continuous production at Touquoy whereby the plant throughput reaches an average of 5,400 tonnes per day for 10 consecutive days. Drawdown under the Credit Agreement is

subject to the satisfaction of certain customary conditions precedent. The PLF is secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries. The Company may repay the principal balance owing on the PLF at any time without penalty.

Additionally, the Company's PLF contains a covenant on working capital, calculated quarterly. In negotiations on the terms of the PLF it was the Company's intention for this ratio to only apply to the period following commissioning as the mechanics of a working capital ratio under the agreement can be materially impacted by timing differences between construction costs that are incurred and classified as current liabilities and the loan drawdowns under the PLF as scheduled from time to time as required for payment of creditors particularly around balance sheet dates. Compliance with the working capital ratio can only be accurately calculated upon finalizing the financial statements, which occurs subsequent to the balance sheet date, and accordingly there will be times when non-compliance cannot be known until well after the balance sheet date.

As a result of discussions in early 2017 with the PLF lenders, the requirement for compliance with a working capital ratio during construction was agreed as not necessary, and on April 25, 2017, it was agreed that any breach of this covenant was technical in nature and is waived for all of the year 2017, being the remaining period of construction of Touquoy.

At the balance sheet date, the Company was not in compliance with the working capital covenant. This non-compliance was waived subsequent to year end. IAS 1 states that unless any waiver to a breach of covenant has been obtained at the relevant balance sheet date then the loan must be classified as current. Because this waiver and clarification of the applicability of this ratio was not obtained until after the balance sheet date, the PLF and any debt facility with cross defaults are technically caught by the same issue, and have therefore been classified as current.

Furthermore, because this waiver and clarification for 2017 was not obtained until April 25, 2017 it is likely the same treatment will prevail for the period ending March 31, 2017.

This is a significant variation to the accounting standard under Canadian GAAP, prior to the adoption of IFRS, whereby if a waiver was subsequently obtained after the balance sheet date, the default was deemed remedied and such indebtedness would remain classified as a non-current liability.

On September 30, 2016, the Company completed its first draw in the amount of \$20,000,000 in respect of the PLF, with a second drawdown following in November 2016 in the amount of \$14,000,000. Total transaction costs in respect of the PLF were \$4,648,383 which consisted primarily of legal and advisory fees, and other financing expenses with respect to the PLF. Transaction costs have been recorded proportionately against the amount drawn on the PLF, and will be amortized over the repayment period of each respective drawdown using the effective interest rate method.

Under the terms of the PLF, in the event that the estimated costs to complete the project, are in excess of available funding, the Company may be required to raise requisite funds. As at December 31, 2016, the Company is committed to interest payments and minimum future principal payments for the PLF, assuming that the remaining \$81 million is drawn, as follows:

2017	4,707,000
2018	33,388,000
2019	57,062,000
2020	33,822,000
	<hr/>
	\$ 128,979,000

#### Convertible Debentures

On May 10, 2016, the Company completed a non-brokered financing of \$13 million by way of issuance of convertible debentures. The convertible debentures carry an interest rate of 8.5%, with the principal

payment due on the later of (a) May 10, 2021 and (b) the date that is the earlier of (i) six months after the final maturity date of the Company's \$115 million PLF and (ii) May 30, 2022. The principal amount of the convertible debentures are convertible into common shares of the Company at a conversion price of \$0.60 per share, representing a 20% premium to the closing trading price of the common shares of the Company, prior to the date the financing was originally announced. Accrued interest will also be convertible into common shares of the Company but at the market price of the shares at the time of conversion.

The Company may prepay, with notice, all of the principal amount of the Debenture and all accrued and unpaid interest thereon at any time following May 10, 2018. The Debentures are convertible at any time, at the subscriber's option, and are secured by way of a charge against all existing assets of the Company and its material subsidiaries, subordinated to the lenders of the PLF. Further, the Debenture agreements contain a cross- default provision, whereby an event of default with respect to the PLF triggers a default under the Debentures. An event of default provides the Debenture holders with the ability to call on the entire unpaid principal amount plus all accrued and unpaid interest. As discussed above, as at December 31, 2016, the Company was not in compliance with a working capital covenant of the PLF. This non-compliance was waived subsequent to year end, and on April 25, 2017, it was agreed with the PLF lenders that any breach of this covenant was waived for all of the year 2017, being the expected remaining period of construction of Touquoy. Under the Debenture agreements, a waiver provided by the PLF lenders, is a deemed waiver under the Debentures. Although there was no change in the Company's repayment schedules, the full amount of the convertible debenture is required to be recognized as current.

#### Equipment Facility

On May 26, 2016, the Company executed a definitive Master Lease Agreement in respect of a \$20 million mining fleet equipment lease facility to fund the Company's acquisition of mining equipment for the Company's MRC Project. The term of the Equipment Facility is 5 years from delivery, and is secured by the mining fleet. Title to the mining fleet transfers to the Company at the completion of the Equipment Facility. As noted above, as of December 31, 2016, the Company had entered into 16 equipment lease contracts forming part of the \$20 million Equipment Facility. The Company has recognized a \$10,695,746 finance lease obligation, determined as the net present value of the minimum lease payments owing on the executed lease contracts, with a corresponding amount recognized a non-cash addition to equipment within PP&E.

Lease payments under the Equipment Facility are payable on a quarterly basis and comprise principal payments and interest, interest being CDOR plus 5.35%. The lease payment schedule is thus amended for each ninety-day period to reflect increases or decreases to CDOR.

The Company is required to maintain certain project covenants as well as a working capital ratio, calculated quarterly. Additionally, similar to the Debentures, there is a cross-default clause whereby an event of default with respect to the PLF triggers a default under the Equipment Facility. An event of default entitles the lessor to provide written notice to the Company to terminate all lease agreements. Upon such notice, the debtor at their option may require the Company to return the leased equipment to the lessor, and in addition, the Company may be required to pay on demand an amount equal to the aggregate of all unpaid rental payments payable at the termination date, all future rent payments that would be payable up to the last day of the lease period, and any costs and expenses incurred by the lessor in locating, repossessing, recovering, restoring, re-leasing or re-selling the leased equipment. As discussed above in Note 10, as at December 31, 2016, the Company was not in compliance with the working capital covenant of the PLF, which is the same covenant under the Equipment Facility. This non-compliance was waived subsequent to year end, and on April 25, 2017, it was agreed with the PLF lenders that any breach of this covenant was waived for all of the year 2017, being the expected remaining period of construction of Touquoy. Within the Equipment Facility agreement, a waiver obtained from the PLF lenders constitutes a deemed waiver within the Equipment Facility. As the waiver was obtained subsequent to year end, the full lease obligation has been classified as current.

### Restricted cash

The Company holds a restricted cash balance of \$9,337,346 which includes \$6,000,000 held in respect of requirements under the Company's PLF, whereby the Company is required to maintain a minimum of \$6,000,000 in a designated bank account until the PLF is repaid. A balance of \$2,744,000 represents 80% of a \$3.43 million reclamation performance bond that was issued by way of a surety bond on May 26, 2016 (the "Surety Bond"), through the Company's wholly owned subsidiary, Atlantic Mining NS Corp. ("Atlantic Mining"), and a surety provider. The \$3.43 million is the first installment of a \$10.4 million phased reclamation security in respect of Touquoy. The phased approach ensures that adequate security is in place before each phase of disturbance, construction and operation at Touquoy. The total \$10.4 million financial security is to be posted in full by December 31, 2019.

The surety provider secured the Surety Bond by a line of credit with the Bank of Montreal ("BMO") at 80% of the value (\$2,744,000). As part of the line of credit, BMO required that 100% of the line of credit be collateralized by way of a restricted GIC. The restricted GIC has a maturity date of May 19, 2017, and earns interest at 1.35% per annum.

The remaining \$593,346 balance is cash held in respect of the Company's DSRA account under its Equipment Facility, whereby the Company is required to maintain an amount equal to 100% of one quarterly payment in respect of all leases under the Equipment Lease Facility. The DSRA account is to be maintained up to and including the date which is three months after the development of the Touquoy deposit is complete.

### Commitments

The Company renewed its Vancouver office lease agreement expiring September 30, 2020 and shares office space and related costs with a related company. As part of the office sharing agreement, 15% of the Vancouver office lease rental payment are recoverable from the related company. One of the Company's subsidiaries has an office lease commitment in Nova Scotia. A summary of the Company's commitments in respect of the above-mentioned leases is set out below:

2017	<u>279,689</u>
2018	229,050
2019	226,283
2020	<u>169,712</u>
	<u>\$ 904,734</u>

### Crown Lease Agreement

In 2016, the Company finalized a lease agreement in respect of seven parcels of Crown land required within the footprint of Touquoy. Lease payments are \$68,300 per annum, continuing until the termination of the lease in February 2026.

### Phased Reclamation Bond

As discussed above in Restricted Cash, the Company is required to post a phased reclamation security in the amount of \$10.4 million by December 31, 2019. The various future milestone payments for the reclamation security are as follows:

2017	2,100,000
2018	2,600,000
2019	2,100,000
	<b>\$ 6,800,000</b>

#### EPC Agreement

On May 9, 2016, the Company signed a fixed price Engineering, Procurement and Construction (“EPC”) contract in the amount of \$86.34 million to build a 2 million tonne per annum process plant, a truck shop and office facilities, as well as other supporting infrastructure related to these facilities for the Company’s Moose River Consolidated Project. At December 31, 2016, the Company had incurred \$45 million in respect of the EPC contract.

#### Equipment Facility

As disclosed above, during the year ended December 31, 2016, the Company entered into 16 leases under the Equipment Facility, the Company is required to make quarterly lease payments in respect of each finance lease. The undiscounted future minimum lease payment requirements are as follows:

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Total</b>
Minimum lease payments	2,402,027	8,945,583	11,347,611
Finance charges	(564,830)	(984,240)	(1,549,069)
<b>Total</b>	<b>1,837,197</b>	<b>7,961,343</b>	<b>9,798,540</b>

#### Exploration Tenement Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to incur expenditures of approximately \$240,000 (December 31, 2015: \$216,365) in respect of claim renewal fees and minimum work requirements in 2017.

The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months from existing treasury and the Project Loan Facility.

#### **OFF - BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

#### **SUBSEQUENT EVENTS**

- The following drawdowns were made on the PLF subsequent to December 31, 2016:

January 5, 2017	\$ 4,500,000
January 25, 2017	18,500,000
March 7, 2017	9,500,000
April 12, 2017	8,500,000
<b>Total</b>	<b>\$ 41,000,000</b>

- Subsequent to December 31, 2016, the Company granted a total of 4,025,000 stock options to directors, officers and employees of the Company, with a weighted average exercise price of \$0.96.



- Subsequent to December 31, 2016, 1,300,000 stock options and a cumulative total of 305,947 warrants were exercised at an exercise price of \$0.42 per share and \$0.60 per share, respectively.

## **OTHER MD&A REQUIREMENTS**

### **Related party transactions and key management compensation**

#### a) Key management compensation

Key management includes the Company's directors, President and Chief Executive Officer, and Chief Financial Officer. Compensation awarded to key management is presented in the table below:

<b>Related Party</b>	<b>Relationship</b>	<b>Compensation Type</b>	<b>December 31 2016</b>	<b>December 31 2015</b>
Steven Dean	Chairman and CEO	Consulting fees, benefits and share-based payments *	\$ 1,003,060	\$ 636,637
Robert Atkinson	Director	Directors' fees and share-based payments	61,805	47,093
Don Siemens	Director	Directors' fees and share-based payments	61,805	47,093
David Black	Director	Directors' fees and share-based payments	61,805	47,093
William Armstrong	Director	Consulting fees, directors' fees and share-based payments **	118,121	92,093
Ryan Beedie	Director	Director's fees	12,917	-
Wally Bucknell	Director	Consulting fees and share-based payments	220,408	297,700
John Morgan	Director	Wages, benefits, and share-based payments	322,940	409,878
Maryse Belanger	President and COO	Wages, benefits, and share-based payments	553,361	-
Chris Batalha	CFO and Corporate Secretary	Wages, benefits, and share-based payments	251,827	184,153
			<b>\$ 2,668,049</b>	<b>\$ 1,761,740</b>

\* Consulting fees are paid to Sirocco Advisory Services Ltd., a company controlled by Steven Dean.

\*\* Consulting fees are paid to Metallica Consulting Co, a company controlled by William Armstrong.

#### b) Amounts due to related parties

As at December 31, 2016, the Company owed \$426,710 to Sirocco Advisory Services, a company controlled by Steven Dean, the CEO and Chairman of the Company (December 31, 2015: \$204,250).

As at December 31, 2016, the Company owed \$8,333 (December 31, 2015: \$nil) to Metallica Consulting Services, a company controlled by William Armstrong, a director of the Company.

As at December 31, 2016, the Company owed \$13,250 (December 31, 2015: \$11,280) to Wally Bucknell, a director of the Company.

As at December 31, 2016, the Company owed \$13,500 (December 31, 2015: nil) to Robert Atkinson, a director of the Company.

As at December 31, 2016, the Company owed \$13,500 (December 31, 2015: nil) to David Black, a director of the Company.

As at December 31, 2016, the Company owed \$13,500 (December 31, 2015: nil) to Don Seimens, a director of the Company.

As at December 31, 2016, the Company owed \$3,333 (December 31, 2015: nil) to Ryan Beedie, a director of the Company.

As at December 31, 2016, the Company owed nil (December 31, 2015: \$82,300) to John Morgan, a director and former officer of the Company.

As at December 31, 2016, the Company owed \$75,168 (December 31, 2015: \$58,478) to Chris Batalha, the CFO of the Company.

As at December 31, 2016, the Company owed \$90,000 (December 31, 2015: \$nil) to Maryse Belanger, the COO of the Company.

Amounts due to and from related parties are unsecured, non-interest bearing and due on demand.

As discussed above, on May 10, 2016, the Company completed a non-brokered financing by way of issuance of convertible debentures, of which \$8 million is held by Beedie Investments Ltd., a Company controlled by Ryan Beedie, a director of the Company.

c) Amounts due from related party

The Company charges office lease and administrative expenditures to Oceanic Iron Ore Corp. ("Oceanic"), a Company with officers and a director in common being Steven Dean and Chris Batalha. During the year ended December 31, 2016, office lease and administrative expenditures billed to Oceanic amounted to \$78,652(2015: \$164,320). As at December 31, 2016, the Company was owed \$19,034 from Oceanic (December 31, 2015: \$19,305).

### **Critical Accounting Estimates and Judgments**

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are regularly evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements that could result in a material effect in the next financial year on the carrying amounts of assets and liabilities:

#### **Determination of commercial viability and technical feasibility of the Touquoy Gold Project ("Touquoy")**

The application of the Company's accounting policy for mineral property development costs required judgement to determine when technical feasibility and commercial viability of Touquoy was demonstrable. The Company considered the positive National Instrument ("NI") 43-101 compliant Feasibility Study, the receipt of key environmental permits, and the completed construction financing and concluded that commercial viability and technical feasibility of Touquoy had been achieved. Accordingly, effective May 10, 2016, the Company commenced capitalization of all direct costs related to the development of Touquoy, and reclassified capitalized costs from mineral properties to property, plant and equipment, and tested for impairment.

### Restoration provision

The Company has recorded a restoration provision which reflects the present value of the estimated amount of undiscounted cash flows required to satisfy the asset retirement obligation in respect of Touquoy.

Future remediation costs are accrued at the end of each period based on management's best estimate of the undiscounted cash costs required for future remediation activities. The initial provisions are periodically reviewed during the life of the operation and updated to reflect new developments or changes in estimates and forecasts. Changes in estimates are reflected in the period during which an estimate is revised. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs to be incurred to complete the reclamation and remediation work which is required to comply with existing laws, regulations and constructive obligation. Reclamation costs are a normal consequence of mining, and the majority of closure and reclamation expenditures are incurred near the end of the life of the mine. The initial reclamation provisions, together with changes, are capitalized within property, plant and equipment and depreciated over the lives of the assets to which they relate.

The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new reclamation techniques, and local inflation rates. The expected timing of expenditure can also change, for example, in response to changes in mineral reserves or production rates, timing of planned restart of operations or economic conditions. As a result, there could be significant adjustments to the provision for reclamation, which would affect future financial results.

### Hedge facility – own use

Contracts to buy or sell a non-financial item, such as a commodity, that can be settled net in cash or another financial instrument, fall under the scope of IAS 39 and are accounted for as derivatives and marked to market through the consolidated statement of loss and comprehensive loss. However, certain criteria exist whereby a contract may fall under an 'own use' exemption, and exempt from the requirements of IAS 39. The determination of the Company's accounting for its gold hedging contracts requires judgment to determine whether the contracts meet the requirements of 'own use'. An 'own use' contract is a contract that was entered into and continues to be held for the purpose of the delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. In the case of the Company's gold hedging contracts, the Company plans to settle the hedging contracts through the delivery of its own gold production, and therefore, these contracts result in the physical delivery of a commodity, and as per the Project Loan Facility, there is a specified schedule whereby the Company will be required to deliver a set number of ounces. While the Company is neither currently in production nor a Company with a history of production, the Company determined based on the Company's current life of mine plan, that the production of ore will be sufficient to fulfill the physical delivery requirements of the hedge contracts based on the agreed schedule within the PLF.

### Convertible debenture

Measurement of the fair value of the liability component of the convertible debenture includes estimates of (i) the amount and timing of cash flows, and (ii) the Company's cost of debt. Actual results may differ from these estimates.

### Mineral property impairment assessment

In accordance with the Company's accounting policy, each asset is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of value in use and fair value less costs to sell. The most significant assets assessed for impairment include the carrying value of the Company's deferred exploration expenditures and mineral property interests.

During the year, the Company reclassified capitalized costs associated with Touquoy from mineral property exploration costs under IFRS 6 to mine property construction and development costs within property, plant and equipment. At the time of the transition from exploration and evaluation to property, plant and equipment, the Company completed an impairment test as required by IFRS 6. The impairment test compared the carrying amount of Touquoy to its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs of disposal. The Company estimated the recoverable amount based on the fair value less costs of disposal using a discounted cash flow model with feasibility study economics. The significant assumptions that impacted the resulting fair value include future gold prices, exchange rates, capital cost estimates, operating cost estimates, estimated reserves and resources and the discount rate. Upon completion of the impairment tests, the Company concluded that there was no impairment.

The application of the Company's accounting policy for its mineral properties requires judgment to determine whether the future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. If, after expenditures are capitalised, information becomes available suggesting that the recovery of such expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

### Available-for-sale financial asset

Management owns shares in a privately held company, which is accounted for as an available-for-sale financial instrument and is included in other long-term financial assets on the balance sheet. Judgment has been made by management to carry its available-for-sale financial instrument at cost as opposed to fair market value, as the fair value cannot be reliably measured.

### **Significant Accounting Policies**

A detailed summary of all the Company's significant accounting policies is included in Note 3 to the audited annual financial statements for the year ended December 31, 2016, with all accounting standards newly adopted during the year summarized below.

## Accounting policies recently adopted

### Property, plant and equipment

#### i. Mine property – construction and development

Mine property consists of development costs carried at cost, less accumulated depletion and accumulated impairment losses, and costs recorded for assets under construction. Costs of project development are capitalized to mine property within property, plant and equipment. Once the mineral property is in production, it will be depleted using the units-of-production method. Depletion is determined each period using gold equivalent ounces mined over the asset's estimated recoverable reserves. Costs recorded for assets under construction are capitalized as construction is in progress. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. No depreciation is recorded until assets are substantially complete and available for their intended use.

#### ii. Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Land is not depreciated. Depreciation is calculated at the following annual rates:

Depreciation is calculated at the following annual rates:

Equipment	straight-line 8%-50%
Capital Leases	straight-line 8%-25%
Leasehold improvements	over the term of the lease

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates each part separately. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Depreciation of equipment used in the Company's exploration and development activities is capitalized to mineral properties.

### Restoration Provision

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, evaluation, development or ongoing production at a mineral property. A liability for an asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made with the corresponding asset retirement cost recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial value of the liability is accreted to its estimated future obligation. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### Convertible debenture

The Company's convertible debenture is classified as a liability, less the portion relating to the conversion feature which is classified as a component of equity. As a result, the recorded liability to repay the convertible notes is lower than its face value. The liability was initially recorded at fair value and is subsequently carried at amortized cost using the effective interest rate method; the liability is accreted to the face value over the term of the convertible debenture, and is currently being capitalized to mine property within property, plant and equipment in accordance with the Company's policy for borrowing costs.

### Deferred financing fees

Fees paid to establish credit facilities are recognised as transaction costs when it is likely that some or all of the credit facilities, to which the fees are related, will be drawn down. Transaction costs are deferred until the facility is arranged and draw-down occurs, at which time the deferred financing fees are offset against the proceeds of the credit facility.

### Loan facilities and borrowing costs

Loan facilities are recognized initially at fair value, net of transaction costs incurred. Loan facilities are subsequently carried at amortized cost.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset until such time when the asset is substantially complete and ready for its intended use. Standby charges that are directly related to the undrawn portion of a loan facility, and which change based on the portion of the unused commitment at that time, are expensed as incurred. All other borrowing costs are expensed as incurred.

### Inventory

Material and supplies inventory are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A regular review is undertaken to determine the extent of any provision for obsolescence.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement at the inception date.

#### *Finance leases*

Leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company, as a lessee, are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the lease liability.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term, in which case the asset is depreciated.

#### *Operating leases*

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recorded as paid in the Company's consolidated statements of loss and comprehensive loss. Lease payments made on equipment used in the Company's exploration and development activities are capitalized to mineral properties and property, plant and equipment during construction of Touquoy.

In addition to contracts which take the legal form of a lease, other significant contracts are assessed to determine whether, in substance, they are, or contain a lease, if the contractual arrangement contains the use of a specific asset and the right to use that asset.

### Flow-through shares

The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures funded from the proceeds of the sale of such shares being transferred to the purchasers of the shares. On the issuance of such shares, the Company bifurcates the flow-through shares into: a flow-through share premium, equal to the estimated premium that investors pay for the flow-through feature,

which is recognized as a liability, and share capital. As the related exploration expenditures are incurred, the Company derecognizes the premium liability and recognizes a related income tax recovery.

## **Changes in accounting standards not yet effective**

### Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change for liabilities is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than in net earnings. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management expects the adoption to have an impact on the carrying value of its available-for-sale financial asset.

### Revenue

IFRS 15, Revenue from Contracts with Customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue and IAS 11, Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management intends to adopt IFRS 15 effective January 1, 2017 and upon declaration of commercial production, revenue generated from operations at the Touquoy will be accounted for under the new standard. Management will assess the impact of IFRS 15 on all sales agreements executed prior to commercial production.

### Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretive guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. IFRS 16 will result in an increase in assets and liabilities as fewer leases will be expensed as payments are made. Management expects an increase in depreciation expenses and also an increase in cash flow from operating activities as these lease payments will be recorded as financing outflows in the cash flow statement.

## **Outstanding Share Data**

As at the date of this report, there were 174,937,660 common shares issued and outstanding.

As at the date of this report, there were 15,508,700 stock options outstanding.

As at the date of this report, there were 22,828,674 share purchase warrants outstanding.

As at the date of this report, there were 21,666,667 common shares issuable pursuant to the convertible debentures. (This assumes the entire \$13 million principal amount of the Debentures is converted at the conversion price of \$0.60 per common share. Accrued interest in relation to the Debentures is also convertible into common shares, but is convertible at the market price of the common shares at the time of conversion.)

### **Financial Instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit and loss, loans and receivables, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition. Where the Company expects to realize the asset or discharge the liability within twelve months, it is recorded as a current asset or liability; otherwise, it is recorded as a long-term asset or liability.

Financial assets and liabilities at fair value through profit and loss are considered to be held for trading. A financial asset or liability is classified in this category is acquired principally for the purpose of selling or redeeming in the short-term. Derivatives are included in this category unless they are designated as hedges.

Financial assets and liabilities carried at fair value through profit and loss are initially recognized at fair value and are subsequently re-measured to their fair value at each statement of financial position date. Realized and unrealized gains and losses arising from changes in the fair value of these financial assets or liabilities are included in the statement of income in the period in which they arise.

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. Available-for-sale assets are initially recorded at fair value plus transaction costs and are subsequently carried at fair value. Unrealized gains and losses arising from changes in the fair value of non-monetary assets classified as available-for-sale are recognized in other comprehensive income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Other financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in the statement of income over the period to maturity using the effective interest method.

### **Hedge Facility**

In order to mitigate gold price risk and as a condition of the PLF, the Company is required to enter into margin free gold forward sales contracts of 215,000 ounces at a minimum Canadian dollar forward price of \$1,500. In August 2016, the Company finalized and scheduled out its hedged contracts at a flat forward price of \$1,550 per ounce (the "Hedge Facility").

For accounting purposes, management has accounted for the Hedge Facility as meeting the requirements of 'Own Use', and thereby exempt from the requirements of IAS 39. An 'Own Use' contract



is a contract that was entered into and continues to be held for the purpose of the delivery of the non-financial item in accordance with the Company's expected purchase, sale or usage requirements, or will result in the physical delivery of a commodity, and as per the PLF agreement, there is a specified term whereby the Company will be required to deliver the produced ounces. As a result, the Hedge Facility is not considered a derivative and is not marked to market at each reporting period, and recognition is deferred until settlement and delivery of the gold.

### **Financial Risk Management**

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, restricted cash, receivables, due from related party, accounts payable, convertible debenture liability, lease obligation, Project Loan Facility, and due to related parties.

Cash and cash equivalents, restricted cash, receivables, due from related party, and deposits are designated as loans and receivables and are measured at amortized cost.

Accounts payable, convertible debenture liabilities, lease obligation, the Project Loan Facility, and amounts due to related parties are classified as other financial liabilities, which are measured at amortized cost.

All financial instruments for which fair value is recognised or disclosed are categorized within a fair value hierarchy based on the lowest level input that is significant to the fair value measurement as whole. The Company's available-for-sale financial asset held is categorized as Level 3 on the fair value hierarchy as the investment is in a privately held company of which observable market data is not available.

Financial instruments of the Company as at December 31, 2016 and December 31, 2015 are summarized as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents	\$14,396,987	\$ 14,396,987	\$ 10,764,172	\$ 10,764,172
Due from related parties	19,034	19,034	19,305	19,305
Receivables	253,116	253,116	279,564	279,564
Restricted cash	9,337,346	9,337,346	-	-
Other non-current asset	248,077	248,077	248,077	248,077
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$13,815,348	\$ 13,815,348	\$ 1,577,265	\$ 1,577,265
Due to related parties	657,294	657,294	356,308	356,308
Convertible debenture	12,455,917	13,143,801	-	-
Lease obligation	9,798,540	9,798,540	-	-
Project Loan Facility	32,829,623	34,091,712	-	-

Management has determined that there are no embedded derivatives which require bifurcation.

### **Financial Instrument Risk Exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board approves and monitors the risk management processes.

### Credit risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk is on its cash and cash equivalents, receivables, restricted cash and due from related parties. The Company has concentration of risk with respect to cash being held with two large Canadian financial institutions. The Company's credit risk is mitigated by maintaining its financial liquid assets with highly reputable counterparties. The maximum exposure to credit risk is equal to the carrying value of the financial assets noted above.

### Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due. The Company's cash and cash equivalents are invested in business accounts and term deposits which are available on demand. The Company manages liquidity risk by preparing and maintaining cash forecasts, which illustrate cash spent to date and its cash needs over the short term, and over repayment dates into the future as it pertains to the Project Loan Facility, Equipment Facility, and convertible debenture.

The following table summarizes the Company's contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2016 and December 31, 2015:

<b>December 31, 2016</b>			
	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 13,815,348	\$ -	\$ 13,815,348
Due to related parties	657,294	-	657,294
Convertible Debenture liability	1,105,000	552,500	1,657,500
Project Loan Facility	4,707,000	124,272,000	128,979,000
Lease obligation	2,402,027	8,945,583	11,347,610

<b>December 31, 2015</b>			
	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 1,577,265	\$ -	\$ 1,577,265
Due to related parties	356,308	-	356,308

As discussed above, on December 31, 2016, the Company was not in compliance with the current ratio covenant of the PLF. This triggered a cross-default within the lease obligation and Debentures. Subsequent to December 31, 2016, a waiver of default was obtained from the PLF lenders stating that they will not exercise any rights arising with respect of the failure to comply with the current ratio requirements. Although IFRS required the Company to record the full amounts of the PLF, lease obligation, and convertible debenture liability as current, the repayment schedules remain unchanged for each respective financial instrument, as reflected in the table above.

### Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on its interest income derived from Canadian Dollar cash and deposits, restricted cash, convertible debentures, the Project Loan Facility, and the Equipment Facility. The Company invests surplus cash in fixed rate term deposits. It is the Company's policy to reduce interest rate risk over future cash flows through the use of instruments with a history of returns. Advances under the PLF bear interest at an interest rate of the CDOR plus a 5% margin (Pre-Project Completion), reducing to a margin of 4.5% post-Project Completion. Similarly, the

Equipment Facility bears interest at a rate of CDOR plus a 5.35% margin. The Company manages this risk by monitoring fluctuations in CDOR, which are not expected to be significant. A 1% change in interest rates would have a \$236,769 impact on net loss and comprehensive loss.

### Market Risk

Market risk is the risk that the fair market value of the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates and equity and commodity prices. The Company is exposed to market risk in its cash and cash equivalents and restricted cash balance. The Company manages market risk by investing funds with reputable financial institutions that provide competitive rates of return.

The Company is subject to commodity price risk from fluctuations in the market prices for gold. As discussed above, during the year ended December 31, 2016, the Company finalized and scheduled out its Hedge Facility covering the sale of 215,000 ounces at a flat forward price of \$1,550 per ounce.

The Company's financial instruments are not subject to significant fluctuation due to changes in equity prices of investments included in marketable securities or foreign exchange rates.

### **Fair Value**

Fair value is based on available public market information or, when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk.

### Use of Proceeds

The Company funded the initial capital costs of the MRC Project with the PLF and Convertible Debenture. The proposed use of proceeds at the time of funding were as follows:

<b>MRC Project Initial Capital Costs</b>	<b>Proposed Use of Proceeds (in million's)</b>
Ausenco EPC costs - plant and infrastructure support - fixed component	\$ 86.3
Ausenco EPC costs - plant and infrastructure support - non-fixed component	5.0
Owner managed initial capital costs	35.6
<b>Initial capital costs*</b>	<b>\$ 126.9</b>

*\*Initial capital costs above excludes \$10.4 million in reclamation bond cost, as this was financed separately.*

As at the date of this report, there are no material variances to the proposed use of proceeds.

### Risks and Uncertainties

The Company is focused on acquisitions or other corporate transactions in gold, base metals, or other mineral-related assets or businesses. Due to the nature of the Company's proposed business, the following risk factors, among others, will apply:

### *Key Personnel*

The Company is dependent upon the services of key executives, including the directors of the Company and a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

### *Share Price Volatility and Liquidity*

Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for our shares will be subject to market trends generally, notwithstanding any potential success of us in creating sales and revenues. In addition, our shareholders may be unable to sell significant quantities of shares into the public trading markets without a significant reduction in the price of their shares, if at all.

### *Exploration, Development and Operating Risks*

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as quantity and quality of the minerals and proximity to infrastructure; mineral prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon the Company's operations.

Mining operations generally involve a high degree of risk. The operations of the Company are subject to all the hazards and risks normally encountered in the exploration, development and production of minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

There is no certainty that the expenditures made by the Company toward the search and evaluation of minerals will result in discoveries of mineral resources, Mineral Reserves or any other mineral occurrences.

### *Uncertainty of Mineral Resource and Mineral Reserve Estimates*

Although the Company has carefully prepared its mineral resource and mineral reserve figures with the assistance of independent experts, such figures are estimates only and no assurance can be given that the indicated tonnages and grade will be achieved or that the indicated level of recovery will be realized. There is significant uncertainty in any mineral resource and mineral reserve estimate, and the actual deposits encountered and the economic viability of, and returns from, mining a deposit may differ materially from estimates disclosed by the Company. The estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting engineering and geological information. Any future changes in assumptions regarding commodity prices, operating costs and exchange rates may also

render certain mineral resources or mineral reserves uneconomic to mine and result in a significant reduction in the reported mineral resources or mineral reserves.

#### *Uncertainties and Risks Relating to Feasibility Studies*

Feasibility studies are used to determine the economic viability of a deposit, as are pre-feasibility studies and preliminary assessments. Feasibility studies are the most detailed and reflect a higher level of confidence in the reported capital and operating costs.

There is no certainty that the Technical Report will be realized. While the Technical Report is based on the best information available to the Company, it cannot be certain that actual costs will not significantly exceed the estimated cost. While the Company incorporates what it believes is an appropriate contingency factor in cost estimates to account for this uncertainty, there can be no assurance that the contingency factor is adequate. Many factors are involved in the determination of the economic viability of a mineral deposit, including the achievement of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating cost estimates and estimates of future metal prices. Resource estimates are based on the assay results of many intervals from many drill holes and the interpolation of those results between holes and may also be materially affected by metallurgical, environmental, permitting, legal title, socio-economic factors, marketing, political and other factors.

#### *Political Stability and Government Regulation Risks*

The operations of the Company are currently conducted in Nova Scotia, Canada. As such, the operations of the Company may be exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: changing political conditions, and governmental regulations. Changes, if any, in mining or investment policies or shifts in political attitudes in Nova Scotia or Canada more broadly may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

#### *Insurance and Uninsured Risks*

The business of the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers being reasonable, its insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause

the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### *Environmental Risks and Hazards*

All phases of the Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or require abandonment or delays in development of new mining properties.

#### *Fluctuations in Metal Prices*

The price of the common shares, and the financial results and exploration, development and mining activities of the Company, may in the future be significantly and adversely affected by declines in the prices of gold and other metals or minerals. The prices of gold and other metals or minerals fluctuate widely and are affected by numerous factors beyond the control of the Company such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the United States dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major mineral-producing countries throughout the world, the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market prices of gold or other metals or minerals could cause continued development of and commercial production from the properties in which the Company holds an interest to be impracticable. Depending on the prices of gold and other metals and minerals, cash flow from mining operations could not be sufficient and the Company may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's properties is dependent upon the prices of gold and other metals and minerals being adequate to make these properties economically viable.

In addition to adversely affecting the resource estimates of the Company and its financial condition, declining commodity prices can affect operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or interrupt operations until the reassessment can be completed.

### *Commodities*

The Company's operations are or will in the future be dependent on various commodities (such as diesel fuel, electricity, steel, concrete and cyanide) and equipment to conduct operations. Market prices of commodities and equipment can be subject to volatile price movements, occur over short periods of time and are affected by factors that are beyond the control of the Company. The shortage of such commodities and equipment or any significant increase of their cost could have a material adverse impact upon the Company's ability to carry out its operations, and could affect the economic viability of the Company's projects.