ATLANTIC GOLD

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

ATLANTIC GOLD CORPORATION

Atlantic Gold Corporation

Condensed Consolidated Interim Balance Sheet
(Unaudited)
As at
(Expressed in Canadian Dollars)

	Notes	March 31, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents	6a	$ 15,282,095	$ 22,093,914
Prepaid expenses and deposits		850,211	1,001,356
Receivables	7	2,214,167	2,222,708
Inventory	8	11,407,056	8,562,014
Due from related party	20	69,772	49,168
		29,823,301	33,929,160
Property, plant and equipment	9	172,292,927	178,712,023
Exploration and evaluation assets	10	36,700,628	32,928,658
Restricted cash	11	10,593,432	10,593,432
Other non-current assets	12	5,794,433	2,402,089
		$ 255,204,721	$ 258,565,362
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 15,589,285	$ 22,807,073
Due to related parties	20b	121,540	750,805
Current portion of long-term debt	13	35,907,775	32,210,417
Other liability	15b	1,421,170	2,164,290
		53,039,770	57,932,585
Reclamation provision	14	4,495,220	4,066,465
Long-term debt	13	100,160,009	105,617,533
		157,694,999	167,616,583
Shareholder's equity			
Share capital	15a, 15b	125,426,150	124,455,438
Contributed surplus	15c	16,625,834	15,294,216
Convertible debentures - equity component	13b	277,917	277,917
Deficit		(44,820,179)	(49,078,792)
		97,509,722	90,948,779
		$ 255,204,721	$ 258,565,362

Subsequent events (Note 22)

Approved by the Board of Directors

"Donald Siemens" Director

"Robert Atkinson" Director

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

Atlantic Gold Corporation

Condensed Consolidated Interim Statement of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)
For the three months ended March 31
(Expressed in Canadian Dollars)

	Notes	**2018**	2017
Revenue	16	**12,881,462**	$ -
Cost of goods sold	17	**(4,357,163)**	-
Depreciation and depletion		**(2,634,556)**	-
Mine operating earnings		**5,889,743**	-
General and administrative	18	**(2,427,663)**	(1,661,733)
Operating earnings (loss)		**3,462,080**	(1,661,733)
Other income (expense)			
Financing costs	19	**(988,787)**	(265,074)
Interest and other income		**94,144**	62,041
Net earnings (loss) before income taxes		**2,567,437**	(1,864,766)
Deferred income tax recovery	15	**743,120**	402,363
Net earnings (loss) and comprehensive earnings (loss)		**$ 3,310,557**	$ (1,462,403)
Weighted average number of shares outstanding			
Basic		**192,932,684**	173,418,692
Diluted		**235,120,059**	**173,418,692**
Earnings (loss) per share			
Basic		**$ 0.02**	$ (0.01)
Diluted		**$ 0.01**	$ (0.01)

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

Atlantic Gold Corporation

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
For the three months ended March 31

(Expressed in Canadian Dollars)

	Notes	Shares	Share Capital	Contributed Surplus	Convertible Debentures	Deficit	Total equity
Balance - January 1, 2018		**192,280,630**	**$124,455,438**	**$ 15,294,216**	**$ 277,917**	**$ (49,078,792)**	**$ 90,948,779**
IFRS 9 transition adjustment	**3,12**	**-**	**-**	**-**	**-**	**948,056**	**948,056**
Share-based payments		**-**	**-**	**1,458,388**	**-**	**-**	**1,458,388**
Exercise of stock options		**125,000**	**109,790**	**(43,790)**	**-**	**-**	**66,000**
Exercise of share purchase warrants	**15d**	**1,296,569**	**860,922**	**(82,980)**	**-**	**-**	**777,942**
Net earnings for the period		**-**	**-**	**-**	**-**	**3,310,557**	**3,310,557**
Balance - March 31, 2018		**193,702,199**	**$125,426,150**	**$ 16,625,834**	**$ 277,917**	**$ (44,820,179)**	**$97,509,722**

	Notes	Shares	Share Capital	Contributed Surplus	Convertible Debentures	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		-	-	1,016,109	-	-	1,016,109
Exercise of stock options	15c	1,000,000	565,900	(165,900)	-	-	400,000
Exercise of share purchase warrants	15d	16,237	9,742	-	-	-	9,742
Net loss for the period		-	-	-	-	(1,462,403)	(1,462,403)
Balance – March 31, 2017		174,347,950	$104,548,763	$ 14,139,286	$ 277,917	$ (45,616,738)	$ 73,349,228

Atlantic Gold Corporation

Condensed Consolidated InterimStatements of Cash Flows
(Unaudited)
For the three months ended March 31
(Expressed in Canadian Dollars)

	Notes	2018	2017
Cash from (used) in operating activities			
Net earnings (loss) and comprehensive earnings (loss) for the period		**$ 3,310,557**	$ (1,462,403)
Adjustments for:			
Deferred income tax recovery	15	**(743,120)**	(402,363)
Accretion of reclamation obligation	14	**17,962**	12,612
Amortization		**2,660,563**	24,301
Share-based payments	15c	**1,216,654**	781,584
Interest expense and transaction costs		**970,825**	-
Interest and other income		**(94,144)**	(62,041)
Net changes in non-cash working capital:	6b	**(3,124,865)**	(863,048)
Net cash provided (used) in operating activities		**4,214,432**	(1,971,358)
Cash (used) provided by investing activities			
Capitalized pre-commercial production mine operating costs and capital expenditures	9	**(15,325,625)**	(30,576,686)
Capitalized revenue	9	**14,909,663**	-
Exploration and evaluation expenditures	10	**(6,898,896)**	(2,292,297)
Interest received		**79,683**	34,294
Net cash used in investing activities		**(7,235,175)**	(32,834,689)
Cash (used) provided by financing activities			
Proceeds from stock option exercise	15c	**66,000**	400,000
Proceeds from exercise of share purchase warrants	15d	**777,942**	9,742
Proceeds from long-term debt			
Project Loan Facility	13	**-**	32,500,000
Interest payments			
Project Loan Facility	13	**(3,870,937)**	(610,836)
Finance lease payments, including interest	13	**(764,081)**	(600,507)
Net cash provided (used) in financing activities		**(3,791,076)**	31,698,399
Change in cash and cash equivalents during the period		**(6,811,819)**	(3,107,648)
Cash and cash equivalents, beginning of period		**22,093,914**	14,396,987
Cash and cash equivalents, end of period		**$ 15,282,095**	$ 11,289,339

Supplemental cash flow information (Note 6)

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

1. NATURE OF OPERATIONS

Atlantic Gold Corporation (the "Company") is 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 continues to focus on operations of its Moose River Consolidated (“MRC”) phase one open pit gold mine (which is comprised of the Touquoy and Beaver Dam deposits), as well as advancing development of its two Life of Mine Expansion which includes the deposits at Fifteen Mile Stream and Cochrane Hill. The infrastructure for the MRC Mine is on the Touquoy property and a significant portion of it will be used for all deposits. Deposits other than Touquoy may require some modifications to the infrastructure to accommodate the ore processing and tailings of other deposits. Commercial production of the MRC Mine began on March 1, 2018.

2. BASIS OF PREPARATION

These unaudited condensed interim financial statements for the three months ended March 31, 2018 (the “Interim Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting 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, 2017, which have been prepared in accordance with 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 2017 annual consolidated financial statements, except for the adoption of IFRS 9 which is discussed in Note 3.

These consolidated financial statements were approved by the board of directors on May 22, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

During the period, the Company adopted IFRS 9, Financial Instruments (“IFRS 9”), which addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) that relates to the classification and measurement of financial instruments.

As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date, other than the Company’s available-for-sale asset, discussed in more detail below.

The following is the Company’s new accounting policy for financial instruments under IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company determines the classification of the financial assets at initial recognition. The basis of classification depends on the Company'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. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as fair value through other comprehensive income.

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial assets		
Cash and cash equivalents	Amortized costs	**Amortized costs**
Due from related parties	Amortized costs	**Amortized costs**
Receivables	Amortized costs	**Amortized costs**
Restricted cash	Amortized costs	**Amortized costs**
Investment in a private company	Available-for-sale	**Fair value through other comprehensive income**
Financial liabilities		
Accounts payable and accrued liabilities	Amortized costs	**Amortized costs**
PLF	Amortized costs	**Amortized costs**
Equipment facility	Amortized costs	**Amortized costs**
Due to related parties	Amortized costs	**Amortized costs**

The investment in a private company held by the Company (see Note 12) is comprised of shares in a Company that does not have a quoted price in an active market. Under IAS 39, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity was precluded from measuring the instrument at fair value. This concept was not carried forward into IFRS 9 and as such the Company was required to assign a fair value to the available-for-sale asset upon the adoption of IFRS 9. As the Company is not restating prior periods, it has recognized the effects of retrospective application to shareholder's equity at the beginning of the 2018 annual reporting period. Therefore, the adoption of IFRS 9 resulted in a decrease to opening accumulated deficit on January 1, 2018 of $948,056. There have been no other changes in the carrying value of the Company's financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above.

4. CHANGES IN ACCOUNTING STANDARDS NOT YET EFFECTIVE

Leases

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 judgment which will impact when the Company recognizes revenue, operating costs and depreciation and depletion in the statement of profit and loss. In making this determination, management considered whether (a) the major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended was complete; (b) ramping up to nameplate design capacity has been achieved for the operations; (c) the mill was meeting performance design criteria such as hourly throughput and process recovery; and (d) a saleable product could be produced. Effective March 1, 2018, management declared commercial production at the MRC Mine.

Fair Value of Investments through Other Comprehensive Income

Management judgment is used when determining the fair value of the Company's investment in a private company as a result of the adoption of IFRS 9. Assumptions are used in preparing the valuation models used to determine the fair value of the asset, including gold prices, reserves and resources, discount for minority interest, foreign exchange, mine plans, operating costs, capital expenditures, and discount rates. Note 12 outlines the significant inputs used when calculating the fair value of the financial asset.

Information about other significant areas of estimation uncertainty considered by management in preparing the financial statements are set out in Note 5 to the audited financial statements for the year ended December 31, 2017 and have been consistently followed in preparation of these Interim Financial Statements.

(Expressed in Canadian Dollars)

6. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Cash is comprised of:

	March 31, 2018	December 31, 2017
Cash	$ 15,223,920	$ 22,035,739
Guaranteed Investment Certificates	58,175	58,175
	$ 15,282,095	$ 22,093,914

(b) Changes in non-cash working capital is comprised of:

	Three months ended March 31	
	2018	2017
Net changes in non-cash working capital:		
Receivables	$ (40,253)	$ 19,861
Inventory	(1,726,295)	9,329
Other assets	(1,262,430)	-
Due from related parties	(20,605)	(4,612)
Prepaid expenses and deposits	325,148	230,084
Accounts payable and accrued liabilities	228,835	(517,059)
Due to related parties	(629,265)	(600,651)
	$ (3,154,865)	$ (863,048)

7. RECEIVABLES

	March 31, 2018	December 31, 2017
Input tax credits	$ 1,962,258	$ 1,999,172
NSDNR security for settlement of expropriated properties	206,698	206,698
Interest and other receivables	45,211	16,838
	$ 2,214,167	$ 2,222,708

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 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 an amount it believes will be required to settle the negotiations with the remaining expropriated property landowners within accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

8. INVENTORY

	March 31, 2018	December 31, 2017
Ore in stockpile	$ 2,657,733	$ 1,472,341
In-circuit metal	7,480,352	6,312,662
Finished metal	177,828	141,270
Total mineral inventory	10,315,913	7,926,273
Materials and supplies	1,091,143	635,741
Total inventory	$ 11,407,056	$ 8,562,014

Depreciation included in inventory at March 31, 2018 was $4,154,963 (December 31, 2017 - $3,036,223). The change of inventory recognized in cost of sales and depreciation expense in the three months ended March 31, 2018 was $(72,385) (2017 – nil) and $(536,089) (2017 – nil), respectively.

9. PROPERTY, PLANT AND EQUIPMENT

	Notes	Mineral properties and development costs	Equipment	Plant and infrastructure	Total
Costs					
At January 1, 2017		$ 83,882,098	$ 12,904,136	$ -	$ 96,786,234
Reclamation	14	2,436,676	-	-	2,436,676
Borrowing costs	13	8,929,522	-	-	8,929,522
Capitalized revenue		(12,429,542)	-	-	(12,429,542)
Additions		86,767,679	3,206,391	-	89,974,070
Reallocation of development costs		(97,592,257)	-	97,592,257	-
At December 31, 2017		$ 71,994,176	$ 16,110,527	$ 97,592,257	$ 185,696,960
Reclamation	14	410,793	-	-	410,793
Borrowing costs	13	1,903,914	-	-	1,903,914
Capitalized revenue		(14,909,663)	-	-	(14,909,663)
Pre-production cost of sales		5,319,564	-	-	5,319,564
Additions (Other)		5,981,990	-	-	5,981,990
At March 31, 2018		$ 70,700,776	$ 16,110,527	$ 97,592,257	$ 184,403,560
Accumulated depreciation					
At January 1, 2017		$ -	$ (980,965)	$ -	$ (980,965)
Depreciation		(2,337,475)	(2,612,351)	(1,054,146)	(6,003,972)
At December 31, 2017		$ (2,337,475)	$ (3,593,316)	$ (1,054,146)	$ (6,984,937)
Depreciation		(3,079,773)	(734,248)	(1,311,675)	(5,125,696)
At March 31, 2018		$ (5,417,248)	$ (4,327,564)	$ (2,365,821)	$ (12,110,633)
Net book value					
At December 31, 2017		$ 69,656,701	$ 12,517,211	$ 96,538,111	$ 178,712,023
At March 31, 2018		$ 65,283,528	$ 11,782,963	$ 95,226,436	$ 172,292,927

(Expressed in Canadian Dollars)

9. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company's effective ownership interest in Touquoy is 63.3%. The Company is entitled to recover all operational, overhead, financing and sunk costs prior to any distributions to its partner, in Touquoy. 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. The fair market value will be determined by a valuation completed by a mutually appointed independent valuator.

Royalties

A net smelter return ("NSR") royalty of 3% is payable to a third party in respect of Touquoy, two-thirds of which can be purchased for $2.5 million. Touquoy is also subject to a 1% NSR royalty payable to the government of Nova Scotia, a requirement for all operating mines in the province.

10. EXPLORATION AND EVALUATION ASSETS

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

	Beaver Dam	Cochrane Hill	Fifteen Mile Stream	Other	Total
Acquisition Costs, December 31, 2017	**$ 1,134,791**	**$ 2,278,597**	**$ 4,149,388**	**$ 2,172,496**	**$ 9,735,272**
Additions	-	-	250,000	-	250,000
Acquisition Costs, March 31, 2018	**$ 1,134,791**	**$ 2,278,597**	**$ 4,399,388**	**$ 2,172,496**	**$ 9,985,272**
Deferred costs, January 1, 2018	**$ 5,145,425**	**$ 7,499,743**	**$ 8,542,868**	**$ 1,996,350**	**$ 23,193,386**
Compensation	10,414	188,376	474,115	141,452	814,357
Environmental	93,855	30,929	64,374	840	189,998
Permitting and claims	11,249	-	135,749	182	147,180
Assays and metallurgy	-	163,815	472,949	22,387	659,151
Travel and accommodation	-	5,304	14,970	1,263	21,537
Drilling and fieldwork	-	239,118	1,069,638	115,006	1,423,762
Equipment and supplies	4,465	47,464	142,967	71,089	265,985
Expenditures for the period	119,983	675,006	2,374,762	352,219	3,521,970
Deferred costs, March 31, 2018	**$ 5,274,408**	**$ 8,174,749**	**$ 10,917,630**	**$ 2,348,569**	**$ 26,715,356**
Exploration and evaluation assets, March 31, 2018	**$ 6,409,199**	**$ 10,453,346**	**$15,317,018**	**$4,521,065**	**$36,700,628**

(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION ASSETS *(continued)*

	Beaver Dam	Cochrane Hill	Fifteen Mile Stream	Other	Total
Acquisition Costs, December 31, 2017	**$ 1,134,791**	**$ 2,278,597**	**$ 4,149,388**	**$ 2,172,496**	**$ 9,735,272**
Deferred costs, January 1, 2017	**$ 4,789,912**	**$ 2,152,741**	**$ 282,590**	**$ 789,216**	**$ 8,014,459**
Compensation	1,373	797,893	851,950	299,142	1,950,358
Environmental	336,746	212,305	282,272	-	831,323
Permitting and claims	24,600	21,773	124857	150,868	322,098
Assays and metallurgy	-	829,851	1,901,578	76,378	2,807,807
Travel and accommodation	-	43,573	59,402	18,929	121,904
Drilling and fieldwork	-	3,082,954	4,527,492	644,095	8,254,541
Equipment and supplies	1,794	358,653	512,727	17,722	890,896
Expenditures for the period	364,513	5,347,002	8,260,278	1,207,134	15,178,927
Deferred costs, December 31, 2017	**$ 5,154,425**	**$ 7,499,743**	**$ 8,542,868**	**$ 1,996,350**	**$ 23,193,386**
Exploration and evaluation assets, December 31, 2017	**$ 6,289,216**	**$ 9,778,340**	**$12,692,256**	**$4,168,846**	**$32,928,658**

11. RESTRICTED CASH

	Notes	March 31, 2018	December 31, 2017
PLF proceeds account	a	**$ 6,000,000**	$ 6,000,000
GIC	b	**3,871,000**	3,871,000
DSRA	c	**722,432**	722,432
		$ 10,593,432	$ 10,593,432

(a) Under the Company's Project Loan Facility ("PLF") (see Note 13), the Company is required to maintain a minimum balance of $6,000,000 in a bank account until the PLF is repaid.

(b) The guaranteed investment certificate ("GIC") of $3,871,000 (2017 - $3,871,000), is a restricted GIC that supports a line of credit that the Bank of Montreal ("BMO") provides to a surety provider that in turn provides a Surety Bond related to the reclamation performance bond. The GIC represents 70% of the $5,530,000 reclamation performance bond posted with the province of Nova Scotia. The restricted GIC has a maturity date of August 18, 2018 and earns interest at 0.6% per annum.

The $5.53 million reclamation performance bond represents installments of the $10,400,000 phased reclamation security in respect the MRC Mine. The phased approach ensures that adequate security is in place before each phase of disturbance, construction and operation at MRC Mine. The total $10,400,000 financial security is to be posted in full by December 31, 2019.

(Expressed in Canadian Dollars)

11. RESTRICTED CASH (continued)

(c) The Debt Service Reserve Account ("DSRA") is required under the Equipment Facility (as defined below in 13c), 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. The DSRA is to be maintained up to and including three months after Project Completion (as defined below in 13a).

12. OTHER NON-CURRENT ASSETS

		March 31, 2018		December 31, 2017
Reclamation bonds (a)	**$**	**200,000**	$	200,000
Investment in a private company (b)		**1,196,134**		248,078
Ore in stockpile inventory (c)		**4,398,299**		1,954,011
	$	**5,794,433**	$	2,402,089

(a) The reclamation bonds are held by the Nova Scotia Department of Natural Resources over various mining tenements for its Cochrane Hill deposit and will be refundable to the Company once mining is completed and the land has been restored to its economically usable state.

(b) The Company holds an investment in privately held company which holds a carried interest of 40% of the tenements of the Company's Touquoy deposit. The fair value of the Company's investment in the privately held company is considered a management estimate whereby significant judgment is applied. Further, the valuation techniques use significant inputs that are not based on observable market data and is therefore classified as a Level 3 financial instrument.

(c) Depreciation included in ore in stockpile inventory at March 31, 2018 was $2,027,470 (December 31, 2017 - $845,612). The change of ore in stockpile inventory in cost of sales and depreciation expense in the three months ended March 31, 2018 was $(354,925) (2017 – nil) and $(331,763) (2017 – nil), respectively.

(Expressed in Canadian Dollars)

13. LONG-TERM DEBT

	Project Loan Facility (a)	Convertible debentures (b)	Equipment Facility (c)	Total
Long-term debt at January 1, 2017	32,829,623	12,455,917	9,798,540	55,084,080
Additions	81,000,000	-	2,837,086	83,837,086
Principal repayment	-	-	(2,226,309)	(2,226,309)
Interest expense and accretion(1)	5,586,530	780,161	650,162	7,016,853
Interest payment	(2,767,189)	(1,105,000)	(650,162)	(4,522,351)
Transaction costs	(3,274,078)	-	-	(3,274,078)
Amortization of transaction costs(1)	1,736,860	175,809	-	1,912,669
Long-term debt at December 31, 2017	**115,111,746**	**12,306,887**	**10,409,317**	**137,827,950**
Principal repayment	**-**	**-**	**(609,423)**	**(609,423)**
Interest expense and accretion (1)	**1,928,276**	**315,987**	**154,658**	**2,398,921**
Interest payment	**(3,870,937)**	**-**	**(154,658)**	**(4,025,595)**
Amortization of transaction costs (1)	**459,259**	**16,672**	**-**	**475,931**
	113,628,344	**12,639,546**	**9,799,894**	**136,067,784**
Less Current portion	**(32,424,588)**	**(426,863)**	**(3,056,324)**	**(35,907,775)**
Long-term debt at March 31, 2018	**$ 81,203,756**	**$ 12,212,683**	**$ 6,743,570**	**$ 100,160,009**

(1) Interest expense, accretion and amortization of transaction costs were capitalized to the mineral properties prior to the start of commercial production.

(a) Project Loan Facility

On May 6, 2016, the Company, through a wholly owned subsidiary, executed a syndicated project facility agreement in respect of a $115 million PLF to fund construction costs of the Company's MRC Mine.

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 production. 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 90 consecutive days. The interest rate charged during the period was CDOR plus 5%. The Company may prepay all or part of the principal balance outstanding at any time without penalty.

The PLF is secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries. The Company's PLF contains certain project covenants including a minimum working capital ratio, calculated quarterly. The definition of the current ratio within the PLF denotes that the calculation excludes i) liabilities in respect of unrealized losses under the Hedging Facility, ii) principal payments under the PLF, iii) convertible debenture liability, iv) any non-cash flow through financing liabilities and v) when calculating the current ratio for the unconsolidated financial statements of the Company's operating subsidiary, Atlantic Mining NS Corp. ("AMNS"), excluding amounts payable by AMNS in respect of subordinated inter-corporate debt. At March 31, 2018, the Company was in compliance with all debt covenants.

(Expressed in Canadian Dollars)

13. LONG-TERM DEBT *(continued)*

(a) Project Loan Facility (continued)

As at March 31, 2018 the Company incurred transaction costs of $4,898,383 (December 31, 2017 - $4,648,383) which are amortized over the repayment period of the PLF using the straight-line method.

In February 2018, the PLF Agreement was amended to revise the debt amortisation schedule to align with the Company's revised Life of Mine plan. The new repayment schedule for repaying the $115 million is as follows:

2018	$ 18,650,000
2019	58,400,000
2020	37,950,000

(b) Convertible Debentures

On May 10, 2016, the Company issued convertible debentures (the "Debentures") of $13 million, including $8 million to a company owned by a director of the Company (see Note 20b). 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 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 Debentures 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. For accounting purposes, repayment of the Debentures was assumed to occur on May 10, 2021. On April 11, 2018, the Company provided notice to all holders of the Company's Convertible Debentures that the Company intends on prepaying the entire principal amount of the Debentures on May 11, 2018 (the "Prepayment Date"). The holders maintain their conversion right to convert at any time up until the Prepayment Date. On May 3, 2018, all debentures and unpaid/ accrued interest owing to the date of conversion, had been converted into common shares of the Company.

Issuance costs of $586,974 were incurred in securing the Debentures 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 Debentures.

(Expressed in Canadian Dollars)

13. LONG-TERM DEBT *(continued)*

(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 Mine. The term of the Equipment Facility is five years from delivery, and the facility is secured by the mining fleet.

To date, the Company has entered into a total of 23 equipment lease contracts which form part of the Equipment Facility. Nineteen of the equipment lease contracts were accounted for as finance leasing contracts and as a result, the Company recognized $10,409,317 as a finance lease obligation, which was included as a non-cash addition to equipment within property, plant and equipment. 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 $756,468 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 assets 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%.

14. RECLAMATION PROVISION

The reclamation provision is comprised of:

	March 31, 2018	December 31, 2017
Opening balance	$ 4,066,465	$ 1,581,624
Additions	410,793	2,436,676
Accretion expense	17,962	48,165
Ending balance	$ 4,495,220	$ 4,066,465

The Company has recorded a liability for reclamation of current and past disturbances associated with the exploration and development activities at the MRC Mine. The reclamation costs have been calculated to reflect the amount of expected cash flows for the disturbances incurred as at March 31, 2018. 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 in nominal dollars, undiscounted is $4,304,991. Cash expenditures are expected to occur at the end of the mine life of the MRC Mine, estimated in the years 2026 to 2027.

(Expressed in Canadian Dollars)

15. 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

Other than shares issued due to the exercise of stock options and warrants, there were no shares issued in the three months ended March 31, 2018.

In the year December 31, 2017, the following private placements were completed:

Date issued	Shares issued	Unit price	Gross Proceeds	Issue costs	Net Proceeds
September 20, 2017	2,304,000	$ 1.40	$ 3,225,600	$ (54,041)	$ 3,171,559
September 20, 2017(i)	305,700	$ 1.80	550,260	(9,184)	541,076
October 5, 2017(i)	3,825,500	$ 1.83	7,000,665	(461,208)	6,539,457
October 5, 2017	2,858,000	$ 1.40	4,001,200	(344,544)	3,656,656
October 5, 2017(i)	2,777,000	$ 1.80	4,998,600	(334,779)	4,663,821
October 24, 2017(i)	835,000	$ 1.80	1,503,000	(13,529)	1,489,471
	12,905,200		$ 21,279,325	$ (1,217,285)	$ 20,062,040

(i) From time to time, the Company may raise funds through the issuance of flow-through shares. Based on Canadian tax law, the Company is required to spend this amount on qualifying exploration expenditures by December 31 of the year after the year the shares are issued. The Company uses the residual method to record the premium of the flow-through share which is recorded as other liability on the consolidated balance sheet. The liability balance is decreased as a result of the Company incurring a portion of the qualifying expenditures, therefore fulfilling part of its obligation with the offset being recognized as a deferred income tax recovery on the statement of loss and comprehensive loss. The other liability is comprised of:

	March 31, 2018	December 31, 2017
Opening balance	**$ 2,164,290**	$ 1,165,091
Additions on issue of flow-through shares	**-**	3,212,046
Settlement of liability on expenditures made	**(743,120)**	(2,212,847)
Ending balance	**$ 1,421,170**	$ 2,164,290

(Expressed in Canadian Dollars)

15. EQUITY *(continued)*

(c) Stock options

The Company has a rolling stock option plan pursuant to which the directors of the Company are authorized to grant options to directors, officers, employees and consultants of the Company and its subsidiaries of up to a maximum of 10% of the issued and outstanding common shares at the time of granting of an option. Every option granted, unless sooner terminated, has a term not exceeding 10 years after the date of grant.

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

	Number of Options outstanding	Weighted-average exercise price ($)
Outstanding - January 1, 2017	12,808,700	0.39
Granted	4,385,000	1.01
Forfeited	(241,250)	1.02
Exercised	(3,657,450)	0.44
Outstanding - December 31, 2017	13,295,000	0.58
Granted	**4,085,000**	**1.63**
Exercised	**(125,000)**	**0.53**
Outstanding - March 31, 2018	**17,255,000**	**0.82**
Exercisable - March 31, 2018	**11,898,125**	**0.56**

Total share-based payments recognized during the three months ended March 31, 2018 was $1,458,388 (2017: $1,016,109), with $1,216,654 recognized in the consolidated statement of loss and comprehensive loss (2017: $781,584), $191,919 capitalized to property, plant and equipment (2017: $234,525), and $49,815 capitalized to exploration and evaluation assets (2017: nil).

(Expressed in Canadian Dollars)

15. EQUITY *(continued)*

Stock options outstanding and exercisable at March 31, 2018 were as follows:

	Options outstanding			Options exercisable		
	Number of Options	Weighted average exercise price	Weighted average remaining life (years)	Number of Options	Weighted average exercise price	Weighted average remaining life (years)
$0.28 – 0.34	5,340,000	$0.28	2.9	5,340,000	$0.28	2.9
$0.40 – 0.42	2,395,000	$0.42	4.6	2,395,000	$0.42	4.6
$0.63 – 0.86	1,550,000	$0.75	5.1	1,312,500	$0.75	5.1
$0.96 – 1.02	3,575,000	$0.96	5.6	2,225,000	$0.96	5.6
$1.48 – 1.58	4,395,000	$1.62	6.6	625,625	$1.61	6.5
	17,255,000	$0.82	4.8	11,898,125	$0.56	4.2

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. The following assumptions were used in the valuation of the stock options granted in the three months ended March 31, 2018:

Risk-free interest rate	2.15% - 2.23%
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.

(d) Share Purchase Warrants

The share purchase warrants expire on August 20, 2018. A summary of the changes in share purchase warrants is as follows:

	Number of outstanding warrants	Weighted-average exercise price (in $)
Balance - January 1, 2017	23,118,384	0.60
Exercised	(2,386,267)	0.60
Balance - December 31, 2017	20,732,117	0.60
Exercised	**(1,296,569)**	**0.60**
Balance - March 31, 2018	**19,435,548**	**0.60**

(Expressed in Canadian Dollars)

16. REVENUE

Revenue for the three months ended March 31, comprised the following:

	Three months ended March 31	
	2018	2017
Gold revenue - Hedge facility	**$ 3,428,822**	$ -
Gold revenue - Spot sales	**9,468,550**	-
Less refining costs	**(15,910)**	
	$ 12,881,462	$ -

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 (the "Hedge Facility"). The average sale price for the gold forward sales was $1,548 per ounce during the three months ended March 31, 2018. The remaining commitment is 206,456 ounces between April 2018 and February 2021.

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. 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.

17. COST OF SALES

Cost of sales for the three months ended March 31, comprised the following:

	Three months ended March 31	
	2018	2017
Supplies and consumables	**$ 1,673,550**	$ -
Salaries, benefits and consulting fees	**2,230,055**	-
Energy	**329,383**	-
Rentals	**162,750**	-
Royalties	**128,784**	-
Insurance	**87,718**	-
Site administration costs	**76,273**	-
Site share-based payments	**95,959**	-
Total cash production costs	**4,784,472**	-
Change in inventory	**(427,309)**	-
Cost of goods sold	**$ 4,357,163**	$ -

(Expressed in Canadian Dollars)

18. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs for the three months ended March 31, were comprised of:

	Three months ended March 31	
	2018	2017
Amortization	**$ 26,007**	$ 24,301
Corporate development and investor relations	**173,854**	153,583
Director fees	**75,999**	77,625
Management fees, salaries and benefits	**753,703**	403,610
Office and general	**58,073**	47,480
Professional fees	**133,288**	88,738
Rent	**50,496**	49,611
Share-based payments	**1,120,695**	781,584
Transfer agent and filing fees	**35,548**	35,201
	$ 2,427,663	$ 1,661,733

19. INTEREST AND FINANCING COSTS

Interest and financing costs for the three months ended March 31, were comprised of:

	Three months ended March 31	
	2018	2017
Interest on the PLF	**$ 655,337**	$ -
Amortization of transaction costs on the PLF	**153,086**	-
Interest and accretion of convertible debt	**110,887**	-
Financing fees on capital leases	**51,515**	-
Accretion on reclamation provision	**17,962**	12,612
Stand-by fee	**-**	252,462
	$ 988,787	$ 265,074

Prior to the start of commercial production on March 1, 2018, interest and financing costs, other than stand-by fees were capitalized to Property, plant and equipment.

(Expressed in Canadian Dollars)

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

(a) Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Compensation awarded to key management for the three months ended March 31 is as follows:

	Three months ended March 31	
	2018	**2017**
Salaries and benefits	**$ 163,461**	$ 119,333
Consulting fees	**189,238**	189,614
Director fees	**55,166**	77,625
Share-based payments	**902,368**	704,033
	$ 1,310,233	$ 1,090,605

(b) Amount due to related parties

Amounts due to related parties at of March 31 are as follows:

Related party	**March 31, 2018**	December 31, 2017
Beedie Investments Limited[1]	**$ 7,778,182**	$ 7,573,469
Sirocco Advisory Services[2,4]	**65,779**	428,246
Metallica Consulting Services[3,4]	**10,500**	14,000
Directors[4]	**15,000**	7,500
Officers[4]	**35,011**	293,059

(1) The Company issued $8 million of Debentures to Beedie Investment Limited, a company controlled by a director of the Company. Of the amount owing, $262,685 is current at March 31, 2018 (December 31, 2017 - $95,014). The remaining amounts are recorded as long-term debt (see Note 13b). In the three months ended March 31, 2018, Beedie Investment Limited received interest of $nil (2017 – $nil). Subsequent to March 31, 2018, all debentures and any unpaid accrued interest held by Beedie Investment Limited were converted into common shares of the Company.
(2) Sirocco Advisory Services, is a company controlled by a director and officer of the Company.
(3) Metallica Consulting Services is a company controlled by a director of the Company.
(4) Amounts due to related parties are unsecured, non-interest bearing and due on demand.

(c) Amount due from related parties

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 months ended March 31, 2018, office lease and administrative expenditures billed to Oceanic amounted to $19,624, (2017: $23,881). As at March 31, 2018, the Company was due $69,772 from Oceanic (December 31, 2017: $49,168).

(Expressed in Canadian Dollars)

21. FINANCIAL INSTRUMENTS

Fair value measurements

Financial instruments of the Company as at March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018		December 31, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	**$ 15,282,095**	**$ 15,282,095**	$ 22,093,914	$ 22,093,914
Due from related parties	**69,772**	**69,772**	49,168	49,168
Receivables	**251,909**	**251,909**	223,539	223,539
Restricted cash	**10,593,432**	**10,593,432**	10,593,432	10,593,432
Investment in a private company (note 3)	**1,196,134**	**1,196,134**	248,077	N/A
Financial liabilities				
Accounts payable and accrued liabilities	**$ 15,589,285**	**$ 15,589,285**	$ 22,807,073	$ 22,807,073
PLF	**113,628,344**	**112,112,000**	115,111,746	113.789.000
Equipment facility	**9,799,894**	**9,319,000**	10,409,317	9,859,000
Due to related parties	**121,540**	**121,540**	750,805	750,805

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. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The Company's investment in a private company is categorized as Level 3 on the fair value hierarchy as observable market data for this investment is not available.

22. SUBSEQUENT EVENTS

On April 11, 2018, the Company provided notice to all holders of the Company's Convertible Debentures that the Company intends on prepaying the entire principal amount of the Debentures on May 11, 2018. The holders maintain their conversion right to convert at any time up until the Prepayment Date. As of May 3, 2018, all outstanding debentures and accrued unpaid interest had been fully converted into 21,927,360 common shares of the Company.

Subsequent to March 31, 2018, 4,196,079 share purchase warrants and 2,100,000 stock options were exercised for gross proceeds of $2,517,647 and $734,000, respectively.