Atlantic Gold

Chairman's address to Annual General Meeting Friday 28 May 2010

Since our AGM last year, the price of gold has increased by nearly US$250 per ounce. This remarkable 25% increase over the past twelve months has provided the industry with incentive for activity. We have seen gold miners increase their revenues, we have seen an increase in mergers and acquisitions, we have seen gold hedge books revisited, and we have seen lesser assets sold to finance the development of billion dollar gold projects. However, we have not seen a significant number of new small gold projects being developed. The reality is that finance for small gold projects is not readily available.

Late in 2009 we enlisted the support of Haywood Securities' Toronto based office to assist us in examining the possibility of a potential merger, collaboration or other arrangement that would allow our company and its assets direct access to the Canadian equity markets. The undertaking has progressed to the point of identifying several opportunities to achieve this goal. Negotiations have begun and offers discussed. We have agreed with Haywoods and the other parties involved, that it would be best to complete the Touquoy Feasibility Study before concluding negotiations.

The Touquoy Feasibility Study is a "work in progress" and has the potential to be completed within just a few weeks. The engineers are still detailing costs and are optimising various aspects including the use of suitable "second hand plant" which could save time and decrease the capital costs compared to designed, engineered, manufactured and procured new facilities. The availability of second hand processing plants in North America is encouraging and we are actively investigating this option as a means to materially reduce the capital cost of the initial development.

I have referred to the "Touquoy Feasibility Study"; however, we believe shareholders should view the value of the company's shares from the perspective of the Touquoy and Cochrane Hill Project as a whole, and to additionally take into consideration the excellent prospects for our future exploration activities to add materially to our gold resource inventories.

In our annual report released a few weeks ago we presented a Mineral Resource inventory, estimated by independent resource estimation specialists Hellman & Schofield Pty Ltd, which totalled 23 million tonnes containing 1.2 million ounces of gold (Table 2). We also presented an overview of the Touquoy and Cochrane Hill Projects and provided details of a Conceptual Financial Model for the development of Touquoy and Cochrane Hill in that report (Table 1).

The table illustrated that the recovered gold grade at Cochrane Hill is 20% higher than at Touquoy. It also demonstrated that on a 100% basis, and on one development scenario, the combined projects could produce 920,000 ounces of gold using a price of US$875 per ounce for pit optimizations and a revenue price of US$1000 per ounce. The model further showed that the projects, on a 100% ownership basis, would provide net cash of approximately A$34 million before tax and would generate an internal rate of return of approximately 40%. The conceptual study did not include the 99,000 ounces estimated by Hellman and Schofield at Touquoy West. Intuitively, one would think that the current spot price of approximately US$1200 per ounce, compared with the Model's US$1000 per ounce, would impact the Project positively in that both a greater number of ounces could be produced and greater revenue would be received.

So the question arises – why does the company think in terms of the Touquoy and Cochrane Hill Project as one project, and yet the Touquoy Feasibility Study is looking at only what is effectively Stage 1 of that Project? The answer of course is that Stage 1 of the Project – the Touquoy development – will be the sole focus of the bankers who will provide the Project financing debt. I say that because on the current measured and indicated resource at Touquoy and the gold price assumptions being used for the Touquoy Feasibility Study, mining at Touquoy will have a life of approximately 5 years.

The bankability of the Project will rely heavily on the results of the Touquoy Feasibility Study and the confidence that the bankers derive from it that the Project debt will be repaid wholly from the cash flows generated from Touquoy. In this regard, it is very important to remember that 100% of the cash flows from Touquoy will be available to meet Project interest and debt repayments, as our Touquoy co-venturers participate in the profits from Touquoy only once both the Project debt is repaid and Atlantic Gold recoups its expenditure of C$14 million or so on Touquoy to date.

Of course, once the Project debt is repaid, the cash flow available to fund our future activities and dividends for our shareholders will be substantially greater, even with our co-venturers sharing in it.

Accelerating the advancement of Cochrane Hill has very considerable merit. It is not a difficult or overly time consuming task to advance our state of knowledge of Cochrane Hill. We estimate that, providing finance is available, it would take about 6 months and cost about $4.5 million to do the required drilling, metallurgical studies, pit design, engineering, environmental and other associated studies for Cochrane Hill. At present there are no apparent adverse environmental or surface title issues at Cochrane Hill. We consider that the further exploration expenditure required in the Cochrane Hill area for Atlantic Gold to crystallise its interest has very good prospects of enhancing the Cochrane Hill resources. In addition, at Cochrane Hill we have a co-venturer willing to negotiate a reasonable deal to amalgamate our interests in that area.

Returning to Touquoy, in recent months we have made substantial progress on the surface title matters as a result of dedicated legal counsel undertaking title clearance; conveyance and associated tasks. Environmental Assessment Approval granted in February 2008 remains in good standing and applications for the Mining Lease and for Industrial Approval have been prepared and will be submitted on completion of surface title matters.

We continue to be encouraged by senior provincial government officials and the elected representatives of Nova Scotia and we thank them for that. The Minister of Natural Resources has commended us by saying, "I am impressed by your exploration success and the diligence with which you have exercised your environmental and social responsibilities with these projects" and assured us, "I will continue to do what I can to create a business climate that is supportive of mineral resource development."

Our shareholders have remained steadfast in their financial and moral support and on behalf of the Board, I thank you warmly. Wally Bucknell, our Chief Executive has endured many challenges in the past year but has worked faithfully and tirelessly to advance our projects and we thank him dearly for that. I also wish to thank my fellow directors, and our staff who have worked tirelessly again this year. We have had a helpful group of consultants and advisors who have applied their considerable expertise to our projects and I thank them.

R J Hawkes, Chairman
28 May 2010