


2008
ANNUAL
REPORT



ATLANTA GOLD INC.



MANAGEMENT'S DISCUSSION & ANALYSIS

This management discussion and analysis of the financial position and results of operations of Atlanta Gold Inc. (formerly Twin Mining Corporation) (the "Company") and its subsidiaries for the year ended December 31, 2008 has been prepared as of March 13, 2009. The discussion below should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2008.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in financial tables, except per share amounts, are expressed in thousands of Canadian dollars unless otherwise indicated.

Additional information relating to the Company, including the Company's Annual Information Form, are filed with securities regulatory authorities in Canada and are available at www.sedar.com.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This document includes "forward-looking information" and "forward-looking statements", within the meaning of applicable securities legislation. All statements other than statements of historical fact are forward-looking statements. Forward-looking information and statements are based on assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors which the Company believes to be relevant and reasonable in the circumstances.

Forward-looking information and statements are frequently identified by the use of words such as "may", "will", "could", "believe", "intend", "expect", "seek", "anticipate", "plan", "continue", "estimate", "predict", "potential" and similar terminology suggesting outcomes or statements regarding an outlook. Forward-looking information and statements are included in the "Outlook" section of this MD&A as well as elsewhere in this document. Specifically, this document contains forward-looking information and statements regarding, among other things, the effects of the Company's mining strategy on gold recovery rates and the environmental impact at its Atlanta project, the expected enhancement of the gold resource at Atlanta following completion of additional exploration, the ability to obtain requisite permits and water rights, the intended use of proceeds from financings completed, the completion, size, timing of and use of proceeds from future financings, the Company's ability to maintain its listing on the Toronto Stock Exchange, the nature and extent of exploration and rehabilitation plans for 2009 and the time needed to commence production at Atlanta.

Forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual events and the Company's actual results to differ materially from those predicted, expressed or implied by the forward-looking information and statements and readers are cautioned not to unduly rely on such forward-looking information and statements and to carefully consider the risks and uncertainties involved with respect to such information and statements. Such risks and uncertainties include, but are not limited to, the Company's limited financial resources and its ability to fund the capital and operating expenses necessary to achieve its business objectives, risks associated with the mining industry (including operational risks in exploration, development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; uncertainties relating to the interpretation of drill results and the geology, continuity, grade and reserve and resource estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of the Company to obtain and the expected time to obtain all permits, consents or authorizations required for its operations and activities; and health, safety and environmental risks), adverse weather conditions, the risk of resource prices and foreign exchange rate fluctuations and the risk of the Company's common shares being delisted by the Toronto Stock Exchange. Further information on the risks and uncertainties is described herein under "Uncertainties and Risk Factors" and in the Company's Annual Information Form under "Risk Factors".

Readers are cautioned that the foregoing list of risks, uncertainties and other factors is not exhaustive. The Company undertakes no obligation to update publicly or revise any forward-looking information and statements or the foregoing list of factors, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

OVERVIEW

The Company is engaged in the exploration and development of the Atlanta Gold project ("Atlanta"), an advanced-stage gold property near Atlanta, Idaho, U.S.A. In 2008 the Company staked the Rocky Bar gold property ("Rocky Bar") which is located 17 miles south west of Atlanta. Both Atlanta and Rocky Bar are historic mining sites covering a total area of 9,077 acres.

Atlanta is the cornerstone of the Company's future. It is located in a stable jurisdiction with minimal political risk in which mineral development rules are well known and a skilled workforce is available. The project has exceptional exploration potential, at a time when the demand for gold is increasing and supply is limited.

The Company has assembled a team with significant management, financial, development, open-pit and underground mining, process engineering and operational expertise.

In early 2008, the Company changed the mining strategy for Atlanta from bulk mining and cyanide heap leaching, to a combined shallow open-pit and underground operation with an on-site milling facility with no cyanide circuit. This new mining strategy will produce both a gravity concentrate and a precious metal rich sulphide concentrate to be custom smelted. It will also reduce the environmental footprint by 95% and increase expected metal recovery rates from 63% to 90%. Each of these improvements is critical to the sustainable development of the Atlanta gold mine.

This more selective method of ore extraction positively addresses environmental concerns identified during previous permitting efforts. Management is confident that by working closely with environmental groups, the town of Atlanta and surrounding communities, federal, state and local agencies as well as other stakeholders, it will be successful in obtaining the regulatory approvals necessary to develop a combined shallow pit and an underground mine at Atlanta in a timely manner.

The Company continues to hold other lower priority exploration properties including the Abitibi gold property in eastern Quebec ("Abitibi"), the Jackson Inlet diamond property on the Brodeur peninsula of Baffin Island ("Brodeur") and Tornгат in Northern Québec ("Tornгат"). As a result of management's decision to focus on Atlanta, the Company abandoned its mine exploration permit on Tornгат while maintaining its rights to 32 mineral claims. The Company has written off the carrying costs associated with all of its Canadian properties.

HIGHLIGHTS FROM OPERATIONS - 2008

In 2008 the Company implemented a new strategy which focused on developing plans for:

- a small-scale surface operation with a small environmental footprint
- a mining operation confined to private lands
- an 800-ton-per-day pilot processing plant to produce a gravity concentrate, and a flotation concentrate which can be produced without the use of cyanide. The concentrate will be sold to others for final processing. In this way, Company operations in Idaho will be cyanide free thus minimizing the environmental impact.
- lower consumption of water. When the pilot mill is constructed in 2010, treatment and recycling of water will be an integral part of processing the ore.

- continued investigation of the underground potential of the 11,400-foot long Atlanta Shear Zone from which, historically, 340,000 equivalent ounces has been extracted from high grade sections at gold prices of US\$20-\$35 per ounce using cut-off grades of 0.5 ounces per short ton ("opt") (17.1 grams per tonne) up to and including 1935 and 0.4 opt (13.7 grams per tonne) thereafter.

In addition, during 2008 the Company achieved the following:

- § Appointed Ernie Simmons as Chief Operating Officer of the Company. Mr. Simmons has a long history of accomplishments in the industry, and now resides in Boise, Idaho.
- § Relocated its Idaho principal office from Mountain Home to Boise, which is closer to the Atlanta project, and to regulators, suppliers, interest groups with whom the Company needs close communications.
- § Established open dialogue and communications with the four most significant environmental groups in Idaho regarding shared environmental concerns and the optimum strategy to advance the project.
- § Continued to treat 2.5 million gallons of water per month to remove naturally-occurring arsenic which would otherwise flow untreated into Montezuma Creek and in turn into the Boise River.
- § Eliminated the use of cyanide for heap leaching from the mining plan. This results in a much lower environmental impact. With an expected environmental footprint which is only 5% of that previously envisioned, the new mining plan appears to have been well received by the public, regulators and other stakeholders.
- § Increased surface drilling productivity from 8,000 feet (2,438 metres) in 2007 to 15,000 feet (4,572 metres) in 2008.
- § Reduced the cost of drilling from \$98.20 per foot in 2007 to \$32.38 per foot in 2008.
- § Completed 2,180 feet (664 metres) of trenching across the Atlanta Shear Zone which exposed and identified significant gold-bearing mineralization in 22 out of 25 trenches in the Idaho, Monarch and the East Extension areas and 14 out of the 22 mineralized trenches showed samples with assays of 0.10 opt Au or higher. This surface expression identified a number of excellent gold resource targets amenable to low-cost selective shallow open-pit mining which will provide early plant feed. All samples taken above the Shear Zone had anomalous gold.
- § Raised total proceeds of \$7,783,000 from non-brokered private placements.

The Company also staked 367 contiguous lode unpatented claims totaling 6,880 acres at Rocky Bar to expand its regional property interests in Idaho.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Based on a compilation of geological and geochemical data to December 31, 2008, the Company has outlined approximately 460,300 Measured and Indicated ounces or 474,900 equivalent ounces (including silver resources as a gold equivalent) as follows:

Area	GOLD				SILVER				Total Equivalent Ounces of Gold ⁽⁶⁾ (000's)
	Cut-Off Grade (opt)	Gold Grade (opt)	Tons (000's)	Ounces of Gold (000's)	Ratio of Silver to Gold Ounces	Ounces of Silver (000's)	Price Factor ⁽²⁾ Gold Price / Silver Price	Equivalent Ounces of Gold (000's)	
Mini-Pit Resource:									
East and West Monarch ⁽¹⁾	0.05	0.111	419.3	46.4	4.28	198.6	73.7	2.7	49.1
Idaho ⁽¹⁾	0.05	0.060	82.3	4.9	4.28 ⁽⁴⁾	21.1	73.7	0.3	5.2
Total Mini-Pit Resource		0.095	501.6	51.3	4.28	219.7		3.0	54.3
Underground Resource:									
Monarch and Idaho ⁽¹⁾	0.10	0.161	2,125.8	343.3	2.02	797.7	73.7	10.8	354.1
East Extension ⁽⁵⁾	0.10	0.177	370.5	65.7	0.80	52.5	73.7	0.7	66.4
Total Underground Resource	0.10	0.164	2,496.3	409.0	1.81	850.2	73.7	11.5	420.5
Total Resource		0.154⁽³⁾	2,997.9	460.3	2.12	1,069.9		14.5	474.9

(1) Based on a compilation of the same input data used for the 2007 Technical Report which is Canadian National Instrument 43-101 ("NI 43-101") compliant

(2) Price Factor, using closing prices as of the close of business on November 3, 2008 on New York Globex is 73.70 (US\$722.00 per ounce of gold / US\$9.79 per ounce of silver)

(3) Average grade of gold per ton = 0.154 ounces per ton (460,300 ounces / 2,997,900 tons)

(4) Estimated ratio of silver to gold ounces

(5) The resource for the East Extension is a total resource. It has not been decided with certainty whether the East Extension area can be mined by open pit methods or underground or both.

(6) The average grade of gold equivalent (including silver resources as a gold equivalent) per ton = 0.158 ounces per ton (474,900 ounces / 2,997,900 tons)

The updated internal resource estimate for the Atlanta gold project was based on 692 diamond core and reverse circulation ("RC") drill holes, covering an approximate 11,400-foot (3,475-metre) strike length, over a 100-120 foot (30-37 metre) width (plan view) and to a vertical depth of approximately 1,800 feet (550 metres). The deposit remains open along strike and to depth. This internal resource estimate substantiates that a significant near-surface and underground resource remains at Atlanta, with the potential to further expand that resource. An updated NI 43-101 technical report will be posted on SEDAR and the Company's website in 2009.

The resource estimate was calculated by William (Bill) L. Josey (the Company's Chief Geologist and designated "Qualified Person" under NI 43-101) assisted by J. Ed. Switzer, a consulting engineer. Mr. Josey is a registered professional geologist in the State of Arizona. Mr. Switzer is a mining engineer who retired from Kennecott Minerals Company and generates our geostatistical block models.

Prior drilling from the surface in 1991 and underground drilling in 1994 on the 900 Adit (elevation 6,090 feet [1,856 metres] above mean sea level) in the East Extension identified the Glaspey underground resource. In the Company's Management Discussion and Analysis ("MD&A") for the third quarter of 2008, the Company reported that the Glaspey resource had the potential of containing 285,500 tons at 0.356 opt (12.2 grams per tonne) Au for a total of 101,600 ounces (113,700 equivalent ounces) of gold. This historical estimate pre-dates National Instrument 43-101, is not NI 43-101 compliant and should not be relied upon. Our current geological modeling and geostatistical block modeling have identified a total Measured and Indicated resource of 65,700 ounces (66,400 equivalent ounces) of gold in the East Extension. Inferred underground resources of 35,900 ounces (47,300 equivalent ounces) of gold in the East Extension were inadvertently combined with Measured and Indicated resources in the prior MD&A. Inferred mineral resources

are considered too geologically speculative to be categorized as Measured and Indicated resources and have therefore been excluded from our geological modeling.

There has been no additional underground drilling or sampling in this area since 1994. The Company's drilling in 2007 and 2008 has been to define resources that could be mined from shallow open pits. The Company expects that underground drilling will enhance the overall resource. The Company also intends to do more drilling from the surface in the East Extension in the coming season.

The Company's 2008 surface exploration program confirmed the 320,000 equivalent ounce resource estimated at December 31, 2007 and increased this estimate by 154,900 ounces or 48.4% to 474,900 equivalent ounces. The average development cost per ounce of gold for the increase in underground and shallow open pit resources over the year ended December 31, 2008 was approximately \$40.06 per ounce, which is attractive relative to the prevailing gold price which is in excess of US\$900.00 per ounce. The average development cost per ounce is defined as the total drilling, assays, related field work, property carrying costs at Atlanta plus general and administrative expenses divided by the number of additional ounces of gold identified during 2008. These performance measures gauge the efficiency and effectiveness of the Company's 2008 exploration and development program and the significant value created at Atlanta.

The average development cost per ounce should be considered as a non-GAAP financial measure and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. There may be material differences associated with the use of such non-GAAP measures. Since these measures do not incorporate changes in working capital and non-development costs, they are not necessarily indicative of operating expenses as determined under GAAP. Changes in numerous factors

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including, but not limited to gold grade, gold recovery, and the costs of labor, consumables and mine site general and administrative activities can cause these measures to increase or decrease. Non-GAAP measures do not have any standardized meanings prescribed by GAAP, and therefore, may not be comparable to similar measures presented by other issuers.

The Company had expected to establish a decline in 2008 to provide access for underground exploration purposes. However, due to ground conditions in one location, and unmapped infrastructure in another, the Company was unable to do so, and, instead, decided to invest its limited financial resources in the shallow open-pit and surface trenching programs.

As a result of collaborative efforts with environmental groups and regulators, the Company obtained permission to access the first 800 feet of the 900 Adit so as to conduct rehabilitation of the Adit. As the first phase of rehabilitation work is completed, the Company anticipates that it will obtain further permits which will allow the completion of the work necessary to access the Adit for underground exploration.

The Company made significant progress in 2008 on all fronts – exploration, permitting, project management / performance, environmental initiatives, communication, financing and staffing. We are very pleased with the results for the year and our progress in implementing the new strategy to bring this project to production in 2010.

The Plan for Operations – 2009 below outlines an aggressive program for continuing to move the project ahead quickly, and achieve commercial production.

PLAN FOR OPERATIONS - 2009

The private placement financing completed in February 2009 will primarily fund technical work on Atlanta. Prior to the end of the second quarter of 2009, the Company expects to complete another placement. Successful completion of this latter financing will allow the Company to achieve the following objectives at Atlanta:

- a. complete 12,000 feet (3,658 metres) of shallow core drilling to a depth of 400 feet (122 metres) on the East Extension, West Monarch and Idaho zones;
- b. complete 33,000 feet (10,058 metres) of core drilling to an intermediate depth of 1,200 feet (400 metres) on the East Extension and Monarch zones;
- c. excavate and sample 5,000 feet (1,524 metres) of trenches to further evaluate the near surface potential of the Atlanta Shear Zone. The 2008 trenching program exposed and identified significant gold-bearing mineralization in 22 out of 25 trenches. All samples taken above the Atlanta Shear Zone had anomalous gold;
- d. rehabilitate the first 800 feet (244 metres) of the 900 Adit;
- e. subject to obtaining regulatory approvals, rehabilitate the next 1,475 feet (450 metres) of the 900 Adit and complete a 12,000-foot (3,658-metre) underground drilling program from the 900 Adit;
- f. redesign of reclamation ponds at the 900 Adit;

- g. continue enhancement of Atlanta's environmental performance, including ongoing removal of naturally-occurring arsenic from historic water effluents;
- h. continue collaboration with local communities, environmental, regulatory and other stakeholders;
- i. evaluate several alternative sites to accommodate infrastructure related to mining operations;
- j. complete an updated NI 43-101 report for the Atlanta resource;
- k. complete an internal pre-feasibility study of the updated resource;
- l. complete a business plan to process 300,000 tons of ore and produce 40,000 ounces of gold per year, with start-up production expected to commence by the third quarter of 2010;
- m. increase the mineral resource inventory, targeted for 600,000 equivalent ounces of gold by December 31, 2009.
- n. continue economic, environmental and technical studies and secure water permits and rights required to advance the project to production; and
- o. secure the financing required for all of the above.

The combination of a proven record of historical production, a Shear Zone with an 11,400-foot strike length, significant depth potential and multi-million ounce potential, presents what management believes to be an outstanding value proposition.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

OVERVIEW OF FINANCIAL RESULTS

As at December 31, 2008, the Company had a working capital surplus of approximately \$30,000 (2007 - deficiency of \$2,084,000) after completing a private placement financing in December 2008 for gross proceeds of \$1,632,000. In February 2009, the Company further strengthened its cash position by completing another private offering for gross proceeds of \$868,000.

Equity Financing

The Company raised total gross proceeds of \$7,783,000 in 2008 (compared to \$3,793,000 raised in 2007) as follows:

In February 2008 and April 2008, the Company raised gross proceeds of approximately \$5,600,000 by completing a non-brokered private placement of 9,180,062 common shares of the Company at \$0.61 per share. Insiders of the Company purchased 1,153,606 shares which represented 13% of the shares sold. Share issue costs of \$117,000 in respect of the private placement included \$41,000 paid as a finder's fee to an investment firm which employs a director of the Company.

In March 2008, the Company issued 380,451 shares in satisfaction of accounts payable of approximately \$267,000 to suppliers of the Company.

In October 2008, the Company issued 41,806 shares to Breakwater Resources Inc. ("Breakwater") at \$0.598 per share in respect of extending the exercise period of the option, signed in August 2003, by one year to September 2009; and issued 220,000 shares to a director of the Company upon exercise of stock options granted on February 29, 2008.

In December 2008, the Company issued 1,000,000 shares in satisfaction of accounts payable of approximately \$170,000 to a supplier of the Company.

Between December 2008 and February 2009, the Company raised gross proceeds of \$2,500,000 by completing a non-brokered private placement of 25,000,000 common share units ("Units") at \$0.10 per Unit with each Unit consisting of one common share of the Company and one half of one common share purchase warrant. Each full warrant ("Warrant") is exercisable at \$0.25 per share for up to 24 months, with the Company having the right to accelerate the expiry date of the Warrants if the closing price of the Company's common shares on the Toronto Stock Exchange ("TSX") exceeds \$0.50 for twenty consecutive trading days on which the Company's shares trade. Insiders of the Company purchased 6,174,000 Units, which represented 38% of the Units sold. Share issue costs of approximately \$18,000 were incurred in respect of the private placement completed in December 2008.

Proceeds from the placement will principally be used for permitting and exploration expenditures in respect of the Company's Atlanta gold project, and for general working capital purposes. In accordance with the rules of the TSX, the placement was completed in reliance on the financial hardship exemption which permitted the placement to be completed without shareholder approval. As a result of the Company's reliance on this exemption, the TSX has advised that it will, in the ordinary course, commence a review of the Company's continued listing on the TSX. The Company has until June 25, 2009 to establish compliance with the TSX's continuing listing requirements. The Company expects to be able to establish compliance but should it fail to do, the TSX may suspend trading in and ultimately delist the common shares of the Company.

PROPERTIES

Atlanta Gold property, Idaho, USA

In 2008 the Company introduced operational efficiencies, improved drilling productivity and incurred exploration and development expenditures at Atlanta of approximately \$3,714,000 (2007 - \$3,965,000) to identify a resource of 474,900 equivalent ounces of gold which exceeded underground and shallow open pit resources of 320,000 equivalent ounces by 154,900 ounces or 48.4%. The average development cost per ounce of gold for the increase in underground and shallow open pit resources for the year ended December 31, 2008 was approximately \$40.06 per ounce, which created significant additional value at Atlanta. The Company changed its mining strategy which is now focused primarily on exploring the potential for a small-scale surface operation which will reduce the environmental footprint by 95%, develop the underground potential of the Atlanta Shear Zone and plans for a pilot processing plant that will produce concentrate without using cyanide and increase expected metal recovery rates from 63% to 90%. By comparison, in 2007, after securing funding in May 2007 for Atlanta, the Company undertook a surface drilling exploration program, aimed at increasing resources along the Atlanta Shear Zone. Data received led to further expansion of the Monarch Pit eastward in 2008.

Rocky Bar Gold property, Idaho, USA

In the second quarter of 2008, the Company filed location notices on 367 contiguous lode unpatented claims at Rocky Bar which cover approximately 6,880 acres (10.75 square miles). These new claims are located 17 miles south west of Atlanta, and are regarded as being within Atlanta's field of interest. Located in the heart of the historic Rocky Bar mining district, these strategic claims were acquired by staking to accumulate viable open ground in and around Rocky Bar. By staking these additional claims, the Company has increased its total land holdings in Idaho by 331% to 9,077 acres (14.18 square miles). This property has the potential to host significant gold and silver mineralization, and has excellent logistics and infrastructure, including access to water and county-maintained roads. An estimated 250,000 ounces of gold have been produced from both lode and placer sources at Rocky Bar since the 1860s. For competitive purposes, the Company staked this property while continuing to advance its Atlanta gold project toward production. In 2008, the Company incurred claim-staking and exploration expenditures of \$144,000 on Rocky Bar.

Abitibi Gold property, Quebec, Canada

In September 2008, the Company signed a new agreement with Breakwater and Niogold Mining Corp. ("Niogold") whereby the Company's option to acquire a minimum 60% interest on the Normar and Mouskor claims, was extended to September 1, 2009. Under the terms of the new agreement, the Company issued 41,806 common shares to Breakwater in October 2008, and Niogold paid \$25,000 to Breakwater and agreed to incur up to \$1,200,000 in expenditures. Upon completion of these expenditures, Niogold will acquire a 60% interest in the Malartic claims and the Company will acquire a 60% interest on the Normar and Mouskor claims. Following exercise of the option and prior to delivery of a bankable feasibility study, the Company and Niogold may increase their respective interests in the properties by an additional 10% upon Niogold making a \$100,000 payment to Breakwater.

Within six months following delivery of a bankable feasibility study on either property, Niogold and the Company may elect to increase their respective interests by a further 10% by making a further payment to Breakwater totaling \$500,000. Provided that each of Niogold and the Company contribute equally to the \$500,000 payment, then the Company and Niogold will each be entitled to a 2% net smelter return royalty on the other's property, of which one-half may be purchased for \$1 million and the balance may be purchased for an additional \$1 million.

Between August 2008 and February 2009, the Company paid \$6,000 to renew and keep all of its claims in good standing until at least September 2009. The Company wrote off the remaining carrying value of Abitibi in 2007. However, if the exploration programs on these properties are successful, the Company will benefit through its underlying 2% royalty interest in the Malartic claims and its working interests in the Normar and Mouskor claims.

The Company also has a 100% interest in an additional 13 mining claims in the Abitibi area.

Brodeur Diamond property, Baffin Island, Canada

Brodeur consists of 104 mineral claims located on the Brodeur Peninsula of Baffin Island covering approximately 249,133 acres (1,008 square kilometres). The Company did not incur any exploration expenditures on Brodeur in 2008 (2007 - \$58,000), focusing its time and resources on Atlanta. The Company continues to hold a total of 51.1 carats of diamonds which were recovered at the Freightrain kimberlite in 2001 and 2002 from 12 samples weighing a total of 248.4 tonnes, and wrote off the remaining book value in 2007. In December 2008, the Company terminated the agreement with Helix Resources Inc. ("Helix"), thereby surrendering its rights to ten mineral claims, including Freightrain. Consistent with management's previous decision to primarily focus on the Atlanta gold project, management took this action to conserve its limited cash.

Tornat Diamond property, Quebec, Canada

By December 31, 2006 Tornat had been on a care and maintenance basis for more than three years and the Company wrote off the remaining book value in 2006. In 2008, the Company abandoned its mine exploration permit but continues to hold 32 mineral claims and a total of 13.4 carats of diamonds which were recovered in 2000 from 12 samples weighing a total of 343.01 tonnes.

OUTLOOK

Over the past five years, gold has been unique as a commodity which has consistently increased in value year over year. In the current period of economic recession, as governments worldwide utilize deficit financing to provide economic stimulus, there is a consensus building that the price of gold will continue to increase.

Major gold mining companies are having difficulty maintaining their resource / reserve base. This is expected not only to have a positive upward pressure on gold price, but also on the value of resources not currently in production.

As the Company continues to make progress building its resource base, and the associated environmental and economic framework at Atlanta, it expects that industry interest in this project will continue to develop. The worldwide economic downturn has significantly increased the availability of equipment and skilled personnel. These changes are also expected to reduce future capital and operating expenses.

Management expects that the job creation potential for projects, such as Atlanta, which embrace the highest standards of environmental and social responsibility, will be recognized by the various governmental regulatory agencies.

The Atlanta project is important because it has significant potential for gold deposits that could provide substantial long-term economic and environmental benefits to the town of Atlanta, the surrounding communities and the State of Idaho, as well as to the Company and its shareholders.

FINANCIAL

Since the Company does not yet generate production revenue, revenue is limited to interest earned on bank term deposits and future income tax recoveries while the net loss results primarily from the excess over such interest income of corporate overheads including stock based compensation and the write off or write down of exploration interests. Stock based compensation is a non-cash expense representing an estimate of the fair value of options granted to directors, officers and consultants of the Company calculated by applying the Black Scholes option pricing model.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

SELECTED ANNUAL INFORMATION

The following table set forth selected financial data prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for each of the three most recently completed financial years.

	2008	2007	2006
Total revenues	Nil	Nil	Nil
Loss before discontinued operations and extraordinary items	1,435	11,718	5,616
Loss per share	0.05	0.67	0.43
Net loss ⁽ⁱ⁾	1,435	11,718	5,616
Net loss per share	0.05	0.67	0.43
Total assets ⁽ⁱⁱ⁾	34,408	30,316	38,410
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends per share	Nil	Nil	Nil

(i) Decline in net loss in 2008 compared to 2007 and the increase in net loss in 2007 compared to 2006 was primarily due to mineral property costs and impairments of \$195,000 charged in 2008, compared to impairments of \$10,952,000 and \$4,896,000 charged in 2007 and 2006, respectively.

(ii) Total assets increased by \$4,092,000 to \$34,408,000 at December 31, 2008 from \$30,316,000 at December 31, 2007 primarily due to the issuance of common shares which was partially offset by the net loss, mineral property expenditures and purchases of equipment for the year. Total assets decreased by \$8,094,000 to \$30,316,000 at December 31, 2007 from \$38,410,000 at December 31, 2006 primarily due to mineral property expenditures and purchases of equipment for the year which were partially offset by the issuance of common shares.

OPERATIONS

	2008	2007
Interest income	(39)	(26)
General and administrative expenses	1,919	1,296
Mineral property costs and impairments	195	10,952
Future income tax recovery	(640)	(504)
Loss and comprehensive loss for the year	1,435	11,718

CASH FLOW

	2008	2007
Operating activities	(3,557)	(254)
Financing activities	7,622	3,329
Investing activities	(3,893)	(4,514)
Increase (decrease) in cash	172	(1,439)

LIQUIDITY AND CAPITAL RESOURCES

	2008	2007
Cash and cash equivalents	418	246
Current assets	541	519
Current liabilities	(511)	(2,603)
Working capital (deficiency) ⁽ⁱⁱⁱ⁾	30	(2,084)

(iii) Working capital (deficiency) is defined as current assets net of current liabilities, which is a non-GAAP measure. Non-GAAP financial measures do not have any standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, management believes that it is a useful measure in assessing the Company's liquidity. The working capital surplus at December 31, 2008 subsequently increased upon completion of an \$868,000 private placement financing in February 2009.

RESULTS OF OPERATIONS

The Company incurred a net loss of \$1,435,000 in 2008 compared to a net loss of \$11,718,000 in 2007. The year-to-year decline in net loss primarily reflects incurring \$195,000 in exploration costs in Canada in 2008 compared to a write-off of \$10,952,000 in mineral expenditures in 2007, which was partially offset by an increase in general and administrative expenses, as evidenced by: a) \$148,000 increase in salaries and management fees due to additional staff added in 2008; b) \$206,000 increase in stock-based compensation due to options granted in February and September 2008; c) \$136,000 increase in professional fees reflecting the enhanced level of Company activity in 2008, including the completion of additional financings; and d) \$89,000 increase in foreign currency losses due to an increase in the value of the U.S. dollar relative to the Canadian dollar in 2008. Since the Company wrote off the remaining carrying values of Abitibi and Brodeur in 2007, only \$195,000 was incurred and charged in 2008, including \$150,000 paid to Helix.

During 2008, cash increased by \$172,000, compared to a decrease of \$1,439,000 in 2007. During 2008, the Company raised gross proceeds from equity financings of \$7,783,000, compared to gross proceeds of \$3,793,000 raised in 2007. At the same time, mineral property expenditures and capital asset purchases in 2008 declined to \$3,892,000 in 2008 from expenditures and purchases of \$4,515,000 in 2007. Of the 2008 total, \$3,303,000 (2007- \$3,640,000) was incurred for surface drilling, permitting and development expenditures at Atlanta, \$144,000 was incurred for claim staking and exploration at Rocky Bar, and \$195,000 (2007 - \$227,000) was incurred to maintain the Company's interest in its Canadian properties.

Cash used in operating activities in 2008 increased by \$3,304,000 from that used in 2007 due to the payment of higher amounts owing to suppliers in 2008.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008 the Company had cash and cash equivalents of \$418,000 compared to \$246,000 at December 31, 2007. The small year-to-year increase reflected the use of most of the proceeds from the various financings raised in 2008 towards a) expenditures on Atlanta of \$3,494,000, b) fixed asset additions of \$398,000, including acquiring vehicles and drilling and field equipment for Atlanta, c) general and administrative expenses of \$1,920,000, and d) reducing its supplier payables by \$2,092,000, including reducing its aggregate indebtedness in 2008 by issuing 1,380,451 common shares in satisfaction of approximately \$387,000 of obligations. By comparison, on December 31, 2007, the Company had a working capital deficiency of \$2,084,000, which was eliminated when the Company completed the \$5,000,000 private placement in February 2008. Proceeds from a \$3,330,000 private placement completed in 2007 were applied to fund: a) expenditures on Atlanta of \$4,100,000, b) fixed asset additions of \$400,000, including acquiring a Hagby 1000-3 drill rig for Atlanta, and c) general and administrative expenses of \$1,300,000.

The Company's continued ability to obtain adequate funding on a timely basis will have a significant impact on the development of the Company. Future permitting, exploration, development and construction of the mine at Atlanta and exploration expenditures on the Company's exploration properties will require the Company to raise additional capital. The Company expects to raise this capital primarily by means of equity and project debt financings and also potentially through joint ventures and farm-out arrangements. With regard to Atlanta, the Company's strategy is to use equity financing for permitting, exploration and development activities and to maximize project debt to build the mining infrastructure at Atlanta until sufficient cash flow is generated from production.

As a result of the economic downturn, the significant decline experienced in the stock markets and the decline in investor confidence generally, mining companies at all stages of development experienced a very significant tightening of the equity and debt markets, and faced a significantly more challenging environment in which to raise capital. While the most recent increase in the gold price suggests that market conditions may ease somewhat in 2009 for companies with gold projects, beginning in the fourth quarter of 2008, the Company took a number of steps to conserve capital and to develop alternative budgets and plans depending on the availability of capital. Steps implemented to reduce expenditures include a reduction of staff, a significant reduction in salaries and management fees payable to senior management, a reduction in head office overhead expenses by relocating to lower cost premises and by the sale of excess furniture and equipment. The Company also terminated its agreement with Helix, thereby eliminating an annual cash payment of \$150,000.

The Company is encouraged by its ability to raise \$2,500,000 in equity in December 2008 and February 2009. The Company is also in a better financial position than a number of other mining companies in the development stage as the Company currently has no long term debt. The Company will require additional capital in 2009 which it primarily intends to obtain through a series of private placements, with the first of such placements expected to be completed in the second quarter of 2009. The Company has prepared alternative plans and budgets, depending on the availability of capital. Subject to the availability of adequate financing, the achievement of certain milestones and the receipt of all required regulatory and other approvals, cash requirements for planned expenditures in 2009 are expected to be approximately \$9,900,000, primarily consisting of \$8,800,000 for exploration, development and permitting of Atlanta and \$1,100,000 for care and maintenance of Canadian properties, head office administration and working capital. In

addition to the condition of the financial markets, numerous factors will influence the ability of the Company to obtain such funding, including the quality and expected financial returns from its projects, the quality and availability of competitive projects, prevailing resource prices and interest and exchange rates. There is no assurance that such borrowings or equity capital will be available on terms and conditions acceptable to the Company or be available on a timely basis and delays in obtaining such financings could result in delay or postponement of the Company's planned activities.

The future profitability and operating cash flow of the Company will be affected by various factors, including the amount of reserves and resources, production rates, market prices of minerals, interest rates, costs of regulatory and environmental compliance, general and administrative costs, the level of exploration and capital expenditures, and other discretionary costs. While the Company seeks to manage the level of risk associated with its business, many of the factors affecting these risks are beyond the Company's control.

Although the Company's share price and the gold price have recently increased to levels at or above those existing prior to when the global economic contraction began in the fall of 2008, the above-noted factors and uncertainties arising from the contraction may have an adverse effect on investor confidence during the period when the Company is planning for its next private offering.

Consequently, the Company has also planned for a scenario where financing may not be sufficient to undertake all the planned expenditures on Atlanta as indicated above. Under this budget, the Company's expenditures on Atlanta are expected to be approximately \$1,600,000; head office administration and working capital are expected to be approximately \$1,100,000. Private placements completed in late 2008 and early 2009 provided short-term funding and the Company will be seeking additional funding in the second quarter of 2009.

CONTINGENCIES AND COMMITMENTS

The Company has made commitments in respect of mineral property leases as follows:

	Years 1-2	Years 3-4	Beyond Year 4
Atlanta ^{(1) (2)}	155	30	30
Abitibi ⁽³⁾	-	-	-
Brodeur ⁽⁴⁾	-	-	-

(1) Pursuant to an amendment to one of the Atlanta lease-purchase option agreements a final option payment of \$120,000 which was due in December 2006, will be repaid in five installments to December 2010, and include accrued simple interest of 5% per year.

(2) Pursuant to the Lease / Option to Purchase agreement with Monarch Greenback, LLC ("Monarch"), the Company has an option to purchase Monarch's surface and mineral rights until April 30 2009 for US\$2,875,000, and is currently in discussions with Monarch in respect of the possible exercise of the option.

(3) Pursuant to an agreement entered into in September 2008 with Niogold Mining Corp. ("Niogold") and Breakwater Resources Ltd. ("Breakwater"), Niogold paid \$25,000 to Breakwater and assumed an option to incur exploration expenditures of approximately \$1,200,000 in order that the Company and Niogold may earn their respective interests in the Abitibi property.

(4) The Company terminated its agreement with Helix in December 2008, thereby eliminating an annual cash payment of \$150,000.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

SUMMARY OF QUARTERLY RESULTS

During the fourth quarter of 2008, the Company's cash position increased by \$104,000 from the prior quarter, primarily due to \$1,632,000 raised in private funding, of which \$763,000 was incurred to fund exploration and permitting expenditures at Atlanta. The Company issued a further 1,000,000 common shares in satisfaction of \$170,000 owing to a supplier of the Company. This compared to an increase in the Company's cash position of \$49,000 during the last quarter of 2007, primarily due to accruing \$800,000 in demand loans, and \$1,112,000 was spent to develop the potential of the Atlanta Shear Zone and to undertake a modest drilling program on Abitibi. In 2007, the Company also issued 1,113,846 shares in satisfaction of \$383,000 due to suppliers of the Company and a \$60,000 demand loan due to a director of the Company.

General and administrative expenses were \$338,000 during the fourth quarter of 2008 compared to \$293,000 during the same period in 2007 reflecting: a) higher salaries and management since the Company added an in-house geologist in September 2008; b) higher travel costs incurred in 2008 due to increased trips between Toronto and Idaho; and c) a foreign exchange loss of \$17,000 incurred in 2008, compared to a gain of \$10,000 realized during the fourth quarter of 2007, due to the continued strengthening of the U.S. dollar relative to the Canadian dollar during the fourth quarter of 2008. The decline in general and administrative expenses in the fourth quarter of 2008 from the third quarter reflects the various cost savings measures implemented by the Company during the fourth quarter as fully outlined in section "Liquidity and Capital Resources" above.

The following table discloses certain financial data for the eight most recently completed quarters, expressed in thousands of Canadian dollars (except per share data - basic and fully diluted):

Quarter Ended	Total Revenues ⁽⁵⁾	General & Administrative Expenses	Net Loss (Income) ⁽⁵⁾	Loss per Share ⁽⁴⁾
December 31, 2008	-	338	(380) ⁽¹⁾	(0.02)
September 30, 2008	-	465	499 ⁽²⁾	0.02
June 30, 2008	-	509	547 ⁽²⁾	0.02
March 31, 2008	-	608	769 ⁽²⁾	0.03
December 31, 2007	-	293	9,724 ⁽¹⁾	0.56
September 30, 2007	-	327	739 ⁽²⁾	0.04
June 30, 2007	-	261	541	0.03
March 31, 2007	-	415	714	0.04

1. Includes: (a) mineral property costs written off or expensed (recovered) as follows: (\$29) during the fourth quarter of 2008; (\$11) during the third quarter of 2008; \$51 during the second quarter in 2008, \$184 during the first quarter of 2008, \$10,952 during the fourth quarter of 2007, and (b) future income tax recoveries of \$1,613 taken during the fourth quarter of 2008; \$48 taken during the third quarter of 2008; and \$504 taken during the fourth quarter of 2007.

2. Includes stock based compensation expense charged as follows: \$38 during the fourth quarter of 2008; \$116 during the third quarter of 2008; \$81 during the second quarter of 2008; \$217 during first quarter of 2008, \$6 during the fourth quarter of 2007.

3. The Company has not incurred any losses arising from discontinued operations or extraordinary items in the last eight quarters.

4. Loss per share adjusted to reflect share consolidation on the basis of one consolidated share for fifteen pre-consolidation shares, which became effective in March 2007. Loss per share is subject to rounding adjustment.

5. Since the Company is a development-stage company, it does not generate any revenue.

RELATED PARTY TRANSACTIONS

At December 31, 2008, there were no amounts owing to related parties, compared to \$500,000 due to related parties as at December 31, 2007. During 2008, demand loans of \$1,238,600 due to two directors of the Company were satisfied by issuing 983,606 Shares to a director in April 2008, and by issuing a total of 6,386,000 Units to the two directors in December 2008. All loans were unsecured, due on demand and bear interest at the rate of 5% per year. 1,870,000 of the 8,196,456 Shares (23%) subscribed for in February 2008 and 6,174,000 of the 16,324,000 Units (38%) subscribed for in December 2008 were placed with directors and officers of the Company. Share issue costs incurred in respect of the two financings completed in 2008 were \$146,000, including a cash finders' fee of \$41,000 which was paid to an investment firm employing a director of the Company, in connection with the private placement completed in February 2008. Also, during the year, management fees of \$226,000 (2007 - \$306,000) were paid to two officers of the Company.

SHARE CAPITAL OF THE COMPANY

As at March 13, 2009, the Company had (a) 55,548,876 common shares issued and outstanding; (b) stock options outstanding to purchase 4,116,668 common shares at exercise prices ranging from \$0.32 to \$5.25 per share and expiring between November 2009 and February 2014; and (c) warrants to purchase 12,500,000 common shares of the Company at an exercise price of \$0.25 per share, expiring between December 2010 and February 2011. In certain instances, the expiry dates of the Warrants may be accelerated by the Company.

CRITICAL ACCOUNTING ESTIMATES

Going Concern

The audited consolidated financial statements of the Company for the years ended December 31, 2008 and 2007 were prepared in accordance with GAAP applicable to a going concern which assume that the Company will realize its assets, discharge its liabilities and meet its future obligations in the normal course of business. Accordingly, the audited consolidated financial statements do not include any adjustments to the recoverability and reclassification of recorded assets, or the amounts or classification of liabilities, that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

While the audited consolidated financial statements were prepared on the basis of accounting principles applicable to a going concern, to date, the Company has not earned significant revenues and is not considered to be in operation. Recoverability of exploration and development expenditures is dependent upon the further development of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the 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 expenditure.

As at December 31, 2008, the Company's current assets exceeded its current liabilities by \$30,019. The Company recorded a loss of \$1,435,496 for the year ended December 31, 2008 and reported an accumulated deficit of \$49,985,457 at that date. These circumstances raise significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. In view of these circumstances the Company completed a private placement of approximately \$868,000 in February 2009 (more fully described in Note 6(d) to the Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007) and will continue to explore all available options to secure additional funding including equity and debt financing, sale of non-core assets and strategic partnerships. Nevertheless, it is not possible to determine with any certainty the success or adequacy of these initiatives.

Asset Impairment

In preparing these annual financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that materially affect the consolidated financial statements and involve a significant level of judgment by management. Management's critical accounting estimates, which apply to the assessment for the impairment of property, plant and equipment and the valuation of other assets and liabilities such as inventory, plant and equipment, investments, restoration and post-closure costs, accounting for income and mining taxes, mineral reserves, contingencies and pension, stock options and warrants, and other post retirement benefits, were recorded during the past three fiscal years as follows:

	Mineral Property Costs Written Off (\$)	Future Income Tax Recoveries (\$)
2006	4,896,000	(931,000)
2007	10,952,000	(504,000)
2008	— ⁽¹⁾	(640,000)

(1) During the year, the Company incurred \$194,561 in respect of Canadian mineral properties.

From time to time, the Company may be subject to lawsuits or threatened lawsuits. When management believes that there is a reasonable likelihood that a plaintiff will be awarded damages against the Company or that a monetary settlement will be reached, a provision is made for amounts claimed. In 2008, the Company issued 1,000,000 shares to a supplier of the Company in settlement of an action in respect of a \$170,000 charge recorded in September 2006. In 2007, the Company recorded a charge of \$240,000 in respect of 600,000 shares issued to a former executive of the Company as settlement of an action brought in September 2006, and reversed a \$178,000 charge in respect of an action brought in September 2006 and settled in February 2008 with a former supplier of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Accounting Principles Issued and Implemented effective January 1, 2007:

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. In the current year, there was no impact from adopting the new accounting standard.

Effective January 1, 2007, the Company adopted new accounting standards 3855, 3865, 3251 and 1530 relating to the accounting for and disclosure of financial instruments and comprehensive income. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements. Adoption of these new standards had no impact on the Company's financial statements.

- (i) Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be classified as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The initial and subsequent recognition depends on their initial classification.
- Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net earnings in the period in which they arise.
 - Held-for-trading financial instruments are carried at fair value with changes in fair value charged or credited to the statement of operations in the period in which they arise.
 - Loans and receivables are initially recognized at their fair values, and subsequently measured at amortized cost using the effective interest rate method. Impairment losses are charged to net earnings in the period in which they arise.
 - Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses relating to other than temporary impairments are charged to net earnings in the period in which they arise.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

- Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.
- All derivative financial instruments meeting certain recognition criteria are carried at fair value with changes in fair value charged or credited to income or expense in the period in which they arise.

The standard requires the Company to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This section does not permit the restatement of financial statements of prior periods. The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as at January 1, 2007:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to (from) related parties	Other financial liabilities

The adoption of this new section did not have a significant impact on the Company's financial statements.

- (ii) Section 1530, "Comprehensive Income", along with Section 3251, "Equity" which amends Section 3250, "Surplus", require enterprises to separately disclose comprehensive income and its components as well as net income in their financial statements. Further, they require enterprises to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. Since the Company does not have any elements of comprehensive income, the adoption of these sections did not have any impact on the Company's financial statements.
- (iii) Section 3865, "Hedges" allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have hedging programs in place which qualify for hedge accounting, the adoption of this section did not have any impact on the Company's financial statements.

Accounting principles issued and implemented effective January 1, 2008:

(i) Financial Instruments Disclosure and Presentation:

Section 3862 Financial Instruments- Disclosures and Section 3863, Financial Instruments- Presentation, introduce disclosure and presentation requirements that will enable financial statement users to evaluate, and enhance their understanding of, the significance of financial instruments for the entity's financial position, performance and cash flows, and the nature and extent of risks arising from financial instruments to which the entity is exposed, and how those risks are managed.

(ii) Capital Disclosures:

Section 1535, Capital disclosures requires disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; (iv) if it has not complied, the consequences of such non-compliance. This information will enable financial statement users to evaluate the entity's objectives, policies and processes for managing capital.

(iii) Inventories:

Section 3031, Inventories, prescribes the accounting treatment for inventories. Section 3031 provides guidance on determination of costs and its subsequent recognition as an expense, and provides guidance on the cost formulas used to assign costs to inventories.

International Financial Reporting Standards:

In January 2006, the Accounting Standards Board ("AcSB") adopted its strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In February 2008, the AcSB confirmed that IFRS must be adopted for fiscal years beginning on or after January 1, 2011. Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company launched its conversion project in September 2008. To date, the Company has identified a team and several external resource providers, and in 2009 plans to develop and deliver an initial training program, complete its diagnostic impact assessment of the accounting and business process impacts of the conversion to IFRS and will prepare a preliminary conversion plan. The team includes people throughout the organization and from different departments such as finance, information technology, internal control, mining operations and investor relations. The initial training program will be delivered to all the relevant employees throughout the organization. The diagnostic impact assessment phase of the project involves the identification of the major differences between the Company's accounting policies and IFRS including choices permitted under IFRS and preliminary implementation decisions such as whether certain changes will be applied on a retrospective or prospective basis. The preliminary conversion plan will identify the significant steps to conversion and the required resources. Furthermore, the conversion plan will incorporate continuous and active dialogue with the Company's

independent auditor throughout the conversion process. The Company is currently in the process of identifying the resources to be used in the conversion project and developing a detailed implementation plan. The detailed implementation plan will include the selection of IFRS policies and transition elections and the quantification of the impact of IFRS on the Company's consolidated financial statements. The Company's objective in choosing its IFRS policies and transition elections is to not only be IFRS compliant but to provide the most meaningful and transparent information to its shareholders. The impact on the Company's business processes, information technology and data systems, internal controls over financial reporting, and disclosure controls and procedures, including investor relations and external communications plans, will also be incorporated into the implementation plan. The Company will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize assessment of accounting policies with reference to IFRS and plan for convergence to be ready for the 2011 changeover.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Acting Chief Financial Officer, after evaluating the operating effectiveness of the Company's disclosure controls and procedures as of December 31, 2008, have concluded that, after adjusting for its future income tax recoveries as advised by the Company's auditor, the design and operation of the Company's disclosure controls and procedures were effective. Management regularly consults with its Audit Committee and the full Board of Directors, and will continue to do so in 2009, as it undertakes all measures necessary to prepare for conversion to IFRS for fiscal 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Acting Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The Chief Executive Officer and Acting Chief Financial Officer, after evaluating the operating effectiveness of the Company's internal controls over financial reporting, concluded that such were effective as at December 31, 2008 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in these controls during the fourth quarter of 2008 that have affected or which are reasonably likely to materially affect the Company's internal controls over financial reporting.

UNCERTAINTIES AND RISK FACTORS

The Company does not currently hold any interest in a mining property in production and its future success depends upon its ability to find, develop, exploit and generate revenue from mineral deposits. Exploration and development of mineral deposits involve significant financial risks, which even a combination of careful evaluation, experience and knowledge may not eliminate and there can be no assurance that any of the Company's current projects will ultimately be developed into a profitable mining operation. A number of factors beyond the control of the Company may affect the marketability of any diamonds, gold or any other minerals discovered. Resource prices have fluctuated widely and are beyond the Company's control. Revenue and profitability will be determined by the relationship of the Company's production costs and in respect of diamonds, the relative quality of the diamonds extracted and in respect of gold, the recovered grade of gold, to resource prices. The effect of these factors cannot accurately be predicted. The Company has limited financial resources and there is no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable to the Company. Failure to obtain such additional financing will result in delays or indefinite postponement of further exploration and development of the Company's properties and could result in the possible dilution or loss of such interests. In particular, as Atlanta advances toward production, significant project financing, whether by way of equity, debt or a combination thereof, will be required to construct the mine and related facilities and to acquire the necessary equipment. While management believes that Atlanta will be an attractive project for potential investors, there can be no assurance that sufficient financings will be obtained on terms favourable to the Company or in a timely manner. The operations of the Company require licenses and permits from various governmental authorities and while the Company currently holds all necessary licenses and permits required to carry on its activities and believes it is complying with such licenses, permits and all applicable laws and regulations, such licenses, permits and laws are subject to change and there can be no assurance that the Company will in future be able to obtain all necessary licenses and permits, including those permits necessary to commence construction on Atlanta. Furthermore, the cost of complying with changes in governmental laws and regulations has the potential to reduce the profitability of future operations. The acquisition of title to mineral projects is a very detailed and time-consuming process and although the Company has taken precautions to ensure that legal title and interest to its properties are properly recorded, there can be no assurance that the interests of the Company in any of its properties may not be challenged or impugned. The Company's Atlanta project is situated in mountainous terrain which may be subject to extreme winter weather conditions which may result in construction and operational delays. In management's view, there has been no material change in the nature or magnitude of any of the risks faced by the Company during fiscal 2008 from those risks faced by the Company in prior years, except the financing risk has increased due to the impact of the global economic slowdown on the capital markets.

MANAGEMENT'S AND AUDITORS' REPORTS

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. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgement. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and records are maintained.

The Audit Committee comprises three independent directors and meets with management and the Company's auditors, PricewaterhouseCoopers LLP, to review the consolidated financial statements before they are presented to the Board of Directors for approval. PricewaterhouseCoopers LLP have examined these consolidated financial statements and their report follows.



William J. C. Baird
President and
Chief Executive Officer



Domenico Bertucci, CA
Acting Chief Financial Officer

March 13, 2009

AUDITORS' REPORT

To the Shareholders of Atlanta Gold Inc.

We have audited the consolidated balance sheets of Atlanta Gold Inc. (the Company) as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit, changes in shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario, Canada
March 13, 2009

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As at December 31, 2008 and 2007

(in Canadian dollars)	2008	2007
	\$	\$
ASSETS		
Current assets:		
Cash and cash equivalents	418,097	245,856
Receivables	35,655	97,907
Prepaid expenses	86,971	144,858
Supply inventory	-	30,000
	540,723	518,621
Mineral properties (note 4)	33,244,068	29,386,255
Property, plant and equipment	623,466	410,947
	34,408,257	30,315,823
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (note 6(d) and 8)	510,704	2,602,628
Future income taxes (note 7)	4,373,597	5,013,643
	4,884,301	7,616,271
SHAREHOLDERS' EQUITY		
Capital stock	74,496,463	67,001,029
Warrants (note 6(b))	219,677	19,865
	74,716,140	67,020,894
Contributed surplus (notes 6(b) and (c))	4,793,273	4,228,619
	79,509,413	71,249,513
Accumulated deficit	(49,985,457)	(48,549,961)
	29,523,956	22,699,552
	34,408,257	30,315,823

Nature of operations and going concern (note 1)

Subsequent events (note 13)

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

Approved by the Board



James K. Gray
Director



W. Warren Holmes
Director

2008 ANNUAL REPORT / ATLANTA GOLD INC.

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended December 31, 2008 and 2007

	Cumulative, since inception (March 6, 1985 to December 31, 2008)	2008	2007
(in Canadian dollars)	\$	\$	\$
Interest income	1,916,207	38,998	26,465
General and administrative expenses			
Salaries and management fees (note 8)	6,929,539	470,625	323,108
Stock-based compensation (note 6(c))	1,627,477	451,897	246,075
Professional fees	4,510,189	506,085	369,903
Investor relations	2,141,193	110,158	121,583
Travel	828,138	73,353	31,545
Interest	328,790	28,372	33,631
Loss (gain) from foreign currency translation	133,013	59,344	(29,868)
Administrative and office	4,160,185	211,813	194,585
Amortization	160,032	7,962	5,905
	20,818,556	1,919,609	1,296,467
Mineral property costs and impairments (note 4(b) and 4(c))	29,743,684	194,931	10,952,353
Future income tax provision (recovery) (note 7)	1,339,424	(640,046)	(504,043)
	51,901,664	1,474,494	11,744,777
Loss and comprehensive loss for the year	49,985,457	1,435,496	11,718,312
Accumulated deficit, beginning of year	-	48,549,961	36,831,649
Accumulated deficit, end of year	49,985,457	49,985,457	48,549,961
Weighted average number of consolidated shares outstanding		28,938,704	17,432,750
Loss per share - basic and diluted		0.05	0.67

Nature of operations and going concern (note 1)

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

CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2008 and 2007

(in Canadian dollars)	Cumulative, since inception (March 6, 1985 to December 31, 2008)	2008	2007
	\$	\$	\$
Operating activities			
Loss for the year	(49,985,457)	(1,435,496)	(11,718,312)
Add (deduct) items not involving cash:			
<i>Mineral property cost written off</i>	29,548,753	-	10,952,353
<i>Amortization</i>	160,032	7,962	5,905
<i>Future income tax provision (recovery)</i>	1,339,424	(640,046)	(504,043)
<i>Stock-based compensation expense</i>	1,627,477	451,897	246,075
Net change in non-cash working capital	388,078	(1,941,785)	764,405
	(16,921,693)	(3,557,468)	(253,617)
Financing activities			
Issuance of common shares:			
net of issue costs (note 6(d))	67,742,931	7,621,655	3,328,875
Issuance of flow-through shares:			
net of issue costs (note 6(d))	12,853,631	-	-
	80,596,562	7,621,655	3,328,875
Investing activities			
Mineral property expenditures	(62,115,054)	(3,494,308)	(4,101,088)
Property, plant and equipment	(1,141,718)	(397,638)	(413,419)
	(63,256,772)	(3,891,946)	(4,514,507)
(Decrease) increase in cash and cash equivalents	418,097	172,241	(1,439,249)
Cash and cash equivalents, beginning of year	-	245,856	1,685,105
Cash and cash equivalents, end of year	418,097	418,097	245,856
<i>Cash and cash equivalents:</i>			
<i>Non-interest bearing chequing account</i>		47,918	244,147
<i>Interest bearing savings account</i>		370,179	1,709
		418,097	245,856
<i>Net change in non-cash working capital items</i>			
<i>Receivables</i>		62,252	(70,171)
<i>Prepaid expenses</i>		57,887	174,294
<i>Supply inventory</i>		30,000	106,657
<i>Accounts payable and accrued liabilities</i>		(2,091,924)	553,625
		(1,941,785)	764,405
<i>Significant non-cash financing and investing activities</i>			
<i>Shares issued (note 6(d))</i>		25,000	240,000
<i>Total income taxes paid</i>		-	-
<i>Total interest paid</i>		31,108	26,000

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2008 and 2007

(in Canadian dollars)	Number of shares	Ascribed value (note 6)	Warrants value (note 6(b))	Contributed surplus (note 6(b) & (c))	Accumulated deficit	Total
Balance, December 31, 2006	223,360,501	\$ 63,500,087	\$ 103,645	\$ 4,138,764	\$ (36,831,649)	\$ 30,910,847
Share consolidation, on a basis of 15 pre-consolidation shares for 1 post consolidation share (note 6)	(208,469,790)	-				
Issue of shares for cash						
- at \$0.90 per common share, net of share issue costs (note 6(d))	3,722,000	3,134,951				3,134,951
Issue of shares for debt						
- at \$0.39 per common share, net of share issue costs (note 6(d))	153,846	58,500				58,500
- at \$0.39715 per common share, net of share issue costs (note 6(d))	360,000	139,287				139,287
Issue of shares for settlement with former officer,						
- at \$0.40 per common share, net of share issue costs (note 6(d))	600,000	236,137				236,137
Share issue costs in respect of CEE renounced in prior years (note 7)		(67,933)				(67,933)
Stock-based compensation (note 6(c))				6,075		6,075
Warrants expiring unexercised (note 6(b))			(83,780)	83,780		
Loss and comprehensive loss for the period					(11,718,312)	(11,718,312)
Balance, December 31, 2007	19,726,557	\$ 67,001,029	\$ 19,865	\$ 4,228,619	\$ (48,549,961)	\$ 22,699,552
Issue of shares for cash						
- at \$0.61 per common share, net of share issue costs (note 6(d))	9,180,062	5,482,893				5,482,893
- at \$0.10 per common share unit, net of share issue costs (note 6(d))	16,324,000	1,395,067	219,677			1,614,744
- at \$0.63 per share, on exercise of options (note 6(c))	220,000	216,920		(78,320)		138,600
Issue of shares for accounts payable						
- at \$0.71 per common share, net of share issue costs (note 6(d))	70,422	45,424				45,424
- at \$0.70 per common share, net of share issue costs (note 6(d))	310,029	214,354				214,354
- at \$0.12 per common share, net of share issue costs (note 6(d))	1,000,000	117,814				117,814
Issue of shares for property						
- at \$0.598 per common share, net of share issue costs (note 4(d) and 6(d))	41,806	22,962				22,962
Stock-based compensation (note 6(c) and 9)				623,109		623,109
Warrants expiring unexercised (note 6(b))			(19,865)	19,865		
Loss and comprehensive loss for the period					(1,435,496)	(1,435,496)
Balance, December 31, 2008	46,872,876	\$ 74,496,463	\$ 219,677	\$ 4,793,273	\$ (49,985,457)	\$ 29,523,956

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the two years ended December 31, 2008 (Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company's primary property is its Atlanta Gold Property ("Atlanta"), located in Idaho, U.S.A. Atlanta is in the development phase currently awaiting beginning of mine construction. During the development phase, ongoing exploration continues to increase its mineral inventory. The Company also staked the Rocky Bar gold property ("Rocky Bar"), located southwest of Atlanta in Idaho. Rocky Bar is in the exploration stage. The Company's other properties have been written off, including diamond properties located on Baffin Island and in Northern Québec and its Québec gold properties, which are in the exploration phase. No further work is planned in these areas. The Company's Québec gold properties under option from Breakwater Resources Ltd. have been farmed out to others who are focused on exploration and development in this area. The success of their efforts could potentially yield positive results for the Company through earned working interests and retained royalty interests.

To date, the Company has not earned significant revenues and is not considered to be in operation.

Recoverability of exploration and development expenditures is dependent upon the further development of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the 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 expenditure.

As at December 31, 2008, the Company's current assets exceeded its current liabilities by \$30,019. The Company recorded a loss of \$1,435,496 for the year ended December 31, 2008 and reported an accumulated deficit of \$49,985,457 at that date. These circumstances raise significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. In view of these circumstances the Company completed a private placement of approximately \$868,000 in February 2009 (more fully described in Note 6(d) below) and will continue to explore financing alternatives to raise capital. Nevertheless, it is not possible to determine with any certainty the success or adequacy of these initiatives.

The financial statements of the Company have been prepared on the basis that the Company will continue as a going concern, which presumes that it will be able to realize its assets and discharge its liabilities in the normal course of business. These 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 company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements of entities which are controlled by the Company either directly or indirectly are consolidated. Control is established by our ability to determine strategic, operating, investing and financing policies without the co-operation of others. The criteria used include an analysis of our level of ownership, voting rights and our level of representation on the board of directors. We evaluate these criteria in terms of determining whether the existence of one of the criteria alone (such as a majority ownership of all voting securities), or a combination of the criteria when taken together, would result in having control, or the ability to exercise control, of the management, business focus or strategy and/or critical policies of the particular entity. The financial statements also include the financial statements of entities that are considered variable interest entities ("VIE"s) for which we are the primary beneficiary. The primary beneficiary is the variable interest holder obligated to absorb a majority of the risk of loss from the VIE's activities, or is entitled to receive the majority of the VIE's residual returns, or both. As at December 31, 2008, the Company had no VIE's for which it was the primary beneficiary.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles (Canadian GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of expenses during the period. Actual results could differ from those reported.

Significant estimates include assessing the fair value of stock based compensation, a provision (recovery) for future income taxes, the carrying value of mineral properties, future cash flows from assets, and proven and probable reserves. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

(c) Cash and cash equivalents

Cash and cash equivalents include investments to maturity of less than 90 days at purchase.

(d) Property, plant and equipment

Property, plant, and equipment are recorded at cost and include office furniture, fixtures, equipment and computer hardware and software. The office furniture, fixtures, and equipment are amortized over ten years and vehicles, computer hardware and software are depreciated over three years. All property, plant, and equipment are depreciated on a straight-line basis. The Company performs regular reviews of the carrying values of property, plant and equipment. To the extent that impairment conditions exist, carrying values are written down to their fair value.

(e) Mineral properties

Direct exploration and development costs are deferred in the accounts, net of amounts recovered from third parties, including option payments received. At production, these costs 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 are deferred in the accounts. Costs relating to annual renewal fees are expensed in the year incurred.

The Company is in the process of exploring and developing its properties. The Company reviews the carrying values of deferred mineral property acquisition and exploration expenditures 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 properties and properties under development are conducted including an assessment of drilling and exploration results, and revenues. The carrying values, which are impaired, are written down to fair value.

(f) Earnings per share

Basic earnings per share is computed by dividing the earnings (loss) for the year by the weighted-average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a manner similar to basic earnings per share, except the weighted-average shares outstanding are increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

(g) Translation of foreign currencies

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. Revenues and expenses are translated at exchange rates in a manner that produces substantially the same reporting amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Exchange gains or losses arising on translation are included in income or loss for the year.

(h) Financial Instruments

Section 3855 – “Financial Instruments – Recognition and Measurement” prescribes when a financial asset, financial liability, or non-financial derivative should be recognized on the balance sheet as well as its measurement amount. This section also specifies how financial instruments’ gains and losses are to be presented. The carrying amounts of cash and cash equivalents, accounts payable and accrued liabilities approximate the fair values of those financial instruments due to the short-term maturity of such instruments. The Company places its cash with high credit quality financial institutions.

(i) Stock options

The Company has a stock option plan as described in Note 6(c). The Company accounts for stock-based compensation based on the fair value method of accounting. Under this method, the fair value of stock-based compensation is determined based on the Black-Scholes valuation model and is recognized based on the vesting of options granted under the stock option plan. Amounts recognized are credited to Contributed Surplus. Consideration paid on the exercise of stock options is credited to Capital Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the two years ended December 31, 2008 (Canadian dollars)

(j) Income taxes

The provision for future income tax assets and liabilities is based on the liability method. Future income taxes arise from the recognition of the tax consequences of temporary differences by applying substantively enacted tax rates likely to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company records a future income tax asset when it believes that it is, more likely than not, to be realized.

(k) Asset retirement obligations

The Company records asset retirement obligations at fair value in the period in which the liability is incurred. Fair value is determined based on the estimated future cash flows required to settle the liability discounted at the Company's credit adjusted risk free interest rate. The liability is adjusted for changes in the expected amounts and timing of cash flows required to discharge the liability and accreted over time to its full value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. Management has currently determined that a liability for asset retirement obligations has not been incurred.

3. ADOPTION OF NEW ACCOUNTING POLICIES

Accounting Principles Issued and Implemented effective January 1, 2007:

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. In the current year, there was no impact from adopting the new accounting standard.

Effective January 1, 2007, the Company adopted new accounting standards 3855, 3865, 3251 and 1530 relating to the accounting for and disclosure of financial instruments and comprehensive income. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements. Adoption of these new standards had no impact on the Company's financial statements.

(i) Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be classified as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The initial and subsequent recognition depends on their initial classification.

- Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net earnings in the period in which they arise.
- Held-for-trading financial instruments are carried at fair value with changes in fair value charged or credited to the statement of operations in the period in which they arise.
- Loans and receivables are initially recognized at their fair values, and subsequently measured at amortized cost using the effective interest rate method. Impairment losses are charged to net earnings in the period in which they arise.
- Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses relating to other than temporary impairments are charged to net earnings in the period in which they arise.
- Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.
- All derivative financial instruments meeting certain recognition criteria are carried at fair value with changes in fair value charged or credited to income or expense in the period in which they arise.

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The standard requires the Company to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This section does not permit the restatement of financial statements of prior periods. The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as at January 1, 2007:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to (from) related parties	Other financial liabilities

The adoption of this new section did not have a significant impact on the Company's financial statements

- (ii) Section 1530, "Comprehensive Income", along with Section 3251, "Equity" which amends Section 3250, "Surplus", require enterprises to separately disclose comprehensive income and its components as well as net income in their financial statements. Further, they require enterprises to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. Since the Company does not have any elements of comprehensive income, the adoption of these sections did not have any impact on the Company's financial statements.
- (iii) Section 3865, "Hedges" allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have hedging programs in place which qualify for hedge accounting, the adoption of this section did not have any impact on the Company's financial statements.

Accounting principles issued and implemented effective January 1, 2008:

(i) Financial Instruments Disclosure and Presentation:

Section 3862 Financial Instruments- Disclosures and Section 3863, Financial Instruments- Presentation, introduce disclosure and presentation requirements that will enable financial statement users to evaluate, and enhance their understanding of, the significance of financial instruments for the entity's financial position, performance and cash flows, and the nature and extent of risks arising from financial instruments to which the entity is exposed, and how those risks are managed.

(ii) Capital Disclosures:

Section 1535, Capital disclosures requires disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; (iv) if it has not complied, the consequences of such non-compliance. This information will enable financial statement users to evaluate the entity's objectives, policies and processes for managing capital.

(iii) Inventories:

Section 3031, Inventories, prescribes the accounting treatment for inventories. Section 3031 provides guidance on determination of costs and its subsequent recognition as an expense, and provides guidance on the cost formulas used to assign costs to inventories.

FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two years ended December 31, 2008 (Canadian dollars)

4. MINERAL PROPERTIES

	Cumulative, since inception (March 6, 1985 to December 31, 2008)	2008	2007
(in Canadian dollars)	\$	\$	\$
Atlanta Gold Property (note 4(a))			
Balance, beginning of year	-	29,386,255	25,421,729
Drilling, assays and related field work	26,812,125	3,379,513	3,640,034
Project administration and general	3,603,367	214,277	218,492
Property acquisition and holding costs	3,398,067	120,000	106,000
Costs recovered during the year	(713,514)	-	-
Total changes during the year	33,100,045	3,713,790	3,964,526
Balance, end of year	33,100,045	33,100,045	29,386,255
Rocky Bar Gold Property (note 4(b))			
Balance, beginning of year	-	-	-
Drilling, assays and related field work	26,143	26,143	-
Project administration and general	117,880	117,880	-
Total changes during the year	144,023	144,023	-
Balance, end of year	144,023	144,023	-
Brodeur Diamond Property (note 4(c))			
Balance, beginning of year	-	-	9,452,101
Drilling, assays and related field work	10,910,156	-	(105,955)
Project administration and general	448,338	-	14,329
Property acquisition and holding costs	1,183,200	-	150,000
Property costs written off	(12,541,594)	-	(9,510,475)
Total changes during the year	-	-	(9,452,101)
Balance, end of year	-	-	-
Abitibi Gold Property (note 4(d))			
Balance, beginning of year	-	-	1,272,815
Drilling, assays and related field work	2,015,637	-	136,101
Project administration and general	26,506	-	7,962
Property acquisition and holding costs	75,000	-	25,000
Costs recovered during the year	(671,765)	-	-
Property costs written off	(1,445,378)	-	(1,441,828)
Total changes during the year	-	-	(1,272,815)
Balance, end of year	-	-	-
	33,244,068	33,244,068	29,386,255

(a) Atlanta Gold Property, Idaho, U.S.A.

On July 22, 1997, the Company and Canadian American Mining Company, LLC ("CAMC") (formerly Quest International Resources Corporation) ("Quest"), entered into a joint venture agreement (the "Quest Agreement") whereby the Company became the operator of Atlanta with an 80% interest, with Quest holding the remaining 20% participating interest. CAMC subsequently agreed to transfer its 20% participating interest in the joint venture to the Company, and retain a 2% NSR royalty on Atlanta, as per the Quest Agreement.

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On February 2, 1999, the Company signed a Lease/Option to Purchase Agreement (the "Monarch Agreement") with Monarch Greenback, LLC ("Monarch") relating to Monarch's surface and mineral rights to Atlanta, which agreement was subsequently amended in 1999 and 2001. The Company holds a ten-year lease, with an option (the "Option") to purchase such surface and mineral rights for US\$2,875,000, exercisable until April 30, 2009. If the Option is exercised, the existing minimum annual rental payments on such surface and mineral rights will be terminated and replaced by a net smelter royalty of 0.5% of gold sales if the average realized gold price is US\$365 per ounce or less. For each US\$1 increase in the average realized gold price over US\$365 per ounce, the net smelter royalty will be increased by 0.01% to a maximum rate of 3.5%. Since 2001, the Company paid Monarch US\$50,000 per year in minimum annual rental payments. The Company is currently negotiating the Option with Monarch.

Annual advance royalties are payable to certain lessors, which are credited to royalties payable on production from Atlanta, and an annual rental payment is payable to another lessor as set forth below. These payments are required to keep the agreements in good standing. During the year, the Company paid US\$60,000 (2007 - US\$95,000) in annual rental and advance royalty payments to the lessors.

December 31,	Year ending annual rental payments, US\$	Advance royalty payments, US\$
2009	65,000	40,000
2010	29,500	20,000
2011	-	20,000
2012 to 2015	-	10,000

Annual rental payments in 2009 include almost \$10,000 in accrued interest.

(b) Rocky Bar Gold Property, Idaho, U.S.A.

In the second quarter of 2008, the Company staked various contiguous lode unpatented claims in the Rocky Bar mining district ("Rocky Bar"), which is located southwest of Atlanta, to expand the Company's regional property interests in Idaho. In 2008, the Company incurred expenditures of \$144,023 on Rocky Bar.

(c) Brodeur Diamond Property

The Company holds certain mineral exploration claims located on the Brodeur Peninsula of Baffin Island ("Brodeur"). Certain of these mineral claims were initially acquired pursuant to an agreement with Helix Resources Inc. ("Helix"). Under the terms of this agreement, dated April 27, 2000, as amended by agreement dated May 5, 2005 (as amended, the "Helix Agreement") the Company is required to pay Helix \$150,000 annually. One half of these payments and all of certain payments made to Helix prior to 2005 are deemed advances against future royalty payments. Payments to Helix under the Helix Agreement were made in January, 2006, January 2007, and February 2008. After the Company decided to focus its efforts on Atlanta, it wrote off the remaining carrying value of \$9,510,475 in 2007. In December 2008, the Company terminated the Helix Agreement, ending the Company's rights in respect of the surviving claims under the Helix Agreement. The Company continues to hold several mineral claims on Brodeur.

(d) Abitibi Gold Property, Québec

By agreement dated August 29, 2003 between the Company and Breakwater Resources Ltd. ("Breakwater"), the Company acquired the exclusive option to acquire up to a 100% interest in the Abitibi property (the "Property"), subject to certain net smelter and net profits royalty interests. Under the terms of this agreement, the Company could earn a minimum 60% interest in the Property by paying annual taxes and otherwise maintaining the Property in good standing by making cash payments totaling \$125,000 and by incurring exploration expenditures totaling \$3,500,000, over a five-year period. As at December 31, 2008, the Company has made cash payments totaling \$100,000 and incurred exploration expenditures totaling approximately \$2,351,000.

In September 2008, Breakwater, the Company and Niogold Mining Corp. ("Niogold") entered into an agreement extending the exercise period of the option to September 1, 2009. Under the terms of this agreement, Niogold paid \$25,000 to Breakwater and has agreed to incur up to \$1.2 million in expenditures on the Malartic claims by September 1, 2009 to exercise the option, and the Company issued 41,806 common shares to Breakwater in October 2008. Upon exercise of the option, the following will occur:

- (i) The Company will have earned a 60% interest in the Normar and Mouskor claims and Niogold will have earned a 60% interest in the Malartic claims, and
- (ii) The Company and Breakwater with respect to Normar and Mouskor, and Niogold and Breakwater, with respect to Malartic, will form joint ventures. Under the terms of each of the joint venture agreements, if Breakwater's interest in a venture is diluted to 10% or less, its interest therein will be converted to a 1.5% net smelter return royalty, which may be purchased for \$750,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two years ended December 31, 2008 (Canadian dollars)

Following exercise of the option and prior to delivery of a bankable feasibility study, the Company and Niogold may increase their respective interests in the properties by an additional 10% upon Niogold making a \$100,000 payment to Breakwater. Within six months following delivery of a bankable feasibility study on either property, Niogold and the Company may elect to increase their respective interests by a further 10% by making a further payment to Breakwater totaling \$500,000. Provided that each of Niogold and the Company contribute equally to the \$500,000 payment, then the Company and Niogold will each be entitled to a 2% net smelter return royalty on the other's property, of which one-half may be purchased for \$1 million and the balance may be purchased for an additional \$1 million.

The Company had the right to include a 10% overhead fee in exploration expenditures. Expenditures exceeding minimum annual requirements incurred may be carried forward included in future exploration expenditures. Although the Company continues to pay annual renewal fees and has incurred sufficient exploration expenditures to maintain the Property in good standing until September 1, 2009, it wrote off the carrying value of \$1,441,878 in 2007 as the Company is focusing its efforts on Atlanta.

The Company also has a 100% interest in certain additional mining claims in the Abitibi area.

5. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost (\$)	Accumulated amortization (\$)	Net (\$)	Cost (\$)	Accumulated amortization (\$)	Net (\$)
Office furniture and equipment	155,401	148,470	6,931	146,599	140,508	6,091
Vehicles and field equipment	980,453	363,918	616,535	591,617	186,761	404,856
Total	1,135,854	512,388	623,466	738,216	327,269	410,947

6. CAPITAL STOCK

(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. Effective March 22, 2007, the Company consolidated its common shares on the basis of one consolidated common share in exchange for fifteen pre-consolidated common shares. The financial statements and notes reflect completion of the common share consolidation.

(b) Warrants

The following summarizes warrants that have been granted, exercised or expired for the two years ended December 31, 2008:

	Number of warrants	FMV of warrants at date of issue (\$)	Weighted average exercise price (\$)
Outstanding, December 31, 2006	393,525	103,645	3.00
Warrants expired during the year	(329,080)	(83,780)	2.90
Outstanding, December 31, 2007	64,445	19,865	3.45
Warrants issued on issuance of shares for cash (note 6(d))	8,162,000	219,677	0.25
Warrants expired during the year	(64,445)	(19,865)	3.45
Outstanding, December 31, 2008	8,162,000	219,677	0.25

The number of warrants and exercise prices per share were adjusted to reflect the consolidation of the common shares described in 6(a) above.

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 2008, 64,445 consolidated warrants issued in 2006 and having a fair value at date of grant of \$19,865 expired unexercised. The values of the warrants issued during fiscal 2008 were estimated on the date of issuance using the Black Scholes option-pricing model with the following assumptions adopted at the measurement date:

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	2008	2007
Risk-free interest rate	1.21%	n/a
Expected life	2.0 years	n/a
Estimated volatility in the market price of the common shares	126.6%	n/a
Dividend yield	Nil	Nil

(c) Stock options

The Company has two stock option plans under which options to purchase common shares of the Company are outstanding. The Stock Option Plan - 2008 (the "Plan") was adopted by the Board in February 2008 and approved by shareholders in April 2008. The Plan replaced the Company's prior stock option plan (the "Prior Plan") and no new options will be granted under the Prior Plan. Options previously granted under the Prior Plan will continue to be outstanding in accordance with their respective terms of grant.

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 10% 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 Toronto Stock 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, the Prior 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 Toronto Stock Exchange. The following summarizes the stock options that have been granted, exercised, cancelled, or expired during the two years ended December 31, 2008 (Options granted prior to February 2008 were granted under the Prior Plan and all other options granted were granted under the Plan):

	Number of stock options	Weighted average exercise price (\$)
Outstanding and exercisable, December 31, 2006	363,333	4.05
Options granted	10,000	0.90
Options cancelled	(120,000)	3.62
Options expired	(46,666)	9.16
Outstanding and exercisable, December 31, 2007	206,667	2.90
Options granted	2,100,000	0.63
Options exercised	(220,000)	0.63
Options cancelled	(36,666)	2.35
Options expired	(33,333)	6.00
Outstanding and exercisable, December 31, 2008	2,016,668	0.74

During 2007 and 2008, all of the 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 48 months.

Expiry date	Number of stock options	Exercise price (\$)
November 24, 2009	13,334	4.28
February 11, 2010	20,000	3.30
June 30, 2010	6,667	2.70
February 13, 2011	13,334	2.85
June 28, 2011	10,000	1.80
September 28, 2011	50,000	1.65
November 6, 2011	13,333	1.50
December 11, 2011	10,000	1.35
March 1, 2013	1,830,000	0.63
September 10, 2013	50,000	0.67
	2,016,668	0.74

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the two years ended December 31, 2008 (Canadian dollars)

The fair market value of stock options granted are credited to contributed surplus in the year they vest. Stock options that are exercised will be recorded as share capital and stock options that expire unexercised will remain in contributed surplus. The number of options and exercise prices per share were adjusted to reflect the consolidation of the common shares described in 6(a) above. All options outstanding at December 31, 2008 expire at various dates until September 11, 2013. All options granted prior to 2008 plus 920,000 of the options granted in 2008 and outstanding as at December 31, 2008, vest immediately upon granting, 480,000 additional options will vest for one year after granting, and 480,000 options will vest two years after granting. In 2008, the Company took a stock-based compensation expense of \$451,897 (2007 - \$6,075) and capitalized \$171,212 (2007 - nil).

The weighted average exercise price at the date of grant for stock options granted during the current year was \$0.63 per share. The fair value of each option was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions at the measurement date:

	2008	2007
Risk-free interest rate	3.14%	4.5%
Expected life	5.0 years	4.3 years
Estimated volatility in the market price of the common shares	64%	50%
Dividend yield	Nil	Nil

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 stock options

(d) Capital Stock Offering

The securities issued by the Company during the two years ended December 31, 2008 are adjusted to reflect the one for fifteen common share consolidation effective March 22, 2007, as described in note 6(a) above.

In 2007, the Company issued 4,835,846 common shares for gross proceeds of \$3,792,776 summarized as follows:

Date	Securities issued	Description of securities	Price	Gross proceeds
May 1, 2007	3,422,000	Common shares	0.90	3,079,800
May 18, 2007	300,000	Common shares	0.90	270,000
December 2, 2007	600,000	Common shares	0.40	240,000
December 18, 2007	360,000	Common shares	US 0.39715	142,976
December 31, 2007	153,846	Common shares	0.39	60,000

600,000 common shares were issued on December 2, 2007 to a former officer of the Company in satisfaction of his employment contract; 360,000 common shares were issued on December 18, 2007 in satisfaction of US\$142,976 due to a supplier of the Company; and 153,846 common shares were issued on December 31, 2007 in satisfaction of a \$60,000 Note due to a then former director of the Company. A cash finders' fee of \$181,008 was paid in respect of the two private placements closed in May 2007, including \$92,988 paid to a company, in which a director of the Company was then an officer. Total share issue costs incurred in 2007 were \$223,899.

In 2008, the Company issued 27,146,319 common shares for gross proceeds of \$7,782,858 summarized as follows:

Date	Securities issued	Description of securities	Price	Gross proceeds
February 5, 2008	8,196,456	Common shares	0.61	4,999,838
March 30, 2008	310,029	Common shares	0.70	217,020
March 31, 2008	70,422	Common shares	0.71	50,000
April 24, 2008	983,606	Common shares	0.61	600,000
October 1, 2008	41,806	Common shares	0.598	25,000
October 16, 2008	220,000	Common shares	0.63	138,600
December 20, 2008	1,000,000	Common shares	0.12	120,000
December 23, 2008	16,324,000	Common shares units	0.10	1,632,400

The private placement completed on February 5, 2008 included 1,153,606 common shares issued to directors and officers of the Company; 1,380,451 common shares were issued

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on March 30 and 31, 2008 and on December 20, 2008 in satisfaction of \$387,020 due to suppliers of the Company; 41,806 common shares were issued on October 1, 2008 to Breakwater (as stated in 4(c) above); 220,000 common shares were issued on exercise of options granted earlier in the year to a director of the Company; and the private placement completed on December 23, 2008 included 6,174,000 common shares units ("Units") issued to directors and officers of the Company. Each Unit consisted of one common share of the Company and one half of one share purchase warrant and each full warrant is exercisable at \$0.25 per share for up to 24 months. Total share issue costs incurred in 2008 were \$146,067.

(e) Shareholder Rights Plan

In November 2000, the Board of Directors adopted a Shareholder Rights Plan (the "Plan"), the terms of which are set forth in a Shareholder Rights Plan Agreement dated as of November 17, 2000 between the Company and Equity Transfer Services Inc. The Plan was approved by the shareholders at the annual meeting held on March 15, 2001. The Plan will be in effect until the 2011 annual meeting, unless terminated earlier by the Board of Directors.

Under the Plan, a right to purchase one of the Company's common shares (a "Right") was issued for each outstanding common share as of November 17, 2000. In addition, a Right will be issued for each share issued subsequent to November 17, 2000 and prior to the separation date of the Rights. The rights are initially not separate from the Company's common shares nor are they represented by separate certificates. However, upon a person acquiring ownership of 20% or more of the Company's common shares (other than by means of complying with the Plan's Permitted Bid provisions or with approval of the Board of Directors of the Company), a holder of a Right (other than the acquirer of 20% or more of the Company's common shares) becomes entitled to exercise the Right and to purchase the number of common shares as determined under the Plan at a 50% discount to the then prevailing market price per share.

Under the Plan, a Permitted Bid is, among other things, a bid made to all shareholders for all common shares that is open for at least 60 days and which must be accepted by holders of at least 50% of the Company's outstanding common shares, excluding shares held by the offeror and certain related parties. If at the end of 60 days, at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered to the bid, the offeror may take up and pay for the shares, but must extend the bid for a further 10 days to allow other shareholders to tender. The Rights may, in certain circumstances, be redeemed by the Company at a price of \$0.00001 per Right.

7. INCOME TAXES

The Company has non-capital tax losses of approximately \$10,793,000 expiring between 2009 and 2028 which are available to reduce future Canadian taxable income. These losses expire as follows:

2009	2010	2011	2015	2026	2027	2028	Total
1,057,000	1,084,000	1,643,000	1,222,000	2,193,000	1,605,000	1,989,000	10,793,000

The Company has operating losses of approximately US\$2,329,000 expiring between 2009 and 2027, which are available to reduce future United States taxable income. The Company has not paid any income taxes during the last three taxation years.

The income taxes shown in the consolidated statement of earnings differ from amounts calculated by applying the statutory rates to earnings before provisions for income taxes due to the following:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Loss before future income tax provision (recovery)	(2,114,540)	(12,248,820)
Income taxes at Canadian statutory rates - 33.5% (2007 - 36.12%)	(708,371)	(4,424,274)
Mineral properties written off	-	3,965,900
Share issue costs	(127,926)	(139,666)
Change in valuation allowance	62,842	93,997
Other	133,409	-
Total	(640,046)	(504,043)
Comprising of:		
Future income taxes (recovery) - Canada	-	(1,159,658)
- U.S.A.	(640,046)	655,615

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two years ended December 31, 2008 (Canadian dollars)

Summary of future income tax liability:

	As at December 31, 2008	As at December 31, 2007
Property, plant and equipment	38,957	8,273
Exploration and development	(4,239,914)	(4,510,966)
Non capital losses carried forward	4,573,137	3,390,217
Capital losses	695,155	695,155
Other	400,939	471,622
	1,468,274	54,301
Valuation allowance	(5,841,871)	(5,067,944)
Future income tax liability	(4,373,597)	(5,013,643)

During the current year, the Company recorded a valuation allowance in the amount of \$5,841,871 (2007 - \$5,067,944) in respect of Canadian non-capital losses carried forward.

8. RELATED PARTY TRANSACTIONS

At December 31, 2008, there are no accounts payable and accrued liabilities owing to related parties. Several directors and officers of the Company subscribed for 1,153,606 shares issued in February and April 2008, and 6,174,000 common share units issued on December 23, 2008. In addition, during the year, management fees of \$226,150 (2007 - \$305,650) were paid to officers of the Company. Total share issue costs incurred in 2008 included a cash finders' fee of \$41,480 paid to a company employing a director of the Company.

9. SEGMENTED INFORMATION

The Company currently operates in Canada and the United States. Corporate administrative activities are conducted from Canada. The income and expenses for the two years ended December 31, 2008, and the assets of those years identifiable to those segments are as follows:

	Canada	USA	Consolidated
December 31, 2008			
Interest and other income	\$ 38,998	\$ -	\$ 38,998
Stock-based compensation	451,897	171,212	623,109
Loss and comprehensive loss for the year	2,070,559	(635,063)	1,435,496
Identifiable assets	500,352	33,907,905	34,408,257
December 31, 2007			
Interest and other income	\$ 26,465	\$ -	\$ 26,465
Stock-based compensation	246,075	-	246,075
Loss and comprehensive loss for the year	10,313,879	1,404,433	11,718,312
Identifiable assets	749,935	29,565,888	30,315,823

10. 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 development stage properties and other corporate activities, 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 its financial position on an ongoing basis.

Since the Company is in the development stage and does not have any third party long term debt, all of the Company's capital comes from the issuance of equity. 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. The acquisition, exploration, financing and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes 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.

11. FINANCIAL INSTRUMENT RISK FACTORS

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

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, 2008 was 1.218 Canadian dollars to one U.S. dollar. Based on past gains and losses arising from foreign exchange transactions, future gains and losses are not expected to have a major impact on the Company's future earnings or losses.

ii) Commodity prices risk

Since the Company is not expected to be in production until 2010, 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. As at December 31, 2008, the prices of gold and silver were US\$865/oz and US\$10.79/oz, respectively, as per the London Bullion Market Association. Gold and silver prices may fluctuate widely and are affected by numerous factors beyond the Company's control.

Sensitivity Analysis

As of December 31, 2008, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent. The Company believes the following movements are "reasonably possible" over a twelve-month period:

- (a) There would be little impact on the cash and cash equivalents held as the Company does not earn any significant interest on them.
- (b) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

12. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the presentation adopted in 2008.

13. SUBSEQUENT EVENTS

- (a) In January and February 2009, the Company issued by private placement 8,674,000 Units for gross proceeds of \$867,400 on the same terms as the private placement completed on December 23, 2008.
- (b) On January 31, 2009, 250,000 additional options were cancelled.
- (c) On February 11, 2009, the Company granted 2,350,000 stock options exercisable at a price of \$0.32 per share.

CORPORATE INFORMATION

DIRECTORS

James K. Gray, O.C. *
Chairman,
Founder and former Chairman,
Canadian Hunter Exploration Ltd.

W. Warren Holmes
Executive Vice-Chairman,
Chairman,
Nuinsco Resources Limited

Eric J. Berentsen *
President,
Jipangu Exploration Inc.

Allan J. Folk *
Vice President,
Brant Securities Limited

John D. Jackson
Owner of Jackson Oil, Inc.
and Jackson Food Stores, Inc.

William (Bill) J. C. Baird
President and Chief Executive Officer

* Member of the Audit Committee

OFFICERS

W. Warren Holmes
Executive Vice Chairman

William (Bill) J. C. Baird
President and Chief Executive Officer

W. Ernest Simmons
Chief Operating Officer

Domenico Bertucci
Acting Chief Financial Officer

F. Paul Collins
Corporate Secretary

EXPLORATION, DEVELOPMENT & ENVIRONMENTAL TEAM

William (Bill) L. Josey
Chief Geologist

Becky Shull
Environmental Management Systems Technician

HEAD OFFICE, INVESTOR RELATIONS & CORPORATE COMMUNICATIONS

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LEGAL COUNSEL

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Suite 2500, 181 Bay Street
Toronto, Ontario, Canada, M5J 2T7

AUDITORS

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Chartered Accountants
Royal Trust Tower, Suite 3000
P.O. Box 82, Toronto Dominion Centre
77 King Street West
Toronto, Ontario, Canada, M5K 1G8

TRANSFER AGENT

Equity Transfer & Trust Company
200 University Ave, Suite 400
Toronto Ontario, Canada, M5H 4H1
Telephone: 416-361-0930
Fax: 416-361-0470
Website: www.equitytransfer.com

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange Symbol: TSX:ATG
Berlin / Frankfurt OTC Exchange, Germany
878341, EDV-Kürzel ATG

AUTHORIZED CAPITAL

Unlimited common shares
Unlimited first preference shares, issuable in series
Unlimited second preference shares, issuable in series

ISSUED CAPITAL

At March 13, 2009:
55,548,876 Common Shares - basic
72,165,544 Common Shares - fully diluted

ANNUAL SHAREHOLDERS MEETING

The Annual Meeting of the Shareholders will be held in Toronto at 10:00 a.m. (EDT), Thursday, April 23, 2009 at the following location:

Lang Michener LLP
Suite 2500, Brookfield Place
181 Bay Street
Toronto, Ontario, Canada

CONVERSION FACTORS

1 foot = .3048 metres
1 mile = 1.6093 kilometres
1 square mile = 2.59 square kilometers
1 acre = .4047 hectares
1 troy ounce = 31.1035 grams
1 ton = .90718 tonnes
1 ton = 2000 pounds
1 pound = .4536 kilograms
1 ounce per ton = 34.2857 grams per ton

SHAREHOLDER INFORMATION

The Annual Report is one of several sources of information for shareholders of Atlanta Gold Inc.

Other sources include:

The unaudited comparative interim reports published quarterly.

The Management Information Circular describing the matters to be considered at the Annual Meeting of Shareholders.

The Annual Information Form and other corporate and continuous disclosure documents are available at the Company's website (www.atgoldinc.com) or the CDS SEDAR website (www.sedar.com).



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