



ATLANTA GOLD INC.

Atlanta Gold Inc.

Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2014

(Expressed in U.S. Dollars)

(Unaudited)

Notice of no auditor review of condensed interim consolidated financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

August 20, 2014

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in U.S. Dollars)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 236,414	\$ 721,412
Recoverable taxes	40,252	18,581
Prepaid expenses	54,394	72,233
	331,060	812,226
Exploration and evaluation assets (note 3)	45,131,697	44,274,702
Property, plant and equipment (note 4)	1,818,633	1,785,915
	\$ 47,281,390	\$ 46,872,843
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 2,030,519	\$ 1,542,330
Promissory note	-	424,717
Senior secured notes - current (note 5(c))	958,616	848,163
Shareholders' loans (note 8)	636,698	284,862
Convertible debenture - embedded derivatives (note 5(a))	557,476	559,258
Convertible loan (note 5(d))	285,472	-
Rehabilitation provisions (notes 9 and 10)	394,664	561,144
	4,863,445	4,220,474
Non-current liabilities		
Rehabilitation provisions (notes 9 and 10)	965,000	965,000
Penalty payable to U.S. Treasury (note 10)	1,625,000	1,775,000
Promissory notes (note 5(b))	424,717	-
Senior secured notes (note 5(c))	3,275,126	2,960,766
Convertible debenture (note 5(a))	1,625,659	1,467,021
	12,778,947	11,388,261
EQUITY		
Capital stock	89,340,632	89,340,632
Warrants	910,205	910,205
Contributed surplus (note 6)	10,332,154	10,017,626
Accumulated deficit	(62,464,584)	(61,362,397)
Accumulated other comprehensive loss	(3,615,964)	(3,421,484)
	34,502,443	35,484,582
	\$ 47,281,390	\$ 46,872,843

Nature of operations and going concern (note 1)

Commitments and contingencies (note 10)

Subsequent events (note 11)

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

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
General and administrative expenses:				
Professional fees	\$ 117,038	\$ 234,379	\$ 190,016	\$ 417,577
Salaries and management fees (note 8)	39,782	92,355	70,406	187,037
Administrative and office	29,279	28,271	58,593	50,428
Investor relations	64,308	113,514	93,778	172,274
Travel and accommodation	85	1,506	168	2,898
Share-based compensation	-	166	-	490
Loss from foreign currency transactions	-	11,420	-	12,738
	250,492	481,611	412,961	843,442
Exploration and evaluation expense	-	116	975	10,840
	250,492	481,727	413,936	854,282
Finance items:				
Finance costs	147,707	57,548	285,721	108,534
Accretion of convertible debenture and senior secured notes (notes 5(a) and (c))	197,669	28,401	382,303	56,390
Financial assets at fair value through profit or loss				
- Gold options	116,089	-	197,334	-
(Gain) loss from foreign currency transactions	1,957,643	-	(177,107)	-
	2,419,108	85,949	688,251	164,924
Net loss	2,669,600	567,676	1,102,187	1,019,206
Other comprehensive (gain) loss				
Items that may subsequently be reclassified through profit and loss				
Foreign currency translation adjustment	(1,835,534)	(139,718)	194,480	(196,525)
Net loss and comprehensive loss for the period	\$ 834,066	\$ 427,958	\$ 1,296,667	\$ 822,681
Weighted average number of consolidated shares outstanding (note 7)				
Basic	257,041,565	253,441,565	257,041,565	253,441,565
Diluted	289,722,444	283,441,565	288,389,410	283,441,565
Net loss per share (note 7)				
Basic	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.00
Diluted	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.00

Nature of operations and going concern (note 1)

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

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Cash Flow

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	\$ (2,669,600)	\$ (567,676)	\$ (1,102,187)	\$ (1,019,206)
Add (deduct) items not involving cash:				
Share-based compensation	-	166	-	490
Financial assets at fair value through profit or loss				
- Gold options	116,089	-	197,334	-
Accretion of convertible debenture and senior secured notes (notes 5(a) and (c))	197,669	28,401	382,303	56,390
Foreign exchange	1,910,501	82,158	(192,449)	103,987
Net change in non-cash working capital	345,474	212,156	334,357	564,474
Net cash used in operating activities	(99,867)	(244,795)	(380,642)	(293,865)
Financing activities:				
Loans from shareholders	84,874	669,990	351,836	891,046
Promissory notes	(20,000)	-	-	-
Proceeds from convertible loan	600,000	-	600,000	-
Net cash from financing activities	664,874	669,990	951,836	891,046
Investing activities:				
Exploration and evaluation asset	(376,798)	(285,032)	(631,986)	(494,755)
Payment of rehabilitation provisions	(110,351)	-	(166,480)	-
Property, plant and equipment	(65,865)	(108,882)	(257,726)	(118,599)
Net cash used in investing activities	(553,014)	(393,914)	(1,056,192)	(613,354)
Increase (Decrease) in cash and cash equivalents	11,993	31,281	(484,998)	(16,173)
Cash and cash equivalents, beginning of period	224,421	5,266	721,412	52,720
Cash and cash equivalents, end of period	\$ 236,414	\$ 36,547	\$ 236,414	\$ 36,547
Interest paid	\$ 931	\$ 735	\$ 16,424	\$ 1,543

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

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Cash Flow (continued)

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

	For the three months ended		For the six months ended	
	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
Net change in non-cash working capital items				
Recoverable taxes	\$ (23,408)	\$ (26,480)	\$ (21,671)	\$ (31,503)
Prepaid expenses	14,794	25,625	17,839	5,380
Accounts payable and accrued liabilities	379,088	213,011	388,189	590,597
Penalty payable to U.S. Treasury	(25,000)	-	(50,000)	-
	\$ 345,474	\$ 212,156	\$ 334,357	\$ 564,474
Significant non-cash financing and investing activities				
Capitalized depreciation (note 4)	\$ 112,900	\$ 98,153	\$ 225,008	\$ 191,883

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

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Changes in Equity

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

For The Three and Six Months Ended June 30, 2014 and 2013

	Number of Shares	Share Capital	Warrants	Contributed Surplus (note 6)	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2013	253,441,565	\$ 89,170,747	\$ 2,245,469	\$ 8,814,335	\$(62,751,079)	\$ (36,803)	\$ 37,442,669
Share-based compensation	-	-	-	490	-	-	490
Net loss for the year	-	-	-	-	(1,019,206)	-	(1,019,206)
Foreign currency translation adjustment	-	-	-	-	-	196,525	196,525
Balance - June 30, 2013	253,441,565	\$ 89,170,747	\$ 2,245,469	\$ 8,814,825	\$(63,770,285)	\$ 159,722	\$ 36,620,478
Shares issued in satisfaction of debenture Interest							
- at C\$0.05 per common share, net of share issue costs	3,600,000	169,885	-	-	-	-	169,885
Warrants issued with secured gold notes	-	-	45,121	-	-	-	45,121
Stock-based compensation	-	-	-	67	-	-	67
Warrants expiring unexercised	-	-	(1,380,385)	1,202,734	-	-	(177,651)
Net income for the period	-	-	-	-	2,407,888	-	2,407,888
Foreign currency translation adjustment	-	-	-	-	-	(3,581,206)	(3,581,206)
Balance - December 31, 2013	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 condensed interim consolidated financial statements.

ATLANTA GOLD INC.

(An exploration stage company)

Condensed Interim Consolidated Statements of Changes in Equity (continued)

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

For The Three and Six Months Ended June 30, 2014 and 2013

	Number of Shares	Share Capital	Warrants	Contributed Surplus (note 6)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2014	257,041,565	\$ 89,340,632	\$ 910,205	\$ 10,017,626	\$(61,362,397)	\$ (3,421,484)	\$ 35,484,582
Issue of convertible loan with convertible option	-	-	-	314,528	-	-	314,528
Net loss for the period	-	-	-	-	(1,102,187)	-	(1,102,187)
Foreign currency translation adjustment	-	-	-	-	-	(194,480)	(194,480)
Balance - June 30, 2014	257,041,565	\$ 89,340,632	\$ 910,205	\$ 10,332,154	\$(62,464,584)	\$ (3,615,964)	\$ 34,502,443

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

ATLANTA GOLD INC.

(An exploration stage company)

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

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 trading under the symbol "ATG", and on the OTC Markets Group Inc. OTCQX International tier trading 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's other properties, including its Québec gold properties, are all in the exploration phase. 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 2014 and 2015, no further work is planned in these areas and as a result the carrying values were previously written off.

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 unaudited condensed interim 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 June 30, 2014, the Company had a deficit of \$62,464,584, no source of operating cash flows and reported a net loss of \$1,102,187 for the six months ended June 30, 2014. The Company's current liabilities exceeded its current assets by \$4,532,385 as of June 30, 2014. 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 unaudited condensed interim 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 Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

2. Basis of preparation

(i) Basis of presentation and measurement

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2013 which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods adopted are consistent with those disclosed in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2013.

These unaudited condensed interim consolidated financial statements were approved by the board of directors for issue on August 20, 2014.

(ii) Critical accounting estimates and judgments

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements are disclosed in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2013.

3. Exploration and evaluation assets

Balance at January 1, 2013:	\$ 43,167,861
Additions	686,640
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Closing net book value at June 30, 2013	43,854,501
Additions	420,201
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Balance at December 31, 2013	44,274,702
Additions	856,995
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Balance at June 30, 2014	\$ 45,131,697

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

Atlanta was initially held as a joint venture between the Company's wholly-owned subsidiary, Atlanta Gold Corporation ("AGC"), with an 80% interest and Canadian American Mining Company, LLC ("CAMC") with a 20% participating interest. CAMC subsequently agreed to transfer its 20% participating interest in the joint venture to AGC, and retain a 2% NSR royalty (the "Royalty") on Atlanta. In September 2009, the Company purchased one-half of the Royalty (1%) from CAMC by issuing 5.75 million common shares of the Company, which were valued at \$1,035,000, and agreeing to pay an additional \$200,000 to CAMC payable over 17 months. The final payment to complete the purchase of one-half of the Royalty (1%) was completed in January 2011.

ATLANTA GOLD INC.

(An exploration stage company)

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

3. Exploration and evaluation assets (continued)

Atlanta Gold Property, Idaho, U.S.A. (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 (the "Monarch Property") from Monarch Greenback LLC ("Monarch") for \$3,075,000. The purchase of the Monarch Property was completed on June 8, 2011. To assist in the financing of the purchase, the Company borrowed \$3 million by way of a secured, non-interest bearing bridge loan (the "Bridge Loan") from Concept Capital Management Ltd. ("CCM"), which was subsequently repaid by the issuance by the Company of a 6% convertible debenture in the principal amount of C\$3 million (the "Debenture"). Terms of the Bridge Loan and the Debenture are described in note 5(a).

Upon AGC exercising its option to purchase, rental payments to Monarch totaling \$290,000 per annum on the Monarch Property were terminated. 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 June 30, 2014, advance royalty payments of \$1,500,000 had been paid by AGC to Monarch and will be deducted from 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 June 30, 2014, advance royalty payments of \$208,500 (December 31, 2013 - \$198,500) have been made and will be deducted from any future royalty payments to F. C. Gardner.

(d) Hollenbeck Properties LLC

AGC leases claims pursuant to a lease agreement with Hollenbeck Properties LLC. The lease expires on November 14, 2014 and is renewable year to year thereafter at an amount to be negotiated. 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 June 30, 2014, advance royalty payments of \$312,500 (December 31, 2013 - \$312,500) had been paid and will be deducted from any 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 June 30, 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.

ATLANTA GOLD INC.

(An exploration stage company)

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

4. Property, plant and equipment

	Land	Building, Field Equipment and Other	Total
At January 1, 2013:			
Cost	\$ 804,101	\$ 2,532,938	\$ 3,337,039
Accumulated depreciation	-	(1,896,417)	(1,896,417)
Opening Net Book Value at January 1, 2013	804,101	636,521	1,440,622
Year ended December 31, 2013:			
Opening Net Book Value at January 1, 2013	804,101	636,521	1,440,622
Additions	14,952	356,146	371,098
Depreciation	-	(191,883)	(191,883)
Closing Net Book Value at June 30, 2013	819,053	800,784	1,619,837
Additions	14,916	369,431	384,347
Disposals	-	(5,611)	(5,611)
Depreciation	-	(212,658)	(212,658)
Closing Net Book Value at December 31, 2013	\$ 833,969	\$ 951,946	\$ 1,785,915
At January 1, 2014:			
Cost	\$ 833,969	\$ 3,252,904	\$ 4,086,873
Accumulated depreciation	-	(2,300,958)	(2,300,958)
Opening Net Book Value at January 1, 2014	833,969	951,946	1,785,915
Six months ended June 30, 2014:			
Opening Net Book Value at January 1, 2014	833,969	951,946	1,785,915
Additions	67,602	190,124	257,726
Depreciation	-	(225,008)	(225,008)
Closing Net Book Value at June 30, 2014	\$ 901,571	\$ 917,062	\$ 1,818,633
At June 30, 2014:			
Cost	\$ 901,571	\$ 3,443,028	\$ 4,344,599
Accumulated depreciation	-	(2,525,966)	(2,525,966)
Closing Net Book Value at June 30, 2014	\$ 901,571	\$ 917,062	\$ 1,818,633

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Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

4. Property, plant and equipment (continued)

All depreciation charges during the six months ended June 30, 2014 and 2013 were capitalized to exploration and evaluation assets.

As of June 30, 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 8 and 10).

5. 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, 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.

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 TSX Venture Exchange (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. If and for so long as an event of default occurs, interest will be payable at the rate of 8.5% per annum.

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. AGC has provided a guarantee of the Debenture, with recourse under the guarantee limited to a mortgage on the Monarch Property. 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 will have 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.

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Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

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

(a) Convertible debenture (continued)

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.

(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 June 30, 2014. Interest is payable on a monthly basis.

(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 at 10% per annum and the principal will be amortized at 25%, 35% and 40%, which will be 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 of the Company's subsidiary AGC and by a mortgage of AGC's interest in Atlanta.

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.

Noteholders 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.

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

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Notes to Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in U.S. Dollars)

For The Three and Six Months Ended June 30, 2014 and 2013

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

(c) Senior secured notes (continued)

- (ii) Gold options were valued at \$841,307 in total at the Measurement date. 25% of the total gold options will vest on August 31, 2014, 35% on August 31, 2015 and 40% on August 31, 2016. The key inputs on the gold options are gold price, convenience yield of gold and implied volatility of gold.
- (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 June 30, 2014.

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.

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

- (i) Gold payments (1,000 troy ounces) were valued at \$1,321,000 using Black Scholes model with the key inputs as follows:

Gold price at date of issue	\$1,261
Estimated volatility in the market price of gold	17.54%
Risk-free rate	1.35%

- (ii) Conversion right was valued at \$314,528 at the Measurement date and classified as equity.
- (iii) Gold options were valued at \$282,837 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 difference between the total fair market value and the principal face value was allocated as finance costs which will be amortized over the 18-month period.

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.

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6. 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:

	Number of Shares	Weighted Average Exercise Price C\$
Outstanding as at January 1, 2013	5,435,000	0.36
Options expired or cancelled	(1,330,000)	0.63
Outstanding as at June 30, 2013	4,105,000	0.28
Outstanding as at December 31, 2013	4,105,000	0.28
Options expired or cancelled	(2,775,000)	0.33
Outstanding at June 30, 2014	1,330,000	0.17

All of the 1,330,000 stock options outstanding as at June 30, 2014, having a weighted average price of C\$0.17 per share, are vested and exercisable immediately. All stock options expire between December 2014 and September 2015. During the six months ended June 30, 2014, 2,775,000 (June 30, 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 12 months (December 31, 2013 – 8 months).

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6. Stock options (continued)

Expiry Date	Number of Stock Options	Exercise Price C\$
April 21, 2015	110,000	0.23
December 19, 2014	360,000	0.12
September 27, 2015	860,000	0.18
Outstanding at June 30, 2014	1,330,000	0.17

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 June 30, 2014 expire at various dates until September 27, 2015.

The Company did not grant any stock options during the six months ended June 30, 2014 and 2013.

7. Loss per share

Basic loss per share

The calculation of basic loss per share for the six months ended June 30, 2014 was based on the loss attributable to common shareholders of \$1,102,187 (June 30, 2013 – \$1,019,206), and a weighted average number of common shares outstanding of 257,041,565 (June 30, 2013 - 253,441,565).

Diluted loss per share

The calculation of diluted loss per share for the six months ended June 30, 2014 was based on the loss attributable to common shareholders of \$1,102,187 (June 30, 2013 – \$1,019,206), and a weighted average number of common shares outstanding of 288,389,410 (June 30, 2013 - 283,441,565).

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.

8. Related party transactions

The remuneration of key management personnel during the six months ended June 30, 2014 was \$309,242 (June 30, 2013 - \$268,128), of which one-half of a senior officer's salary was unpaid. The Company had accrued \$219,231 (December 31, 2013 - \$261,846) of a senior officer's salary including \$144,231 accrued for 2013 and \$75,000 accrued for the first six months of 2014. This amount is unsecured and has no fixed terms of repayment. The interest rate is 7% per annum on unpaid remuneration.

At June 30, 2014, Shareholders' loans of \$636,698 (December 31, 2013 - \$284,862) were payable to various directors and shareholders of the Company. Of the total amount, \$284,625 (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. The remaining shareholder loans of \$352,073 (December 31, 2013 - Nil) were from directors and shareholders. The loans bear interest of 8% per annum. Approximately 20% of the total loans are repayable on demand and approximately 80% of the total loans are repayable on demand after September 19, 2014.

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

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9. 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:

	Baffin Island Property	Atlanta Gold Property	Total
Balance as at January 1, 2013	\$ 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)
Balance as at December 31, 2013	\$ 202,144	\$ 1,324,000	\$ 1,526,144
Current	\$ 202,144	\$ 359,000	\$ 561,144
Long-term	\$ -	\$ 965,000	\$ 965,000
Balance as at January 1, 2014	\$ 202,144	\$ 1,324,000	\$ 1,526,144
Change during the period			
Paid out	(166,480)	-	(166,480)
Balance as at June 30, 2014	\$ 35,664	\$ 1,324,000	\$ 1,359,664
Current	\$ 35,664	\$ 359,000	\$ 394,664
Long-term	\$ -	\$ 965,000	\$ 965,000

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 \$394,664 will be used during the remainder of 2014 and \$965,000 during 2015. As at June 30, 2014, total expected costs to be incurred are \$1,359,664 (December 31, 2013 - \$1,526,144).

10. Commitments and contingencies

As at June 30, 2014, the Company had accrued current rehabilitation provisions of \$394,664 (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 is 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.

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10. Commitments and contingencies (continued)

In September 2013, the Court entered a final judgment in this matter. The judgment required AGC to pay \$50,000 on or before August 22, 2013, which payment was made by AGC. In addition, AGC is required to pay \$25,000 per quarter for the first year, with the first three installments being paid on December 31, 2013, March 31, 2014 and June 30, 2014; \$75,000 per quarter for the second year; \$100,000 per quarter for the third, fourth and fifth years; and a balloon payment in the amount of \$450,000 due September 30, 2018, at which time the penalty will be paid in full. The penalty amount bears interest at a rate of 0.1% per annum from November 28, 2012 and will be 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.

Penalty incurred	\$2,000,000
Payments made during 2013	\$75,000
Payments made during first six months of 2014	50,000
Payments due in the remaining months of 2014	100,000
Payments due in 2015	325,000
Payments due in 2016	400,000
Payments due in 2017	400,000
Payments due in 2018	650,000
Total	\$2,000,000

11. Subsequent events

On August 5, 2014, the Company extended the expiry dates by one year of 25,733,333 outstanding common share purchase warrants, scheduled to expire between October and December of 2014. Of these warrants, 8,333,333 exercisable at C\$0.10 per share until October 2, 2014 were extended to October 2, 2015, 12.12 million exercisable at C\$0.15 until November 9, 2014 were extended to November 9, 2015, and 5.28 million exercisable at C\$0.15 until December 19, 2014 were extended to December 19, 2015. The terms of the warrants will otherwise remain 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 C\$0.15 for the C\$0.10 warrants and exceeds C\$0.20 cents for the C\$0.15 warrants.