

ATLANTA GOLD INC.

(a development stage company)

Interim Report - Second Quarter

June 30, 2009

The Company's independent auditors have not reviewed these financial statements.

ATLANTA GOLD INC.*(a development stage company)**These interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements included in the 2008 Annual Report.***Consolidated balance sheets***(Canadian dollars) (unaudited)*

	As at June 30 2009	As at December 31 2008
	\$	\$
Assets		
<i>Current assets</i>		
Cash and cash equivalents	380,095	418,097
Marketable securities (note 4(c))	14,322	-
Receivables	55,405	35,655
Prepaid expenses	50,344	86,971
	<u>500,166</u>	<u>540,723</u>
<i>Mineral properties (note 4)</i>	33,958,450	33,244,068
<i>Property, plant and equipment (note 5)</i>	520,848	623,466
Total assets	<u>34,979,464</u>	<u>34,408,257</u>
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (note 9)	300,922	510,704
<i>Future income tax liability</i>	4,438,707	4,373,597
	<u>4,739,629</u>	<u>4,884,301</u>
Shareholders' equity		
Capital stock	75,221,136	74,496,463
Liability to issue shares (note 10)	500,000	-
Warrants (note 6(a))	332,554	219,677
Contributed surplus	5,254,885	4,793,273
Accumulated deficit	(51,068,740)	(49,985,457)
	<u>30,239,835</u>	<u>29,523,956</u>
Total liabilities and shareholders' equity	<u>34,979,464</u>	<u>34,408,257</u>

*Nature of operations and going concern (note 1)**Contingencies and commitments (note 10)**Subsequent events (note 12)*

ATLANTA GOLD INC.*(a development stage company)**These interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements included in the 2008 Annual Report.***Consolidated statements of loss, deficit, and comprehensive loss***(Canadian dollars) (unaudited)*

	Cumulative, since Inception (March 6, 1985) to 30-Jun-09	Three months ended June 30		Six months ended June 30	
		2009	2008	2009	2008
	\$	\$	\$	\$	\$
Interest and other income	1,932,801	14,866	12,906	16,594	36,408
General and administrative expenses :					
Salaries and management fees	7,119,518	84,589	125,229	189,979	248,307
Stock based compensation (note 7)	2,032,816	80,126	81,435	405,339	298,595
Professional fees	4,755,602	136,148	168,543	245,413	274,455
Investor relations	3,044,508	17,293	33,325	75,177	116,099
Interest	328,790	-	5,000	-	18,788
Foreign exchange loss (gain)	136,199	(9,951)	1,665	3,186	8,140
Administrative and office	4,266,784	77,526	92,088	106,599	148,683
Amortization	164,082	2,025	1,956	4,050	3,912
	21,848,299	387,756	509,241	1,029,743	1,116,979
Future income tax expense (recovery)	1,404,534	-	-	65,110	-
Mineral property costs and impairments	29,748,708	3,272	50,784	5,024	235,423
	53,001,541	391,028	560,025	1,099,877	1,352,402
Loss and comprehensive loss for the period	51,068,740	376,162	547,119	1,083,283	1,315,994
Accumulated deficit, beginning of period,	-	50,692,578	49,318,836	49,985,457	48,549,961
Accumulated deficit, end of period	51,068,740	51,068,740	49,865,955	51,068,740	49,865,955
Weighted average number of consolidated shares outstanding		54,876,543	28,072,750	54,876,543	28,072,750
Loss and comprehensive loss per share (basic and fully diluted)		0.01	0.02	0.02	0.05

Nature of operations and going concern (note 1)

ATLANTA GOLD INC.

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Consolidated statements of cash flow

(Canadian dollars) (unaudited)

	<i>Cumulative, since Inception (March 6, 1985) to 30-Jun-09</i>	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
		<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
CASH FLOW FROM (USED FOR):	\$	\$	\$	\$	\$
<i>Operating activities</i>					
(Loss) earnings for the period	(51,068,740)	(376,162)	(547,119)	(1,083,283)	(1,315,994)
Add (deduct) items not involving cash:					
Amortization	164,082	2,025	1,956	4,050	3,912
Future income tax expense	1,404,534	-	-	65,110	-
Mineral property costs written off	29,548,753	-	-	-	-
Stock-based compensation expense (note 7)	2,032,816	80,126	81,435	405,339	298,595
Increase in non-cash working capital	180,851	(4,213)	(478,299)	(207,227)	(1,626,411)
	(17,737,704)	(298,224)	(942,027)	(816,011)	(2,639,898)
<i>Financing activities</i>					
Issuance of common shares, net of share issue costs	68,580,481	-	586,107	837,550	5,517,128
Liability to issue common shares	500,000	500,000	-	500,000	-
Issuance of flow through shares, net of share issue costs	12,853,631	-	-	-	-
	81,934,112	500,000	586,107	1,337,550	5,517,128
<i>Investing activities</i>					
Fixed asset additions	(1,141,718)	-	(293,652)	-	(293,652)
Mineral property expenditures	(62,674,595)	(290,119)	(952,318)	(559,541)	(1,533,018)
	(63,816,313)	(290,119)	(1,245,970)	(559,541)	(1,826,670)
(Decrease) increase in cash and cash equivalents	380,095	(88,343)	(1,601,890)	(38,002)	1,050,560
Cash and cash equivalents, beginning of period	-	468,438	2,898,306	418,097	245,856
Cash and cash equivalents, end of period	380,095	380,095	1,296,416	380,095	1,296,416

ATLANTA GOLD INC.*(a development stage company)**These interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements included in the 2008 Annual Report.***Consolidated statements of shareholders' equity***(Canadian dollars) (unaudited)*

	Shares issued and subscribed		Warrants value \$	Contributed Surplus value \$	Accumulated deficit \$	Total \$
	Number of shares	Ascribed value \$				
Balance, December 31, 2007	19,726,557	67,001,029	19,865	4,228,619	(48,549,961)	22,699,552
Issue shares for cash at \$0.61 per share, net of share issue costs (note 6(b))	9,180,062	5,482,893				5,482,893
Issue shares for cash at \$0.10 per share, net of share issue costs (note 6(b))	16,324,000	1,395,067	219,677			1,614,744
Issue shares for cash at \$0.63 per share, on exercise of options (note 6(c))	220,000	216,920		(78,320)		138,600
Issue shares for accounts payable at \$0.70 per shares, net of share issue costs (note 6(b))	310,029	214,354				214,354
Issue shares for accounts payable at \$0.71 per shares, net of share issue costs (note 6(b))	70,422	45,424				45,424
Issue shares for accounts payable at \$0.12 per shares, net of share issue costs (note 6(b))	1,000,000	117,814				117,814
Issue shares for property at \$0.598 per share, net of share issue costs (note 4(d) and 6(b))	41,806	22,962				22,962
Stock-based compensation (note 7)				623,109		623,109
Warrants expiring unexercised			(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
Issue shares for cash at \$0.10 per share, net of share issue costs (note 6(b))	8,676,000	724,673	112,877			837,550
Liability to issue common shares, net of share issue costs (note 10)		500,000				500,000
Stock-based compensation (note 7)				461,612		461,612
Loss and comprehensive loss for the year					(1,083,283)	(1,083,283)
Balance, June 30, 2009	55,548,876	75,721,136	332,554	5,254,885	(51,068,740)	30,239,835

ATLANTA GOLD INC.

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Notes to the Interim Consolidated Financial Statements

(Canadian dollars) (unaudited)

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 the 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. Certain of the Company's Québec gold properties under option from Breakwater Resources Ltd. have been farmed out to a company which is focused on exploration and development in this area. The success of that company's 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.

The recoverability of exploration and development expenditures is dependent upon the discovery 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 expenditures.

As at June 30, 2009, the Company has an excess of current assets over current liabilities of \$199,244 and has recorded a second quarter loss of \$376,162, and reported an accumulated deficit of \$51,068,740 at that date. □ These circumstances can adversely affect its ability to continue □ as a going concern and, accordingly, the appropriateness of the use of □ accounting principles applicable to a going concern. Management continues to explore financing alternatives to raise capital. 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. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared by Company's management in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements do not include all the information and disclosure required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair and consistent presentation of these interim financial statements have been included. The accounting policies and their methods of application are consistent with those used in the December 31, 2008 consolidated financial statements, except as disclosed herein. For further information, see the Company's consolidated financial statements and the accompanying notes included in the 2008 Annual Report. Results for the quarter ended June 30, 2009 are not necessarily an indication of the results that may be expected for the full fiscal year ended December 31, 2009.

In March 2009, the CICA issued an EIC Abstract on Impairment Testing of Mineral Exploration Properties, EIC-174. This Abstract discusses the analysis recommended to be performed to determine if there has been an impairment of mineral exploration properties. The Company considered the recommendations discussed in this Abstract effective for fiscal periods beginning January 1, 2009 when testing for impairment of mineral properties in the period and no impairment adjustments were required.

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3. 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.

4. MINERAL PROPERTIES*(Canadian dollars) (unaudited)*

	<i>Cumulative, since Inception (March 6, 1985) to 30-Jun-09 \$</i>	<i>As At June 30 2009 \$</i>	<i>As At December 31 2008 \$</i>
Atlanta Gold Property (note 4(a))			
Balance, beginning of period	-	33,100,045	29,386,255
Drilling, analysis, investigations and design	27,338,213	526,088	3,379,513
Project administration and general	3,731,661	128,294	214,277
Property acquisition and holding costs	3,458,067	60,000	120,000
Costs recovered during the year	(713,514)	-	-
Total expenditures during the period	<u>33,814,427</u>	<u>714,382</u>	<u>3,713,790</u>
Balance, end of period	<u>33,814,427</u>	<u>33,814,427</u>	<u>33,100,045</u>
Rocky Bar Gold Property			
Balance, beginning of period	-	144,023	-
Drilling, assays and related field work	26,143	-	26,143
Project administration and general	117,880	-	117,880
Total expenditures during the period	<u>144,023</u>	<u>-</u>	<u>144,023</u>
Balance, end of period	<u>144,023</u>	<u>144,023</u>	<u>144,023</u>
Brodeur Diamond Property (note 4(b))			
Balance, end of period	-	-	-
Abitibi Gold Property (note 4(c))			
Balance, end of period	-	-	-
	<u>33,958,450</u>	<u>33,958,450</u>	<u>33,244,068</u>

a) *Atlanta Gold Property ("Atlanta")*

The Company holds a 100% interest in patented mining lands and unpatented mining claims, and is expected to pay the following in 2009:

- i) Pursuant to an agreement with Monarch Greenback, LLC ("Monarch"), the Company extended its lease and option to purchase the Monarch property to April 30, 2011 by making lease payments of US\$50,000 per year and option payments of US\$20,000 per month. During the second quarter of 2009, the Company paid \$40,000 to Monarch and \$10,000 to another lessor.
- ii) Approximately US\$67,000 due in August 2009 to the Idaho Bureau of Land Management for annual maintenance fees on the unpatented mining claims; and

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- iii) Payments totalling \$45,000 due in the fourth quarter of 2009 to four lessors as annual advance royalty payments in respect of some of the patented lands plus accrued interest of 5% per year on \$64,500. The final payment of \$29,500 will be paid in December 2010.
- b) *Brodeur Diamond Property ("Brodeur")*
 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.
- c) *Abitibi Gold Property ("Abitibi")*
 The Company previously held an option from Breakwater Resources Inc. ("Breakwater") to acquire a minimum 60% ownership interest in the Abitibi property, comprised of the Normar, Mouskor, Malartic H and Malartic H Annex claims. 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 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. In May 2009, the parties agreed to extend the option period for one year to September 1, 2010 and in consideration therefor the Company received 75,377 shares of Niogold with a fair value of \$14,322, and this investment has been designated as available for sale and carried at fair value. Unrealized gains and losses in fair value will be recorded as a separate component of comprehensive income and accumulated other comprehensive income. Upon Niogold incurring the expenditures, the Company will earn an initial 60% interest in the portion of the property comprised of the Normar and Mouskor claims.

5. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2009			December 31, 2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	\$	\$	\$	\$	\$	\$
Office furniture and equipment	155,401	152,520	2,881	155,401	148,470	6,931
Vehicles and field equipment	980,453	462,486	517,967	980,453	363,918	616,535
	<u>1,135,854</u>	<u>615,006</u>	<u>520,848</u>	<u>1,135,854</u>	<u>512,388</u>	<u>623,466</u>

6. CAPITAL STOCK, WARRANTS, AND CONTRIBUTED SURPLUS

a) Authorized share capital, warrants and stock options

As at June 30, 2009, the Company had 55,548,876 common shares outstanding, stock options to purchase 4,616,668 additional common shares at exercise prices ranging from \$0.30 to \$4.28 and warrants to purchase 12,500,000 additional common shares at an exercise price per share of \$0.25. Stock options expire between November 2009 and April 2014. Warrants expire between December 2010 and February 2011, but can expire earlier at the Company's election, if the Company's share price exceeds \$0.50 for 20 consecutive trading days or more. Details of the stock options, and share purchase warrants issued, exercised, forfeited and expired since December 31, 2007 are as follows:

	Share purchase warrants			Stock options	
	No. of shares	Weighted average price \$	Fair market value of warrants \$	No. of shares	Weighted average price \$
Balance, December 31, 2007	64,445	3.45	19,865	206,667	2.90
Securities issued	8,162,000	0.25	219,677	2,100,000	0.63
Securities cancelled	-	-	-	(36,666)	2.35
Securities exercised	-	-	-	(220,000)	0.63
Securities expired	(64,445)	3.45	(19,865)	(33,333)	6.00
Balance, December 31, 2008	<u>8,162,000</u>	<u>0.25</u>	<u>219,677</u>	<u>2,016,668</u>	<u>0.74</u>
Securities issued	4,338,000	0.25	112,877	2,850,000	0.34
Securities cancelled	-	-	-	(250,000)	0.63
Balance, June 30, 2009	<u>12,500,000</u>	<u>0.25</u>	<u>332,554</u>	<u>4,616,668</u>	<u>0.51</u>

The weighted-average remaining contractual life of all stock options outstanding is 51 months as follows:

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<u>Expiry date</u>	<u>No. of shares</u>	<u>Exercise price \$</u>
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
February 28, 2013	1,630,000	0.63
February 11, 2014	2,350,000	0.32
April 20, 2014	250,000	0.30
April 20, 2014	250,000	0.60
	<u>4,616,668</u>	

6. CAPITAL STOCK, WARRANTS, AND CONTRIBUTED SURPLUS (continued)**b) Capital stock offering**

In January 2009 and February 2009, the Company issued 8,676,000 common share units by private placement at \$0.10 per share for gross proceeds of \$867,600. Each unit was comprised of one common share and one-half share purchase warrant ("Warrant") exercisable at \$0.25 per share for a period up to 24 months. Share issue costs in respect of this offering was \$30,050, and included a cash finder's fees of \$7,000. The fair value of the Warrants of \$112,877 was calculated based on the Black Scholes option pricing model.

7. STOCK BASED COMPENSATION

The Company issues stock options to employees, officers, directors and consultants to the Company. In February 2008, the Company granted options to purchase 2,050,000 shares at \$0.63 per share exercisable until February 28, 2013, including 250,000 stock options which were cancelled in January 2009, resulting in a total fair market value of \$654,800, as follows: a) 500,000 options granted to directors; b) 40% of the remaining 1,550,000 options vested at the date of grant; and c) 30% vest one year from date of grant; and 30% vests two years from the date of grant. During the first half of 2009, \$30,768 was expensed and \$7,462 was capitalized.

In September 2008, the Company granted 50,000 options to a new employee exercisable at \$0.67 per share until September 2013 and vesting until September 2010 on the same basis as those options granted in February 2008. The fair market value of these options granted is \$17,800. During the first half of 2009, \$925 was expensed.

In February 2009, the Company granted options to purchase 2,350,000 shares at \$0.32 per share exercisable until February 11, 2014, including 575,000 options granted to employees in Atlanta, resulting in a total fair market value of \$541,800 for the stock options granted. 600,000 options granted to directors and 40% of the other 1,750,000 options vested at the date of grant; 30% vest one year from date of grant; and 30% vests two years from date of grant. During the first half of 2009, \$340,767 was expensed and \$48,811 was capitalized.

In April 2009, the Company granted options to purchase 500,000 shares to an investor relations firm. 250,000 of the options are exercisable at \$0.30 per share and 250,000 are exercisable at \$0.60 per share until April 2014 and vest over a two-year period ending in April 2011 on the same basis as those options granted in February 2009. The fair market value of these options is \$64,155. During the second quarter of 2009, \$32,879 was expensed.

The remaining fair market value will be recorded as stock-based compensation as follows:

In 2009, \$108,311 will be expensed and \$4,612 will be capitalized in the second half of the year;

In 2010, \$71,099 will be expensed and \$7,864 will be capitalized during the year; and

In 2011, \$2,046 will be expensed in the first quarter of the year.

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The fair value of all stock options granted since 2004 has been estimated at the date of grant using the Black-Scholes option pricing model. The current year's valuation was calculated with the following assumptions: weighted-average risk free interest rate of 1.21%, expected volatility of the market price of the Company's common stock of 95%; and weighted average expected life of the options of 5 years.

8. SEGMENTED INFORMATION

The Company operates in two geographical segments: Canada and United States.

The comparative interest and other income and loss incurred for the three and six months ended June 30, 2009 and 2008, and the assets identifiable to those segments for the interim quarters ended June 30, 2009 and 2008, are as follows:

	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
	<u>Three months ended June 30, 2009</u>			<u>Six months ended June 30, 2009</u>		
Interest and other income	14,866	-	14,866	16,594	-	16,594
Stock-based compensation	80,126	-	80,126	405,339	-	405,339
Loss for the period	376,162	-	376,162	1,083,283	-	1,083,283
Identifiable assets				320,626	34,658,838	34,979,464
	<u>Three months ended June 30, 2008</u>			<u>Balance, December 31, 2008</u>		
Identifiable assets				500,352	33,907,905	34,408,257
	<u>Three months ended June 30, 2008</u>			<u>Six months ended June 30, 2008</u>		
Interest and other income	12,906	-	12,906	36,408	-	36,408
Stock-based compensation	81,435	-	81,435	298,595	-	298,595
Loss for the period	254,147	292,972	547,119	1,314,899	1,095	1,315,994
Identifiable assets				1,425,592	31,685,482	33,111,074

9. RELATED PARTY TRANSACTIONS

During the second quarter of 2009, the Company incurred \$17,300 in respect of management fees to officers of the Company (2008 - 138,500). The Company paid interest expense of \$5,000 to a director of the Company during the second quarter of 2008 (2009 - nil).

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The Company has operating lease commitments in respect of its office equipment until May 2013 approximately as follows:

2009	\$	2,000
2010	\$	4,000
2011	\$	4,000
2012	\$	4,000
2013	\$	1,000

The Company announced its intention to complete a private placement equity financing for gross proceeds of up to \$3 million, expected to be completed in August 2009. As at June 30, 2009, the Company had received subscription proceeds of \$500,000 in respect of this private offering, including \$100,000 received from a director of the Company.

11. COMPARATIVE FIGURES

Certain comparative figures may have been reclassified to conform with the presentation adopted in the current period.

12. SUBSEQUENT EVENTS

In July 2009, the Company announced that it had agreed to issue up to 6,000,000 shares to Newmont USA Limited in exchange for certain fixed assets totaling up to US\$1,500,000,

Also, in July 2009, 50,000 stock options which were granted in February 2008 and February 2009 to a former employee of the Company were cancelled,

In August 2009, the Company expects to complete a private offering for maximum gross proceeds of \$3 million by issuing up to 10,344,828 shares of the Company at a price of \$0.29. per share.

Management Discussion and Analysis

This discussion and analysis of financial position and results of operations of Atlanta Gold Inc. (the "Company") and its subsidiaries for the three and six months ended June 30, 2009 has been prepared as of July 22, 2009. The discussion below should be read in conjunction with the unaudited interim consolidated financial statements of the Company and the notes thereto for the three and six months ended June 30, 2009 and the audited consolidated financial statements of the Company for the year ended December 31, 2008. The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in financial tables, except per share amounts, are expressed in thousands of Canadian or U.S. dollars unless otherwise indicated.

Additional information relating to the Company, including the Company's most recent Annual Information Form, are filed with securities regulatory authorities in Canada and are available on SEDAR 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 completion of a pre-feasibility study on the Atlanta project, the ability to obtain requisite permits and water rights, the completion, size, timing of and use of proceeds from future financings, the completion and impact on the Company of a proposed asset acquisition from and sale of concentrate to Newmont USA Limited, 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 and to continue as a going concern, 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 2008 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. The Company has also staked 6,800 acres in Rocky Bar, located 17 miles south west of Atlanta. Both Atlanta and Rocky Bar are historic gold mining areas.

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 continuing to work 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.

In the second quarter of 2009, the Company reached agreements with Newmont USA Limited as set out in the "Agreements with Newmont USA Limited" section. These agreements represent a significant step forward which will greatly assist the Company's efforts to advance development of the Atlanta project towards production. Completion of these transactions will secure a market for Atlanta's concentrate production. It will also provide infrastructure on favourable terms necessary to advance development of the Atlanta gold mine, allow the Company to conserve cash, significantly reduce the Company's future capital costs and support the Company's continuing financing efforts.

In the second quarter of 2009, the Company renewed its lease and option to purchase a strategically significant 658.9 acre property located at its Atlanta project for a further two years as set out in the "Contingencies and Commitments" section.

The Company plans to complete a Pre-Feasibility Study early in the third quarter of 2009 and continue expansion and upgrading of resources in 2009 while continuing to advance the Atlanta gold project toward production.

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 the Torngat diamond property located in Northern Québec (“Torngat”). Details and a discussion of the Abitibi property are included in the “Capital Expenditures” section of this MD&A.

Plan for Operations - 2009

During the first quarter of 2009, the Company completed an updated National Instrument 43-101 (“NI43-101”) Technical Report and Resource Estimate for Atlanta which confirmed a 48.4% increase in Measured and Indicated Resources since the end of 2007. The Company plans to complete a Pre-Feasibility Study early in the third quarter of 2009 and continue expansion and upgrading of resources in 2009.

The private placement financing completed in February 2009 primarily funded technical work on Atlanta, including the preparation of an Internal Pre-Feasibility Study of the NI43-101 Measured and Indicated resource of 475,000 equivalent ounces at Atlanta. This Study will be based on a combined shallow open pit and underground mining operation producing approximately 300,000 tons of ore per year, and will envision production and sale of smelter-grade gold and silver concentrates to smelters in Nevada. In conjunction with the Pre-Feasibility Study, the Company is developing a business plan which contemplates initial annual production estimated to be 40,000 ounces of gold through the use of an 800 ton per day mining and gravity-flotation milling operation. Based on a nominal production rate of 800 tons of ore per day or 275,000 tons of ore per year, average annual production over the 12-year mine life is forecast to be 40,000 ounces of gold contained in 15,000 tons of concentrate. Subject to timely receipt of adequate funding, the Company plans to begin mining at Atlanta in the third quarter of 2010 and produce concentrates in the fourth quarter of 2010.

The timing and the extent of drilling, exploration and other activities for the remainder of 2009 are dependent upon availability of funding. Measures first implemented during the first quarter of 2009 to reduce general and administrative and project expenditures are continuing.

The Company estimates that it will require funding of approximately \$2 million to maintain its operations at a reduced level for the balance of 2009. To complete all of its planned expenditures for 2009, the Company estimates that its total funding requirement for the remainder of 2009 will be approximately \$8 million. The Company announced in July 2009 its intention to complete a private placement financing of common shares at a price of \$0.29 per share for gross proceeds of up to \$3 million. Successful completion of the latter financing, expected to be completed in the third quarter of 2009, will provide short-term funding to achieve the following:

1. 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;
2. commence rehabilitation of the first 800 feet (244 metres) of the historic 900 Adit;

3. redesign reclamation ponds at the 900 Adit to enhance environmental performance;
4. continue enhancement of Atlanta's environmental performance, including ongoing removal of naturally-occurring arsenic from historic water effluents;
5. continue collaboration with local communities, environmental, regulatory and other stakeholders; and
6. evaluate alternative sites to accommodate infrastructure related to the Atlanta project.

Subject to completion of additional intermediate term funding of \$5 million, the Company also plans to achieve the following objectives in 2009:

- a. subject to obtaining regulatory approvals, commence rehabilitation of 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;
- b. 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;
- c. 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; and
- d. secure economic, environmental and technical studies and water rights and permits required to advance the project to production.

The Company is presently pursuing several alternative sources of funding including equity or debt financing. Assuming that short and intermediate term financing aggregating \$8 million is obtained, management expects to increase the mineral resource inventory at Atlanta to 600,000 equivalent ounces of gold by December 31, 2009, commence mining at Atlanta in the third quarter of 2010 and produce concentrates in the fourth quarter of 2010.

Like all similar mining projects, Atlanta has its challenges but the combination of a proven record of historical production, a Shear Zone with an 11,400-foot strike length and numerous splays branching off to the north and south of the main Shear, significant depth potential and multi-million ounce potential, presents what management believes to be an outstanding value proposition.

Agreements with Newmont USA Limited

In the second quarter of 2009, the Company's wholly-owned subsidiary, Atlanta Gold Corporation ("Atlanta Gold") reached an agreement in principle with Newmont USA Limited, a wholly owned subsidiary of Newmont Mining Corporation ("Newmont") to purchase certain fixed assets, including two buildings, four 2,200-horsepower electrical generators, two water treatment plants and other equipment. The initial purchase is for US\$1 million, with additional plant and equipment as may be agreed to by the parties, to be purchased for up to an additional US\$500,000. The aggregate purchase price of up to US\$1,500,000 will be satisfied by the Company issuing up to 6,000,000 common shares at a price of US\$0.25 per share. Upon completion of the US\$1.5 million transaction, Newmont will own approximately 9.75% of the Company's outstanding common shares.

Completion of the purchase of the fixed assets is subject to satisfactory completion of the Company's due diligence review of such assets, completion of final documentation, all required regulatory approvals and other customary conditions.

In the second quarter of 2009, Atlanta Gold and Newmont also agreed in principle that Newmont will purchase and process the gold-silver concentrate to be produced from Atlanta on terms to be negotiated. At the pilot-scale Atlanta mill, ore containing gold and silver will be crushed to a coarse size and then transported from the mine to a concentrator, where it will be finely ground and then treated by successive stages of flotation, resulting in a concentrate containing approximately 2-3 ounces of gold per ton. Gold recovery is expected to be 90%, using conventional milling, gravity separation and flotation techniques to produce the concentrate. The gold-silver concentrate will be delivered by the Company to Newmont's flotation concentrate autoclave plant in Nevada which is within a one-day return trucking distance from Atlanta, Idaho.

Management believes that completion of these transactions with Newmont will represent a very important milestone for the Company as they will secure a market for the Company's concentrate, provide necessary infrastructure on favourable terms to advance development of the Atlanta gold mine, allow the Company to conserve cash, significantly reduce the Company's future capital costs and support the Company's continuing financing efforts

Overview of Financial Results

Equity Financing

The Company raised gross proceeds of \$867,600 (\$837,550 net of share issue costs) in the first quarter of 2009 by completing a non-brokered private placement of 8,676,000 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.

During the third quarter of 2009, the Company intends to raise additional gross proceeds of up to \$3 million by completing a non-brokered private placement of up to 10,344,828 common share of the Company at a price of \$0.29 per share. Timely completion of this financing and completion of additional equity or debt financing later in 2009 will enable the Company to substantially achieve its objectives for 2009 and remain on track for commencement of production at Atlanta in the third quarter of 2010.

Proceeds from these placements have been and will be principally 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 placements completed in December 2008 and February 2009 were done so in reliance on the financial hardship exemption which permitted the placements to be completed without shareholder approval. As a result of the Company's reliance on this exemption, the TSX commenced a routine review of the Company's continued listing on the TSX. The Company has until September 4, 2009 to establish compliance with the TSX's continuing listing requirements. Subject to completing a significant portion of the intended \$3 million private placement, 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.

In the second quarter of 2009, the Company reached an agreement in principle with Newmont USA Limited to issue up to 6 million common shares at a price of US\$0.25 per share, to purchase certain fixed assets. Following completion of the transaction, Newmont will own approximately 9.75% of the Company's outstanding common shares. Please see "Agreements with Newmont USA Limited".

Liquidity and Capital Resources

Cash as at June 30, 2009 was \$380,000 compared to \$418,000 as at December 31, 2008 and \$1,296,000 at June 30, 2008.

The decline of \$38,000 for the six months ended June 30, 2009, compared to an increase in cash of \$1,051,000 for the comparative six months ended June 30, 2008, is due primarily to receipt of proceeds of \$1,338,000 in respect of a financing completed in February 2009 and receipt of subscription proceeds of \$500,000 in respect of the financing to be completed during the third quarter of 2009, incurring expenditures of \$560,000 on Atlanta and the repayment of \$207,000 in net payables to suppliers during the first half of 2009.

In comparison, the Company raised proceeds of \$5,600,000 (\$5,517,000 net of share issue costs) from private placements and incurred \$1,827,000 in expenditures and fixed asset purchases at Atlanta, and repayment of \$1,626,000 in net payables to suppliers during the first half of 2008.

Working capital surplus as at June 30, 2009 was \$199,000 compared to a surplus of \$860,000 as at June 30, 2008. Cash used in operations for the first six months of 2009 was \$816,000 compared to \$2,640,000 for the comparative period ended June 30, 2008, reflecting lower payments paid to Atlanta suppliers and higher non-cash expenses incurred during the first half of 2009. Cash generated from financing activities was \$1,338,000 for the first half of 2009 compared to \$5,517,000 for the comparative period ended June 30, 2008. Cash used for investing activities for the first half of 2009 was \$560,000 compared to \$1,827,000 for the comparative period ended June 30, 2008.

The economic downturn has impacted the Company's share price and limited its fund-raising ability. Although the Company raised approximately \$2.5 million in equity financing from December 2008 to February 2009 in very difficult financial markets, it has experienced delays in obtaining additional financings which has caused the Company to operate on a more restrained basis. Due to the global economic uncertainty, the Company reviewed all discretionary expenses and implemented a cash conservation plan, which included a voluntary reduction in management salaries. This plan will require funding of approximately \$2 million to maintain Company operations at a reduced level with a smaller workforce, complete the internal pre-feasibility study, rehabilitate the first 800 feet of the 2,275-foot long historic 900 Adit, continue with environmental improvements and community support initiatives and incur sufficient expenditures to meet minimum contractual commitments at Atlanta to December 31, 2009.

Conversely, to achieve the 2009 program objectives as set out in the "Plan for Operations – 2009" section and stay on track to commence production in the third quarter of 2010, the Company will require funding of approximately \$8 million to cover capital and operating expenses to December 31, 2009. If delays occur in raising such funds, the Company will not be able to achieve all of its 2009 objectives or commence production in the third quarter of 2010. The Company expects to raise gross proceeds of up to \$3 million by completing a non-brokered financing in the third quarter of 2009. Subscription proceeds of \$500,000 in respect of this financing had been received as at June 30, 2009.

Equity

As at June 30, 2009, the Company had (a) 55,548,876 common shares issued and outstanding (December 31, 2008 – 46,872,876); (b) stock options outstanding to purchase 4,616,668 common shares (December 31, 2008 – 2,016,668) at exercise prices ranging from \$0.30 to \$4.28 per share and expiring between November 2009 and April 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. Shareholders' equity as at June 30, 2009 was \$81,309,000 compared to \$79,509,000 as at December 31, 2008. Stock options outstanding as at June 30, 2009 had a weighted-average exercise price of \$0.50 per share (December 31, 2008 - \$0.74 per share) and a weighted average life of 51 months (December 31, 2008 – 48 months).

General and Administrative Expenses

Corporate overhead expense declined during the second quarter of 2009 by \$121,000 from that incurred in the second quarter of 2008 while such expenses were \$1,030,000 for the six months ended June 30, 2009 as compared to \$1,117,000 for the six months ended June 30, 2008. The decline in 2009 reflected the Company's cost reduction program which reduced expenses incurred for travel, investor relations, head office administration and interest. This reduction of \$194,000 was partially offset by a \$107,000 increase in stock based compensation expense for the first half of 2009 over that incurred in the comparable period of 2008, reflecting stock option grants made in February and April of 2009.

A \$3,000 loss was realized from foreign exchange transactions during the first six months of 2009, compared to a loss of \$8,000 incurred during the first six months in 2008, reflecting a relatively stable Canadian dollar relative to the U.S. dollar. With all of the Company's equity financings in Canadian dollars and expenses primarily in U.S. dollars, the Company is exposed to foreign exchange risk. The Company does not use derivative instruments to reduce its exposure to such risks.

Capital Expenditures***Atlanta gold property, Idaho, USA:***

Expenditures in the second quarter of 2009 of \$269,000 were focused on the Pre-Feasibility Study which is expected to be completed early in the third quarter of 2009, preparations to secure the portal at the historic 900 Adit and to rehabilitate the Adit, establishing a baseline and grid system and excavating and sampling trenches down to the C Zone and securing permits required to proceed with work on site. By comparison, expenditures in the second quarter of 2008 of \$952,000 were incurred primarily in respect to assessing the potential for surface drilling and trenching, and the option of underground drilling to assess the underground potential of the Atlanta resource, after providing the State of Idaho with an exploration plan for 2008; securing water rights for Atlanta; and monitoring baseline water quality data in the project area.

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 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.

However, the Company did not undertake any field work on Rocky Bar during the first half of 2009 given its limited cash resources.

Abitibi gold property, Quebec, Canada:

Pursuant to the terms of an agreement entered into with Breakwater Resources and Niogold Mining Corp. (“Niogold”) in September 2008, the Company holds an option to acquire a 60% interest on a portion of the Abitibi property, which is comprised of the Malartic H, Malartic H Annex, Normar and Mouskor claims. The Company’s option will be exercisable at no cost to the Company upon Niogold completing \$1.2 million in exploration expenditures on the Malartic portion of the Abitibi property. If the option is exercised, the Company will acquire a 2% net smelter return royalty interest in the Malartic claims and a 60% ownership interest in the Normar and Mouskor claims. In May 2009, the parties agreed to extend the option period for one year from September 1, 2009 to September 1, 2010 and the Company received, as consideration for the extension, 75,377 common shares of Niogold, having an approximate market value of \$15,000. Between August 2008 and February 2009, the Company paid \$6,000 to renew and keep all of its Abitibi claims in good standing until at least September 2009.

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

The Abitibi properties are located in the prolific Malartic and Val-d’Or gold mining camps which are in close proximity to the full-service mining towns of Val-d’Or and Malartic with access to gold milling facilities, provincial highway, railroad, power line, telecommunication systems and an experienced labour force.

Contingencies and Commitments

All amounts in this section are expressed in thousands of Canadian dollars, except in respect of Atlanta, which are expressed in thousands of U.S. dollars).

The Company has made commitments in respect of its head office leases and mineral properties as follows:

	Years 1-2	Years 3-4	Beyond Year 4
Head office	6	8	1
Atlanta (1)(2)	650	30	30

1. Pursuant to an amendment to one of the Atlanta lease-purchase option agreements, US\$64,500 of a final option payment of US\$120,000 which was due in December 2006, will be repaid in two installments to December 2010, and include accrued simple interest of 5% per year.
2. Pursuant to an amending agreement dated April 30, 2009 with Monarch Greenback, LLC, the Company has renewed its Mining Lease and Option to purchase a 658.9-acre property located at its Atlanta Gold project in Idaho, U.S.A. for a further two years until April 30, 2011. Under the terms of the agreement, the Company has the right to acquire a 100% interest in the property subject to a floating rate net smelter return royalty with a maximum rate of 3.5%. The agreement requires optional annual lease payments and optional monthly payments totaling US\$580,000 over the next two years to maintain the Option in good standing.

Contingencies and commitments are described in Notes 4(a) and 10 to the Company’s interim unaudited consolidated financial statements for the six months ended June 30, 2009.

Summary of Quarterly Results

Head office expenses of \$388,000 incurred during the second quarter of 2009 were lower than expenses of \$509,000 incurred during the same quarter in 2008, primarily reflecting a) lower salaries and management fees due to an officer of the Company agreeing to forego salary payments; b) lower

professional fees, investor relation fees and travel costs incurred during the quarter; and c) lower office rent after relocating the head office premises in February 2009. Interest and other income earned in the second quarter of 2009 was lower compared to the same period in 2008, reflecting lower cash levels for the Company as at June 30, 2009, compared to cash levels as at June 30, 2008, after equity financings were completed in February and April 2008. The Canadian dollar has remained relatively unchanged relative to the U.S. dollar resulting in the Company realizing a \$10,000 foreign exchange gain during the second quarter of 2009, as compared to a \$1,700 loss incurred during the second quarter of 2008.

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 (4)	General and Administrative Expenses	Net Loss (3)	Loss per share
June 30, 2009	-	388	376 (1)(2)	0.01
March 31, 2009	-	642	707 (1)(2)	0.01
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	9,274 (1) (2)	0.56
September 30, 2007	-	327	739 (2)	0.04

- (1) Includes: (a) mineral property costs written off or expensed as follows: \$3.3 during the second quarter of 2009, \$1.7 during the first quarter of 2009, \$184 during the first quarter of 2008, \$10,952 during the fourth quarter of 2007, \$4,895 during the fourth quarter of 2006, and (b) future income tax provisions (recoveries) taken as follows: \$65 during the first quarter of 2009; (\$1,613) during the fourth quarter of 2008; \$48 during the third quarter of 2008; and (\$504) during the fourth quarter of 2007.
- (2) Includes stock based compensation expense charged as follows: \$80 during the second quarter of 2009; \$325 during first quarter of 2009; \$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 and \$6 during the third quarter of 2007.
- (3) The Company has not incurred any losses arising from discontinued operations or extraordinary items in the last eight quarters.
- (4) Since the Company is a development-stage company, it does not generate any revenue.

The Company presently operates in two countries, Canada and the United States. The Company has an interest in five mineral properties. Three are gold properties and two are diamond properties. The Company's activities since early 2008 have focused on its Atlanta gold property.

The level of the Company's development activities at Atlanta is impacted by winter weather conditions, resulting in lower overall levels of activity on the Company's properties during the winter season. However, as Atlanta advances toward the production stage and permanent facilities are constructed, the impact of adverse weather conditions on activity levels is expected to be reduced.

The Company assesses, on a regular basis, whether any impairment has occurred in the carrying value of its mineral properties. If such impairment has occurred, a write-down is charged in the period that the impairment took place. In 2007, the Company wrote off the carrying value of all of its projects, except for Atlanta. The Company has determined that no charges had to be taken against Atlanta during the second quarter of 2009.

Outlook**Atlanta Gold Property**

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. Support for this view may be found in the Company's recently announced agreements in principle reached with Newmont USA. 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.

The Company is seeking short to medium term financing in the second half of 2009, through equity and possibly debt financing, which will enable it to achieve its objectives for 2009 and remain on track for commencement of production at Atlanta in the third quarter of 2010. Consequently, the Company initially plans to complete an equity financing for up to \$3 million in the third quarter of 2009. As at June 30, 2009, proceeds of \$500,000 had been received in respect of this financing. If delays occur in raising such funds, achievement of the Company's objectives for 2009 and 2010, may also be delayed.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

As at June 30, 2009, there were no current liabilities owing to related parties. By comparison, as at June 30, 2008, current liabilities included \$12,000 due to directors of the Company. In June 2009, the Company received \$100,000 from a director of the Company in respect of a private placement expected to be completed in the third quarter of 2009. Also, during the second quarter of 2009, consulting fees of \$17,000 were paid to an officer of the Company (2008 – \$137,000 paid to three officers), and no interest expense was paid (2008 - \$5,000 was paid) in respect of a loan made to the Company.

Future changes to significant accounting policies

(Please see the Company's 2008 Annual Management Discussion & Analysis ("Annual MD&A") and notes to the Annual Consolidated Financial Statements, which are available at www.sedar.com, for full details and discussion of this section)

In March 2009, the CICA issued an EIC Abstract on Impairment Testing of Mineral Exploration Properties, EIC-174. This Abstract discusses the analysis recommended to be performed to determine if there has been an impairment of mineral exploration properties. The Company considered the recommendations discussed in this Abstract effective for fiscal periods beginning January 1, 2009 when testing for impairment of mineral properties in the period and no impairment adjustments were required.

International Financial Reporting Standards

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. On February 13, 2008, the AcSB and the CICA confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011 with appropriate comparative data from the preceding year. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years commencing on or after January 1, 2011.

Consequently, the Company will continue to present its results for the years ended December 31, 2009 and 2010 using contemporary Canadian GAAP. In 2011, the Company will be required to restate for comparative purposes amounts reported for 2010 using Canadian GAAP to reflect contemporary IFRS. To accomplish this, commencing in fiscal 2010, the Company will maintain accounting records in accordance with both Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company is continuing to assess the level of disclosures required and any necessary system changes to gather and process information.

The Company has begun its initial planning process for the IFRS conversion. The Company continues to monitor standards development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Accounting Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, as required, analysis of key differences between IFRS and Canadian GAAP and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. Management will provide regular updates on the progress of the conversion project to the Company's Audit Committee, Board

of Directors and external auditors and disclose key elements of our plan and processes as information becomes available during the transition period.

The changeover will include:

1. A diagnostic assessment of the key impact areas and a detailed assessment of accounting and measurement differences between IFRS and Canadian GAAP on current accounting policies, as well as new policies anticipated to be implemented as the Company transitions to becoming a gold producer, and
2. Retention of financial advisors to provide technical and process management assistance for the conversion.

This will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS principles in business processes, and Audit Committee approval of IFRS financial statements.

The Company's first financial statements completed under IFRS will be the interim financial statements for the three months ending March 31, 2011, which will include notes disclosing extensive transitional information and full disclosure of all new IFRS policies.

Critical accounting estimates

Going Concern

These consolidated interim financial statements of the Company for the three and six months ended June 30, 2009 and 2008 were prepared in accordance with GAAP applicable to a going concern which assumes that the Company will realize its assets, discharge its liabilities and meet its future obligations in the normal course of business. Accordingly, these interim consolidated financial statements do not include any adjustments for 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 these interim 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 June 30, 2009, the Company's current assets exceeded its current liabilities by \$199,000. The Company recorded a loss of \$376,000 for the three months ended June 30, 2009 and reported an accumulated deficit of \$51,069,000 as at that date. These circumstances can affect its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company continues to explore all available options to secure additional funding, including by means of equity and debt financing, sale of non-core assets and formation of strategic partnerships. Nevertheless, it is not possible to determine with any certainty the success or adequacy of these initiatives.

Asset Impairment

In preparing these 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 were made in respect of the assessment for the impairment of property, plant and equipment and the valuation of other assets and liabilities such as 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.

Changes to Internal Controls over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2009 that have affected or which are reasonably likely to materially affect the Company's internal control over financial reporting.

Share Capital

As at July 22, 2009, the Company had 55,548,876 common shares outstanding, incentive stock options outstanding to purchase 4,616,668 common shares at prices ranging from \$0.30 to \$4.28 per share for terms ending between November 2009 and April 2014. The Company also has warrants outstanding to purchase 12,500,000 common shares at a price of \$0.25 per share, exercisable between December 2010 and February 2011.

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 gold, the recovered grade of gold and in respect of diamonds, the relative quality of the diamonds extracted, 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. Failure to obtain such

additional financing will result in delay or indefinite postponement of further exploration and development of the Company's properties with the possible dilution or loss of such interests. 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. 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. 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 the second quarter of 2009.

July 22, 2009