ATLANTIC GOLD

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

ATLANTIC GOLD CORPORATION

April 19, 2018

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of Atlantic Gold Corporation and its subsidiaries, which comprise the consolidated balance sheets as December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Gold Corporation and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Atlantic Gold Corporation

Consolidated Balance Sheet
As at December 31
(Expressed in Canadian Dollars)

	Notes	2017	2016
Assets			
Current			
Cash and cash equivalents	6a	**$ 22,093,914**	$ 14,396,987
Prepaid expenses and deposits		**1,001,356**	783,824
Receivables	7	**2,222,708**	3,673,585
Inventory	8	**8,562,014**	201,285
Deferred financing fees	13a	**-**	3,274,078
Due from related party	16	**49,168**	19,034
		33,929,160	22,348,793
Property, plant and equipment	9	**178,712,023**	95,805,269
Exploration and evaluation assets	10	**32,928,658**	17,749,731
Restricted cash	11	**10,593,432**	9,337,346
Other non-current assets	12	**2,402,089**	448,078
		$ 258,565,362	$ 145,689,217
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 22,807,073**	$ 13,815,348
Due to related parties	17	**750,805**	657,294
Current portion of long-term debt	13	**32,210,417**	55,084,080
Other liability	15b	**2,164,290**	1,165,091
		57,932,585	70,721,813
Reclamation provision	14	**4,066,465**	1,581,624
Long-term debt	13	**105,617,533**	-
		167,616,583	72,303,437
Shareholder's equity			
Share capital	15a, 15b	**124,455,438**	103,973,121
Contributed surplus	15c	**15,294,216**	13,289,077
Convertible debentures - equity component	13b	**277,917**	277,917
Deficit		**(49,078,792)**	(44,154,335)
		90,948,779	73,385,780
		$ 258,565,362	$ 145,689,217

Commitments (Note 20)
Subsequent events (Note 13a, 21)

Approved by the Board of Directors

"Donald Siemens" Director

"Robert Atkinson" Director

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

Atlantic Gold Corporation
Consolidated Statement of Loss and Comprehensive Loss
For the years ended December 31
(Expressed in Canadian Dollars)

	Notes	**2017**	2016
General and administrative			
Amortization		**$ 106,532**	$ 85,858
Corporate development and investor relations		**454,409**	352,212
Director fees		**269,501**	131,792
Management fees, salaries and benefits		**2,350,029**	1,797,875
Office and general		**258,724**	261,758
Professional fees		**974,373**	374,674
Rent		**191,928**	192,546
Share-based payments	15c	**1,895,949**	948,733
Transfer agent and filing fees		**142,324**	99,886
Travel, meals and entertainment		**105,982**	89,147
Loss from operations		**(6,749,751)**	(4,334,481)
Other income (expense)			
Financing costs	13,14	**(606,088)**	(1,124,582)
Interest and other income		**218,537**	145,931
Net loss before income taxes		**(7,137,302)**	(5,313,132)
Deferred income tax recovery	15,16	**2,212,845**	421,679
Net loss and comprehensive loss		**$ (4,924,457)**	$ (4,891,453)
Weighted average number of shares outstanding		**179,462,185**	148,802,041
Loss per share, basic and diluted		**$ (0.03)**	$ (0.03)

Atlantic Gold Corporation

Consolidated Statements of Changes in Equity
For the yeas December 31
(Expressed in Canadian Dollars)

	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		**-**	**-**	**2,646,714**	**-**	**-**	**2,646,714**
Exercise of stock options	**15c**	**3,657,450**	**2,047,842**	**(488,854)**	**-**	**-**	**1,558,988**
Exercise of share purchase warrants	**15d**	**2,386,267**	**1,584,481**	**(152,721)**	**-**	**-**	**1,431,760**
Private placement shares issued, net of issuance costs	**15b**	**12,905,200**	**16,849,994**	**-**	**-**	**-**	**16,849,994**
Net loss for the year		**-**	**-**	**-**	**-**	**(4,924,457)**	**(4,924,457)**
Balance - December 31, 2017		**192,280,630**	**$124,455,438**	**$ 15,294,216**	**$ 277,917**	**$ (49,078,792)**	**$ 90,948,779**

	Notes	Shares	Share Capital	Contributed Surplus	Convertible Debentures	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		-	-	1,112,187	-	-	1,112,187
Exercise of stock options	15c	2,530,000	1,404,014	(480,614)	-	-	923,400
Exercise of share purchase warrants	15d	18,977	11,386	-	-	-	11,386
Private placement shares issued, net of issuance costs	15b	55,291,289	33,963,712	-	-	-	33,963,712
Convertible debentures	15b	-	-	-	375,563	-	375,563
Deferred income tax on convertible debentures		-	-	-	(97,646)	-	(97,646)
Net loss for the year		-	-	-	-	(4,891,453)	(4,891,453)
Balance - December 31, 2016		173,331,713	$103,973,121	$ 13,289,077	$ 277,917	$ (44,154,335)	$ 73,385,780

Atlantic Gold Corporation

Consolidated Statements of Cash Flows
For the years ended December 31
(Expressed in Canadian Dollars)

	Notes	2017	2016
Cash used in operating activities			
Net loss and comprehensive loss for the period		**$ (4,924,457)**	$ (4,891,453)
Adjustments for:			
Deferred income tax recovery	16	**(2,212,845)**	(421,679)
Accretion of reclamation obligation	14	**48,165**	-
Amortization		**106,532**	85,858
Share-based payments	15c	**1,895,949**	948,733
Interest and other income		**(218,537)**	(145,931)
Net changes in non-cash working capital:	6b	**(7,165,413)**	443,675
		(12,470,606)	(3,980,797)
Cash (used) provided by investing activities			
Purchase of property, plant and equipment	9	**(66,049,372)**	(46,170,842)
Exploration and evaluation expenditures	10	**(10,853,003)**	(12,973,671)
Restricted cash - Surety bond letter of credit	11	**(1,127,000)**	(2,744,000)
Interest received		**266,059**	107,282
Net cash used in investing activities		**(77,763,316)**	(61,781,231)
Cash (used) provided by financing activities			
Proceeds from stock option exercise	15c	**1,558,988**	923,400
Proceeds from exercise of share purchase warrants	15d	**1,431,760**	11,386
Proceeds from long-term debt			
Project Loan Facility	13	**81,000,000**	34,000,000
Convertible debentures	13	**-**	13,000,000
Transaction costs			
Project Loan Facility	13	**-**	(4,258,383)
Convertible debentures	13	**-**	(586,974)
Interest payments			
Project Loan Facility	13	**(2,767,189)**	(297,823)
Convertible debentures	13	**(1,105,000)**	(567,637)
Finance lease payments, including interest	13	**(2,877,132)**	(1,688,616)
Proceeds from sale and leaseback		**756,468**	-
Restricted cash	12	**(129,086)**	(6,593,346)
Proceeds from private placement net of issuance costs	15b	**20,062,040**	35,452,836
Net cash provided in financing activities		**97,930,849**	69,394,843
Change in cash and cash equivalents during the period		**7,696,927**	3,632,815
Cash and cash equivalents, beginning of period		**14,396,987**	10,764,172
Cash and cash equivalents, end of period		**$ 22,093,914**	$ 14,396,987

Supplemental cash flow information (Note 6)

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 advancing the development of its Nova Scotia properties, including its Moose River Consolidated Mine ("MRC Mine") (which is comprised of the Touquoy and Beaver Dam deposits), Cochrane Hill and Fifteen Mile Stream gold projects, as well as continuing to actively review potential acquisitions and investment opportunities. The infrastructure for the MRC Mine is in 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.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost convention. The accounting policies followed in these consolidated financial statements have been consistently applied in all periods presented.

These consolidated financial statements were approved by the board of directors on April 19, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

During the period, the Company initially applied new policies for inventory, stripping costs and revenue recognition. These new significant accounting policies and the Company's previously adopted significant accounting policies, both of which were used to prepare these consolidated financial statements are as follows:

Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries, which are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date that control commences until the date that control ceases. All inter-company transactions and accounts have been eliminated on consolidation. The principal subsidiaries of the Company, all of which are 100% owned, and their countries of incorporation are as follows:

Subsidiary	Location
Atlantic Gold Pty Ltd.	Australia
Atlantic Gold Exploration Pty. Ltd.	Australia
Atlantic Mining NS Corp.	Canada
Acadian Mining Corp.	Canada
Annapolis Properties Corp.	Canada
6179053 Canada Inc.	Canada
6927629 Canada Corp.	Canada

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting currency and foreign currency translations

The functional and presentation currency for the Company and each of its subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which the entities operate.

Monetary assets and liabilities are translated at period-end exchange rates and items included on the consolidated statements of loss and comprehensive loss and cash flows are translated at rates in effect at the time of the transaction. Non-monetary assets and liabilities are translated at historical rates. The gain or loss on translation is charged to the consolidated statement of loss and comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits and short-term highly liquid investments at Canadian financial institutions with an original term to maturity of 90 days or less, which are readily convertible to known amounts of cash at any time without penalty and which, in the opinion of management, are subject to an insignificant risk of changes in value. Such financial assets are stated at their respective fair values at inception and subsequently at amortized cost.

Inventory

Ore stockpile, in-circuit and finished metal inventory are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenditures directly attributable to mineral extraction and processing and an allocation of fixed and variable production overheads, including depreciation, that are incurred in extracting and processing ore. Net realizable value is determined with reference to relevant market prices, less estimated costs of completion (including royalties payable).

Ore stockpile inventory is segregated between current and non-current based on its expected processing date. In circuit inventory represents material that is in the process of being converted into a saleable form. Finished metal inventory represents gold doré.

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

Major spare parts and standby equipment are included in plant and equipment when they are expected to be used during more than one period and if they can only be used in connection with an item of plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Exploration and evaluation assets consist of acquisition of mining concessions, options and contracts and exploration expenditures. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Acquisition and exploration costs are capitalized and deferred to exploration and evaluation assets until such time as the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable or the property is disposed of, either through sale or abandonment, or becomes impaired. Once the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable, the capitalized amounts are first tested from impairment and then transferred to property, plant and equipment. Proceeds received from the sale of any interest in a property will be offset against the carrying value of the property. If a property is abandoned, the acquisition costs will be written off to operations. Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of the properties. The recorded costs may be subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts. Although the Company has taken steps that it considers adequate to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title.

Property, plant and equipment

Property, plant and equipment are carried at costs less depreciation and depletion and accumulated impairment losses and include:

- Cost of acquiring the property
- Amounts transferred from exploration and evaluation assets once the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable
- Construction costs and expenditures incurred to develop the mine
- Borrowing costs directly relating to the financing of a qualifying project
- Costs incurred during commissioning net of proceeds, prior to reaching commercial production
- Reclamation and closure assets recognized when the obligation has been incurred.
- Certain stripping costs that provide a future benefit

Mineral properties and development costs

Development costs are capitalized to mine property and development costs within property, plant and equipment, and on completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. No depreciation or depletion is recorded until on mineral properties and development costs until the mineral property is in commercial production.

Mineral properties will be depleted using the units-of-production ("UOP") method. Using the UOP method, depletion and depreciation is determined each period using gold ounces mined over the asset's estimated reserves.

Mineral properties also include land purchased for exploration or development of a mineral property.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties include stripping costs. Stripping costs are the costs incurred to remove mine waste materials to gain access to mineral ore deposits during production. Stripping costs incurred during the development of a mine are capitalized to mineral properties. Stripping costs incurred subsequent to commencement of commercial production are variable production costs that are included in the cost of inventory produced during the period in which they are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping cost would be deferred and included in mineral properties. Future benefits arise when stripping activity increases the future output of the mine by providing access to an extension of an ore body or to a new ore body. Deferred stripping costs are depleted based on the UOP method using the related proven and probable mineral reserves as the depletion base.

Plant, infrastructure and equipment

The plant and infrastructure are carried at cost less accumulated depreciation. A majority of mine and site infrastructure assets, including the plant, buildings, roads, tailings facility and transmission lines are depreciated using a UOP method based on ounces processed over the related reserve base.

Equipment is carried at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated at the following annual rates:

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

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

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

Impairment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit ("CGU")).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, the impact of government legislation and political stability in the region, and the impact of current and expected future gold prices on potential reserves.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Reclamation provision

The Company records a reclamation provision which reflects the present value of the estimated legal or constructive obligation amount of undiscounted cash flows required to satisfy the asset retirement obligation caused by the exploration, evaluation, development or ongoing production at a mineral property. A liability for reclamation obligations is recognized in the period in which the disturbance is incurred and when a reasonable estimate of the fair value of the liability can be made. The initial provisions are periodically reviewed and updated to reflect new developments or changes in estimates and forecasts. The liability is recorded at the net present value and is accreted to its estimated future value over time. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Changes in estimates are reflected in the period during which an estimate is revised. The liability is unwound in the period the reclamation is performed.

The initial reclamation provisions, together with changes, are capitalized within property, plant and equipment and depleted or depreciated on the same basis as the assets to which they relate.

Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

The Company follows the asset and liability method for accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred tax assets or liabilities are calculated using the tax rates enacted or substantially enacted for the periods in which the differences are expected to be settled. Deferred tax assets are recognized to the extent that they are considered more likely than not to be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debenture

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

Deferred financing fees

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

Leases

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

Finance leases

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

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

Operating leases

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

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

Flow-through shares

The issuance of flow-through common shares results in the tax deductibility of the qualifying resource expenditures funded from the proceeds of the sale of such shares being transferred to the purchasers of the shares. On the issuance of such shares, the Company bifurcates the flow-through

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

shares into: a flow-through share premium, equal to the estimated premium that investors pay for the flow-through feature, which is recognized as a liability, and share capital. As the related exploration expenditures are incurred, the Company derecognizes the premium liability and recognizes a related income tax recovery.

Revenue recognition

Revenue is generated from the sale of refined gold. The Company has early adopted IFRS 15, Revenue from Contracts with Customers ('IFRS 15"). The Company had no revenue in the comparative periods prior to the adoption of IFRS 15.

The Company produces doré which contain gold. These products are further processed to produce refined metals for sale. The Company's performance obligations relate solely to the delivery of gold to its customers.

Revenue is recognized when control of the refined gold is transferred to the customer. Control is achieved when a product is delivered to the customer, the customer has full discretion over the product and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Control over the refined gold is transferred to the customer and revenue recognized upon delivery to the customer's bullion account.

Revenue is required to be recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring the product to the customer. The Company has some forward sale contracts which specifies the price and the remaining gold is sold at spot prices.

Share-based payments

Share-based payments to employees and others providing similar services are measured at the fair value of the instruments issued and amortized over the vesting periods. Other share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized is allocated to exploration and evaluation assets, mineral properties or expensed in the statement of loss (according to the service provided) and is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus, the account used to record any share-based payments related to convertible securities of the Company.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital.

Earnings (loss) per common share

The basic earnings (loss) per share is computed by dividing the earning (loss) by the weighted

average number of common shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if exercised. For this purpose, the treasury stock method is used whereby the assumed proceeds upon the exercise of stock options and warrants are used to purchase common shares at the average market price

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

during the year. Although the Company had exercisable options and convertible debentures that were in the money at December 31, 2016 and 2017, the exercising of these options and the conversion of the debentures, would have an anti-dilutive impact on the Basic earnings (loss) per share due to the loss position of the Company.

Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit and loss, loans and receivables, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition.

Other than loans and receivables, where the Company expects to realize the asset, or discharge the liability within 12 months, it is recorded as a current asset or liability; otherwise, it is recorded as a long-term asset or liability.

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

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

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

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

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

Financial instruments – fair value

The fair value hierarchy under which the Company's financial instruments are valued is as follows:

- Level 1 - unadjusted quote prices in active markets for identical assets or liabilities;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liability;
- Level 3 - inputs for the asset or liability that are not based on observable market data.

4. CHANGES IN ACCOUNTING STANDARDS NOT YET EFFECTIVE

Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9"), 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. 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. Management expects the adoption of IFRS 9 to have an impact on the carrying value of its available-for-sale financial asset. Under IFRS 9, the Company will not be able to record its available-for-sale financial asset at cost.

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 15. IFRS 16 will result in an increase in assets and liabilities as fewer leases will be expensed as payments are made. Management expects an increase in depreciation expenses and also an increase in cash flow from operating activities as these lease payments will be recorded as financing outflows in the cash flow statement.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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 the Company recognizes revenue and operating costs in the statement of profit and loss and depreciation and depletion commence. 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 by management had been completed; (b) a reasonable period of commissioning had been completed; (c) consistent operating results were being achieved at the previously budgeted level of design capacity; and (d) the transfer of operations from construction personnel to operational personnel had been completed. On March 1, 2018, management declared commercial production at the MRC Mine.

Impairment of exploration and evaluation assets

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

Hedge facility – own use

Contracts to buy or sell a non-financial item, such as a commodity, that can be settled net in cash or another financial instrument fall under the scope of IAS 39 and are accounted for as derivatives and marked to market through the consolidated statement of loss and comprehensive loss. However, certain criteria exist whereby a contract may fall under an 'own use' exemption, and be exempt from the requirements of IAS 39. The determination of the Company's accounting for its gold hedging contracts (Note 13a) requires judgment to determine whether the contracts meet the requirements of 'own use'. An 'own use' contract is a contract that was entered into and continues to be held for the purpose of the delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. In the case of the Company's gold hedging contracts, the Company plans to settle the hedging contracts through the delivery of its own gold production, and therefore, these contracts result in the physical delivery of a commodity, and as per the Project Loan Facility ("PLF" and defined in Note 13a), there is a specified schedule whereby the Company will be required to deliver a set number of ounces. The Company determined, based on the Company's current life of mine plan, that the production of ore will be sufficient to fulfill the physical delivery requirements of the hedge contracts based on the agreed schedule within the PLF.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Functional Currency

The functional currency for each of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that for each subsidiary the functional currency is the Canadian dollar. When determining the functional currency certain judgments may be involved to assess the primary economic environment in which the entity operates. If there is a change in events or conditions which determined the primary economic environment, the Company revaluates the functional currency for each of the subsidiary impacted.

Available-for-sale financial asset

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

Estimates

Mineral Reserves

The Company estimates its proven and probable mineral reserve on the basis of information compiled by an appropriately qualified person. The estimation of future cash flows expected to result from exploiting reserves includes assumptions about commodity prices, capital requirements, permits, metal recovery and production costs. Changes in proven and probable mineral reserve estimates may impact the carrying value of mineral properties, plant and equipment, restoration obligations, recognition of deferred tax amounts and depreciation and depletion.

Impairment of property, plant and equipment

At the end of each reporting period, the Company assesses whether any indication of impairment exists. Where an indicator of impairment exists, an impairment analysis is performed. The impairment analysis requires the use of estimates and assumptions including amongst others, long-term commodity prices, exchange rates, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax positions taken. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the individual assets or CGUs. In such circumstances, some or all of the carrying value of the assets or CGUs may be further impaired or the impairment charge reduced with the impact recorded in the consolidated statements of operations and comprehensive income (loss).

Reclamation provision

Accounting for reclamation obligations requires management to make estimates of the future costs to be incurred to complete the reclamation and remediation work which is required to comply with existing laws, regulations and constructive obligation. The ultimate magnitude of the reclamation costs is uncertain, and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new reclamation techniques, and local inflation rates. The expected timing of expenditure can also change, for example, in response to changes in mineral reserves or production rates, timing of planned restart of operations or economic conditions. As a result, there could be significant adjustments to the provision for reclamation, which would affect future financial results.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Valuation of inventory

All inventory is valued at lower of average costs or net realizable value. Management is required to make various estimates and assumption to determine the value of stockpiles ore, ore in process and finished goods inventory. The estimates and assumptions included surveyed quantities of stockpiled ore, in-process volumes, contained metal content, recoverable metal content, costs to recover saleable metal and metal prices. Changes in these estimates can result in changes to the carrying amounts of inventories and mine operating costs in future period.

Convertible debenture

Measurement of the fair value of the liability component of the convertible debenture (Note 13b) includes estimates of (i) the amount and timing of cash flows, and (ii) the Company's cost of debt. Actual results may differ from these estimates.

6. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Cash at December 31 is comprised of:

		2017		2016
Cash	**$**	**22,035,739**	$	14,338,812
Guaranteed Investment Certificates		**58,175**		58,175
	$	**22,093,914**	$	14,396,987

(b) Changes in non-cash working capital for the years ended December 31 is comprised of:

		2017		2016
Net changes in non-cash working capital:				
Receivables	**$**	**(593)**	$	268,108
Inventory		**(5,324,512)**		(201,285)
Other asset		**(1,108,399)**		-
Due from related parties		**(30,134)**		271
Prepaid expenses and deposits		**(507,226)**		(39,575)
Accounts payable and accrued liabilities		**(288,060)**		115,170
Due to related parties		**93,511**		300,986
	$	**(7,165,413)**	$	443,675

(c) Non-cash financing and investing activities for the year ended December 31, 2017 included non-cash items related to leased obligations of $2,081,167 (2016 - $10,695,746)

7. RECEIVABLES

		2017		2016
Input tax credits	$	1,999,172	$	3,420,469
NSDNR security for settlement of expropriated properties		206,698		206,698
Interest and other receivables		16,838		46,418
	$	2,222,708	$	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 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.

8. INVENTORY

		2017		2016
Ore in stockpile	$	1,472,341	$	-
In-circuit metal		6,312,662		-
Finished metal		141,270		-
Total mineral inventory		7,926,273		-
Materials and supplies		635,741		201,285
Current inventory	$	8,562,014	$	201,285

Metals inventory was nil in 2016 as the MRC Mine was still under construction. Commercial production commenced March 1, 2018. As of December 31, 2017, the MRC Mine is in commissioning and as such revenues and costs are capitalized to mineral properties, therefore there are no cost of goods sold or depreciation expense recorded in 2017. Depreciation included in inventory at December 31, 2017 is $3,036,223.

9. PROPERTY, PLANT AND EQUIPMENT

	Notes	Mineral properties and development costs	Equipment	Plant and infrastructure	Total
Costs					
At January 1, 2016		$ 4,299,805	$ 251,052	$	$ 4,550,857
Reclassification		23,005,766	-	-	23,005,766
Reclamation	14	1,581,624	-	-	1,581,624
Borrowing costs	13	1,719,263	-	-	1,719,263
Additions		53,275,640	12,653,084	-	65,928,724
At December 31, 2016		**$ 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
Additions		**74,338,137**	**3,206,391**	**-**	77,544,528
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**
Accumulated depreciation					
At January 1, 2016		$ -	$ (139,731)	$ -	$ (139,731)
Depreciation		-	(841,234)	-	(841,234)
At December 31, 2016		**$ -**	**$ (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)**
Net book value					
At December 31, 2016		$ 83,882,098	$ 11,923,171	$ -	$ 95,805,269
At December 31, 2017		**$ 69,656,701**	**$ 12,517,211**	**$ 96,538,111**	**$ 178,712,023**

9. 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, Property plant and equipment, 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 exploration and evaluation assets under IFRS 6 to mineral properties and development costs. Capitalized mineral property costs will be carried at cost until the MRC Mine is placed in commercial production, sold, abandoned, or determined by management to be impaired in value.

The MRC mine started commissioning in late 2017. During 2017, revenue earned in commissioning of $12,429,542 was capitalized to mineral properties.

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. 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 ("NSR") royalty of 3% is also payable 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, Fifteen Mile Stream and other 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**
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	124,857	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**

10. EXPLORATION AND EVALUATION ASSETS *(continued)*

	Beaver Dam	Touquoy	Cochrane Hill	Fifteen Mile Stream and Other	Total
Acquisition Costs January 1, 2016	**$ 1,134,791**	**$10,035,517**	**$ 2,278,597**	**$ 6,321,884**	**$19,770,789**
Reclassification to property, plant and equipment *(Note 9)*	-	(10,035,517)	-	-	(10,035,517)
Acquisition costs December 31, 2016	$ 1,134,791	$ -	$ 2,278,597	$ 6,321,884	$ 9,735,272
Deferred costs, January 1, 2016	**$ 4,025,390**	**$ 3,173,012**	**$ 288,020**	**$ 373,475**	**$ 7,859,897**
Engineering	-	8,777,406	-	-	8,777,406
Salaries and consulting fees	137,741	364,621	321,882	110,079	934,323
Environmental	455,082	129,751	22,240	-	607,073
Construction and development	-	216,452	-	-	216,452
Permitting and claims	24,778	134,537	13,640	274,762	447,717
Office and administration	138,823	21,001	2,432	3,708	165,964
Assays and metallurgy	2,406	28,115	230,459	86,559	347,539
Travel and accommodation	-	44,147	4,107	1,737	49,991
Drilling and fieldwork	4,598	73,005	1,106,728	187,786	1,372,117
Equipment and supplies	1,094	8,202	163,233	33,700	206,229
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)
Deferred costs, December 31, 2016	**$ 4,789,912**	**$ -**	**$ 2,152,741**	**$ 1,071,805**	**$ 8,014,459**
Exploration and evaluation assets, December 31, 2016	**$ 5,924,703**	**$ -**	**$ 4,431,338**	**$ 7,393,689**	**$17,749,731**

11. RESTRICTED CASH

	Notes	2017	2016
PLF proceeds account	a	**$ 6,000,000**	$ 6,000,000
GIC	b	**3,871,000**	2,744,000
DSRA	c	**722,432**	593,346
		$ 10,593,432	$ 9,337,346

(a) Under the Company's 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 (2016 - $2,744,000), 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 1.9% per annum.

11. RESTRICTED CASH (continued)

(b) *(continued)* The increase of $2.1 million in the required reclamation performance bond represents the second installment 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.

(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

	2017	2016
Available-for-sale asset	**$ 248,078**	$ 248,078
Deposits	**200,000**	200,000
Ore in stockpile inventory	**1,954,011**	-
	$ 2,402,089	$ 448,078

13. LONG-TERM DEBT

	Project Loan Facility (a)	Convertible debentures (b)	Equipment Facility (c)	Total
Cash received in 2016	$ 34,000,000	$ 12,606,677	$ -	$ 46,606,677
Equipment received in 2016	-	-	10,695,747	$ 10,695,747
Principal repayment	-	-	(897,207)	(897,207)
Interest expense and accretion (1)	389,539	819,880	230,687	1,440,106
Interest payment	(297,823)	(567,637)	(230,687)	(1,096,147)
Transaction costs	(1,374,305)	(569,214)	-	(1,943,519)
Amortization of transaction costs (1)	112,212	166,211	-	278,423
Current portion of long-term debt at December 31, 2016	**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**
	115,111,746	**12,306,887**	**10,409,317**	**137,827,950**
Less Current portion	**(29,048,196)**	**(154,397)**	**(3,007,824)**	**(32,210,417)**
Long-term debt at December 31, 2017	**$ 86,063,550**	**$ 12,152,490**	**$ 7,401,493**	**$ 105,617,533**

(1) Interest expense, accretion and amortization of transaction costs are capitalized to the mineral properties prior to the start of commercial production. In addition to the items above standby fees on the PLF and Equipment Facility of $557,923, have been expensed to the statement of loss for the year ended December 31, 2017 (2016 $1,124,582).

13. LONG-TERM DEBT (continued)

The Company's PLF contains certain project covenants including a minimum working capital ratio, calculated quarterly. At December 31, 2016, the Company was not in compliance with the minimum required working capital ratio. In the second quarter of 2017 the PLF lenders waived the minimum working capital requirement for the remainder of the year 2017, being the expected remaining period of construction of Touquoy. IAS 1, Presentation of Financial Statements, requires that unless any waiver to a breach of covenant has been obtained at the balance sheet date then the loan must be classified as current. Because this waiver and clarification of the applicability of this ratio was not obtained until after the balance sheet date, the PLF and the convertible debentures and the Equipment Facility which have with cross defaults with the PLF, were classified as current at December 31, 2016. At December 31, 2017 the Company was in compliance with all other debt covenants.

Further, the above noted waiver included an amendment to the definition of the current ratio such that the current ratio calculation will exclude i) liabilities in respect of unrealized losses under the Hedging Facility, ii) principal payments under the PLF, iii) any non-cash flow through financing liabilities and iv) when calculating the current ratio for the unconsolidated financial statements of the Company's subsidiary, Atlantic Mining NS Corp. ("AMNS"), excluding amounts payable by AMNS in respect of subordinated inter-corporate debt.

Contractual cash flow commitments are set out in Note 18.

(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 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 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. As Project Completion had not been met at December 31, 2017, the interest rate charged during the year was CDOR plus 5%. The Company may prepay all or part of the principal balance outstanding at any time without penalty.

As at December 31, 2017, the PLF was fully drawn (December 31, 2016: $34 million). The PLF is secured through guarantees and a first ranking charge on all assets of the Company and each of its material subsidiaries. The PLF has 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 incurred transaction costs of $4,648,383 which were deferred as financing costs until such time that the facility is drawn down. As the PLF was drawn down, a proportionate amount of the deferred financing fees was reclassified from deferred financing fees to long-term debt as transaction costs, which are amortized over the repayment period of each respective drawdown using the straight-line method. The balance of the deferred financing at December 31, 2017 is nil (December 31, 2016: $3,274,078).

13. LONG-TERM DEBT (continued)

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

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 for 215,000 ounces which is at a flat forward price of $1,550 per ounce and scheduled out its hedged contracts over the life of the PLF (the "Hedge Facility") to be delivered during production. As at December 31, 2017, no ounces had been delivered to the Hedge Facility.

In February 2018, the delivery schedule of the Hedge Facility was amended to align with the production schedule of the Company.

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.

(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 17b). The Debentures carry an interest rate of 8.5% (due semi-annually in February and November), 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 has been assumed to occur on May 10, 2021, which management will revisit at the prepayment date (Note 21a).

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 Debentures.

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.

As at December 31, 2017, the Company has entered into a total of 23 equipment lease contracts between May 26, 2016 and December 31, 2017 which form part of the $20 million Equipment Facility executed on May 26, 2016. 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%. The lease payment schedule is thus amended for each 90-day period to reflect increases or decreases to CDOR.

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.

14. RECLAMATION PROVISION

The reclamation provision is comprised of:

	2017	2016
Opening balance	**$ 1,581,624**	$ -
Additions	**2,436,676**	1,581,624
Accretion expense	**48,165**	-
Ending balance	**$ 4,066,465**	$ 1,581,624

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 December 31, 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 in nominal dollars, undiscounted is $3,904,991. Cash expenditures are expected to occur at the end of the mine life of the MRC Mine, estimated in the years 2026 to 2027.

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

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

In the year ended December 31, 2016, the following private placements were completed:

Date issued	Shares issued	Unit price	Gross Proceeds	Issue costs	Net Proceeds
September 22, 2016(i)	8,759,550	$ 1.05	$ 9,197,527	$ (439,534)	$ 8,757,993
May 16, 2016	46,531,749	$ 0.60	27,919,046	(1,224,203)	26,694,843
	55,291,299		$ 37,116,573	$ (1,663,737)	$ 35,452,836

(i) The Company raises 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:

	2017	2016
Opening balance, January 1	**$ 1,165,091**	$ -
Additions on issue of flow-through shares	**3,212,046**	1,489,124
Settlement of liability on expenditures made	**(2,212,847)**	(324,033)
Ending balance, December 31	**$ 2,164,290**	$ 1,165,091

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, 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	**4,385,000**	**1.01**
Forfeited	**(241,250)**	**1.02**
Exercised	**(3,657,450)**	**0.44**
Outstanding - December 31, 2017	**13,295,000**	**0.58**
Exercisable - December 31, 2017	**10,830,000**	**0.48**

Total share-based payments recognized during the year ended December 31, 2017 was $2,646,714 (2016: $1,112,187), with $1,895,949 recognized in the consolidated statement of loss and comprehensive loss (2016: $948,733), $682,520 capitalized to property, plant and equipment (2016: $163,454), and $68,245 capitalized to exploration and evaluation assets (2016: $nil).

15. EQUITY (continued)

Stock options outstanding and exercisable at December 31, 2017 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	3.2	5,340,000	$0.28	3.2
$0.40 – 0.42	2,495,000	$0.42	4.8	2,495,000	$0.42	4.8
$0.63 – 0.86	1,550,000	$0.75	5.3	1,118,750	$0.75	5.3
$0.96 – 1.02	3,600,000	$0.96	5.8	1,800,000	$0.96	5.8
$1.48 – 1.58	310,000	$1.55	6.3	76,250	$1.54	6.2
	13,295,000	$0.58	4.5	10,830,000	$0.48	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 nine months ended December 31, 2017:

Risk-free interest rate	1.18% - 1.92%
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, 2016	23,137,361	0.60
Exercised	(18,977)	0.60
Balance - December 31, 2016	23,118,384	0.60
Exercised	**(2,386,267)**	**0.60**
Balance - December 31, 2017	**20,732,117**	**0.60**

16. INCOME TAXES

(a) A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax rate expenses is as follows:

	2017	2016
Loss before income taxes	$ (7,137,302)	$ (5,313,132)
Federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on the above rates	(1,855,699)	(1,381,414)
Increase (decrease) due to:		
Non-deductible expenses and other items	493,940	248,217
Effects of different statutory rates on earnings of subsidiaries	(40,796)	(55,441)
Changes in losses and temporary differences not recognized	(2,249,828)	481,914
Difference between flow-through share premium and tax benefits renounced	1,439,538	285,045
Income tax recovery	$ (2,212,845)	$ (421,679)

(b) Recognized deferred income tax assets (liabilities) are comprised of:

	2017	2016
Non-capital losses	$ 9,596,160	$ 1,915,447
Mineral Properties and property, plant and equipment	(10,563,204)	(4,706,277)
Inventory	(1,203,367)	-
Future distributions from subsidiaries	(1,868,575)	-
Lease obligation	3,226,854	3,037,547
Other	812,132	(246,717)
	$ -	$ -

(c) Unrecognized deferred income tax assets are comprised of:

	2017	2016
Non-capital loss carry forward and other amounts	$ 6,023,299	$ 9,091,025
Capital losses	1,840,919	1,772,737
Mineral Properties and property, plant and equipment	106,487	703,871
Reclamation provision	1,260,604	490,303
Other	478,750	334,009
	$ 9,710,059	$ 12,391,945

(d) At December 31, 2017, the Company had deductible temporary differences for which deferred tax assets of $1,845,840 (2016: $1,528,184) have not been recognized because it is not probable that future taxable profits will be available against which the Company can utilize these benefits. Substantially all the deductible temporary differences do not expire.

16. INCOME TAXES (continued)

At December 31, 2017, the Company had Canadian tax losses with a tax benefit of $6,023,299 (2016: $8,495,107) which are not recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income that can be reduced by the tax losses. The Company has unrecognized Canadian tax losses of $53,689,920 which expire between 2025 and 2037.

17. 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 years ended December 31 is as follows:

		2017		2016
Salaries and benefits	$	768,598	$	638,089
Consulting fees		1,103,721		992,286
Director fees		269,500		131,750
Share-based payments		1,704,252		905,924
	$	3,846,071	$	2,668,049

(b) Amount due to related parties

Amounts due to related parties as of December 31 are as follows:

Related party		2017		2016
Beedie Investments Limited[1]	$	7,573,469	$	7,665,180
Sirocco Advisory Services[2,4]		428,246		426,710
Metallica Consulting Services[3,4]		14,000		8,333
Directors[4]		-		57,083
Officers[4]	$	293,059	$	165,168

(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, $95,014 is current at December 31, 2017 (December 31, 2016 - $7,665,180). The remaining amounts are recorded as long-term debt (see Note 13b). In the period, Beedie Investment Limited received interest of $680,000 (2016 – $349,315).
(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 year ended December 31, 2017, office lease and administrative expenditures billed to Oceanic amounted to $75,291, (2016: $78,652). As at December 31, 2017, the Company was due $49,168 from Oceanic (December 31, 2016: $19,034).

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company as at December 31 are summarized as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables				
Cash and cash equivalents	$ 22,093,914	$ 22,093,914	$ 14,396,987	$ 14,396,987
Due from related parties	49,168	49,168	19,034	19,034
Receivables	223,539	223,539	253,116	253,116
Restricted cash	10,593,432	10,593,432	9,337,346	9,337,346
Available for-sale asset	248,077	N/A	248,077	N/A
Financial liabilities				
Accounts payable and accrued liabilities	$ 22,807,073	$ 22,807,073	$ 13,815,348	$ 13,815,348
PLF	115,111,746	113,789,000	32,829,623	32,829,623
Equipment facility	10,409,317	9,859,000	9,798,540	9,798,540
Due to related parties	750,805	750,805	657,294	657,294

Cash and cash equivalents, due from related party, receivables, restricted cash and receivables within other non-current assets are designated as loans and receivables and are measured at amortized cost. Accounts payable, Debentures, lease obligations, the PLF, and amounts due to related parties are classified as other financial liabilities, which are measured at amortized cost.

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.

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

Credit risk

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

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

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

The following table details the Company's expected remaining contractual cash flow requirements for its financial liabilities based on repayment or maturity periods and its commitments on the crown and office leases. The amounts presented are based on the contractual undiscounted cash flows, these balances may not agree with the carrying amounts on the consolidated statements of financial position:

	<1 year	1-5 years	Over 5 years	Total
Accounts payable	$22,807,073	$ -	$ -	$22,807,073
Due to related parties	750,805	-	-	750,805
PLF(1) (Note 13a)	36,817,000	93,353,000	-	130,170,000
Convertible debt interest (Note 13b)	1,105,000	17,420,000	-	18,525,000
Reclamation bond (Note 14)	2,600,000	2,100,000	-	4,700,000
Lease obligations (Note 13c)	3,007,824	8,768,531	-	11,776,355
Crown lease	68,300	273,200	204,900	546,400
Office lease	245,149	395,995	-	641,144
Total	$67,401,150	$122,310,726	$ 204,900	$189,916,777

In February 2018, the PLF was amended to revise the debt amortisation schedule to align with the Company's revised Life of Mine plan. This is not reflected in the balances above which are as of December 31, 2017.

The Company had cash of $22,093,914 at December 31, 2017. Commercial production at the Company's MRC Mine began on March 1, 2018 and is expected to provide sufficient cash flow from operations to cover the cash flow requirements set out above.

Interest Rate Risk

Interest risk is the risk that the Company's future cash flows and fair values will fluctuate as a result of changes in the market interest rate. The Company's interest rate risk mainly arises from the interest rate impact on interest income derived from Canadian Dollar cash and deposits, restricted cash, and interest expense on its convertible debentures, the PLF, and the Equipment Facility. The Company invests surplus cash in fixed rate term deposits. It is the Company's policy to reduce interest rate risk over future cash flows through the use of instruments with a history of returns. Advances under the PLF bear interest at an interest rate of the CDOR plus a 5% margin (Pre-Project Completion), reducing to a margin of 4.5% post-Project Completion. Similarly, the Equipment Facility bears interest at a rate of CDOR plus a 5.35% margin. The Company manages this risk by monitoring fluctuations in CDOR, which are not expected to be significant. The convertible debt has a fixed interest rate. On an annualized basis, a 1% change in interest rates would have an impact of approximately $2,000,000 on net loss and comprehensive loss. Interest expense is capitalized to mineral properties prior to commercial production which started March 1, 2018.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Price Risk

The Company is subject to commodity price risk from fluctuations in the market prices for gold. The Company has a Hedge Facility covering the sale of 215,000 ounces at a price of $1,550 per ounce. On an annualized basis, a 1% change in gold price would have an impact of approximately $275,000 on net loss and comprehensive loss. Revenue is capitalized to mineral properties prior to commercial production which started March 1, 2018.

Currency risk

The functional currency of the Company is the Canadian dollar. Currency transaction risk and currency translation risk is the risk that fluctuations of the Canadian dollar in relation to other currencies may impact the fair value of financial assets, liabilities and operating results. As of December 31, 2017, the Company had no financial assets or liabilities that were subject to currency translation risk.

19. CAPITAL MANAGEMENT

Capital includes all components of shareholders' equity. The Company's objective in managing capital is to safeguard the Company's ability to continue as a going concern, to maintain a flexible capital structure which optimizes cost of capital at acceptable risk, and to provide reasonable returns to shareholders.

The Company invests its funds in deposits and term deposits with major financial institutions and monitors capital by gauging cash available for use. The Company manages the capital structure and makes adjustments in light of changes in economic conditions, foreign exchange rates and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to improve working capital.

Other than what has already been disclosed in Note 13 in respect of long-term debt, the Company has no other externally imposed capital requirements.

20. COMMITMENTS

See Note 18 to see Company's contractual cash flow commitments. Other commitments are as follows:

(a) During 2017 the Company issued flow-through shares and as a result is committed to spend $14,052,525 in qualifying exploration expenditures in 2018. The Company had incurred approximately $4,500,000 in qualifying expenditures as at December 31, 2017.

20. COMMITMENTS (continued)

(b) As discussed in Note 9, 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. For the Company's 100% owned Beaver Dam deposit, a 0.6% NSR is payable to a private third-party. The Company must also remit a 1% NSR on production from all deposits in Nova Scotia to the government in Nova Scotia.

(c) In order to maintain current rights of tenure to exploration tenements, the Company is required to incur expenditures of approximately $350,000 in respect of claim renewal fees and minimum work requirements in 2017/2018.

(d) The Company has 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.

21. SUBSEQUENT EVENTS

(a) 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. On April 19, 2018, debentures coveting $2 million including accrued and unpaid interest were converted through the issuance of 3,372,145 common shares.

(b) Subsequent to December 31, 2017, 1,397,265 share purchase warrants were exercised for gross proceeds of $838,359.