Atlantic Gold Corporation

Unaudited Condensed Interim Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Expressed in Canadian dollars)

Atlantic Gold Corporation

Condensed Interim Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	As at June 30, 2017	As at December 31, 2016
Assets		
Current		
Cash and cash equivalents	**$ 11,502,113**	$ 14,396,987
Prepaid expenses and deposits	**532,934**	783,824
Receivables *(Note 5)*	**2,204,039**	3,673,585
Inventory	**201,086**	201,285
Deferred financing fees (*Note 9*)	**711,364**	3,274,078
Due from related party *(Note 14)*	**43,860**	19,034
	15,195,396	22,348,793
Property, plant and equipment *(Note 6)*	**152,980,841**	95,805,269
Mineral properties *(Note 7)*	**24,949,917**	17,749,731
Restricted cash *(Note 8)*	**9,050,021**	9,337,346
Other non-current assets	**448,078**	448,078
	$ 202,624,253	$ 145,689,217
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 8,178,190**	$ 13,815,348
Due to related parties *(Note 14)*	**69,840**	657,294
Project Loan Facility (*Note 9*)	**15,370,000**	32,829,623
Convertible debenture *(Note 10)*	**153,139**	12,455,917
Lease obligation *(Note 12)*	**1,639,148**	9,798,540
Other liability *(Note 13b)*	**42,874**	1,165,091
	25,453,191	**70,721,813**
Reclamation provision *(Note 11)*	**3,264,123**	1,581,624
Non-current Project Loan Facility *(Note 9)*	**78,988,646**	-
Non-current portion of convertible debenture *(Note 10)*	**12,041,244**	-
Non-current portion of lease obligation *(Note 12)*	**8,601,311**	-
	128,348,515	**72,303,437**
Shareholders' equity		
Share capital *(Note 13a, 13b)*	**105,941,740**	103,973,121
Contributed surplus *(Note 13c)*	**14,665,445**	13,289,077
Convertible debenture - equity component *(Note 10)*	**277,917**	277,917
Deficit	**(46,609,364)**	(44,154,335)
Total Shareholders' Equity	**74,275,738**	73,385,780
	$ 202,624,253	$ 145,689,217

Commitments *(Note 16)*

Subsequent events *(Note 17)*

Approved by the Board:

"Donald Siemens" Director

"Robert Atkinson" Director

The accompanying notes are an integral part of these consolidated financial statements

Atlantic Gold Corporation

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

For the three and six months ended June 30

(Expressed in Canadian Dollars)

	Three months ended 2017	*Three months ended* 2016	***Six months ended 2017***	*Six months ended 2016*
Expenses				
Amortization	**$ 24,372**	$ 11,565	**$ 48,673**	$ 19,161
Corporate Development and investor relations	**151,387**	72,461	**300,326**	114,921
Director fees	**58,125**	18,750	**135,750**	37,500
Management Fees, salaries and benefits	**390,828**	223,112	**794,438**	479,027
Office and general	**73,075**	83,021	**120,555**	136,153
Professional fees	**239,652**	109,936	**328,390**	136,038
Rent	**49,610**	47,985	**99,221**	93,377
Share-based payments *(Note 13c)*	**505,498**	160,681	**1,287,082**	416,220
Transfer agent and filing fees	**11,811**	36,213	**47,012**	47,429
Travel, meals and entertainment	**27,504**	8,210	**32,148**	35,435
	(1,531,862)	(771,934)	**(3,193,595)**	(1,515,261)
Other income / (expense)				
Financing costs (*Note 9 and 12*)	**(240,368)**	(263,542)	**(492,830)**	(263,542)
Reclamation accretion expense (*Note 11)*	**(13,506)**	-	**(26,118)**	-
Interest and other income	**73,256**	7,067	**135,297**	22,169
Net loss before income taxes	**(1,712,480)**	(1,028,409)	**(3,577,246)**	(1,756,634)
Deferred income tax recovery *(Note 13b)*	**719,854**	97,646	**1,122,217**	97,646
Net loss and comprehensive loss for the period	**$ (992,626)**	$ (930,763)	**$ (2,455,029)**	$ (1,658,988)
Weighted average number of shares outstanding	**175,717,014**	138,623,078	**174,574,202**	127,121,162
Loss per share, basic and diluted	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)

Atlantic Gold Corporation

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)
For the three and six months ended June 30
(Expressed in Canadian Dollars)

				2017		
	Shares	**Share Capital**	**Contributed Surplus**	**Convertible Debenture**	**Deficit**	**Total equity**
Balance - January 1, 2017	**173,331,713**	**$ 103,973,121**	**$ 13,289,077**	**$ 277,917**	**$ (44,154,335)**	**$ 73,385,780**
Share-based payments	-	-	1,704,260	-	-	1,704,260
Exercise of stock options	1,525,000	853,938	(220,453)	-	-	633,485
Exercise of share purchase warrants	1,678,736	1,114,681	(107,439)	-	-	1,007,242
Net loss and comprehensive loss for the period	-	-	-		(2,455,029)	(2,455,029)
Balance - June 30, 2017	**176,535,449**	**$ 105,941,740**	**$ 14,665,445**	**$ 277,917**	**$ (46,609,364)**	**$ 74,275,738**

				2016		
	Shares	**Share Capital**	**Contributed Surplus**	**Convertible Debenture**	**Deficit**	**Total equity**
Balance - January 1, 2016	**115,491,447**	**$ 68,594,009**	**$ 12,657,504**	**$ -**	**$ (39,262,882)**	**$ 41,988,631**
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 13b)	46,531,749	27,919,046	-	-	-	27,919,046
Share issuance costs	-	(1,226,172)	-	-	-	(1,226,172)
Convertible debenture - equity portion (Note 10)	-	-	-	393,323	-	393,323
Convertible debenture - issuance costs (Note	-	-	-	(17,760)		(17,760)
Deferred income tax on convertible debenture (Note 10)	-	-	-	(97,646)	-	(97,646)
Net loss and comprehensive loss for the period	-	-	-		(1,658,988)	(1,658,988)
Balance - June 30, 2016	**162,673,196**	**$ 95,596,710**	**$ 13,103,051**	**$ 277,917**	**$ (40,921,870)**	**$ 68,055,808**

Atlantic Gold Corporation

Condensed Interim Consolidated Statements of Cash Flows (unaudited)
For the three and months ended June 30
(Expressed in Canadian Dollars)

		Six months ended 2017		Six months ended 2016
Cash used in operating activities				
Net loss and comprehensive loss for the period	**$**	**(2,455,029)**	$	(1,658,988)
Deferred income tax recovery *(Note 13b)*		**(1,122,217)**		(97,646)
Amortization		**48,673**		19,161
Reclamation liability accretion		**26,118**		-
Share-based payments		**1,287,082**		416,220
Interest and other income		**(135,297)**		(22,169)
Net changes in non-cash working capital:				
Receivables		**40,615**		(2,026,459)
Inventory		**199**		-
Due from related party		**(24,826)**		(21,468)
Prepaid expenses and deposits		**470,368**		(527,910)
Accounts payable and accrued liabilities		**(620,293)**		2,085,735
Due to related parties		**(587,454)**		(300,286)
Net cash used in operating activities		**(3,072,061)**		(2,133,810)
Investing activities				
Property, plant and equipment		**(55,993,812)**		(920,050)
Mineral property expenditures		**(5,909,067)**		(10,836,473)
Restricted cash - Surety Bond, letter of credit *(Note 8)*		**342,999**		(8,744,000)
Interest received		**110,813**		13,320
Net cash used in investing activities		**(61,449,067)**		(20,487,203)
Financing activities				
Proceeds from stock option exercise		**633,485**		229,000
Proceeds from exercise of share purchase warrants		**1,007,242**		-
Proceeds from Project Loan Facility *(Note 9)*		**63,401,000**		-
Project Loan Facility transaction costs *(Note 9)*		**-**		(2,875,047)
Project Loan Facility interest payments *(Note 9)*		**(1,942,064)**		-
Proceeds from convertible debenture (*Note 10*)		**-**		12,413,027
Restricted cash - DSRA (*Note 8*)		**(55,674)**		-
Convertible debenture interest payments *(Note 10)*		**(552,500)**		-
Finance lease payments *(Note 12)*		**(1,347,420)**		-
Proceeds receieved on sale lease back		**482,185**		-
Proceeds from private placement *(Note 13b)*		**-**		26,692,874
Net cash provided in financing activities		**61,626,254**		36,459,854
Increase (decrease) in cash and cash equivalents		**(2,894,874)**		13,838,841
Cash and cash equivalents, beginning of period		**14,396,987**		10,764,172
Cash and cash equivalents, end of period	**$**	**11,502,113**	$	24,603,013
Cash and cash equivalents comprise the following:				
Cash	**$**	**11,443,938**	$	24,556,338
GIC		**58,175**		46,675
Non cash investing and financing activities				
Lease obligation		**999,398**		-
Accretion charge on lease obligation		**307,756**		-

The accompanying notes are an integral part of these consolidated financial statements

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 10th 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. Basis of preparation

These unaudited condensed interim financial statements for the three and six months ended June 30, 2017 (the "Interim Financial Statements") have been prepared in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including International Auditing Standard ("IAS") 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, 2016, 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 2016 annual consolidated financial statements.

These consolidated financial statements were approved by the board of directors on August 24, 2017.

3. Accounting standards recently adopted

<u>Revenue</u>
The Company early adopted IFRS 15 effective January 1, 2017. 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. Revenue generated from operations at the Touquoy project will be accounted for under the new standard. Management will assess the impact of IFRS 15 as the Company enters into sales agreements.

4. 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 of IFRS 9 to have an impact on the carrying value of its available-for-sale financial asset as it will be required to be measured at fair value, as opposed to its current measurement at cost.

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. 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 expense and also an increase in cash flow from operating activities as lease payments will be recorded as financing outflows in the cash flow statement.

Critical accounting estimates and judgements

Commercial production

The determination of when a mine is in the condition necessary for it to be capable of operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgement which will impact when depreciation and depletion commence. In making this determination, management will consider specific facts and circumstances. These factors will include, but are not limited to, whether the major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed, completion of a reasonable period of commissioning, consistent operating results being achieved at a pre-determined level of design capacity and recovery for a reasonable period of time and the transfer of operations from construction personnel to operational personnel has been completed. Management anticipate that the Touquoy project will achieve commercial production during 2017.

(Expressed in Canadian Dollars)

5. Receivables

	June 30, 2017	*December 31, 2016*
Input tax credits	**$ 1,960,300**	$ 3,420,469
NSDNR security for settlement of expropriated properties	**206,698**	206,698
Interest and other receivables	**37,041**	46,418
	$ 2,204,039	$ 3,673,585

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. During the six months ended June 30, 2017, settlement with one of the land owners was completed. The Company remains in discussions with the remaining 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

	Mine Property - Construction and Development	*Capital leases*	*Equipment*	*Land*	*Total*
Year ended December 31, 2016					
At January 1, 2016	-	-	111,321	4,299,805	$ 4,411,126
Reclassification from mineral properties	23,005,766	-	-	-	23,005,766
Reclamation provision *(Note 12)*	1,581,624	-	-	-	1,581,624
Borrowing costs *(Note 10, 11, 13)*	1,719,263	-	-	-	1,719,263
Additions	53,265,640	11,256,529	1,396,555	10,000	65,928,724
Depreciation for the year	-	(708,273)	(132,961)	-	(841,234)
Closing net book value	**79,572,293**	**10,548,256**	**1,374,915**	**4,309,805**	**95,805,269**
At December 31, 2016					
Cost	$ 79,572,293	$ 11,256,529	$ 1,647,607	$ 4,309,805	$ 96,786,234
Accumulated depreciation	-	(708,273)	(272,692)	-	(980,965)
Net book value	**79,572,293**	**10,548,256**	**1,374,915**	**4,309,805**	**95,805,269**
Six months ended June 30, 2017					
At January 1, 2017	79,572,293	10,548,256	1,374,915	4,309,805	$ 95,805,269
Reclamation provision *(Note 11)*	1,647,111	-	-	-	1,647,111
Borrowing costs *(Note 9, 10, 12)*	3,232,645	-	-	-	3,232,645
Additions	51,967,805	999,398	429,998	-	53,397,201
Depreciation for the period	-	(974,000)	(127,385)	-	(1,101,385)
Closing net book value	**136,419,854**	**10,573,654**	**1,677,528**	**4,309,805**	**152,980,841**
At June 30, 2017					
Cost	136,419,854	12,255,927	2,077,605	4,309,805	$ 155,063,191
Accumulated depreciation	-	(1,682,273)	(400,077)	-	(2,082,350)
Net book value	**$ 136,419,854**	**$ 10,573,654**	**$ 1,677,528**	**$ 4,309,805**	**$ 152,980,841**

(Expressed in Canadian Dollars)

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 as evidenced by board approval and project financing. Accordingly, in May 2016 the Company reclassified capitalized costs associated with Touquoy from mineral property exploration costs under IFRS 6 (Note 7) to mine property construction and development costs within property, plant and equipment. Capitalized mineral property costs will be carried at cost until Touquoy is placed in commercial production, sold, abandoned, or determined by management to be impaired in value.

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. As of June 30, 2017, the total estimated cost to be recovered under the agreement is approximately $168 million. The Company has an option to purchase the interest in Touquoy from this partner at fair market value after the later of a) 18 months of commercial production at Touquoy, and b) the point where 3,000,000 tonnes of Touquoy ore has been processed, provided that at the date of notice to commence the option process, the 30-day average spot price of gold is at least CAD $1,400/oz. A net smelter return royalty ("NSR") of 3% is also payable in respect of Touquoy, two-thirds of which can be purchased for $2.5 million. The Company expects to exercise this buy-back option. Touquoy is also subject to a 1% royalty payable to the government of Nova Scotia, a requirement for all operating mines in the province.

7. Mineral properties – Nova Scotia

Six months ended June 30, 2017	***2017***			
	Beaver Dam	***Cochrane Hill***	***Fifteen Mile Stream and Other***	***Total***
Acquisition Costs beginning and end of period	**$ 1,134,791**	**$ 2,278,597**	**$ 6,321,884**	**$ 9,735,272**
Cumulative exploration costs - beginning of period	**$ 4,789,912**	**$ 2,152,741**	**$ 1,071,806**	**$ 8,014,459**
Salaries & Consulting Fees	-	627,078	344,692	971,770
Environmental	60,040	12,801	32,617	105,458
Permitting & claims	34,013	3,964	94,322	132,299
Assays & Metallurgy	-	822,716	864,401	1,687,117
Travel & Accomodation	-	25,146	33,922	59,069
Drilling & Fieldwork	-	1,554,140	2,241,898	3,796,038
Equipment & Supplies	-	166,223	282,213	448,435
Exploration expenditures for the period	94,053	3,212,068	3,894,065	7,200,186
Cumulative exploration costs - end of period	**$ 4,883,965**	**$ 5,364,809**	**$ 4,965,871**	**$ 15,214,645**
Grand total - mineral properties	**$ 6,018,756**	**$ 7,643,406**	**$ 11,287,755**	**$ 24,949,917**

(Expressed in Canadian Dollars)

7. Mineral properties – Nova Scotia *(continued)*

Year ended December 31, 2016	2016				
	Beaver Dam	*Touquoy*	*Cochrane Hill*	*Fifteen Mile Stream and Other*	*Total*
Acquisition Costs beginning of year	**$ 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)
Acquisition costs end of year	1,134,791	-	2,278,597	6,321,884	9,735,272
Cumulative exploration costs - beginning of year	**4,025,390**	**3,173,012**	**288,020**	**373,475**	**7,859,897**
Engineering	-	8,777,406	-	-	8,777,406
Salaries & Consulting Fees	137,741	364,621	321,882	110,079	934,323
Environmental	455,082	129,751	22,240	-	607,073
Construction & Development	-	216,452	-	-	216,452
Permitting & claims	24,778	134,537	13,640	274,762	447,717
Borrowing Costs	-	-	-	-	-
Office & administration	138,823	21,001	2,432	3,708	165,964
Assays & Metallurgy	2,406	28,115	230,459	86,559	347,539
Travel & Accomodation	-	44,147	4,107	1,737	49,991
Drilling & Fieldwork	4,598	73,005	1,106,728	187,786	1,372,117
Equipment & Supplies	1,094	8,202	163,233	32,750	205,279
Other	-	-	-	950	950
Exploration expenditures for the year	764,522	9,797,237	1,864,721	698,331	13,124,811
Reclassification to property, plant and equipment	-	(12,970,249)	-	-	(12,970,249)
Cumulative exploration costs - end of year	**$ 4,789,912**	**$ -**	**$ 2,152,741**	**$ 1,071,805**	**$ 8,014,459**
Grand total - mineral properties	**$ 5,924,703**	**$ -**	**$ 4,431,338**	**$ 7,393,689**	**$ 17,749,731**

The Company has 100% ownership in its Beaver Dam, Cochrane Hill and Fifteen Mile Stream deposits.

8. Restricted cash

	June 30, 2017	*December 31, 2016*
PLF proceeds account	**$ 6,000,000**	$ 6,000,000
GIC	**2,401,000**	2,744,000
DSRA	**649,021**	593,346
	$ 9,050,021	**$ 9,337,346**

The restricted cash balance includes $6,000,000 held in respect of requirements under the Company's PLF (as defined in Note 9a) whereby the Company is required to maintain a minimum balance of $6,000,000 in a bank account until the PLF is repaid (December 31, 2016: $6,000,000).

(Expressed in Canadian Dollars)

8. Restricted cash *(continued)*

The balance of $2,401,000 represents 70% of a $3,430,000 reclamation performance bond that was issued by way of a surety bond in May 2017 (the "Surety Bond"), through the Company's wholly owned subsidiary Atlantic Mining NS Corp. ("Atlantic Mining"), and a surety provider (December 31, 2016: $2,744,000). The $3,430,000 is the first installment of a $10,400,000 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 $10,400,000 financial security is to be posted in full by December 31, 2019 (Note 16). The surety provider secured the Surety Bond by a line of credit with the Bank of Montreal ("BMO") at 70% of the value of the required level of the reclamation performance bond ($2,401,000). As part of the line of credit, BMO required that 100% of the line of credit be collateralized by way of a restricted guaranteed investment certificate ("GIC"). The restricted GIC has a maturity date of May 24, 2018, and earns interest at 0.6% per annum. The May 2017 Surety Bond replaced a previously issued surety bond that was initially issued in May 2016 through an alternate surety provider, which required 80% of the $3,430,000 reclamation performance bond to be secured.

The remaining $649,021 balance is cash held in respect of the Company's Debt Service Reserve Account ("DSRA") under its Equipment Facility (Note 12), whereby the Company is required to maintain an amount equal to 100% of one quarterly payment in respect of all leases under the Equipment Facility (December 31, 2016: $593,346). The DSRA is to be maintained up to and including three months after Project Completion (as defined below in Note 9).

9. Long-term debt

a. Project Loan Facility

	June 30, 2017	***December 31, 2016***
Loan proceeds	**$ 97,401,000**	$ 34,000,000
Deduct: transaction costs	**(3,223,649)**	(1,262,093)
Add: accrued interest	**181,295**	91,716
	$ 94,358,646	$ 32,829,623
Current portion	**$ 15,370,000**	
Non-current portion	**$ 78,988,646**	

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

The PLF carries an interest rate of the Canadian Dealer Offered Rate ("CDOR") plus a 5% margin (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, among other things, 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.

(Expressed in Canadian Dollars)

9. Long-term debt *(continued)*

a. Project Loan Facility *(continued)*

As at June 30, 2017, the total drawdown on the PLF was $97.4 million (December 31, 2016: $34 million). The availability of the remainder of the PLF for drawdown is subject to the satisfaction of a number of routine and administrative conditions precedent for facilities of this nature. The PLF is also secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries. There is also a standby fee of 1.5% per annum, payable quarterly in arrears, on the daily undrawn principal amount of the PLF during the availability period.

The Company's PLF contains certain project covenants including a minimum working capital ratio, calculated quarterly. 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 expected remaining period of construction of Touquoy. As at June 30, 2017, the Company was in compliance with all other project covenants.

At December 31, 2016, the Company was not in compliance with the working capital ratio. This non-compliance was waived subsequent to this date. 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 dates, the PLF and any debt facility with cross defaults are technically caught by the same issue, and were therefore classified as current at December 31, 2016.

As at June 30, 2017, the Company had incurred $4,648,383 (December 31, 2016 – $4,648,383) in transaction costs which consisted primarily of legal and advisory fees, and other financing expenses with respect to the PLF described above. 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 straight-line method.

For the three month and six month periods ended June 30, 2017, standby fees of $119,115 and $348,092, respectively, were recorded in the Company's interim consolidated statement of loss and comprehensive loss (2016 – nil). The Company recognized interest of $1,222,723 and $2,031,644 for the three and six months ended June 30, 2017 (2016 – nil) and amortization of deferred finance charges of $383,062 and $601,158 for the three and six months ended June 30, 2017, were both capitalized to property, plant and equipment (Note 6) (2016 – nil).

The Company may prepay all or part of the principal balance outstanding at any time without penalty. As at June 30, 2017, the Company is committed to interest payments and minimum future principal payments for the PLF, assuming that the remaining $17.6 million is drawn, as follows:

2017	2,890,000
2018	33,388,000
2019	57,062,000
2020	33,822,000
	$ 127,162,000

9. Long-term debt *(continued)*

b. Hedge Facility

In order to mitigate gold price risk and as a condition of the PLF, the Company was 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") to be delivered from production.

For accounting purposes, management has determined that the Hedge Facility meets the requirements of 'own use', and thereby is 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.

10. 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 9) and (ii) May 30, 2022. The principal amount of the Debentures is 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 is also convertible at the subscriber's option 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 9). For accounting purposes, repayment of the Debentures has been assumed to occur on May 10, 2021, which management will revisit at the prepayment date.

Issuance costs of $586,974 were incurred and have been recorded pro rata against the liability and equity components. The liability balance of the issuance costs is amortized over the life of the debenture, and capitalized as borrowing costs within property, plant and equipment until the earlier of the life of the Debenture and the commencement of commercial production of Touquoy, after which point the amortization of the issuance costs will be recorded within the statement of loss and comprehensive loss. Accretion expense for the six month period ended June 30, 2017 was $290,966 (2016: $199,393) and has been capitalized as borrowing costs to mine property within property, plant and equipment.

(Expressed in Canadian Dollars)

10. Convertible debenture *(continued)*

	Liability component	***Equity component***	***Total***
Opening balance - January 1, 2016	$ -	$ -	$ -
Issued - amount at date of issue (May 10, 2016)	12,606,677	393,323	13,000,000
Issuance costs allocated	(569,214)	(17,760)	(586,974)
Deferred income tax liability	-	(97,646)	(97,646)
Accretion of discount	986,091	-	986,091
Interest payments	(567,637)	-	(567,637)
Balance - December 31, 2016	**$ 12,455,917**	**$ 277,917**	**$ 12,733,834**
Interest payments	(552,500)	-	(552,500)
Accretion of discount	290,966	-	290,966
Balance - June 30, 2017	**$ 12,194,383**	**$ 277,917**	**$ 12,472,300**
Current portion of liability component	**$ 153,139**		
Non-current portion of liability component	**$ 12,041,244**		

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 in Note 9, 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 this date, whereby 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 was required to be recognized as current under IAS 1 as at December 31, 2016. As at June 30, 2017, the Company was in compliance with all other project covenants.

11. Reclamation provision

The Company has recorded a liability for reclamation of current and past disturbances associated with the exploration and development activities at the MRC Project. At June 30, 2017, the reclamation provision was estimated at $3,264,123 (December 31, 2016: $1,581,624). The reclamation costs have been calculated to reflect the amount of expected cash flows for the disturbances incurred as at June 30, 2017. The Company applied a discount rate of 1.61% (the risk-free rate) and an inflation rate of 2.0% in calculating the estimated obligation. The liability for reclamation on an undiscounted basis is $3,802,407. Accretion expense for the three and six-month periods ended June 30, 2017 was $13,506 and $26,118, respectively (2016 - $nil), and have been recognized in the statement of loss and comprehensive loss.

(Expressed in Canadian Dollars)

11. Reclamation provision *(continued)*

	June 30, 2017	*December 31, 2016*
Opening balance	**$ 1,581,624**	$ -
Additions	**1,656,381**	1,581,624
Add: accretion	**26,118**	-
Ending Balance	**$ 3,264,123**	$ 1,581,624

12. Lease obligation

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 is five years from delivery, and the facility is secured by the mining fleet.

As at June 30, 2017, the Company has entered into a total of 20 equipment lease contracts which form part of the $20 million Equipment Facility executed on May 26, 2016. Seventeen of the equipment lease contracts were accounted for as finance leasing contracts under IAS 17. As a result, the Company recognized $10,240,459 as a finance lease obligation, which was included as a non-cash addition to equipment within property, plant and equipment, with a corresponding amount recognized as a finance lease obligation. Direct transaction costs of $560,722 were added to the cost base of the leased assets. The remaining three lease contracts were executed by way of a sale lease back arrangement. For accounting purposes, due to the repurchase option at the end of the lease term and management's judgement that this option is more likely than not to be exercised, these lease agreements were scoped out of IAS 17. As a result, the total proceeds of $482,185 received from the sale leaseback arrangement have been recognized as a loan and included as an addition to the lease obligation on the balance sheet, with the respective asset's remaining at their current book value within property, plant and equipment. 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 90-day period to reflect increases or decreases to CDOR.

During the three and six-month periods ended June 30, 2017, the Company made principal payments of $746,914 and $1,347,420, respectively (2016: nil). Total finance expenses incurred during the three and six-month periods ended June 30, 2017 were $159,439 and $307,756, respectively (2016: nil), which have been capitalized to property, plant and equipment.

(Expressed in Canadian Dollars)

12. Lease obligation *(continued)*

A summary of the changes in finance lease obligation is as follows:

Opening balance at January 1, 2016	**$ -**
Present value of minimum lease payments	10,695,747
Deduct: Principal payments	(1,127,894)
Finance charge	230,687
Balance at December 31, 2016	**9,798,540**
Additions	1,481,583
Deduct: Principal payments	(1,347,420)
Finance charge	307,756
Balance at June 30, 2017	**$ 10,240,459**

Future minimum lease payments pursuant to the Company's leases remain as follows:

	Up to 1 year	**1-5 years**	**Total**
Minimum lease payments	2,714,046	8,953,982	11,668,028
Finance charges	(583,553)	(844,016)	(1,427,569)
Total	2,130,493	8,109,966	10,240,459

The Equipment Facility is also subject to a standby fee of 1.0% per annum, payable quarterly in arrears, commencing the date the Master Lease Agreement was executed. For the three and six-month periods ended June 30, 2017, standby fees of $21,252 and $44,735, respectively, were recorded in the Company's consolidated statement of loss on the undrawn amount of the Equipment Facility (2016 – nil).

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. As discussed above in Note 9, 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 subsequently waived 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 December 31, 2016, the full lease obligation was classified as current as at December 31, 2016. As at June 30, 2017, the Company was in compliance with all other project covenants.

(Expressed in Canadian Dollars)

13. Equity

a) Authorized share capital

Unlimited number of 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

b) Issued and fully paid common shares

On September 22, 2016, the Company completed a bought deal brokered private private placement financing as well as a non-brokered private placement financing through the issuance of flow-through common shares of the Company. Funds raised via these private placements were to be used for qualifying exploration expenditures by December 31, 2017. The Company used the residual method to record the tax deduction obligation of $1,489,124, which was recorded as other liability on the consolidated balance sheet. As at June 30, 2017, the liability balance decreased to $240,086 as a result of the Company incurring a portion of the qualifying expenditures, therefore fulfilling part of its obligation, resulting in a $522,642 and $925,005 deferred income tax recovery being recognized on the statement of loss and comprehensive loss for the three and six-month periods ended June 30, 2017.

c) Stock options

The Company uses the Black Scholes option pricing model to determine the fair value of stock 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:

	Number of Options outstanding	Weighted-average exercise price (in $)
Outstanding - January 1, 2016	11,313,700	0.34
Granted	4,025,000	0.53
Exercised	(2,530,000)	0.37
Outstanding - December 31, 2016	12,808,700	0.39
Granted	4,125,000	0.97
Cancelled	(25,000)	0.66
Exercised	(1,525,000)	0.42
Outstanding - June 30, 2017	15,383,700	0.55
Exercisable - June 30, 2017	10,933,700	0.42

(Expressed in Canadian Dollars)

13. Equity *(continued)*

c) Stock options *(continued)*

During the three months ended June 30, 2017, the Company granted a total of 100,000 stock options to employees of the Company. The weighted average exercise price of the options granted for the three months ended June 30, 2017 was $1.51 (2016: 100,000 stock options granted with a weighted average exercise price of $0.65). The exercise price for the stock option grants was equal to the market price at the time of the grant. Total share based payments recognized during the period was $688,151 (2016: $212,674), with $505,498 recognized in the consolidated statement of loss and comprehensive loss (2016: $160,681), $163,137 capitalized to property, plant and equipment (2016: $25,997), and $19,517 capitalized to mineral properties (2016: $25,997).

During the six months ended June 30, 2017, the Company granted a total of 4,125,000 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, 2017 was $0.97 (2016: 2,725,000 stock options granted with a weighted average exercise price of $0.43). The exercise price for the stock option grants was equal to the market price at the time of the grant. Total share based payments recognized during the period was $1,704,260 (2016: $526,374), with $1,287,082 recognized in the consolidated statement of loss and comprehensive loss (2016: $416,220), $397,661 capitalized to property, plant and equipment (2016: $55,077), and $19,517 capitalized to mineral properties (2016: $55,077).

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

Risk-free interest rate	1.18% - 1.40%
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 and development company. Expected forfeiture rates are based on historical forfeitures of stock options of the Company.

(Expressed in Canadian Dollars)

13. Equity *(continued)*

c) Stock options *(continued)*

The following table summarizes information about the options outstanding at June 30, 2017:

Number of Options	Exercise Price	Expiry Date	Number Exercisable
773,700	0.50	August 28, 2017	773,700
850,000	0.40	November 1, 2017	850,000
50,000	0.40	July 26, 2018	50,000
1,700,000	0.32	June 13, 2019	1,700,000
3,790,000	0.26	December 6, 2021	3,790,000
150,000	0.34	July 14, 2022	131,250
50,000	0.33	October 4, 2022	30,000
2,545,000	0.42	November 24, 2022	1,908,750
50,000	0.63	February 16, 2023	31,250
1,100,000	0.73	April 8, 2023	550,000
200,000	0.81	April 25,2023	100,000
200,000	0.86	October 9, 2023	50,000
3,440,000	0.96	November 3, 2023	860,000
150,000	0.98	November 13, 2023	37,500
125,000	0.99	December 2, 2023	31,250
110,000	1.02	December 20, 2023	27,500
50,000	1.50	January 26, 2024	6,250
50,000	1.53	February 24, 2024	6,250
15,383,700			10,933,700

d) Share purchase warrants

A summary of the changes in share purchase warrants is as follows:

	Number of outstanding warrants	Weighted-average exercise price (in $)	Expiry date
Balance - January 1, 2016	23,137,361	0.60	August 20, 2018
Exercised	(18,977)	0.60	
Balance - December 31, 2016	23,118,384	0.60	
Exercised	(1,678,736)	0.60	
Balance - June 30, 2017	21,439,648	0.60	

(Expressed in Canadian Dollars)

14. Related party transactions and key management compensation

a) Key management compensation

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Salaries and benefits	**$ 138,949**	$ 76,313	**$ 258,282**	$ 154,541
Consulting fees	**178,236**	153,750	**367,850**	306,103
Director fees	**58,125**	18,750	**135,750**	37,500
Share-based payments	**455,035**	165,119	**1,159,068**	426,541
	$ 830,345	$ 413,932	**$ 1,920,950**	$ 924,685

b) Due to related parties

As at June 30, 2017, the Company owed $11,874 to Sirocco Advisory Services, a company controlled by a director and officer of the Company (December 31, 2016: $426,710).

As at June 30, 2017, the Company owed $10,500 (December 31, 2016: $8,333) to Metallica Consulting Services, a company controlled by a director of the Company.

As at June 30, 2017, the Company owed $47,467 (December 31, 2016: $57,083) to directors of the Company.

As at June 30, 2017, the Company owed $nil (December 31, 2016: $75,168) to the CFO of the Company.

As at June 30, 2017, the Company owed $nil (December 31, 2016: $90,000) to the COO of the Company.

In May 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, 2017, office lease and administrative expenditures billed to Oceanic amounted to $23,881 and $44,095, respectively (2016: $19,478 and $38,650, respectively). As at June 30, 2017, the Company was owed $44,095 from Oceanic (December 31, 2016: $19,034).

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

(Expressed in Canadian Dollars)

15. 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.

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 June, 2017 and December 31, 2016 are summarized as follows:

	June 30, 2017		December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans and receivables				
Cash and cash equivalents	$11,502,113	$ 11,502,113	$ 14,396,987	$ 14,396,987
Due from related parties	43,860	43,860	19,034	19,034
Receivables	243,739	243,739	253,116	253,116
Restricted cash	9,050,021	9,050,021	9,337,346	9,337,346
Other non-current asset	248,077	N/A	248,077	N/A
Financial liabilities				
Accounts payable and accrued liabilities	$ 8,178,190	$ 8,178,190	$13,815,348	$ 13,815,348
Due to related parties	69,840	69,840	657,294	657,294
Convertible debenture	12,719,226	13,139,260	12,455,917	13,143,801

16. Commitments

Office Lease Agreements

As disclosed in Note 14(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:

2017	189,524
2018	246,993
2019	226,283
2020	113,142
	$ 775,942

(Expressed in Canadian Dollars)

16. Commitments (*continued)*

Crown Lease Agreement

In 2016, the Company finalized a lease agreement in respect of seven parcels of Crown land 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 remaining milestone payments for the reclamation security are as follows:

2017	2,100,000
2018	2,600,000
2019	2,100,000
	$ 6,800,000

EPC Agreement

On May 8, 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, truck shop and office facilities, as well as other support infrastructure related to these facilities, for the Company’s MRC Project. At June 30, 2017, the Company had incurred $80.3 million in respect of the EPC contract.

Mineral property royalties

As discussed in Note 6, an NSR of 3% is payable in respect of the Touquoy deposit, two-thirds of which can be purchased for $2.5 million. Additionally, a 3% NSR is payable on production from the Company’s 100% owned Cochrane Hill deposit, of which two-thirds can be repurchased by the Company for $1.5 million. The Company expects to buy-back options on both Cochrane Hill and Touquoy. For the Company’s 100% owned Beaver Dam deposit, a 0.6% NSR is payable to a private third-party. There are no buyback options for this private royalty. The Company must also remit a 1% NSR on production from all deposits in Nova Scotia to the government in Nova Scotia.

Exploration Tenement Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to incur expenditures of approximately $175,000 in respect of claim renewal fees and minimum work requirements in 2017/2018.

17. Subsequent events

a) Subsequent to June 30, 2017, 1,026,200 stock options and a cumulative total of 68,177 warrants were exercised at weighted average exercise price of $0.45 per share and $0.60 per share, respectively.

b) Subsequent to June 30, 2017, the Company granted 150,000 stock options to employees of the Company at a weighted average exercise price of $1.55.

c) Subsequent to June 30, 2017, the Company made its 10th drawdown on the PLF in the amount of $9,500,000.

d) Subsequent to June 30, 2017, the Company posted the third installment of its phased reclamation bond in the amount of $2,100,000 (Note 16).