



VOLCANIC
GOLD MINES INC.

(formerly Volcanic Metals Corp.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
(Unaudited)

FOR THE PERIOD ENDED MARCH 31, 2017

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

VOLCANIC GOLD MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
(Expressed in Canadian Dollars)

As at	March 31, 2017	December 31, 2016
ASSETS		
Current		
Cash	\$ 5,060,242	\$ 472,746
Receivables	11,692	6,973
Prepaid expenses and deposits	326,504	-
Total current assets	5,398,438	479,719
Non-current		
Long-term deposits	61,000	-
Mineral properties (Note 5)	2,001,276	-
Total non-current assets	2,062,276	-
	\$ 7,460,714	\$ 479,719
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 347,467	\$ 311,424
Total liabilities	347,467	311,424
Shareholders' equity		
Share capital (Note 7)	13,135,718	5,408,551
Share subscriptions received in advance (Note 7)	-	301,567
Other equity reserves (Note 7)	2,080,608	104,517
Deficit	(8,103,079)	(5,646,340)
Total shareholders' equity	7,113,247	168,295
	\$ 7,460,714	\$ 479,719

Approved and authorized by the Board on May 29, 2017.

“Michael Iverson” Director
Michael Iverson

“Jeremy Crozier” Director
Jeremy Crozier

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

VOLCANIC GOLD MINES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)**
(Expressed in Canadian Dollars)

	Three months ended March 31,	
	2017	2016
Exploration expenditures (Note 6)	\$ 422,495	\$ -
General and administrative expenses		
Consulting and management fees (Note 6)	66,900	15,000
Investor relations	144,208	-
Office and administration (Note 13)	20,116	3,752
Professional fees (Note 6)	23,459	945
Regulatory and filing fees	17,980	6,799
Salaries and benefits (Note 6)	15,525	-
Share-based compensation (Note 8)	1,732,230	-
Travel	28,724	-
	<u>2,049,142</u>	<u>26,496</u>
Loss before other items	(2,471,637)	(26,496)
Other items		
Foreign exchange loss	(34,852)	-
Recovery on write-off of accounts payable	49,750	-
Loss and comprehensive loss for the period	<u>\$ (2,456,739)</u>	<u>\$ (26,496)</u>
Basic and diluted loss per common share	<u>\$(0.08)</u>	<u>\$(0.00)</u>
Weighted average number of common shares outstanding	<u>32,730,145</u>	<u>14,629,266</u>

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

VOLCANIC GOLD MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
(Expressed in Canadian Dollars)

	Three months ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (2,456,739)	\$ (26,496)
Items not affecting cash:		
Recovery on write-off of accounts payable	(49,750)	-
Share-based payments	1,732,230	-
	(774,259)	(26,496)
Non-cash working capital item changes:		
Amounts receivable	(4,719)	1,370
Prepaid expenses and deposits	(326,504)	-
Long term deposits	(61,000)	-
Accounts payable and accrued liabilities	85,793	10,731
Net cash used in operating activities	(1,080,689)	(14,395)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	6,098,433	-
Share issuance costs	(236,831)	-
Net cash provided by financing activities	5,861,602	-
INVESTING ACTIVITIES		
Mineral property acquisitions	(193,417)	-
Net cash used in investing activities	(193,417)	-
Change in cash for the period	4,587,496	(14,395)
Cash, beginning of period	472,746	416,759
Cash, end of period	\$ 5,060,242	\$ 402,364

Supplemental disclosure with respect to cash flows (Note 12)

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

VOLCANIC GOLD MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(Expressed in Canadian Dollars)

	<u>Share capital</u>		<u>Other equity reserves</u>				<u>Total shareholders' equity</u>
	<u>Number</u>	<u>Amount</u>	<u>Share subscriptions received</u>	<u>Warrants reserve</u>	<u>Share-based payment reserve</u>	<u>Deficit</u>	
Balance, December 31, 2015	14,629,266	\$ 5,408,551	\$ -	\$ -	\$ 104,517	\$ (5,216,797)	\$ 296,271
Loss for the period	-	-	-	-	-	(26,496)	(26,496)
Balance, March 31, 2016	14,629,266	5,408,551	-	-	104,517	(5,243,293)	269,775
Loss for the period	-	-	-	-	-	(403,047)	(403,047)
Share subscriptions received	-	-	301,567	-	-	-	301,567
Balance, December 31, 2016	14,629,266	5,408,551	301,567	-	104,517	(5,646,340)	168,295
Loss for the period	-	-	-	-	-	(2,456,739)	(2,456,739)
Shares issued for mineral property acquisition	3,766,372	1,807,859	-	-	-	-	1,807,859
Shares issued for private placements	19,166,667	6,000,000	(301,567)	-	-	-	5,698,433
Shares issued for finders' fees	241,733	55,599	-	-	-	-	55,599
Share issuance costs	-	(536,291)	-	243,861	-	-	(292,430)
Warrants exercised	8,000,000	400,000	-	-	-	-	400,000
Share-based compensation	-	-	-	-	1,732,230	-	1,732,230
Balance, March 31, 2017	45,804,038	\$ 13,135,718	\$ -	\$ 243,861	\$ 1,836,747	\$ (8,103,079)	\$ 7,113,247

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

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

1. NATURE AND CONTINUANCE OF OPERATIONS

Volcanic Gold Mines Inc. is a publicly traded exploration company incorporated under the British Columbia Corporations Act on April 25, 2007. The Company together with its subsidiaries (collectively referred to as the “Company”) is principally engaged in acquisition and exploration of resource properties. The Company previously operated under “Volcanic Metals Corp.”; it changed its name to Volcanic Gold Mines Inc. on January 19, 2017 and it currently trades under the symbol “VG” on the TSX Venture Exchange.

The head office, principal address and records office of the Company are located at 200 Burrard Street, Suite 650, Vancouver, British Columbia, V6C 3L6, Canada.

The Company’s financial statements and those of its controlled subsidiaries (“condensed consolidated interim financial statements”) are presented in Canadian dollars.

The Company is in the process of exploring and evaluating its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material. At March 31, 2017, the Company had not yet achieved profitable operations, has accumulated losses of \$8,103,079 since its inception, and expects to incur further losses in the development of its business, all of which may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements are presented in Canadian dollars (“CAD”).

The preparation of condensed consolidated interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial statements are disclosed in Note 4.

VOLCANIC GOLD MINES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

2. BASIS OF PREPARATION (cont'd...)**Basis of Consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. A subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All material intercompany transactions and balances have been eliminated on consolidation.

Details of the Company's principal subsidiaries as at March 31, 2017 are as follows:

Name	Place of incorporation	Ownership %	Principal activity
Sovereign Mines of Africa Limited	British Virgin Islands	100%	Holding company
Sovereign Mines of Guinea Limited	British Virgin Islands	75%	Holding company
Guiord SA	Republic of Guinea	75%	Exploration company

Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standards ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss.

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2017 or later periods. They have not been early adopted in these financial statements. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 9, Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet made an assessment of the impact of the amendments.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The determination of the Company's and its subsidiaries' functional currency are determined based on management's assessment of the economic environment in which the entities operate.
- b) The application of the Company's accounting policy for mineral property expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral property assets.

In respect of costs incurred for its investment in mineral property assets, management has determined there are indicators of impairment. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.

- c) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- d) Although the Company has taken steps to identify any decommissioning liabilities related to mineral properties in which it has an interest, there may be unidentified decommissioning liabilities present.

The key estimates applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The Company may be subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business and on dispositions of mineral property or interests therein, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events, and interpretation of tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.
- b) Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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FOR THE PERIOD ENDED MARCH 31, 2017

5. MINERAL PROPERTIES

Mandiana Project

During the year ended December 31, 2016 the Company entered into an assignment agreement with Radius Gold Inc. ("Radius"), pursuant to which the Company was assigned a purchase agreement to acquire the Mandiana Project, a gold property located in Guinea, from Sovereign Mines of Africa PLC ("SMA").

On January 19, 2017, the Company completed the transaction and acquired all of the outstanding share capital of SMA's wholly owned subsidiary, Sovereign Mines of Africa Limited ("Sovereign Mines"), which holds an indirect 75% interest in a series of exploration permits located in Guinea commonly referred to as the Mandiana Project. The remaining 25% interest in the Mandiana Project is held by SOGUIPAMI, a Guinea government-owned business entity which conducts exploration of mineral projects in Guinea.

In consideration for acquiring the outstanding share capital of Sovereign Mines and for the assignment by Radius, the Company issued 2,502,489 common shares with a fair value of \$1,201,195 to SMA and 1,263,883 common shares with a fair value of \$606,664 to Radius. The Company also reimbursed Radius for certain expenses incurred during the year ended December 31, 2016 in the development of the transaction and granted to Radius certain rights to participate in future equity financings completed by the Company. Each of SMA, Sovereign Mines and Radius were at arm's length to the Company at the time of the transaction. Subsequent to the transaction, the Company and Radius have certain common officers.

The acquisition of the Mandiana Project has been accounted for as an asset acquisition. Net identifiable liabilities assumed totalled \$188,290. Of the purchase consideration, \$2,001,276 was allocated to mineral property asset costs and \$188,290 to accounts payable. Additional transaction costs of \$5,127 were recorded as mineral property asset costs.

WAMA Project

Subsequent to March 31, 2017, the Company entered into a binding letter agreement (the "Agreement") to acquire an indirect 80% interest in West African Associates SARL ("WAMA"), a private Guinean company which owns two exploration permits and three mining permits (the "WAMA Project") adjoining the Mandiana Project.

Agreement Terms

The Company has the option to acquire 100% of the issued shares of a British Virgin Islands corporation ("BVI"), which will hold 80% of the issued shares of WAMA. In order to exercise the option, the Company must:

- a) Issue in stages over a period of 34 months a total of 12 million common shares of the Company pro-rata to the shareholders of BVI, and incur exploration expenditures on the WAMA Project in stages totalling at least \$11.5 million. Of these expenditures, the Company must spend during an initial 120 day period ("Initial Phase") a minimum of \$500,000 on evaluation exploration work, including drill-testing, after which the Company will decide if it wishes to continue making the prescribed share issuances and exploration expenditures to complete the acquisition of BVI and the WAMA Project;
- b) Assume, subject to certain conditions, US\$9.1 million of debt (the "Debt") currently owing by WAMA to its principal shareholder (the "Debt Holder"). The Debt will become payable by the Company only upon the definition by the Company of a minimum Mineral Resource prepared in a manner consistent with current definitions and requirements as set out by CIM and Canadian National Instrument 43-101 ("Minimum Resource") of 1.5 million ounces of gold at a minimum grade of 2.0 g/t gold on the WAMA Project. The Debt would be repaid partly in cash and partly in common shares of the Company. The Company will initially make a secured cash loan of US\$500,000 to the Debt Holder (loaned subsequent to March 31, 2017), toward payment of the Debt, but this loan is to be reimbursed should the Company not opt to proceed beyond the Initial Phase; and

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

5. MINERAL PROPERTIES (cont'd...)

WAMA Project (cont'd...)

- c) Issue warrants (the "Warrants") entitling the Debt Holder to purchase up to 6.0 million common shares of the Company exercisable for a period of five years at a price of \$1.00 per share, to be exercisable (i) as to 50% at such time as the Company has completed its acquisition of 100% of BVI and has established the Minimum Resource, and (ii) as to 100% at such time as the Company has completed its acquisition of BVI and has established a Mineral Resource prepared in a manner consistent with current definitions and requirements as set out by CIM and Canadian National Instrument 43-101 of at least 2.0 million ounces of gold at a minimum grade of 2.0 g/t gold.

The Agreement is subject to approval by the TSX Venture Exchange.

Seimana Project

Subsequent to March 31, 2017, the Company entered into a binding and exclusive Memorandum of Understanding (the "MOU") to acquire up to a 100% interest in the Seimana Project in Guinea. The Seimana Project comprises four exploration permits, which together adjoin both the Mandiana Project and the WAMA Project.

MOU Terms

Pursuant to the terms of the MOU, the Company made subsequent to March 31, 2017 a cash payment of US\$17,640 to the Seimana optionors, which is to be used to complete the renewal of the mineral tenures that comprise the Seimana Project. Subject to completion of satisfactory due diligence on title to the Seimana Project, the Company will have the exclusive option to acquire a 70% interest in the Seimana Project by incurring exploration expenditures of US\$700,000 on the Seimana Project within 18 months of the effective date of the MOU, including expenditures of at least US\$300,000 within the first 6 months. Once the Company has acquired the 70% interest, the remaining 30% interest in the Seimana Project held by the optionors will remain undiluted until such time as the Company has incurred aggregate exploration expenditures of US\$2.0 million. Thereafter, the minority owners will have the right, but not the obligation, to participate in any project funding in proportion to their percentage ownership in the Project, or will be diluted proportionally.

VOLCANIC GOLD MINES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

6. RELATED PARTY TRANSACTIONS**Key management compensation**

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the periods ended March 31, 2017 and 2016 at their exchange amounts are the following items paid or accrued to key management personnel and/or companies with common directors. These transactions are in the normal course of operations.

	Three months ended March 31,	
	2017	2016
General and administrative expenses:		
Consulting and management fees	\$ 25,200	\$ 15,000
Salaries and benefits	3,667	-
Professional fees - accounting	5,000	945
Share-based compensation (value of stock option grants)	697,391	-
Exploration expenditures:		
Project management	30,900	-
	\$ 762,158	\$ 15,945

The value of stock option grants recorded as share-based compensation made to directors not specified as key management personnel during the period ended March 31, 2017 was \$134,979 (2016: \$Nil).

Balances and transactions with related parties not disclosed elsewhere in these condensed consolidated interim financial statements are as follows:

- a) During the period ended March 31, 2017, the Company accrued costs totaling \$55,051 (2016: \$Nil) from Radius for personnel, investor relations and travel costs incurred on the Company's behalf.
- b) During the period ended March 31, 2017, an amount of \$49,750 owing to a director for past services was waived by the director and written off.
- c) Included in accounts payable and accrued liabilities as of March 31, 2017 was \$53,386 (December 31, 2016: \$102,076) owing to Radius and \$54,535 (December 31, 2016: \$160,000) owing to directors and officers of the Company. The amounts owing are unsecured, interest-free and has no specific terms of repayment.

VOLCANIC GOLD MINES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

7. SHAREHOLDERS EQUITY**a) Common shares**

During the period ended March 31, 2017, the following share capital activity occurred:

- i) On January 5, 2017, the Company closed a private placement of 6,666,667 units at \$0.15 per unit for gross proceeds of \$1,000,000, of which \$301,567 had been received prior to December 31, 2016 and had been recorded as subscriptions received in advance. Each unit consists of one common share and one-half of one warrant, each whole warrant exercisable into one common share of the Company at \$0.25 per share until January 5, 2018. The warrants are subject to an acceleration provision such that if the closing price of the Company's shares for 10 consecutive trading days is \$0.40 or greater, the Company may give notice to the holders of the warrants that the warrants will expire 30 calendar days after receipt of such notice. In connection with this financing, the Company paid finders' fees of \$9,765 cash, 241,733 common shares and 427,700 warrants, each warrant exercisable at \$0.25 per share until January 5, 2018 and subject to the same acceleration provision as above. The fair value of the finders' fee shares was \$55,599, based on a value of \$0.23 per share, and recorded as share issuance costs. The fair value of the finders' fee warrants was \$31,308 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finders' fee warrant has been estimated as of the date of the issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 0.62%, dividend yield of 0%, volatility of 89% and expected life of one year. Other share issuance costs associated with this financing totalled \$14,570.
- ii) On January 19, 2017, the Company issued 3,766,372 common shares with a deemed value of \$1,807,859 for the acquisition of the Mandiana Project (Note 5).
- iii) On March 9, 2017, the Company closed a private placement of 12,500,000 units at \$0.40 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share and one warrant, each warrant exercisable into one common share of the Company at \$0.80 per share until March 8, 2022. The warrants are subject to an acceleration provision such that if the closing price of the Company's shares for 10 consecutive trading days is \$1.00 or greater, the Company may give notice to the holders of the warrants that the warrants will expire 30 calendar days after receipt of such notice. In connection with this financing, the Company paid finders' fees of \$183,470 cash and 550,655 warrants, each warrant exercisable at \$0.80 until March 8, 2022 and subject to the same acceleration provision as above. The fair value of the finders' fee warrants was \$212,553 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finders' fee warrant has been estimated as of the date of the issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.25%, dividend yield of 0%, volatility of 89% and expected life of five years. Other share issuance costs associated with this financing totalled \$29,026.
- iv) A total of 8,000,000 warrants were exercised for gross proceeds of \$400,000.

b) Warrants

A summary of share purchase warrants activity from January 1, 2016 to March 31, 2017 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	10,000,000	\$0.05
Balance, December 31, 2016	10,000,000	\$0.05
Issued on private placements	16,811,689	\$0.68
Exercised during the year	(8,000,000)	\$0.05
Balance, March 31, 2017	18,811,689	\$0.05

VOLCANIC GOLD MINES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

(Expressed in Canadian Dollars)

FOR THE PERIOD ENDED MARCH 31, 2017

7. SHAREHOLDERS EQUITY (cont'd...)**b) Warrants (cont'd...)**

Details of warrants outstanding as of March 31, 2017 are:

<u>Expiry date</u>	<u>Number of warrants</u>	<u>Exercise price</u>
January 5, 2018	3,761,034	\$0.25
January 17, 2019*	2,000,000	\$0.05
March 8, 2022	13,050,655	\$0.80
	18,811,689	

* In 2016, the Company extended the expiry date from January 17, 2017 to January 17, 2019

8. SHARE-BASED PAYMENTS**Option Plan Details**

The Company has a stock option plan whereby options may be granted to directors, employees, consultants and certain other service providers to encourage ownership of the Company's common shares. The Company may grant options for up to 10% of the issued and outstanding common shares. The term of any option granted under the plan may not exceed 10 years. The vesting periods for all options granted pursuant to the plan will be determined at the discretion of the Board of Directors at the time of the grant. The number of options granted to any one person may not exceed 5% of the outstanding listed common shares in a 12 month period.

The following is a summary of stock option activity during the period ended March 31, 2017:

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Opening balance</u>	<u>During the period</u>			<u>Closing balance</u>	<u>Vested and exercisable</u>
				<u>Granted</u>	<u>Exercised</u>	<u>Forfeited / cancelled</u>		
March 15, 2017	March 15, 2027	\$0.60	-	3,850,000	-	-	3,850,000	3,850,000
Weighted average exercise price			-	\$0.60	-	-	\$0.60	\$0.60

Fair Value of Options Issued

The weighted average fair value at grant date of options granted during the period ended March 31, 2017 was \$0.45 per option. There were no options granted during the period ended March 31, 2016.

The weighted average remaining contractual life of the options outstanding at March 31, 2017 is 9.96 years.

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

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8. SHARE-BASED PAYMENTS (cont'd...)

Fair Value of Options Issued (cont'd...)

The model inputs for options granted during the period ended March 31, 2017 included a risk-free interest rate of 1.21%, dividend yield of 0%, volatility of 108% and expected life of five years.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Expenses Arising from Share-based Payment Transactions

Total expenses arising from stock option grants during the period ended March 31, 2017 and recorded as share-based compensation expense was \$1,732,230 (2016: \$Nil).

As of March 31, 2017, there were no unrecognized compensation costs related to unvested share-based payment awards (December 31, 2016: \$Nil).

Amounts Capitalized Arising from Share-based Payment Transactions

Share-based payment transactions that were capitalized as part of mineral property assets during the period ended March 31, 2017 totaled \$1,807,859 (2016: \$Nil).

9. SEGMENT INFORMATION

The Company operates in a single reportable operating segment, being the exploration and development of mineral properties. The mineral property interests are located in the Republic of Guinea and substantially all of the exploration expenditures are incurred in the Republic of Guinea. Substantially all of the Company's other assets and expenditures are located and incurred in Canada.

10. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial assets and liabilities are classified in the in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significant of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short term nature of the financial instruments. Cash is valued at a level 1 fair value measurement and is classified as fair value through profit or loss. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

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10. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Risk management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of Goods and Services Tax receivable from the government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities and amounts due to related parties are due within one year.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's practice has been to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at March 31, 2017, the Company is not exposed to significant interest rate risk.

b) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign currency rates. The Company operates in Canada and the Republic of Guinea. A substantial portion of the Company's expenses are incurred in US dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at March 31, 2017, the Company had the Canadian dollar equivalent of cash totalling \$60,491 (December 31, 2016: \$18,295) held in US dollars and Canadian dollar equivalent of liabilities totalling \$28,310 (December 31, 2016: \$Nil) owed in US dollars.

Based on the above net exposure as at March 31, 2017, and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of approximately \$3,200 (2016: \$1,800) in the Company's net loss and comprehensive loss for the period ended March 31, 2017.

c) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

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11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition, exploration and development of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

The Company expects its capital resources as of March 31, 2017 to be sufficient to cover its corporate operating costs and carry out exploration activities for the next twelve months. The Company believes it will be able to raise additional debt or equity capital as required, but recognizes the uncertainty attached thereto.

12. SUPPLEMENTARY CASH FLOW INFORMATION

No cash was paid for interest or taxes for the periods ended March 31, 2017 and 2016.

During the period ended March 31, 2017, significant non-cash investing and financing transactions included 3,766,372 common shares with a fair value of \$1,807,859 issued for the purchase of the Mandiana Project and 241,733 common shares with a fair value of \$55,599 issued for private placement finders' fees.

There were no significant non-cash investing and financing transactions during the period ended March 31, 2016.

13. CHANGE IN PRESENTATION

The Company has reclassified certain prior period expenses to conform to the current year presentation of expenses.

14. SUBSEQUENT EVENTS

Subsequent to March 31, 2017, the following events which have not been disclosed elsewhere in these condensed consolidated interim financial statements have occurred:

- a) A total of 10,000 share purchase warrants were exercised for proceeds of \$2,500.