



**ATLANTA GOLD INC.**

**Atlanta Gold Inc.**

**Consolidated Financial Statements**

**December 31, 2014**

**(Expressed in U.S. Dollars)**

## **Management's Report on the Consolidated Financial Statements**

The accompanying consolidated financial statements of Atlanta Gold Inc. have been prepared by and are the responsibility of the Company's management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and records are maintained.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, which is comprised of three independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present. PricewaterhouseCoopers LLP, Chartered Accountants, Licensed Public Accountants, have audited these consolidated financial statements and their report follows.

"Ernie Simmons "  
Wm. Ernest (Ernie) Simmons  
Director & President & CEO

"Peili Miao"  
Peili Miao  
CFO

Toronto, Ontario, Canada  
May 29, 2015



May 29, 2015

## **Independent Auditor's Report**

### **To the Shareholders of Atlanta Gold Inc.**

We have audited the accompanying consolidated financial statements of Atlanta Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flow 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 Atlanta Gold Inc. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1, which describes the matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Atlanta Gold Inc.'s ability to continue as a going concern.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants, Licensed Public Accountants**

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Consolidated Statements of Financial Position**  
**(Expressed in U.S. Dollars)**

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 24,354	\$ 721,412
Marketable securities	79,843	-
Recoverable taxes	10,609	18,581
Prepaid expenses	62,416	72,233
	177,222	812,226
Exploration and evaluation assets (note 4)	45,821,963	44,274,702
Property, plant and equipment (note 5)	1,577,266	1,785,915
	<b>\$ 47,576,451</b>	<b>\$ 46,872,843</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 1,868,670	\$ 1,542,330
Penalty payable to U.S. Treasury (note 13)	1,850,000	-
Promissory note (note 7(b))	424,717	424,717
Senior secured notes - current (note 7(c))	1,000,000	848,163
Shareholders' loans (note 11)	986,275	284,862
Convertible debenture (note 7(a))	2,586,000	-
Convertible debenture - embedded derivatives (note 7(a))	261,580	559,258
Convertible loan (note 7(d))	540,140	-
Convertible loan - embedded derivatives (note 7(d))	111,461	-
Rehabilitation provisions (notes 12 and 13)	264,141	561,144
	9,892,984	4,220,474
Non-current liabilities		
Rehabilitation provisions (notes 12 and 13)	965,000	965,000
Penalty payable to U.S. Treasury (note 13)	-	1,775,000
Senior secured notes (note 7(c))	3,204,065	2,960,766
Convertible debenture (note 7(a))	-	1,467,021
	<b>\$ 14,062,049</b>	<b>\$ 11,388,261</b>

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

# ATLANTA GOLD INC.

(An exploration stage company)

Consolidated Statements of Financial Position (continued)

(Expressed in U.S. Dollars)

	December 31, 2014	December 31, 2013
<b>EQUITY</b>		
Capital stock (note 8(a))	\$ 89,671,149	\$ 89,340,632
Warrants (note 8(b))	1,000,109	910,205
Contributed surplus (note 8(c))	9,927,722	10,017,626
Accumulated deficit	(59,078,815)	(61,362,397)
Accumulated other comprehensive loss	(8,005,763)	(3,421,484)
	<b>33,514,402</b>	<b>35,484,582</b>
	<b>\$ 47,576,451</b>	<b>\$ 46,872,843</b>

Nature of operations and going concern (note 1)

Commitments and contingencies (note 13)

Subsequent events (note 15)

Approved by the Board:

"Jim Gray"

James K. Gray

Director

"Allan Folk"

Allan J. Folk

Director

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

# ATLANTA GOLD INC.

(An exploration stage company)

Consolidated Statements of (Income) Loss and Comprehensive Loss

(Expressed in U.S. Dollars)

Years Ended December 31, 2014 and 2013

	December 31, 2014	December 31, 2013
<b>General and administrative expenses:</b>		
Professional fees	\$ 309,416	\$ 577,775
Salaries and management fees (note 11)	110,481	368,866
Administrative and office	106,161	109,103
Investor relations	158,200	290,474
Travel and accommodation	1,625	6,416
Share-based compensation	-	557
	<b>685,883</b>	1,353,191
Litigation and claims	-	162,722
Decommissioning provisions (note 12)	28,922	-
Exploration and evaluation expense	1,176	39,140
	<b>715,981</b>	1,555,053
<b>Finance items:</b>		
Finance costs	588,996	487,115
Gain on sale of claims	(117,395)	-
Gain on shares-for-interest	(81,539)	-
Unrealized loss on marketable securities	33,541	-
Accretion of convertible debenture, senior secured notes and convertible loan (notes 7(a)(c)(d))	1,815,180	484,863
Financial assets at fair value through profit or loss		
- Embedded derivatives (notes 7(a)(d))	(336,945)	137,115
- Gold options (notes 7(c)(d))	8,039	(285,567)
Gain from foreign currency transactions	(4,909,440)	(3,583,791)
	<b>(2,999,563)</b>	(2,760,265)
<b>(Income) loss before income taxes</b>	<b>(2,283,582)</b>	(1,205,212)
<b>Deferred income tax (recovery) provision</b>	-	(183,470)
<b>Net (income) loss</b>	<b>(2,283,582)</b>	(1,388,682)
<b>Other comprehensive loss</b>		
<b>Items that may subsequently be reclassified through profit and loss</b>		
Foreign currency translation adjustment	4,584,279	3,384,681
<b>Net loss and comprehensive loss for the period</b>	<b>\$ 2,300,697</b>	<b>\$ 1,995,999</b>
<b>Weighted average number of consolidated shares outstanding (note 10)</b>		
Basic	260,002,669	253,619,099
Diluted	297,143,820	283,619,099
<b>Net (income) per share (note 10)</b>		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.00)

Nature of operations and going concern (note 1)

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

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Consolidated Statements of Cash Flow**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

	December 31, 2014	December 31, 2013
<b>Cash provided by (used in)</b>		
<b>Operating activities:</b>		
Net income for the period	\$ 2,283,582	\$ 1,388,682
Add (deduct) items not involving cash:		
Decommissioning provisions	28,922	-
Deferred income tax (recovery)	-	(183,470)
Share-based compensation	-	557
Gain on sale of claims	(117,395)	-
Gain on shares-for-interest	(81,539)	-
Unrealized loss on marketable securities	33,541	-
Finance costs	584,815	-
Financial assets at fair value through profit or loss		
- Embedded derivatives	(336,945)	137,115
- Gold options	8,039	(285,567)
Accretion of convertible debenture and senior secured notes (notes 7(a)(c)(d))	1,815,180	484,863
Foreign exchange	(4,848,703)	(3,541,062)
Net change in non-cash working capital	40,425	65,694
<b>Net cash used in operating activities</b>	<b>(590,078)</b>	<b>(1,933,188)</b>
<b>Financing activities:</b>		
Loans from shareholders	664,100	174,607
Promissory notes	-	(36)
Proceeds from convertible loan	600,000	-
Proceeds from senior secured notes	-	4,000,000
<b>Net cash from financing activities</b>	<b>1,264,100</b>	<b>4,174,571</b>
<b>Investing activities:</b>		
Exploration and evaluation asset	(934,931)	(550,114)
Payment of rehabilitation provisions	(207,246)	(297,594)
Property, plant and equipment	(228,903)	(755,445)
<b>Net cash used in investing activities</b>	<b>(1,371,080)</b>	<b>(1,603,153)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>(697,058)</b>	<b>638,230</b>
Cash and cash equivalents, beginning of period	721,412	52,720
Foreign exchange	-	30,462
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 24,354</b>	<b>\$ 721,412</b>
Interest paid	\$ 1,119	\$ 192

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



# ATLANTA GOLD INC.

(An exploration stage company)

## Consolidated Statements of Cash Flow (continued)

(Expressed in U.S. Dollars)

Years Ended December 31, 2014 and 2013

	December 31, 2014	December 31, 2013
<b>Net change in non-cash working capital items</b>		
Recoverable taxes	\$ 7,972	\$ 8,757
Prepaid expenses	9,817	(11,100)
Accounts payable and accrued liabilities	97,636	165,893
Rehabilitation provisions	-	(97,856)
Penalty payable to U.S. Treasury	(75,000)	-
	<b>\$ 40,425</b>	<b>\$ 65,694</b>
<b>Significant non-cash financing and investing activities</b>		
Capitalized depreciation (note 5)	\$ 457,552	\$ 410,152
Change of estimate of rehabilitation provisions	28,922	65,312
Shares issued in satisfaction of senior secured notes interest (note 6(d))	413,150	169,885

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

# ATLANTA GOLD INC.

(An exploration stage company)

## Consolidated Statements of Changes in Equity

(Expressed in U.S. Dollars, except for shares and per share amounts)

Years Ended December 31, 2014 and 2013

	Number of Shares	Share Capital	Warrants	Contributed Surplus (note 8)	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance - January 1, 2013</b>	253,441,565	\$ 89,170,747	\$ 2,245,469	\$ 8,814,335	\$(62,751,079)	\$ (36,803)	\$ 37,442,669
Shares issued in satisfaction of debenture Interest - at C\$0.05 per common share unit, net of share issue costs	3,600,000	169,885	-	-	-	-	169,885
Warrants issued with senior secured notes	-	-	45,121	-	-	-	45,121
Share-based compensation	-	-	-	557	-	-	557
Warrants expiring unexercised	-	-	(1,380,385)	1,202,734	-	-	(177,651)
Net income for the year	-	-	-	-	1,388,682	-	1,388,682
Foreign currency translation adjustment	-	-	-	-	-	(3,384,681)	(3,384,681)
<b>Balance - December 31, 2013</b>	257,041,565	\$ 89,340,632	\$ 910,205	\$ 10,017,626	\$(61,362,397)	\$ (3,421,484)	\$ 35,484,582

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

# ATLANTA GOLD INC.

(An exploration stage company)

## Consolidated Statements of Changes in Equity (continued)

(Expressed in U.S. Dollars, except for shares and per share amounts)

Years Ended December 31, 2014 and 2013

	Number of Shares	Share Capital	Warrants	Contributed Surplus (note 8)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
<b>Balance - January 1, 2014</b>	257,041,565	\$ 89,340,632	\$ 910,205	\$ 10,017,626	\$(61,362,397)	\$ (3,421,484)	\$ 35,484,582
Shares issued in satisfaction of senior secured notes Interest (note 8(d)) - at C\$0.05 per common share,	9,006,692	330,517	-	-	-	-	330,517
Warrants extension (note 8(b))	-	-	89,904	(89,904)	-	-	-
Net income for the year	-	-	-	-	2,283,582	-	2,283,582
Foreign currency translation adjustment	-	-	-	-	-	(4,584,279)	(4,584,279)
<b>Balance - December 31, 2014</b>	266,048,257	\$ 89,671,149	\$ 1,000,109	\$ 9,927,722	\$(59,078,815)	\$ (8,005,763)	\$ 33,514,402

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

# **ATLANTA GOLD INC.**

**(An exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

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## **1. Nature of operations and going concern**

Atlanta Gold Inc. (the "Company") was incorporated on March 6, 1985 under the laws of British Columbia and continued into Ontario on March 15, 2000. The Company is domiciled in Canada and its registered head office is 5600 – First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1C9. Its common shares are listed on the TSX Venture Exchange (the "Exchange") trading under the symbol "ATG", and on the OTC Pink Market under the symbol "ATLDF".

The Company's primary property is its Atlanta Gold Property ("Atlanta"), located in Idaho, U.S.A. Atlanta is in the advanced exploration phase. The Company sold its Québec gold properties in November 2014. Other than completion of the second phase of a restoration program on a previously owned property of the Company located on Baffin Island which is expected to be completed in 2016, no further work is planned in these areas and as a result the carrying values were previously written off. The Company is the assignee of a leased interest in 5 patented lode claims known as the Neal Property located in Idaho, U.S.A.

Recoverability of exploration and evaluation expenditures is dependent upon the further development of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, its ability to obtain necessary financing, obtain government approval and attain profitable production, or alternatively, upon the Company's ability to dispose of its interest on an advantageous basis. Changes in future conditions could require material write downs of the carrying amounts of deferred exploration expenditures.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business as they become due. As at December 31, 2014, the Company had a deficit of \$59,078,815, no source of operating cash flows and reported a net income of \$2,283,582 for the year ended December 31, 2014. The Company's current liabilities exceeded its current assets by \$9,715,762 as of December 31, 2014. The holder of the Company's convertible debenture called for its repayment effective December 2014. On December 19, 2014, the Company reached a forbearance agreement with the holder until January 31, 2015 and subsequently the forbearance agreement was extended to March 1, 2015 and March 31, 2015. On April 1, 2015, the Company negotiated a refinancing agreement with the lender, and completion of such refinancing remains subject to the Exchange and shareholders' approval. The Company's wholly owned subsidiary, Atlanta Gold Corporation ("AGC"), failed to make environmental penalty payments due on December 31, 2014 and March 31, 2015 on time. United States Attorney may potentially enforce proceedings against AGC for collection of the judgment. These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. In view of these circumstances, the Company requires additional immediate financing to settle its existing liabilities and to complete its planned exploration and evaluation program on Atlanta, and will continue to explore financing alternatives to raise capital. There can be no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms or that the Company will achieve profitable operation.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was deemed inappropriate. These adjustments could be material.

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

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**2. Basis of preparation**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook of the Canadian Institute of Chartered Accountants. The consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value.

The significant accounting policies and methods adopted set out in note 3 have been applied to all periods presented in these consolidated financial statements. Significant accounting judgments and estimation uncertainties used by management in the preparation of these consolidated financial statements are presented in note 3.

These consolidated financial statements were approved by the board of directors for issue on May 29, 2015.

**3. Significant accounting policies**

The significant accounting policies used in the preparation of these consolidated financial statements are described below and have been applied consistently to all periods presented in these consolidated financial statements.

**Basis of measurement**

The consolidated financial statements have been prepared under the historical cost convention, except for the embedded derivatives resulting from conversion options embedded in the convertible debenture, the gold options issued as part of senior secured notes, the convertible loan repayable by gold and the gold options issued as part of convertible loan which were fair valued.

**Consolidation**

The financial statements consolidate the accounts of the Company and AGC. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and deconsolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

**Functional currency**

The functional currency of the Company is Canadian dollars and AGC’s functional currency is U.S. dollars. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

All financial information is presented in USD unless otherwise stated.

(i) **Presentation currency**

The financial statements of entities that have a functional currency different from the presentation currency are translated into United States dollars as follows: assets and liabilities at the closing rate at the date of the statement of financial position, and income and expenses at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). Equity balances have been translated at historical rates. All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

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**3. Significant accounting policies (continued)**

**Functional currency (continued)**

- (ii) Transactions and balances  
Foreign currency transactions are translated into the functional currency of each entity using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of (income) loss and comprehensive loss.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. The instruments held by the Company classified in this category are marketable securities (financial assets), embedded derivatives relating to the conversion option embedded in the outstanding convertible debenture, the gold options issued as part of senior secured notes, the convertible loan repayable by delivery of gold and the gold options issued as part of convertible loan. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statement of (income) loss and comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- (ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents and recoverable taxes and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

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**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

- (iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, senior secured notes, promissory note, shareholders' loans, penalty payable to U.S. Treasury and convertible debenture and loan are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**Impairment of financial assets**

The Company assesses, at each date of the statement of financial position, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

Financial assets are carried at amortized cost. The loss is the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

Reversals of impairment losses on financial assets carried at amortized cost are recorded through the statement of loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment include land, buildings, office furniture, vehicles, fixtures, equipment and computer hardware. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is recognized when replaced. Repairs and maintenance costs are charged to the statement of (income) loss and comprehensive loss during the period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets (major components) of property, plant and equipment. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of (income) loss and comprehensive loss. The major categories of property, plant and equipment are depreciated on a straight-line basis as follows: a) The office furniture, fixtures, and equipment are amortized over ten years; and b) vehicles and computer hardware are depreciated over three years. All property, plant, and equipment are depreciated on a straight-line basis.

**ATLANTA GOLD INC.**  
**(An exploration stage company)**  
**Notes to Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Years Ended December 31, 2014 and 2013**

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**3. Significant accounting policies (continued)**

**Exploration and evaluation asset**

Exploration expenditures are deferred in the accounts, net of amounts recovered from third parties, including option payments received. At production, the carrying value of these assets will be amortized using the units-of-production method based on estimated reserves. Costs relating to properties abandoned are written off when the decision to abandon is made, or earlier if a determination is made that the property does not have economically recoverable reserves. Costs relating to lease/option, and rental fees and annual renewal fees are deferred in the accounts.

The Company reviews the carrying values of its exploration and evaluation assets on a regular basis with a view to assessing whether there has been any impairment in value. When impairment conditions are identified, reviews of exploration and evaluation assets are conducted including an assessment of drilling and exploration results, and potential revenues, pending determination of the technical feasibility and commercial viability of the project and a decision by the Board of Directors to develop a mine.

**Impairment of non-financial assets**

Property, plant and equipment and exploration and evaluation assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

**Current and deferred income tax**

Income tax comprises current and deferred income tax. Income tax is recognized in the statement of (income) loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. In general, deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current.

**Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.



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**3. Significant accounting policies (continued)**

**Net (income) loss per share**

Net (income) loss per share is calculated by dividing the net (income) loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted (income) loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive instruments of common shares comprise stock options granted to directors and employees, warrants and a convertible debenture.

**Share-based payment**

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees for some or all of the goods or services received by the Company, and consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted using the Black-Scholes option-pricing model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date and until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus. No expense is recognized for awards that do not ultimately vest.

**Segment reporting**

The Company has only a single operating segment, and therefore one reportable segment. The single operating segment is the Company's operation in the United States. The Company's non-current assets are principally located in the United States. Non-current assets located at the corporate office in Canada are minor in relation to the total.

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**3. Significant accounting policies (continued)**

**Rehabilitation provisions**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and revegetation of affected areas.

The obligation is attributable when the asset is installed or the environment is disturbed. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related assets.

The periodic unwinding of the discount applied in establishing the net present value of provisions due to the passage of time is recognized in the statement of (income) loss and comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation estimates attributable to development will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

When a closure and environmental obligation arises at a location where there are no ongoing activities, the costs are expensed as incurred.

**New and amended accounting standards adopted**

The adoption of the following new standards, interpretations and amendments resulted in changes in the Company's accounting policies, but did not have material impact on the financial position or performance on the Company on initial application.

**Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities**

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- i) the meaning of "currently has a legally enforceable right of set-off"
- ii) the application of simultaneous realization and settlement
- iii) the offsetting of collateral amounts
- iv) the unit of account for applying the offsetting requirements.

**Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets**

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

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**3. Significant accounting policies (continued)**

**Accounting standards issued but not yet applied**

**IFRS 9 Financial Instruments (2014)**

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- i) Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- ii) Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- iii) Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- iv) Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The finalized version of IFRS 9 is applicable to the Company's annual period beginning on January 1, 2018.

**Significant accounting judgments and estimation uncertainties**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The following areas involve a higher degree of judgment or are areas where assumptions and estimates are significant to the consolidated financial statements. Actual results may differ significantly from these estimates included in the consolidated financial statements.

- (i) Valuation of exploration and evaluation assets and other long lived assets  
Exploration and evaluation assets and other long lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Common indicators of impairment in the mining industry include:
  - No further expenditure is budgeted or planned;
  - Exploration for and evaluation of mineral resources has not led to the discovery of commercially viable quantities of mineral resources and a decision to discontinue such activities has been made;
  - A significant deterioration in expected future commodity prices;
  - A significant adverse movement in foreign exchange rates;
  - A significant increase in production costs;
  - A large cost overrun during the development and construction of a new mine;
  - A significant increase in the expected cost of dismantling assets and restoring the site;
  - A significant reduction in the mineral content of ore reserves/resources;
  - A significant increase in market interest rates; and
  - Adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

As at December 31, 2014, the Company determined that there were no indicators of impairment in carrying values of mining properties or any other long lived assets or cash generating units (CGU).

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**3. Significant accounting policies (continued)**

**Significant accounting judgments and estimation uncertainties (continued)**

- (ii) Useful economic life of property, plant and equipment  
The cost less the residual value of each item of property, plant and equipment is amortized over its useful economic life. Amortization is charged to cost of production over the estimated lives of the individual assets. Amortization commences when assets are available for use. Land is not amortized.
- The assets' useful lives and methods of amortization are reviewed and adjusted if appropriate on an annual basis.
- (iii) Calculation of share-based compensation expense  
The amount expensed for stock-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different. While the estimate of stock-based compensation can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no impact on the Company's cash position or future cash flows. The estimated volatility in determination of the fair value of warrants is a key assumption in the warrants' valuation formula and its change may have a material impact to financial statements.
- (iv) Income taxes  
Income taxes are calculated using the liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized.
- (v) Convertible debenture  
The fair value of the convertible debenture and its conversion components were estimated by using a range of fair values based on the valuation of the convertible debenture, the convertible debenture without the conversion option, the call and put option, as well as an expectation of an upper and lower end of a credit spread and a fair value calculation using risk statistics for convertible bonds. The calculation included time varying call and put options as well as soft calls, forced conversion at maturity, cash payments on conversion and capped conversion price, using a function of finite difference methods. (note 7(a))
- (vi) Senior Secured Notes  
The fair value of the Senior Secured Notes and the gold options were estimated by using a range of fair values based on the valuation of the Senior Secured Notes, The amount expensed for warrants is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different. While the estimate of warrants can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no impact on the Company's cash position or future cash flows. The estimated

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**3. Significant accounting policies (continued)**

**Significant accounting judgments and estimation uncertainties (continued)**

- (vi) Senior Secured Notes (Continued)  
 volatility in determination of the fair value of warrants is a key assumption in the warrants' valuation formula and its change may have a material impact to financial statements. (note 7(c))
- (vii) Convertible loan  
 The fair value of the convertible loan and its conversion components were estimated by using a range of fair values based on the valuation of the convertible loan, the convertible loan without the call, conversion or swap features, the gold option, as well as an expectation of an upper and lower end of a credit spread and a fair value calculation using risk statistics for convertible bonds. The calculation included time varying call options as well as soft calls, forced conversion at maturity, cash payments on conversion and capped conversion price, using a function of finite difference methods. (note 7(d))
- (viii) Rehabilitation provisions  
 The Company has obligations for implementing measures to maintain compliance with the effluent discharge limits on Atlanta and restoration related to diamond properties located on Baffin Island. The future obligations are estimated by the Company using the Company's budget. As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of provisions.

The Company's policy for recording implementing measures and restoration is to establish provisions using the most probable estimate of the future costs.

**4. Exploration and evaluation assets**

<b>Balance at January 1, 2013:</b>	\$ 43,167,861
Additions	1,106,841
<b>Balance at December 31, 2013</b>	<b>44,274,702</b>
Additions	1,547,261
<b>Balance at December 31, 2014</b>	<b>\$ 45,821,963</b>

**Atlanta Gold Property, Idaho, U.S.A.**

Atlanta was initially held as a joint venture between the AGC with an 80% interest and Canadian American Mining Company, LLC ("CAMC") with a 20% participating interest. CAMC transferred its 20% participating interest in the joint venture to AGC, and retained a 2% NSR royalty (the "Royalty") on Atlanta. In September 2009, the Company purchased one-half of the Royalty (1%) from CAMC.

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**4. Exploration and evaluation assets (Continued)**

Atlanta consists of owned and leased patented and unpatented claims, as described below.

**(a) Monarch Greenback LLC**

On April 28, 2011, AGC exercised its option to purchase a 100% interest in a property comprised of 33 mining claims totaling approximately 430 acres (the "Monarch Property") from Monarch Greenback LLC ("Monarch") for \$3,075,000, with the purchase completed in June 2011. Monarch retained a variable net smelter return royalty, varying from 0.5% to a maximum rate of 3.5% for gold prices exceeding \$665 per ounce. As at December 31, 2014, advance royalty payments of \$1,500,000 had been paid by AGC to Monarch and can be deducted from potential future royalty payments to Monarch.

**(b) Hill & Davis**

The Hill & Davis patented mining claim was purchased for \$139,500 in five annual payments, with the final payment being made in December 2010.

**(c) F. C. Gardner**

AGC leases lode claims pursuant to a lease agreement, as amended, with F. C. Gardner. The lease expires on April 18, 2016. Lease payments are currently \$10,000 per year and are treated as minimum annual advance royalties. If these claims go into commercial production before expiry of the lease, then the annual minimum advance royalty will be \$20,000. If this property is mined, F. C. Gardner will receive a 6% NSR, from which all advance royalty payments shall be deducted. As at December 31, 2014, advance royalty payments of \$208,500 (December 31, 2013 - \$198,500) have been made and can be deducted from any potential future royalty payments to F. C. Gardner.

**(d) Hollenbeck Properties LLC**

AGC leases 10 patented and 5 unpatented claims pursuant to a lease agreement with Hollenbeck Properties LLC. The lease expired on November 14, 2014 and in May 2015 the lease term was renewed to November 14, 2015. The Company is in the process of negotiating the purchase of the properties. Lease payments of \$10,000 per year are treated as minimum advance royalties. If this property goes into commercial production, then the annual minimum advance royalty will be \$20,000. If it is mined, Hollenbeck will receive a 4.25% NSR, from which all advance royalty payments shall be deducted. As at December 31, 2014, advance royalty payments of \$312,500 (December 31, 2013 - \$312,500) had been paid and can be deducted from any potential future royalty payments to Hollenbeck.

Annual rental and advance royalty payments are required to keep lease agreements in good standing for the properties that collectively comprise the property. Advance royalty payments to lessors are credited against future royalties payable on production. As at December 31, 2014, advance royalty payments totaling \$2,021,000 (December 31, 2013 - \$2,011,000) will be deducted from any future royalty payments to lessors / royalty holders.

**Neal Property, Idaho, U.S.A.**

AGC is the assignee of a five-year lease of 5 patented claims known as the Neal Property from Knife River Corporation, which will conduct the excavation and delivery of materials from the Property on AGC's behalf. AGC has also staked 7 contiguous claims. In addition to the contract mining and transportation costs payable to Knife River, AGC is responsible for payment of a \$3 per dry ton tonnage royalty and a 3% net smelter return royalty payable to the owner of the Neal Property.

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**5. Property, plant and equipment**

	Land	Building, Field Equipment and Other	Total
<b>At January 1, 2013:</b>			
Cost	\$ 804,101	\$ 2,532,938	\$ 3,337,039
Accumulated depreciation	-	(1,896,417)	(1,896,417)
<b>Opening Net Book Value at January 1, 2013</b>	<b>804,101</b>	<b>636,521</b>	<b>1,440,622</b>
<b>Year ended December 31, 2013:</b>			
<b>Opening Net Book Value at January 1, 2013</b>	804,101	636,521	1,440,622
Additions	29,868	725,577	755,445
Disposals	-	(5,611)	(5,611)
Depreciation	-	(404,541)	(404,541)
<b>Closing Net Book Value at December 31, 2013</b>	<b>\$ 833,969</b>	<b>\$ 951,946</b>	<b>\$ 1,785,915</b>
<b>At January 1, 2014:</b>			
Cost	\$ 833,969	\$ 3,252,904	\$ 4,086,873
Accumulated depreciation	-	(2,300,958)	(2,300,958)
<b>Opening Net Book Value at January 1, 2014</b>	<b>833,969</b>	<b>951,946</b>	<b>1,785,915</b>
<b>Year ended December 31, 2014:</b>			
<b>Opening Net Book Value at January 1, 2014</b>	833,969	951,946	1,785,915
Additions	82,554	310,848	393,402
Disposals	-	(170,000)	(170,000)
Depreciation	-	(432,051)	(432,051)
<b>Closing Net Book Value at December 31, 2014</b>	<b>\$ 916,523</b>	<b>\$ 660,743</b>	<b>\$ 1,577,266</b>
<b>At December 31, 2014:</b>			
Cost	\$ 916,523	\$ 3,393,752	\$ 4,310,275
Accumulated depreciation	-	(2,733,009)	(2,733,009)
<b>Closing Net Book Value at December 31, 2014</b>	<b>\$ 916,523</b>	<b>\$ 660,743</b>	<b>\$ 1,577,266</b>

All depreciation charges during the year ended December 31, 2014 and 2013 were capitalized to exploration and evaluation assets.

As of December 31, 2014, AGC's East Amity Road property located in Boise, Idaho, four generators located on the same property and an excavator have security interests against them (notes 11 and 13).

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**6. Income taxes**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rate is as follows:

<b>For the years ended</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Computed income tax at Canadian statutory tax rates	\$ 826,346	\$ 426,849
Permanent differences	10,652	189,016
Share issue costs	68,918	77,487
Unrealized foreign exchange	(1,309,409)	(949,705)
Other	403,493	72,883
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ (183,470)</b>

The Company's statutory tax rate was 26.50% in 2013 and 2014.

The tax effect of temporary differences of the Company that give rise to significant portions of deferred income tax assets and deferred income tax liabilities are presented below.

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Deferred income tax assets		
Property, plant and equipment	\$ 1,114,942	\$ 327,130
Non-capital loss carry forwards	1,767,237	909,581
<b>Total deferred income tax assets</b>	<b>2,882,179</b>	<b>1,236,711</b>
Deferred income tax liabilities		
Inter-company accounts	(1,020,133)	(446,458)
Convertible debenture	(249,245)	(267,478)
Exploration and evaluation assets	(1,114,942)	(327,130)
Senior secured notes	(267,546)	(195,645)
Convertible loan	(209,155)	-
Marketable securities	(21,158)	-
<b>Total deferred income tax liabilities</b>	<b>(2,882,179)</b>	<b>(1,236,711)</b>
<b>Net deferred tax</b>	<b>\$ -</b>	<b>\$ -</b>



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**6. Income taxes (continued)**

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred tax assets of \$16,177,305 as at December 31, 2014 (December 31, 2013 - \$25,242,352) on the non-capital losses, capital losses, property, plant and equipment, exploration and evaluation assets, assets retirement obligations, cumulative eligible capital and share issuance costs.

Accumulated Canadian tax losses not recognized expire as per the amount and the years noted below. Deferred tax assets have not been recognized in respect of these items as the Company is unable to control the timing of when future taxable profit will be available against which the Company can utilize the benefit of the losses.

The following table summarized the Company's non-capital losses (not recognized) that can be applied against future taxable profit:

<b>Years Generated</b>	<b>Expiry Date</b>	<b>Amount</b>
2006	2026	C\$2,193,041
2007	2027	1,602,289
2008	2028	2,016,811
2009	2029	1,492,863
2010	2030	1,375,788
2011	2031	1,814,346
2012	2032	606,389
2013	2033	1,542,473
2014	2034	1,728,660
<b>Non-Capital Losses</b>		<b>C\$14,372,660</b>

The Company has capital losses of C\$3,951,124 which can be carried forward indefinitely.

AGC has U.S. loss carry-forwards of approximately \$6,241,057 expiring between 2015 and 2034, which are available to reduce future United States taxable income.

**7. Convertible debenture, promissory note, senior secured notes and convertible loan**

**(a) Convertible debenture**

On June 8, 2011, AGC completed the purchase of a portion of the Monarch Property for \$3,075,000. To assist in financing the purchase, the Company borrowed \$3 million by way of a secured non-interest bearing bridge loan (the "Bridge Loan"). The Bridge Loan was due in January 2012, and was repaid on December 14, 2011 (the "Issue Date"), by the issuance to the lender, Concept Capital Management Ltd. ("CCM"), of a 6% convertible debenture in the principal amount of C\$3 million and warrants to purchase 30 million common shares of the Company, exercisable for five years at a price of C\$0.11 per share, as well as a payment of C\$100,000 resulting from fluctuations in the U.S. - Canadian dollar exchange rate.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(a) Convertible debenture (continued)**

The Debenture matures on December 15, 2016, bears interest of 6% per annum from July 11, 2011, and is convertible in whole or in part at the election of CCM into common shares of the Company at a conversion price of C\$0.10 per share (the "Conversion Price"). Interest on the Debenture is payable annually and, at the election of the Company, may be paid in cash or, subject to the approval of the Exchange, in common shares at an issue price per share equal to the average closing price of the Company's common shares on the Exchange for the 20 trading days ending five business days prior to the interest payment date or at such higher issue price as may be required by the policies of the Exchange.

The Debenture is subordinated in right of payment of principal and interest to all secured debt of the Company, whether outstanding on or after the date of issue of the Debenture, which includes the Company's Senior Secured Notes. AGC has provided a guarantee of the Debenture, with recourse under the guarantee limited to a mortgage on the Monarch Property (Note 4(a)). The Company will not permit AGC to incur additional secured debt in excess of \$10 million (subject to certain exceptions) without the prior consent of CCM, such consent not to be unreasonably withheld, conditioned or delayed.

After the first anniversary of the Issue Date, the Company has the right to redeem all or part of the Debenture if the closing price of the Company's common shares on the Exchange on each of the 27 consecutive trading days prior to notice of redemption being provided is not less than C\$0.35 (3.5 times the Conversion Price). On redemption, the Company will be required to pay the principal and accrued interest thereon, plus a redemption fee declining from 6%, to 4%, to 2% if redeemed before the second, third or fourth anniversaries, respectively, of the Issue Date.

CCM has the right to require the Company to redeem the Debenture at any time after the third anniversary of the Issue Date and at any time following a change of control or merger transaction. Merger means any transaction (whether by way of consolidation, amalgamation, merger, transfer, sale or lease) whereby all or substantially all of the Company's assets would become the property of any other person or in the case of a consolidation, amalgamation or merger, of the continuing corporation or other entity resulting therefrom.

On December 14, 2011, the Company and AGC entered into a gold option contract with CCM. AGC granted to CCM an option to purchase an aggregate of 4,000 troy ounces of gold produced from Atlanta at a price of \$1,400 per troy ounce. This option will vest after AGC has completed production from Atlanta of 20,000 troy ounces of gold and will expire on the fifth anniversary following the date of vesting. The Company guaranteed the performance of AGC's obligations under the contract.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(a) Convertible debenture (continued)**

The convertible debenture contains certain embedded derivatives including, conversion options, early redemption options of the Company and a lender's put option. The principal face value was allocated as follows:

- i) Warrants (30,000,000 units) valued at C\$673,593.
- ii) Conversion options were valued at C\$343,093 (net of tax of C\$338,896) as of December 15, 2011 and classified as equity.
- iii) The host debt of C\$1,184,541 was recorded as non-current liability at its initial fair value at the date of inception as of December 15, 2011 and subsequently measured at amortized cost as of December 31, 2014. The holder of the debenture requested that the Company redeem the debenture on December 15, 2014, so the amortized cost was recorded at its face value of \$2,586,000 (C\$3,000,000) as at December 31, 2014. The accretion interest has been charged to statement of (income) loss and comprehensive loss.
- iv) The embedded derivatives (i.e. combination of the borrower's redemption option and the lender's put option) of C\$459,877 was recognized on the date of issue and presented as non-current liability in the statement of financial position. As of December 31, 2014 the fair value of the embedded derivatives was C\$303,457 (December 31, 2013 - C\$594,827).

The amounts allocated to warrants and conversion options were done on a residual basis.

Assumptions used for the valuation:

The convertible debt components were measured at fair value using the following methods:

The fair value of the convertible debenture and its conversion components were estimated by using a range of fair values based on the valuation of the convertible debenture, the convertible debenture without the conversion option, the call and put option, as well as an expectation of an upper and lower end of a credit spread and a fair value calculation using risk statistics for convertible bonds. The calculation included time varying call and put options as well as soft calls, forced conversion at maturity, cash payments on conversion and capped conversion price, using a function of finite difference methods.

The inputs were as follows:

- i) Historical stock price as at the valuation date of C\$0.03
- ii) Volatility of the stock return adjusted to reflect the actual implied stock volatility of 93.68%
- iii) Canadian dollar discount curve
- iv) Bond discount curve
- v) Outstanding number of shares of the Company as at the valuation date of 193,890,039

Interest rates

The convertible debenture is subject to a 6% interest rate until the maturity date.

By notice dated August 25, 2014, CCM requested that the Company redeem the convertible debenture on December 15, 2014, in accordance with the debenture's early redemption provisions.

On December 19, 2014, the Company reached a forbearance agreement with the holder to until January 31, 2015 and subsequently the forbearance agreement was extended to March 1, 2015 and March 31, 2015.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(a) Convertible debenture (continued)**

On April 1, 2015, the Company reached agreement with CCM to refinance the convertible debenture. Under the terms of the refinancing agreement, principal and accrued interest on the debenture totaling C\$3,250,000 will be satisfied by the issuance to CCM of an amended and restated convertible debenture in the principal amount of C\$1,500,000 and the issuance to CCM of the Company's Senior Secured Notes ("Notes") in the principal amount of \$1,500,000. The amended and restated debenture will bear interest of 10% per annum and mature April 1, 2018. The amended and restated debenture will be convertible at CCM's option following completion by the Company of a one-for-ten consolidation of its common shares at a conversion price equal to the lesser of C\$0.17, and the 30-trading day average of the closing prices immediately following the commencement of trading of the Company's shares on the Exchange on a consolidated basis, provided that the conversion price will not be less than C\$0.10 per share.

The Notes to be issued to CCM pursuant to the refinancing will have the same terms and conditions as the Company's outstanding \$4 million principal amount Notes, which were issued in August 2013. (Note 7(c)) The Notes bear interest at 10% per annum and are secured by the limited recourse guarantee of AGC, and by a first mortgage of AGC's interest in its Atlanta Project. The maturity date of the outstanding Notes will be extended by one year to August 31, 2018 and all of the Notes will be repayable in cash installments at the rate of 25%, 35% and 40% on August 31, 2016, 2017 and 2018, respectively. CCM will also receive an option exercisable until August 31, 2018 to purchase an aggregate of 1,567.5 troy ounces of gold at \$1,100 per ounce (being 104.5 troy ounces for each \$100,000 principal amount Notes), with the option vesting at the rate of 25%, 35% and 40% on August 31, 2016, 2017 and 2018, respectively. The Company's outstanding gold options previously issued with the Notes in August 2013 will be amended to have the same terms and conditions as the gold options being issued to CCM.

A 2% refinancing fee will be paid by the Company in connection with the transactions.

Completion of the refinancing transactions is subject to the approval of the Exchange. Completion of the share consolidation and the issuance of the amended and restated debenture are subject to shareholders' approval, which will be sought at the Company's annual and special meeting of shareholders to be held on June 24, 2015.

**(b) Promissory note**

On August 4, 2011, AGC financed the acquisition of the East Amity Road Property by a combination of cash, equity and a three year promissory note secured by a mortgage on the property in the amount of \$425,000 bearing interest of 7% per annum until its maturity in 2014, with unpaid amounts following the maturity date bearing interest of 10% per annum. On March 5, 2014, the maturity date of the promissory note was extended to July 22, 2015 with all the other terms and conditions remaining the same. The promissory note was carried at its initial fair value which was subsequently measured at its amortized cost as of December 31, 2014. Interest is payable on a monthly basis.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(c) Senior secured notes**

On August 19, 2013, the Company completed the private placement of Units consisting of senior secured notes ("Notes") and common share purchase warrants ("Warrants"). The Company issued \$4 million principal amount Notes and 4,000,000 Warrants, for gross proceeds of \$4,000,000.

The Notes bear interest of 10% per annum and under the original terms, the principal amortized at 25%, 35% and 40%, was repayable in cash installments on August 31, 2014, August 31, 2015 and August 31, 2016, respectively. The Notes are secured by the limited recourse guarantee by AGC, and by a mortgage of AGC's interest in the Atlanta Project.

Each Warrant entitles the holder to purchase one common share of the Company for C\$0.10 per share until August 31, 2016. The Company will have the right to accelerate the expiry date of the Warrants if the closing price of the Company's common shares on the Exchange exceeds C\$0.25 for 20 consecutive days on which the Company's shares trade.

Note holders received options exercisable until August 31, 2016 to purchase an aggregate of 95.0 troy ounces of gold at \$1,125 per ounce for each 100,000 Units purchased (\$100,000). The options to purchase gold vest at 25% on August 31, 2014, 35% on August 31, 2015 and 40% on August 31, 2016.

On August 26, 2014, the terms of the Notes were amended. The repayment dates were extended by one year, such that the principal amount of the Notes, amortized at 25%, 35% and 40%, will be repayable in cash installments on August 31, 2015, August 31, 2016 and August 31, 2017, respectively and interest accrued on the Notes to August 31, 2014 was satisfied by the issuance of common shares of the Company, at the rate of one common share for each C\$0.05 of accrued interest, which resulted in the issuance of 9,006,692 common shares.

Holder of the Notes who consented to the amendments thereto had the expiry date of their Warrants extended to August 31, 2017. The Company retains the right to accelerate the expiry date of the Warrants if the closing price of the Company's common shares on the Exchange exceeds C\$0.25 for 20 consecutive days on which the Company's shares trade. Holder of Notes who consented to the amendments thereto had the number of ounces purchasable under their gold options increased by 10% and had the expiry date of their gold options extended to August 31, 2017. Subsequent to December 31, 2014, the terms of the Notes and accompanying gold options were further amended. (Note 15)

The extension of the terms of debt principal, warrants and gold options was reflected as modifications to the amortized or fair value of the three parts.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(c) Senior secured notes (continued)**

The Notes involve three components: host debt, warrants and gold options. The principal face value was allocated as follows on August 19, 2013 ("Measurement date"):

- (i) Warrants (4,000,000 units) were valued at \$45,121 (C\$47,946) using a model based on a binomial pricing model with the key inputs as follows:

Stock price at date of issue	C\$0.03
Estimated volatility in the market price of the common shares	90.44%
Shares outstanding on date of issue	253,441,565

- (ii) Gold options were originally valued at \$841,307 in total at the Measurement date and subsequently valued at fair market value to reflect the amended terms of the gold options. 25% of the total gold options will vest on August 31, 2015, 35% on August 31, 2016 and 40% on August 31, 2017. The key inputs on the gold options are gold price, convenience yield of gold and implied volatility of gold. The fair value of the gold options was valued at \$584,366 as at December 31, 2014. (December 31, 2013 - \$547,211)
- (iii) The residual value of the host debt was \$3,110,747 which was recorded as a current liability of \$778,393 and a non-current liability of \$2,335,179 at its initial fair value at the date of inception as of August 19, 2013 and subsequently measured at amortized costs as at December 31, 2014. The amortized costs of the host debt was \$3,619,699 which was recorded as a current liability of \$1,000,000 and a non-current liability of \$2,619,699 as at December 31, 2014. (December 31, 2013 - host debt of \$3,261,718 including current liability of \$848,163 and non-current liability of \$2,413,555)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options.

**(d) Convertible loan**

On June 11, 2014, the Company borrowed \$600,000 by means of a convertible loan. The loan is unsecured and non-interest bearing and is to be repaid by delivery to the lender of 1,000 troy ounces of gold (or the cash equivalent thereof) payable in installments over an 18-month period. The loan is convertible at the lender's election into common shares at a conversion price of C\$0.05 per share during the initial 12 months and at C\$0.10 per share thereafter. The lender also received a 5-year option to purchase, solely from gold produced from AGC's Neal Property, up to 2,500 ounces of gold at \$1,400 per ounce.

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**7. Convertible debenture, promissory note, senior secured notes and convertible loan (continued)**

**(d) Convertible loan (continued)**

The loan involves three components: host debt, embedded derivatives and gold options. The three components are valued at fair market value on June 11, 2014 ("Measurement date") as follows:

- (i) The host debt at the measurement date was valued at \$182,321. The value of the host debt at December 31, 2014 is \$336,203.
- (ii) Embedded derivatives, including the conversion option, call option and gold forward were valued at \$184,629 at the Measurement date. These features were valued together as their values are interdependent. The values of the embedded derivatives at December 31, 2014 is \$111,461.
- (iii) Gold options were valued at \$233,050 in total at the Measurement date. The key inputs on the gold options are gold price, risk-free interest rate and implied volatility of gold. The value of the gold options at December 31, 2014 is \$203,937.

Option pricing models require the input of highly subjective assumptions including the expected gold price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options.

**8. Share capital**

**(a) Authorized share capital**

The Company's authorized capital consists of an unlimited number of common shares, an unlimited number of first preference shares, issuable in series and an unlimited number of second preference shares, issuable in series.

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8. Share capital (continued)

(b) Warrants

The following table summarizes the warrant transactions as follows:

	Number of Shares	FMV of Warrants at Date of Issue US\$	Weighted Average Exercise Price C\$
<b>Outstanding as at January 1, 2013</b>	98,328,875	2,245,469	0.10
Warrants issued			
with senior secured notes (note 7(c))	4,000,000	45,121	0.10
Warrants expired	(42,595,542)	(1,380,385)	0.11
<b>Outstanding as at December 31, 2013</b>	<b>59,733,333</b>	<b>910,205</b>	<b>0.10</b>
Warrants extended for one year	-	<b>89,904</b>	-
<b>Outstanding as at December 31, 2014</b>	<b>59,733,333</b>	<b>1,000,109</b>	<b>0.10</b>

The fair market value of warrants issued is separately recorded and disclosed from share capital in the year warrants are issued. Warrants that are exercised will be recorded as share capital and warrants that expire unexercised will be recorded as contributed surplus.

During the year ended December 31, 2014, the expiry dates of the 25,733,333 warrants issued in October, November and December 2013 were extended by one year. Of these warrants: 8,333,333 were exercisable at \$0.10 per share until October 2, 2014 which were extended to October 2, 2015; 12,120,000 were exercisable at \$0.15 until November 9, 2014 which were extended to November 9, 2015; and 5,280,000 were exercisable at \$0.15 until December 19, 2014, which were extended to December 19, 2015. The terms of the warrants otherwise remained unchanged, including the Company's ability to accelerate the expiry dates of the warrants if the closing price of the Company's shares for 20 consecutive days on which the shares trade, exceeds \$0.15 for the \$0.10 warrants and exceeds \$0.20 for the \$0.15 warrants.

The term of the Warrants held by holders of the Company's Notes who consented to the amendment of the Notes was extended by one year, from August 31, 2016 to August 31, 2017. Of the 4,000,000 Warrants issued with the Notes, 2,700,000 Warrants were so amended. The Company retains the right to accelerate the expiry date of the Warrants if the closing price of the Company's common shares on the Exchange exceeds C\$0.25 for 20 consecutive days on which the Company's shares trade. (Notes 7(c) and 15)



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**8. Share capital (continued)**

**(c) Stock options**

The Stock Option Plan - 2008 (the "Plan") was adopted by the Board in February 2008, initially approved by shareholders in April 2008, and reapproved by shareholders on an annual basis.

Persons eligible to participate under the Plan are directors, officers and employees of the Company and its subsidiaries, as well as consultants to the Company. Under the Plan, the Company has authorized the reservation for issuance for the grant of stock options of the number of shares equal to 5% of the Company's outstanding common shares at any time. The exercise price of each option must equal or exceed the closing market price of the Company's common shares on the Exchange on the day immediately prior to the day on which the option is granted. The options have a maximum term of five years. The number of shares reserved for issuance pursuant to stock options granted to insiders, whether under the Plan or any other compensation arrangement, cannot exceed 10% of the outstanding shares of the Company. The aggregate number of shares reserved for issuance to any one person cannot exceed 5% of the outstanding shares of the Company. If option rights granted to an individual under the Plan expire or terminate for any reason without having been exercised in respect of certain Optioned Shares, such Optioned Shares may be made available for other options to be granted under the Plan. The Plan is administered by the Board of Directors, which has full and final authority, but subject to the express provisions of the Plan and the approval of the Exchange. In accordance with the requirements of the Exchange, the Plan is subject to annual shareholder approval. The following table summarizes the stock option transactions as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price C\$</b>
<b>Outstanding as at January 1, 2013</b>	5,435,000	0.36
Options expired or cancelled	(1,330,000)	0.63
<b>Outstanding as at December 31, 2013</b>	4,105,000	0.28
Options expired or cancelled	(3,180,000)	0.31
<b>Outstanding at December 31, 2014</b>	<b>925,000</b>	<b>0.18</b>

All of the 925,000 stock options outstanding as at December 31, 2014, having a weighted average price of C\$0.18 per share, are vested and exercisable immediately. All stock options expire between April 2015 and September 2015. During the year ended December 31, 2014, 3,180,000 (December 31, 2013 – 1,330,000) stock options granted to consultants and employees expired unexercised. All of these options were granted when their exercise price equaled the fair value of the stock at grant date. The weighted average remaining contractual life of all stock options outstanding is 8 months (December 31, 2013 – 8 months).

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8. Share capital (continued)

(c) Stock options (continued)

Expiry Date	Number of Stock Options	Exercise Price C\$
April 21, 2015	90,000	0.23
September 27, 2015	835,000	0.18
<b>Outstanding at December 31, 2014</b>	<b>925,000</b>	<b>0.18</b>

The fair value of stock options granted is credited to contributed surplus over the vesting period. Stock options that are exercised will be recorded as share capital and stock options that expire unexercised will remain in contributed surplus. All options outstanding at December 31, 2014 expire at various dates until September 27, 2015.

The Company did not grant any stock options during the years ended December 31, 2014 and 2013.

(d) Shares for debt

On September 2, 2014, the Company issued 9,006,692 common shares at a deemed price of C\$0.05 per share to satisfy the interest accrued on the Notes to August 31, 2014 in the amount of \$413,150 (C\$450,335). (note 7(c)) A gain of \$81,539 was recognized on the extinguishment of the liability, and recorded in the Consolidated Statement of Income.

On December 14, 2013, the Company issued 3,600,000 common shares at a deemed price of C\$0.05 per share pursuant to the terms of the Company's outstanding C\$3 million convertible debenture, in satisfaction of approximately \$169,885 (C\$180,000) of interest.

9. Financial instruments

(a) Fair value

Fair value of financial instruments

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, shareholders loan, promissory note and penalty payable to U.S. Treasury approximate their carrying amounts due to their short-term maturity.

The following is a summary of the total amortized cost and fair value of the Company's convertible debenture and Senior Secured Notes (host debt):

	Amortized Cost	Fair Value
Convertible debenture	\$ 2,586,000	\$ 2,324,404
Senior Secured Notes	3,619,699	3,834,393
Convertible loan	336,203	359,578

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**9. Financial instruments (continued)**

(a) Fair value (continued)

The IFRS 7, Financial Instruments – Disclosures, requires for financial instruments that are measured subsequent to initial recognition at fair value, grouped in Levels 1 to 3, in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

Level 1 – inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value for the embedded derivatives and gold options were classified as a Level 3, and were derived using a discounted cash flow model that considers various observable and unobservable inputs including time to maturity, interest rates and credit spreads.

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 79,843	\$ -	\$ -	79,843
Convertible debenture - embedded derivatives	-	-	261,580	261,580
Convertible loan - embedded derivatives	-	-	111,461	111,461
Gold options	-	-	788,303	788,303
	\$ 79,843	\$ -	\$ 1,161,344	\$ 1,241,187
As at December 31, 2013	Level 1	Level 2	Level 3	Total
Convertible debenture - embedded derivatives	\$ -	\$ -	\$ 559,258	\$ 559,258
Gold options	-	-	547,211	547,211
	\$ -	\$ -	\$ 1,106,469	\$ 1,106,469

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**9. Financial instruments (continued)**

(a) Fair value (continued)

Embedded derivatives	Level 3
Balance as at December 31, 2013	\$ 559,258
Gains and losses recognized in profit or loss, including foreign exchange	(370,846)
Issuance of convertible loan	184,629
Balance as at December 31, 2014	\$ 373,041
Gold options	Level 3
Balance as at December 31, 2013	\$ 547,211
Issuance of gold options	233,050
Gains and losses recognized in profit or loss	8,042
Balance as at December 31, 2014	\$ 788,303
Convertible debenture - embedded derivatives	Level 3
Balance as at December 31, 2012	\$ 455,930
Gains and losses recognized in profit or loss	103,328
Balance as at December 31, 2013	\$ 559,258
Gold options	Level 3
Balance as at December 31, 2012	\$ -
Issuance of gold options	841,307
Gains and losses recognized in profit or loss	(294,096)
Balance as at December 31, 2013	\$ 547,211

There were no transfers between Level 1 and Level 2 in years ended December 31, 2014 and December 31, 2013.

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**9. Financial instruments (continued)**

(b) Financial risk factors

A summary of the Company's risk exposures as they relate to financial instruments is provided below.

**Credit Risk**

The Company's credit risk is primarily attributable to its cash and cash equivalents. This risk is minimized as its cash and cash equivalents have been placed with a reputable financial institution. Concentration of credit risk exists as a significant amount is held at one financial institution; however management believes the risk of loss to be remote. The maximum amount exposed is the amount of cash.

**Liquidity Risk**

The Company has no current source of operating revenue and is dependent on external financing to meet obligations when due. If additional financing is delayed or is not completed, the Company will, in the short term, be required to reduce planned expenditures and / or rely on other sources of funds, which may include additional shareholder loans. The Company may also consider the sale of non-core assets to assist it in meeting its ongoing capital requirements. In the longer term, the Company will require additional financing to finance its exploration and development activities and to meet its obligations. Additional funding may be in the form of equity and / or debt or also by obtaining direct investments in Atlanta by joint venture partners. The inability to obtain additional funding on a timely basis and failure to pay Clean Water Act penalty amounts due on December 31, 2014 and March 31, 2015 may have a material adverse effect on the financial condition, business and operations of the Company and AGC. The United States Attorney may potentially enforce proceedings against AGC for collection of the judgment. As at December 31, 2014, the Company had a cash balance of \$24,354 (December 31, 2013 - \$721,412) to settle current liabilities of \$9,892,984 (December 31, 2013 - \$4,220,474). The Company has various commitments, as detailed in note 13.

The following table presents the contractual maturities of the Company's financial liabilities on an undiscounted basis:

	<b>December 31, 2014</b>			
	Less than 3 months	3 months to 1 year	2 to 5 years	Over 5 years
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,458,335	\$ 410,335	\$ -	\$ -
Penalty payable to U.S. Treasury	-	1,850,000	-	-
Senior secured notes - host debt component	-	1,000,000	-	-
Shareholders' loans	-	986,275	-	-
Promissory note	-	424,717	-	-
Convertible debt – embedded derivatives	-	261,580	-	-
Convertible debt – host debt component	-	2,586,000	-	-
Convertible loan	-	540,140	-	-
<b>Non-current liabilities:</b>				
Senior secured notes - host debt component	-	-	2,619,699	-
Senior secured notes - gold options	-	-	584,366	-
	<b>\$ 1,458,335</b>	<b>\$ 8,059,047</b>	<b>\$ 3,204,065</b>	<b>\$ -</b>

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**9. Financial instruments (continued)**

(b) Financial risk factors (continued)

**Liquidity Risk (continued)**

	<b>December 31, 2013</b>			
	Less than 3 months	3 months to 1 year	2 to 5 years	Over 5 years
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 884,465	\$ 657,865	\$ -	\$ -
Senior secured notes - host debt component	-	848,163	-	-
Shareholders' loans	-	284,862	-	-
Promissory note	-	-	424,717	-
Convertible debt – embedded derivatives	-	-	559,258	-
<b>Non-current liabilities:</b>				
Penalty payable to U.S. Treasury	-	-	1,775,000	-
Senior secured notes - host debt component	-	-	2,413,555	-
Senior secured notes - gold options	-	-	547,211	-
Convertible debt – host debt component	-	-	1,467,021	-
	<b>\$ 884,465</b>	<b>\$ 1,790,890</b>	<b>\$ 7,186,762</b>	<b>\$ -</b>

**Market Risk**

Market risk is the risk of material loss that may arise from changes in market factors including foreign exchange and the price of gold.

(i) Foreign currency risk

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. The rate published by the Bank of Canada at the close of December 31, 2014 was 1.1601 Canadian dollars to one U.S. dollar.

Due to the strengthening during 2014 of the U.S. dollar relative to the Canadian dollar, the Company had a foreign exchange gain of \$4,909,440, most of which was derived from translation of inter-company loans made by the Company to AGC, which are denominated in U.S. dollars, resulting in net income of \$2,283,582. The financial statements are presented in U.S. dollars, so the Company's balances are translated from Canadian dollars to U.S. dollars. The translation of loans receivable from AGC to the Company from Canadian dollars into U.S. dollars has been recognized on the balance sheet in accumulated other comprehensive loss.

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**9. Financial instruments (continued)**

(b) Financial risk factors (continued)

**Market Risk (continued)**

(ii) Commodity prices risk

Since the Company is not in production, currently there is no risk arising from changes in the price of gold and silver. At that time, prices of gold and silver are expected to be major factors influencing the Company's business, results of operations, financial condition, cash flow from operations, exploration, mining and development activities and trading price for its common shares. Gold and silver prices may fluctuate widely and are affected by numerous factors beyond the Company's control.

(iii) Interest rate risk

The Company has a cash balance currently deposited in a major Canadian and American bank, and has no variable interest rate debt. At this point, the Company's exposure to interest rate risk is minimal.

**Sensitivity analysis**

As at December 31, 2014, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been approximately \$4,692,000 higher or \$6,139,000 lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated intercompany receivables, financial assets at fair value through profit or loss, debt securities classified as available-for-sale and foreign exchange losses/gains on translation of US dollar-denominated borrowings.

As at December 31, 2014, if the gold price had increased by 10%, the gold options' fair value would have increased by \$267,961. If the gold price had decreased by 10%, the gold options' fair value would have decreased by \$222,377.

Considering the sensitivity and judgment involved in the convertible debenture valuation, the estimated fair value of the embedded derivatives of \$261,580 would change if there would be an increase of 10% in the credit spread by approximately \$42,000 and if there would be a decrease of 10% in the credit spread by approximately \$43,000.

**10. Income per share**

**Basic income per share**

The calculation of basic income per share for the year ended December 31, 2014 was based on the income attributable to common shareholders of \$2,283,582 (December 31, 2013 – \$1,388,682), and a weighted average number of common shares outstanding of 260,002,669 (December 31, 2013 - 253,619,099).

**Diluted income per share**

The calculation of diluted income per share for the year ended December 31, 2014 was based on the income attributable to common shareholders of \$2,283,582 (December 31, 2013 – \$1,388,682), and a weighted average number of common shares outstanding of 297,143,820 (December 31, 2013 - 283,619,099).

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options and warrants was based on quoted market prices for the period during which the options were outstanding.

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**11. Related party transactions**

The remuneration of key management personnel during the year ended December 31, 2014 was \$601,847 (December 31, 2013 - \$533,040), of which one-half of a senior officer's salary was unpaid and accrued at December 31, 2014. The Company had accrued \$314,029 of a senior officer's salary including \$298,764 of principal accrued for 2013 and 2014 and \$15,265 of interest. At December 31, 2013, \$261,846 was accrued for one-half of two senior officers' salaries including \$257,055 of principal accrued for 2013 and \$4,791 of interest. This amount is unsecured and has no fixed terms of repayment. The interest rate is 7% per annum on unpaid remuneration.

At December 31, 2014, Shareholders' loans of \$986,275 (December 31, 2013 - \$284,862) were payable to various directors and shareholders of the Company. Of the total amount, \$294,250 (December 31, 2013 - \$284,862) was owed to a director for the purchase of equipment and it was evidenced by demand promissory notes bearing interest of 7% per annum and was secured against the equipment purchased (Note 5). The remaining shareholder loans of \$692,025 (December 31, 2013 - Nil) were from directors and shareholders. The loans bear interest of 8% per annum and are repayable on demand.

All transactions with related parties are in the normal course of business.

**12. Rehabilitation provisions**

The total future costs to reclaim exploration and evaluation assets are estimated by management based on the Company's ownership interest in Atlanta and its previous ownership interest in diamond properties located on Baffin Island and the estimated timing of the costs to be incurred in future periods. The following table reconciles the change in decommissioning obligations:

	<b>Baffin Island Property</b>	<b>Atlanta Gold Property</b>	<b>Total</b>
<b>Balance as at January 1, 2013</b>	\$ 300,000	\$ 1,696,489	\$ 1,996,489
Change during the year			
Paid out	(107,439)	(297,594)	(405,033)
Change of estimate	9,583	(74,895)	(65,312)
<b>Balance as at December 31, 2013</b>	\$ 202,144	\$ 1,324,000	\$ 1,526,144
Current	\$ 202,144	\$ 359,000	\$ 561,144
Long-term	\$ -	\$ 965,000	\$ 965,000
<b>Balance as at January 1, 2014</b>	\$ 202,144	\$ 1,324,000	\$ 1,526,144
Change during the period			
Paid out	(152,528)	(54,718)	(207,246)
Change of estimate	10,724	(100,481)	(89,757)
<b>Balance as at December 31, 2014</b>	\$ 60,340	\$ 1,168,801	\$ 1,229,141
Current	\$ 60,340	\$ 203,801	\$ 264,141
Long-term	\$ -	\$ 965,000	\$ 965,000



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**12. Rehabilitation provisions (continued)**

A provision is recognized for the present value of costs to be incurred for the restoration of the Baffin Island Property and the 900 adit at Atlanta. It is expected that \$264,141 will be used within one year and \$965,000 in the year after. As at December 31, 2014, total expected costs to be incurred are \$1,229,141 (December 31, 2013 - \$1,526,144).

**13. Commitments and contingencies**

As at December 31, 2014, the Company had accrued current rehabilitation provisions of \$264,141 (December 31, 2013 - \$561,144) and accrued non-current rehabilitation provisions of \$965,000 (December 31, 2013 - \$965,000) relating to reclamation of the properties in the United States and Canada. These amounts represent the Company's best estimate of the costs expected to fulfill the obligation resulting from the conditions of the permit.

On July 19, 2012 the U.S. District Court for the State of Idaho (the "Court") issued a Memorandum Decision (the "Decision") in a case in which AGC was a party, pertaining to AGC's non-compliance with the United States Federal Water Pollution Control Act ("Clean Water Act"). The Court imposed a penalty in the amount of \$2,000,000. In addition, the Decision, as subsequently amended, ordered AGC to implement measures to come into compliance with the National Pollutant Discharge Elimination System ("NPDES") Permit by December 15, 2012.

In September 2013, the Court entered a final judgment in this matter pursuant to which the penalty would be paid over a five-year period, with the quarterly installments increasing in size annually to a maximum of \$100,000 per quarter beginning in the third year and a balloon payment in the amount of \$450,000 to be due September 30, 2018. AGC has made aggregate payments to date of \$200,000 and payments of an additional \$350,000 are to be made during 2015. As of the date hereof, AGC is \$100,000 in arrears of its payment schedule. United States Attorney may potentially enforce proceedings against AGC for collection of the judgment. The penalty amount bears interest at a rate of 0.1% per annum from November 28, 2012 and is secured by recording the Consent Judgment against AGC's East Amity Road property located in Boise, Idaho and by a security interest, granted to the U.S. Attorney's office, in four generators owned by AGC located on the East Amity property. (note 5)

Penalty incurred	\$2,000,000
Payments made during 2013	\$75,000
Payments made during 2014	75,000
Payments due in 2014 paid in May 2015	50,000
Payments due in 2014 to be paid in the remaining of 2015	25,000
Payments due in 2015	325,000
Payments due in 2016	400,000
Payments due in 2017	400,000
Payments due in 2018	650,000
<b>Total</b>	<b>\$2,000,000</b>

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**14. Capital management**

The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by:

- (i) maintaining sufficient levels of liquidity to fund and support its exploration and evaluation stage properties and other corporate activities. The Company has no current source of operating revenue and is dependent on external financing to meet obligations when due. If additional financing is delayed or is not completed, the Company will, in the short term, be required to reduce planned expenditures and/or rely on other sources of funds, which may include additional shareholder loans. The Company may also consider the sale of non-core assets to assist it in meeting its ongoing capital requirements. In the longer term, the Company will require additional financing to finance its exploration and development activities and to meet its obligations. Additional funding may be in the form of equity and/or debt or also by obtaining direct investments in Atlanta by joint venture partners. The inability to obtain additional funding on a timely basis will have a material adverse effect on the financial condition, business and operations of the Company and AGC; and
- (ii) maintaining a strong balance sheet, to ensure ready access to debt and equity markets, to facilitate the development of major projects. Management monitors the Company's financial position on an ongoing basis.

Since the Company is in the exploration stage, all of the Company's capital comes from the issuance of equity and long term debt. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties, which requires the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares and debt instruments, the exercise of options and common share purchase warrants and extended terms from creditors. The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Company's future earnings, financial requirements and other conditions existing at such future time.

Management reviews its capital management approach on an ongoing basis and believes this approach, given the Company's size, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2014.

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**15. Subsequent events**

On April 1, 2015, the Company reached agreement with CCM to refinance the C\$3 million convertible debenture. CCM had previously requested that the debenture be redeemed by the Company in accordance with the debenture's early redemption provisions. Under the terms of the refinancing agreement, principal and accrued interest on the debenture totaling C\$3,250,000 will be satisfied by the issuance to CCM of an amended and restated convertible debenture in the principal amount of C\$1,500,000 and the issuance to CCM of the Company's Notes in the principal amount of \$1,500,000. The amended and restated debenture will bear interest of 10% per annum and mature April 1, 2018. The amended and restated debenture will be convertible at CCM's option following completion by the Company of a one-for-ten consolidation of its common shares at a conversion price equal to the lesser of C\$0.17, and the 30-trading day average of the closing prices immediately following the commencement of trading of the Company's shares on the Exchange on a consolidated basis, provided that the conversion price will not be less than C\$0.10 per share.

The Notes to be issued to CCM pursuant to the refinancing will have the same terms and conditions as the Company's outstanding \$4 million principal amount Notes, which were issued in August 2013. The Notes bear interest at 10% per annum and are secured by the limited recourse guarantee of AGC, and by a first mortgage of AGC's interest in its Atlanta Project. The maturity date of the outstanding Notes will be extended by one year to August 31, 2018 and all of the Notes will be repayable in cash installments at the rate of 25%, 35% and 40% on August 31st of 2016, 2017 and 2018, respectively. CCM will also receive an option exercisable until August 31, 2018 to purchase an aggregate of 1,567.5 troy ounces of gold at \$1,100 per ounce (being 104.5 troy ounces for each \$100,000 principal amount Notes), with the option vesting at the rate of 25%, 35% and 40% on August 31, 2016, 2017 and 2018, respectively. The Company's outstanding gold options previously issued with the Notes in August 2013 will be amended to have the same terms and conditions as the gold options being issued to CCM.

Completion of the refinancing transactions is subject to the approval of the Exchange. Completion of the share consolidation and the issuance of the amended and restated debenture are subject to shareholders' approval, which will be sought at the Company's annual and special meeting of shareholders to be held on June 24, 2015.

In April 2015, the holder of the Notes who did not consent to the amendments in August 2014 had the term of its warrants extended to August 31, 2017, the number of ounces purchasable under its gold options increased by 10% and the expiry date of its gold options extended to August 31, 2017, so as to correspond to the amendments made to the warrants and gold options held by the remaining holders of Notes. (Notes 7(c) and 8(b))

On May 11, 2015, the Company issued a Note in the principal amount of \$600,000 to CCM. The Note has the same terms and conditions as the Company's outstanding Notes in the principal amount of \$4 million, which were issued in August 2013. (Note 7(c))

CCM also received an option, exercisable until August 31, 2018, to purchase an aggregate of 627 troy ounces of gold at \$1,100 per ounce (being 104.5 troy ounces for each \$100,000 principal amount Note), with the option vesting at the rate of 25%, 35% and 40% on August 31, 2016, 2017 and 2018, respectively. The Company's outstanding gold options previously issued with the Notes in August 2013 were amended to have the same terms and conditions as the gold options being issued to CCM.

The Company has also received the approval from a majority of holders of Notes to extend the maturity date of the Notes by one year to August 31, 2018 and to amend the principal repayment dates so that the Notes will be repayable at the rate of 25%, 35% and 40% on August 31, 2016, 2017 and 2018, respectively. The Notes bear interest at 10% per annum and are secured by the limited recourse guarantee of AGC, and by a first mortgage of AGC's interest in its Atlanta Project.