

# **Atlantic Gold Corporation**

**Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2016 and 2015**

(Expressed in Canadian dollars)

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Atlantic Gold Corporation have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# Atlantic Gold Corporation

## Condensed Interim Consolidated Balance Sheets

	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 24,603,013	\$ 10,764,172
Prepaid expenses and deposits (Note 4)	3,538,276	135,319
Receivables (Note 5)	2,548,829	513,519
Due from related party (Note 13)	40,773	19,305
<b>Total Current Assets</b>	<b>30,730,891</b>	<b>11,432,315</b>
Property, plant and equipment (Note 6)	34,905,712	4,411,126
Mineral Properties (Note 7)	14,994,480	27,630,686
Restricted cash (Note 8)	8,744,000	-
Other non-current assets (Note 8)	448,077	448,077
<b>TOTAL ASSETS</b>	<b>\$ 89,823,160</b>	<b>\$ 43,922,204</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 8,671,764	\$ 1,577,265
Due to related parties (Note 13)	56,022	356,308
Current portion of convertible debenture - liability component (Note 9)	27,234	-
	<b>8,755,020</b>	<b>1,933,573</b>
Non-current liabilities		
Reclamation provision (Note 11)	802,710	-
Non-current portion of convertible debenture (Note 9)	12,209,622	-
<b>TOTAL LIABILITIES</b>	<b>21,767,352</b>	<b>1,933,573</b>
<b>Shareholders' equity</b>		
Share capital (Note 12a, 12b)	95,596,710	68,594,009
Contributed surplus (Note 12b, 12c)	13,103,051	12,657,504
Convertible debenture - equity component (Note 9)	277,917	-
Deficit	(40,921,870)	(39,262,882)
<b>Total Shareholders' Equity</b>	<b>68,055,808</b>	<b>41,988,631</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 89,823,160</b>	<b>\$ 43,922,204</b>

Commitments (Note 15)  
Subsequent Events (Note 16)

Approved by the Board:

"Donald Siemens"	Director
"Robert Atkinson"	Director

# Atlantic Gold Corporation

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Expenses</b>				
Amortization	\$ 11,565	\$ 11,755	\$ 19,161	\$ 33,628
Corporate Development and investor relations	72,461	119,770	114,921	230,697
Director fees	18,750	18,750	37,500	37,500
Management Fees, salaries and benefits	223,112	195,528	479,027	387,637
Office and general	83,021	46,241	136,153	88,104
Professional fees	109,936	167,069	136,038	262,692
Rent	47,985	26,511	93,377	69,960
Share-based payments (Note 12b)	160,681	142,817	416,220	364,113
Transfer agent and filing fees	36,213	44,735	47,429	79,139
Travel, meals and entertainment	8,210	2,635	35,435	12,530
<b>Net loss from operations</b>	<b>(771,934)</b>	<b>(775,809)</b>	<b>(1,515,261)</b>	<b>(1,566,000)</b>
<b>Other income / (expense)</b>				
Impairment of property, plant & equipment	-	-	-	(36,681)
Financing costs	(263,542)	-	(263,542)	-
Interest and other income	7,067	43,496	22,169	73,314
<b>Net loss before income taxes</b>	<b>(1,028,409)</b>	<b>(732,313)</b>	<b>(1,756,634)</b>	<b>(1,529,367)</b>
Deferred income tax recovery (Note 9)	97,646	-	97,646	-
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (930,763)</b>	<b>\$ (732,313)</b>	<b>\$ (1,658,988)</b>	<b>\$ (1,529,367)</b>
<b>Weighted average number of shares outstanding</b>	<b>138,623,078</b>	<b>113,559,001</b>	<b>127,121,162</b>	<b>113,559,001</b>
<b>Loss per share, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

The accompanying notes are an integral part of these unaudited interim financial statements

# Atlantic Gold Corporation

## Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

	Share capital		Contributed surplus	Convertible Debenture	Deficit	Total equity
	Number of shares	Amount				
<b>Balance - January 1, 2016</b>	<b>115,491,447</b>	<b>\$ 68,594,009</b>	<b>\$ 12,657,504</b>	<b>\$ -</b>	<b>\$ (39,262,882)</b>	<b>\$ 41,988,631</b>
Share-based payments	-	-	526,374	-	-	526,374
Exercise of stock options	650,000	309,827	(80,827)	-	-	229,000
Private placement - May 16, 2016 (Note 12b)	46,531,749	27,919,046	-	-	-	27,919,046
Share issuance costs	-	(1,226,172)	-	-	-	(1,226,172)
Convertible debenture - equity portion (Note 9)	-	-	-	393,323	-	393,323
Convertible debenture - issuance costs (Note 9)	-	-	-	(17,760)	-	(17,760)
Deferred income tax on convertible debenture (Note 9)	-	-	-	(97,646)	-	(97,646)
Net loss and comprehensive loss for the period	-	-	-	-	(1,658,988)	(1,658,988)
<b>Balance - June 30, 2016</b>	<b>162,673,196</b>	<b>\$ 95,596,710</b>	<b>\$ 13,103,051</b>	<b>\$ 277,917</b>	<b>\$ (40,921,870)</b>	<b>\$ 68,055,808</b>

	Share capital		Contributed surplus	Deficit	Total equity
	Number of shares	Amount			
<b>Balance - January 1, 2015</b>	<b>113,559,001</b>	<b>\$ 68,072,249</b>	<b>\$ 12,539,141</b>	<b>\$ (36,137,676)</b>	<b>\$ 44,473,714</b>
Share-based payments	-	-	426,967	-	426,967
Net loss for the period	-	-	-	(1,529,367)	(1,529,367)
<b>Balance - June 30, 2015</b>	<b>113,559,001</b>	<b>\$ 68,072,249</b>	<b>\$ 12,966,108</b>	<b>\$ (37,667,043)</b>	<b>\$ 43,371,314</b>

The accompanying notes are an integral part of these financial statements

# Atlantic Gold Corporation

## Condensed Interim Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Cash used in operating activities</b>		
Net loss and comprehensive loss for the period	\$ (1,658,988)	\$ (1,529,367)
Adjustments for:		
Deferred income tax recovery (Note 9)	(97,646)	-
Amortization	19,161	33,628
Impairment of property, plant & equipment	-	36,681
Share-based payments	416,220	364,113
Interest and other income	(22,169)	(73,314)
Net changes in non-cash working capital:		
Receivables	(2,026,459)	117,392
Due from related parties	(21,468)	17,735
Prepaid expenses and deposits	(527,910)	(41,496)
Accounts payable and accrued liabilities	2,085,735	146,739
Due to related parties	(300,286)	10,845
Net cash used in operating activities	(2,133,810)	(917,044)
<b>Investing activities</b>		
Property, plant and equipment	(920,050)	(12,679)
Restricted cash	(8,744,000)	-
Mineral property expenditures	(10,836,473)	(3,775,910)
Interest received	13,320	86,031
Net cash used in investing activities	(20,487,203)	(3,702,558)
<b>Financing activities</b>		
Proceeds from stock option exercise	229,000	-
Debt facility transaction fees	(2,875,047)	-
Proceeds from convertible debenture, net of issuance costs (Note 9)	12,413,027	-
Proceeds from private placement net of issuance costs (Note 12b)	26,692,874	-
Net cash provided in financing activities	36,459,854	-
Change in cash and cash equivalents during the period	13,838,841	(4,619,602)
Cash and cash equivalents, beginning of period	10,764,172	18,266,882
<b>Cash and cash equivalents, end of period</b>	<b>\$ 24,603,013</b>	<b>\$ 13,647,280</b>
<b>Cash and cash equivalents are comprised of the following:</b>		
Cash	\$ 24,556,338	\$ 969,058
GIC	46,675	12,678,222
	<b>\$ 24,603,013</b>	<b>\$ 13,647,280</b>
<b>Non cash investing and financing activities</b>		
Accretion on debt portion of convertible debenture	\$ 199,393	\$ -
Tax recovery of convertible debenture issuance	97,646	-
Change in mineral property expenditures in accounts payable	(521,993)	493,971
Change in property, plant and equipment in accounts payable	5,530,756	-
Share based payments charged to property, plant and equipment	55,077	-
Share based payments charged to mineral properties	55,077	62,854

The accompanying notes are an integral part of these financial statements

# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

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### 1. Nature of Operations

Atlantic Gold Corporation (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's registered/records office is located at 10<sup>th</sup> Floor - 595 Howe Street, Vancouver, B.C., Canada.

The Company is focusing on advancing the development of its Nova Scotia properties, including its Moose River Consolidated Project ("MRC Project"), Cochrane Hill and Fifteen Mile Stream gold projects, as well as continuing to actively review potential acquisitions and investment opportunities.

### 2. Significant Accounting Policies

#### a) Basis of Accounting

These unaudited condensed interim financial statements for the three and six months ended June 30, 2016 (the "Interim Financial Statements") have been prepared in accordance with International Auditing Standard 34, Interim Financial Reporting ("IAS 34"). These Interim Financial Statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These Interim Financial Statements have been prepared using accounting policies consistent with those used in the Company's 2015 annual consolidated financial statements, except for the adoption of new standards as described below.

These Interim Financial Statements were approved by the board of directors on August 25, 2016.

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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## 2. Significant Accounting Policies *(continued)*

### b) Accounting Policies Recently Adopted

#### **Property, Plant and Equipment - Mine property**

Mine property consists of development costs carried at cost, less accumulated depletion. 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.

#### **Property, Plant and Equipment - Mine Construction and Development**

Costs recorded for assets under construction are capitalized as construction 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.

#### **Property, Plant and Equipment - Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use are capitalized as part of the cost of the asset. Capitalization of borrowing costs begins when there are borrowings and when activities commence to prepare an asset for its intended use. Capitalization of borrowing costs ends when substantially all activity necessary to prepare a qualifying asset for its intended use are complete. When proceeds of project specific borrowings are invested on a temporary basis, borrowing costs are capitalized net of any investment income.

#### **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 subsequently 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 capitalized to mine property within property, plant and equipment.



# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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### 3. Critical accounting estimates and judgements

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 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 requires 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.

#### Reclamation provision

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 Company's accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation and updated to reflect new developments or changes in estimates and forecasts. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current reclamation standards and techniques. 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 or experience at other mine sites, 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.

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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### 3. Critical accounting estimates and judgements *(continued)*

#### 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 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 (Note 10b) 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 ("PLF" and defined in Note 10a), there is a specified schedule whereby the Company will be required to deliver a set number of ounces. Given that 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 (Note 9) 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.

### 4. Other current assets

		<b>June 30, 2016</b>		December 31, 2015
Capitalized financing costs	\$	2,875,047	\$	-
Prepaid expenses and Deposits		663,229		135,319
	<b>\$</b>	<b>3,538,276</b>	<b>\$</b>	<b>135,319</b>

#### Capitalized Financing Costs

Capitalized financing costs are deferred financing costs that were incurred in respect to the execution of a Project Loan Facility with the Company's lenders (Note 10a), and will be reclassified and recorded as part of the amortized cost of the debt, and amortized over the repayment period of the facility once first draw-down has occurred.

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

## 5. Receivables

	<b>June 30,</b>	December 31,
	<b>2016</b>	2015
Input tax credits	\$ 2,312,700	\$ 233,956
NSDNR security for settlement of expropriated properties	206,698	206,698
Interest and other receivables	29,431	72,865
	<b>\$ 2,548,829</b>	<b>\$ 513,519</b>

The receivable from the Nova Scotia Department of Natural Resources ("NSDNR") relates to security held by the NSDNR in respect of certain expropriated properties acquired in order to facilitate mining activities by the Company. The security will be refunded once payment for the expropriated lands by the Company has been made. The Company remains in discussions with the previous land owners in respect of a negotiated settlement payment. The Company has estimated and accrued a payment amount it believes will be required to settle the amounts within accounts payable and accrued liabilities.

## 6. Property, plant and equipment

	<b>Mine Property</b>	<b>Mine Construction and Development</b>	<b>Equipment</b>	<b>Land</b>	<b>Total</b>
<b>At December 31, 2015</b>					
Cost	\$ -	\$ -	\$ 251,052	\$ 4,299,805	\$ 4,550,857
Accumulated depreciation	-	-	(139,731)	-	(139,731)
<b>Net book Value</b>	<b>-</b>	<b>-</b>	<b>111,321</b>	<b>4,299,805</b>	<b>\$ 4,411,126</b>
<b>Period ended June 30, 2016</b>					
At January 1, 2016	-	-	111,321	4,299,805	\$ 4,411,126
Reclassification from mineral properties	13,988,874	9,016,890	-	-	23,005,764
Reclamation provision (Note 11)	802,710	-	-	-	802,710
Convertible debenture accretion (Note 9)	199,393	-	-	-	199,393
Additions	2,192,578	3,999,766	303,536	10,000	6,505,880
Depreciation for the period	-	-	(19,161)	-	(19,161)
<b>Closing net book value</b>	<b>17,183,555</b>	<b>13,016,656</b>	<b>395,696</b>	<b>4,309,805</b>	<b>\$ 34,905,712</b>
<b>At June 30, 2016</b>					
Cost	17,183,555	13,016,656	554,588	4,309,805	\$ 35,064,604
Accumulated depreciation	-	-	(158,892)	-	(158,892)
<b>Net book Value</b>	<b>\$ 17,183,555</b>	<b>\$ 13,016,656</b>	<b>\$ 395,696</b>	<b>\$ 4,309,805</b>	<b>\$ 34,905,712</b>

# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

### 6. Property, plant and equipment (continued)

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 of the project had been established through appropriate board approval and project financing. Accordingly, the Company reclassified capitalized costs associated with Touquoy from mineral property exploration costs under IFRS 6 (Note 7), to mine property and mine construction and development costs within property, plant and equipment. Capitalized mineral property costs will be carried at cost until the Touquoy is placed in commercial production, sold, abandoned, or determined by management to be impaired in value.

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.

### 7. Mineral Properties – Nova Scotia

Six months ended June 30, 2016

	Beaver Dam	Touquoy	Cochrane Hill	Fifteen Mile Stream and Other	Total
<b>Acquisition Costs beginning of period</b>	\$ 1,134,791	\$ 10,035,517	\$ 2,278,597	\$ 6,321,884	\$ 19,770,789
Reclassification to property, plant and equipment (Note 6)	-	(10,035,517)	-	-	(10,035,517)
<b>Acquisition Costs end of period</b>	1,134,791	-	2,278,597	6,321,884	9,735,272
<b>Cumulative exploration costs - Beginning of period</b>	\$ 4,025,390	\$ 3,173,012	\$ 288,020	\$ 373,475	\$ 7,859,897
<b>Additions - Exploration Costs</b>					
Engineering	20,752	8,638,525	-	-	8,659,277
Salaries & Consulting Fees*	137,741	349,425	-	30,958	518,124
Environmental	173,328	135,821	7,768	-	316,917
Construction & Development	-	233,877	-	-	233,877
Permitting & claims	24,520	133,112	-	37,594	195,226
Borrowing Costs	-	138,880	-	-	138,880
Office and Admin.	94,710	20,601	-	-	115,311
Assays & Metallurgy	9,940	54,065	-	6,237	70,242
Travel & Accommodation	3,931	50,906	-	493	55,330
Drilling & Fieldwork	-	36,416	-	16,003	52,419
Equipment & Supplies	-	5,607	-	1,742	7,349
Other	5,826	-	-	780	6,606
Exploration expenditures for the period	470,748	9,797,235	7,768	93,807	10,369,559
Reclassification to property, plant and equipment (Note 6)	-	(12,970,247)	-	-	(12,970,247)
<b>Cumulative exploration costs - End of period</b>	\$ 4,496,138	\$ -	\$ 295,788	\$ 467,282	\$ 5,259,208
<b>Grand Total - Mineral Properties</b>	\$ 5,630,929	\$ -	\$ 2,574,385	\$ 6,789,166	\$ 14,994,480

\*Includes a portion of share-based payments of \$52,447

# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

### 7. Mineral Properties – Nova Scotia (continued)

Year ended December 31, 2015

	Beaver Dam	Touquoy	Cochrane Hill	Fifteen Mile Stream and Other	Total
<b>Acquisition Costs beginning and end of year</b>	<b>\$ 1,134,791</b>	<b>\$ 10,035,517</b>	<b>\$ 2,278,597</b>	<b>\$ 6,321,884</b>	<b>\$ 19,770,789</b>
Cumulative exploration costs - Beginning of year	\$ 1,751,395	\$ 160,200	\$ 125,591	\$ 159,762	\$ 2,196,948
<b>Additions - Exploration Costs</b>					
Permitting & claims	32,148	179,968	13,480	158,669	384,265
Drilling & Fieldwork	173,788	793,416	-	15,523	982,727
Feasibility Studies	175,183	486,554	36,928	-	698,665
Environmental & Geology	371,571	372,311	111,750	8,247	863,879
Salaries	435,463	239,318	-	8,610	683,391
Consulting*	385,760	404,575	-	14,341	804,676
Assays & Metallurgy	425,281	341,940	-	6,144	773,365
Equipment & Supplies	42,774	178,434	-	2,139	223,347
Travel & Accommodation	49,212	15,361	-	-	64,573
Office and Admin.	168,783	935	271	40	170,029
Other	14,032	-	-	-	14,032
Exploration expenditures for the year	2,273,995	3,012,812	162,429	213,713	5,662,949
<b>Cumulative exploration costs - End of year</b>	<b>\$ 4,025,390</b>	<b>\$ 3,173,012</b>	<b>\$ 288,020</b>	<b>\$ 373,475</b>	<b>\$ 7,859,897</b>
<b>Grand Total - Mineral Properties</b>	<b>\$ 5,160,181</b>	<b>\$ 13,208,529</b>	<b>\$ 2,566,617</b>	<b>\$ 6,695,359</b>	<b>\$ 27,630,686</b>

\*Includes a portion of share-based payments of \$104,304

### 8. Other non-current assets

	June 30, 2016	December 31, 2015
Restricted Cash	\$ 8,744,000	\$ -
Reclamation bonds	200,000	200,000
Available for sale financial assets	248,077	248,077
	<b>\$ 9,192,077</b>	<b>\$ 448,077</b>

#### Restricted Cash

The restricted cash balance includes \$6,000,000 held in respect of requirements under the Company's PLF (as defined in Note 10), whereby the Company is required to maintain a minimum of \$6,000,000 in a bank account until the PLF is repaid. The remaining \$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 (Note 15).

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.

# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

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### 8. Other non-current assets *(continued)*

#### Reclamation Bonds

The reclamation bonds are held by the NSDNR over various mining tenements and will be refundable to the Company once mining is completed and the land has been restored to its economically usable state.

#### Available for sale financial asset

The available for sale financial asset represents the Company's minority interest in Moose River Resources Inc. ("MRRRI"), a privately held company, which is recorded at cost as the fair value is not reliably measureable as the shares are privately traded and there is a wide potential range of volatility.

MRRRI holds a 36.5% ownership in Touquoy. As part of a partnership agreement between the Company and Touquoy, 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.

### 9. Convertible Debenture

On May 10, 2016, the company completed a non-brokered financing of \$13 million by way of issuance of convertible debentures (the "Debentures"). The 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 (note 10) and (ii) May 30, 2022. The principal amount of the Debentures are convertible at the subscriber's option 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 (note 10).

For accounting purposes, the Debenture is separated into its liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Debenture assuming a 10% interest rate which was the estimated rate for a similar debenture without a conversion feature. Repayment of the convertible debenture was assumed to occur on May 10, 2018. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the Debenture and the fair value of the liability component, less a deferred income tax adjustment to reflect the book to tax difference in value of the Debenture at the time of issuance. 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.

Issuance costs of \$586,974 were incurred and have been recorded against the liability and equity components. The liability balance of the issuance costs will be capitalized to mine property within property, plant and equipment over the life of the Debenture. Accretion expense for the three and six months ended June 30, 2016 was \$199,393 (2015: nil) and has been capitalized to mine property within property, plant and equipment.

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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## 9. Convertible Debenture (continued)

	Liability component		Equity component		Total
<b>Opening balance - January 1, 2016</b>	\$	-	\$	-	\$ -
Issued - amount at date of issue (May 10, 2016)		12,606,677		393,323	<b>13,000,000</b>
Issuance costs allocated		(569,214)		(17,760)	<b>(586,974)</b>
Deferred income tax asset (liability)		-		(97,646)	<b>(97,646)</b>
Amortization of issuance costs		23,717		-	<b>23,717</b>
Accretion expense		175,676		-	<b>175,676</b>
<b>Balance - June 30, 2016</b>	\$	<b>12,236,856</b>	\$	<b>277,917</b>	\$ <b>12,514,773</b>

## 10. Long-term Debt

### a. Project Loan Facility

On May 6, 2016, the Company, through Atlantic Mining, executed a syndicated project facility agreement (the "Credit Agreement") in respect of a \$115 million PLF to fund construction costs of the Company's MRC Project.

The PLF will carry an interest rate of the Canadian Dealer Offered Rate, or CDOR, plus a margin 5% (pre-Project Completion), reducing to plus a margin of 4.5% post-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 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 will be secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries.

Pursuant to the terms of the PLF, the Company is required to maintain certain project covenants as well as a current ratio of at least 1.25:1, at all times commencing from the initial draw down of the PLF.

As at June 30, 2016, no drawdowns of the PLF had occurred.

### b. 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. At June 30, 2016, the Company had already executed gold price hedging contracts covering the 215,000 ounces of production. Subsequent to June 30, 2016, the Company finalized and scheduled out its hedged contracts at a flat forward price of \$1,550 per ounce (the "Hedge Facility").

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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## 10. Long-term Debt *(continued)*

### b. Hedge Facility (continued)

For accounting purposes, management has determined that the Hedge Facility meets 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, that is, it will result in the physical delivery of a commodity, and as per the PLF agreement, there is a specified schedule 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.

### c. 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 (the "Equipment Facility") to fund the Company's acquisition of mining equipment for the Company's MRC Project. The term of the Equipment Facility will be 5 years from delivery, and will be secured by the mining fleet. Title to the mining fleet will transfer to the Company at the completion of the Equipment Facility.

The delivery of the first part of the mining fleet occurred subsequent to period end (refer to Subsequent Events note 16).

## 11. Reclamation Provision

The Company has recorded a liability for remediation of current and past disturbances associated with the exploration and development activities at the MRC Project. At June 30, 2016, the reclamation provision was estimated at \$802,710 (December 31, 2015 - \$nil). The reclamation costs have been calculated to reflect the amount of expected cash flows for the disturbances incurred as at June 30, 2016. The Company applied a discount rate of 1.1% and an inflation rate of 2.0% in calculating the estimated obligation. The liability for remediation on an undiscounted basis is \$885,235.

## 12. Equity

### a) Authorized share capital

Unlimited common shares without par value

Unlimited number of preferred shares without par value, issuable in series and with special rights and restrictions to be determined on issuance



# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

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### 12. Equity (continued)

#### b) Issued and fully paid common shares

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"). The Company also announced the completion of a non-brokered private placement financing for gross proceeds of \$13,544,000 (the "Non-Brokered Offering"), through the issuance of 22,573,329 common shares of the Company at the Offering Price. In consideration for the services of the underwriters under the Brokered Offering, the underwriters received a cash commission equal to \$862,503 (6% of the proceeds raised under the Brokered Offering). The Company paid finders fees in connection with the Non-Brokered Offering totalling \$115,900.

#### c) Stock options

The Company values the stock options granted using the Black Scholes option pricing model to determine the fair value of options granted. The vesting period for options is 12.5% immediately with 12.5% each quarter over the following seven quarters.

A summary of the changes in stock options is as follows:

	Options	Weighted average exercise price
Options outstanding - January 1, 2015	7,373,700	\$ 0.38
Granted	3,940,000	0.26
<b>Options outstanding - December 31, 2015</b>	<b>11,313,700</b>	<b>\$ 0.34</b>
Granted	2,725,000	0.42
Exercised	(650,000)	0.35
<b>Options outstanding - June 30, 2016</b>	<b>13,388,700</b>	<b>\$ 0.36</b>
<b>Options exercisable - June 30, 2016</b>	<b>10,278,700</b>	<b>\$ 0.35</b>

During the three months ended June 30, 2016, the Company granted a total of 100,000 stock options to directors, officers, employees and consultants of the Company. The weighted average exercise price of the options granted for the three months ended June 30, 2016 was \$0.65 per option (2015 – 3,720,000 stock options granted with an exercise price of \$0.255). The exercise price for the stock option grants were equal to the market price at the time of the grant. Total share based payments recognized during the period was \$212,674 (2015 - \$167,159), with \$160,681 recognized in the statement of loss (2015 - \$142,817), \$25,997 capitalized to mineral properties (2015 - \$24,342), and \$25,996 capitalized to mine property within property, plant and equipment (2015 – nil).

During the six months ended June 30, 2016, the Company granted a total of 2,725,000 stock options to directors, officers, employees and consultants of the Company. The weighted average exercise price of the options granted for the six months ended June 30, 2016 was \$0.43 per option (2015 – 3,790,000 stock options granted with an exercise price of \$0.255). The exercise price for the stock option grants were equal to the market price at the time of the grant. Total share based payments recognized during the period was \$526,374 (2015 - \$426,967), with \$416,220 recognized in the statement of loss (2015 - \$364,113), \$55,077 capitalized to mineral properties (2015 - \$62,854) and \$55,077 capitalized to mine property within property, plant and equipment (2015 – nil).

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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## 12. Equity (continued)

### c) Stock options (continued)

The following assumptions were used in the valuation of the stock options granted in the period:

Risk-free interest rate	2.70%
Expected life	6.75 years
Annualized volatility	70%
Dividend rate	0.00%
Forfeiture rate	0.00%

The risk-free rate for periods within the contractual term of the option is based on the Bank of Canada administered interest rates in effect at the time of the grant. The expected life of the options granted represents the period of time that the options granted are expected to be outstanding. Expected volatilities are based on historical volatilities of stock prices of comparable companies given the limited life of the Company as an exploration company. Expected forfeiture rates are based on historical forfeitures of stock options of the Company.

The following table summarizes information about the options outstanding at June 30, 2016:

Number of Options	Exercise Price	Expiry Date	Number Exercisable
1,850,000	0.37	August 12, 2016	1,850,000
1,000,000	0.40	April 10, 2017	1,000,000
100,000	0.37	May 10, 2017	100,000
973,700	0.50	August 28, 2017	973,700
1,050,000	0.40	November 1, 2017	1,050,000
50,000	0.40	July 26, 2018	50,000
1,700,000	0.32	June 13, 2019	1,700,000
3,790,000	0.255	December 6, 2021	2,842,500
150,000	0.335	July 14, 2022	56,250
80,000	0.330	October 4, 2022	20,000
2,545,000	0.420	November 24, 2022	636,250
50,000	0.630	February 16, 2023	6,250
50,000	0.660	March 13, 2023	6,250
<u>13,388,700</u>			<u>10,278,700</u>

### d) Share purchase warrants

At June 30, 2016 and December 31, 2015, the Company had outstanding share purchase warrants exercisable to acquire 23,137,361 common shares, with a weighted exercise price of \$0.60 and an expiry date of August 20, 2018.

# Atlantic Gold Corporation

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2016 (unaudited)

### 13. Related party transactions and key management compensation

#### a) Key management compensation

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

	<b>Three months ended June 30, 2016</b>	Three months ended June 30, 2015	<b>Six months ended June 30, 2016</b>	Six months ended June 30, 2015
Salaries and benefits	\$ 76,313	\$ 54,750	\$ 154,541	\$ 134,915
Consulting fees	153,750	153,083	306,103	306,886
Director fees	18,750	18,750	37,500	37,500
Share-based payments	165,119	143,535	426,541	366,889
	<b>\$ 413,932</b>	<b>\$ 370,118</b>	<b>\$ 924,685</b>	<b>\$ 846,190</b>

#### b) Due to related parties

As at June 30, 2016, the Company owed \$nil to Sirocco Advisory Services, a company controlled by a director and officer of the Company (December 31, 2015: \$204,250).

As at June 30, 2016, the Company owed \$10,000 (December 31, 2015: \$nil) to Metallica Consulting Services, a company controlled by a director of the Company.

As at June 30, 2016, the Company owed \$37,602 (December 31, 2015: \$11,280) to a director of the Company.

As at June 30, 2016, the Company owed \$8,420 (December 31, 2015: \$82,300) to a director and officer of the Company.

As at June 30, 2016, the Company owed \$nil (December 31, 2015: \$58,478) to an officer of the Company.

As discussed above in Note 9, on May 10, 2016, the Company completed a non-brokered financing by way of issuance of convertible debentures, whereby \$8 million of the Debentures are held by Beedie Investments Ltd., a company controlled by a director of the Company.

#### c) Due from related party

The Company charges office lease and administrative expenditures to Oceanic Iron Ore Corp. ("Oceanic"), a Company with officers and directors in common. During the three and six month periods ended June 30, 2016, office lease and administrative expenditures billed to Oceanic amounted to \$19,478 and \$38,650, respectively (2015: \$47,254 and \$98,866, respectively). As at June 30, 2016, the Company was owed \$19,478 from Oceanic (December 31, 2015: \$19,305).

As at June 30, 2016, the Company was owed \$21,295 from Sirocco Advisory Services Ltd., a Company controlled by a director and officer of the Company (December 31, 2015: \$nil).

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

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2016 (unaudited)

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## 14. Fair Value of Financial Instruments

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. The carrying values of cash and cash equivalents, restricted cash (current and non-current), receivables, prepaids and deposits, due from related parties, accounts payable, accrued liabilities and due to related parties approximate their fair values due to their short term nature.

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.

## 15. Commitments

As disclosed in note 10(c), the Company has a long-term office lease and shares office space and related costs with one other company. As part of the office sharing agreement, 15% of the Vancouver office rent is recoverable from the related party. One of the Company's subsidiaries has an office lease commitment in Nova Scotia. A summary of the Company's commitments is set out below:

2016	113,142
2017	227,206
2018	229,050
2019 and thereafter	395,996
	<u>\$ 965,394</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 in note 8 the Company is required to post a phased reclamation security in the amount of \$10.4 million by December 31, 2019. The various milestone payments for the reclamation security are as follows:

2016	-
2017	2,100,000
2018	2,600,000
2019	2,100,000
	<u>\$ 6,800,000</u>

### EPC Agreement

On May 9, 2016, the Company signed a fixed price Engineering, Procurement and Construction ("EPC") contract in the amount of \$87.4 million to build a 2 million tonne per annum process plant, truck shop and office facilities, as well as other support infrastructure related to these facilities for the Company's MRC Project.

# Atlantic Gold Corporation

Notes to the Condensed Interim Consolidated Financial Statements  
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## 15. Commitments *(continued)*

### MRRRI Option Fee

The Company is required to pay a \$500,000 option fee upon initial drawdown of the Company's PLF to MRRRI, who own 36.5% interest in Touquoy, as part of an amended partnership agreement between both parties.

### Exploration Tenement Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to incur expenditures of approximately \$132,421 (December 31, 2015: \$216,365) in respect of claim renewal fees and minimum work requirements in 2016.

## 16. Subsequent Events

- a) On July 8, 2016, the Company granted a total of 1,100,000 stock options with an exercise price of \$0.73, expiring on April 8, 2023. On July 25, 2016, the Company granted a total of 200,000 stock options with an exercise price of \$0.81, expiring on April 25, 2023.
- b) Subsequent to June 30, 2016, a total of 1,880,000 stock options were exercised, for gross proceeds of \$694,400.
- c) Subsequent to June 30, 2016, the Company entered into several equipment lease contracts forming part of the \$20 million Equipment Facility which was executed on May 26, 2016, whereby the Company's lenders have agreed to underwrite up to \$20 million in mining fleet equipment financing to fund the Company's acquisition of mining equipment for the Company's Moose River Consolidated Project. The equipment lease contracts will be accounted for as finance leasing contracts under IAS 17.