



**Interim Management's Discussion and Analysis – Quarterly Highlights  
For the three months ended March 31, 2017**

## **INTRODUCTION**

This interim management's discussion and analysis ("Interim MD&A") of Volcanic Gold Mines Inc. (the "Company") is the responsibility of management and covers the period ended March 31, 2017. The Interim MD&A takes into account information available up to and including May 29, 2017 and should be read together with the unaudited condensed consolidated interim financial statements and accompanying notes for the period ended March 31, 2017 and the audited annual consolidated financial statements and accompanying notes for the year ended December 31, 2016 which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

All financial information in this document is prepared in accordance with International Financial Reporting Standards and presented in Canadian dollars unless otherwise indicated. Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING INFORMATION**

This Interim MD&A contains certain statements which constitute forward-looking information within the meaning of applicable Canadian securities legislation ("Forward-looking Statements"). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this Interim MD&A include, without limitation, statements relating to:

- the Company's planned exploration activities for its mineral properties;
- the intended use of proceeds received from past and possible future financing activities;
- the sufficiency of the Company's cash position and its ability to raise equity capital or access debt facilities; and
- maturities of the Company's financial liabilities or other contractual commitments.

Often, but not always, these Forward-looking Statements can be identified by the use of words such as "anticipates", "believes", "plans", "estimates", "expects", "forecasts", "scheduled", "targets", "possible", "strategy", "potential", "intends", "advance", "goal", "objective", "projects", "budget", "calculates" or statements that events, "will", "may", "could" or "should" occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- risks associated with mineral exploration and project development;
- fluctuations in commodity prices;
- fluctuations in foreign exchange rates and interest rates;
- credit and liquidity risks;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- reliance on key personnel;
- property title matters;
- local community relationships;
- risks associated with potential legal claims generally or with respect to environmental matters;
- adequacy of insurance coverage;
- dilution from further equity financing;
- competition; and
- uncertainties relating to general economic conditions;

as well as those factors referred to in the "Risks and Uncertainties" section in this Interim MD&A.

Forward-looking Statements contained in this Interim MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration and development of the Company's properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matter;
- permitting, exploration and development activities proceeding on a basis consistent with the Company's current expectations;
- expected trends and specific assumptions regarding commodity prices and currency exchange rates;
- prices for and availability of fuel, electricity, equipment and other key supplies remaining consistent with current levels; and
- the accuracy of the Company's current mineral resource estimates.

These Forward-looking Statements are made as of the date hereof and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on Forward-looking Statements.

## **DESCRIPTION OF BUSINESS**

The Company's business is the acquisition and exploration of mineral properties, focused on consolidating a land package in under-explored Republic of Guinea, West Africa and its neighbouring countries. To date, the Company has acquired an interest in the Mandiana Project and signed option agreements on two adjacent gold properties, for a total land holding of almost 1,000 fully contiguous square kilometres of highly prospective ground.

On January 19, 2017, the Company changed its name from Volcanic Metals Corp. to Volcanic Gold Mines Inc. and is trading on the TSX Venture Exchange ("TSX-V") under the symbol "VG". During the first quarter of 2017, it raised gross proceeds totalling \$6.0 million from two private placement financings. As well, Jeremy Crozier and Robert Schafer have joined the Board of Directors, and Mr. Crozier was also appointed as President of the Company. Alexander Langer has been appointed to the new position of Vice-President, Capital Markets of the Company.

## EXPLORATION REVIEW

### *Mandiana Project*

In January 2017, the Company completed the acquisition of a 75% interest in the Mandiana Project, a gold property located in the Republic of Guinea, from Sovereign Mines of Africa PLC ("SMA").

The Mandiana Project consists of two contiguous exploration permits which cover an area of approximately 304 square kilometres situated approximately 80 kilometres southeast of AngloGold Ashanti's Siguiri gold mine in eastern Guinea. The Mandiana Project permits occupy a broadly north-south trending belt of gold occurrences shown on the published 1:1,000,000 map of gold deposits and lie within an area known as the Siguiri Basin. Intense artisanal gold mining is conducted throughout the area of the claims and supports the local economy.

The northern of the two claim blocks is the only area that has seen recorded modern exploration activity. Between 2010 and 2013, SMA drilled 119 reverse-circulation and diamond core holes for a total of over 16,000 metres of drilling, targeting under the areas of the artisanal mining activity. A Mineral Resource Statement for the Mandiana Project was issued by SMA in January 2014, prepared to JORC Code standards by SRK Consulting (UK) Ltd. The Company retained the services of SRK Consulting (Canada) Ltd. ("SRK") to update SMA's technical report to NI 43-101 standards and re issued a new Mineral Resource statement for Mandiana.

The Mandiana Project contains an Inferred Mineral Resource of 612,000 oz of contained gold (16.1 Mt at 1.18 g/t Au) for the four deposits drilled by SMA, including 510,000 oz of contained gold (13.3 Mt at 1.20 g/t Au) in the Yagbelen deposit. The Inferred Mineral Resource is given in the following table:

Category	Deposit	Quantity Mt	Gold Grade g/t	Contained Gold oz
Inferred	Yagbelen	13.3	1.20	510,000
	Foulouni	0.7	1.13	25,000
	Woyondjan	1.9	0.99	61,000
	Damantere	0.2	2.21	16,000
Inferred	Total	16.1	1.18	612,000

*Note: Mineral resources are reported in relation to a conceptual pit shell. Mineral resources are not mineral reserves and have not demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate. Open pit mineral resources are reported at a cut-off grade of 0.3 g/t gold.*

### *WAMA Project*

In April 2017, the Company entered into a binding option agreement to acquire from West African Associates SARL ("WAMA"), a private Guinean company, an indirect 80% interest in two exploration permits and three semi-industrial mining permits (the "WAMA Project") which adjoin the entire length of the southern boundary of, and lie within the same mineralized trends as the Mandiana Project. The acquisition is subject to TSX-V approval.

One of the most notable mineralized occurrences within the WAMA Project is the Farabakoura Prospect. During 2014 and 2015, WAMA drilled 89 inclined reverse circulation holes beneath lateritic artisanal workings at Farabakoura, results of which include:

Hole	From (metres)	To (metres)	Interval (metres)	Gold Grade (g/t)	Comments
FKRC003	64	71	7	29.0	Visible gold observed in RC chips
incl.	64	65	1	171.0	
FKRC005	68	80 (end of hole)	12	40.1	Visible gold observed in RC chips
incl.	69	71	2	220.3	
FKRC006	74	80	6	14.8	
incl.	75	76	1	38.6	
FKRC035	52	56	4	6.2	
and	68	74	6	14.9	
FKRC037	77	80	3	9.1	
FKRC048	27	39	12	4.0	
FKRC051	103	120 (end of hole)	17	2.0	
FKRC071	62	69	7	103.5	Visible gold observed in RC chips
incl.	63	66	3	236.4	
FKRC074	71	77	6	17.0	
incl.	73	75	2	39.8	
FKRC075	69	75	6	6.7	
FKRC076	81	87	6	18.2	
incl.	81	83	2	52.2	
FKRC077	78	79	1	148.0	
FKRC087	43	49	6	65.8	
incl.	45	47	2	192.5	

*Note: The reader is advised that the above results are historic in nature and are yet to be verified by the Company.*

Drilling was performed using a track-mounted UDR650 RC rig. Samples were then sent to ALS Minerals laboratory in Bamako, Mali where they were analyzed by 50 gram fire assay with an AAS finish. RC drill chips are preserved in chip trays, which have been inspected; quartz vein material similar to that observed in the overlying artisanal workings coincides with elevated gold values. Coarse, visible gold was observed in quartz veins from several holes. PVC drill collars are cemented and clearly labelled by WAMA, and are still in good condition. Based on verification of selected collars and their orientations against WAMA's drilling database, no discrepancies were observed.

As seen at Mandiana, artisanal workings at Farabakoura follow a semi-continuous north-south trend for approximately two kilometers, only a minor portion of which has been drill-tested. This trend is consistent with the orientation of dominant north-south mineralized structures seen elsewhere in the Siguiiri Basin; east-west displacements to this structure appear to give rise to higher grade zones of auriferous quartz-vein stockworks.

The Company commenced a drill program at Mandiana in early April 2017, to consist of approximately 2,000 metres of reverse-circulation and diamond core drilling. The program has been designed to gain important information regarding the geological structures that control the mineralization within the current Inferred Mineral Resource. Such information will contribute towards the definition of subsequent drilling activities within the 2017 exploration season. The program will also serve to infill areas of the Inferred Mineral Resource.

In addition to drilling, the Company intends to perform property-wide prospecting of artisanal workings (or *orpaillages*), high-resolution airborne magnetic surveying, as well as systematic geochemical sampling of the portions of the landholding not previously explored in this fashion. Very importantly, a strong north-south lineation is discernible in the *orpaillages*

throughout the property, and these extend clearly in both directions along strike from the current Inferred Mineral Resource on two trends, as well as on a third parallel trend to the west.

Most notably the present Inferred Mineral Resource was discovered using artisanal working as a targeting guide, and only a relatively small portion of these lineaments has been tested by drilling. The north-south orientation of the orpailages is of particular significance, as it is concordant with the dominant structural element that gives rise to mineralization both in the Siguiri Basin, and at the Siguiri Mine<sup>1</sup>, approximately 80 kilometres to the north of the Project. It is anticipated that the Company's prospecting and sampling program will serve to define a number of other features for near-term drill-testing.

<sup>1</sup> *Erwann Lebrun, John Miller, Nicolas Thébaud, Stanislav Ulrich, and T. Campbell McCuaig, Structural Controls on an Orogenic Gold System: The World-Class Siguiri Gold District, Siguiri Basin, Guinea, West Africa, in Economic Geology, v. 112, pp. 73–98.*

### ***Seimana Project***

In early May 2017, the Company entered into a binding and exclusive Memorandum of Understanding (the "MOU") to acquire an initial 70% interest in the Seimana Project in Guinea. This interest may be further increased to 100% through additional project expenditures. Seimana comprises four exploration permits, which together adjoin much of the western boundary of the Company's existing Mandiana Project ("Mandiana"), as well as the lands the Company has under option from West African Mining Associates SARL ("WAMA"), as announced by the Company on April 14, 2017. The acquisition of the Seimana Project will expand the Company's holding in the Mandiana district to almost 1,000 fully contiguous square kilometres of highly prospective Birimian terrain, characterized by widespread, linear zones of shallow artisanal gold mining.

Exploration at Seimana in 2014 and 2015 by a former option holder included the drilling of 31 reverse circulation holes for a total of approximately 3,000 metres of drilling over 9 of the 40 reported targets. In much the same fashion as drilling works conducted at the Mandiana and WAMA Projects – to which Seimana is geologically similar - these targets were derived from artisanal workings. Drilling results include:

- 4m @ 19.8g/t from 50m in hole TAMRC001
- 5m @ 2.64g/t from 61m in hole TAMRC002
- 10m @ 2.58g/t from 36m in hole KROURC001
- 5m @ 2.02g/t from 55m and 3m @ 3.50g/t from 66m in hole KROURC002
- 3m @ 5.6g/t from 26m in hole KOTRC001
- 3m @ 5.06g/t from 21m and 3m @ 3.50g/t from 66m in hole KRDRC002

*Note: The reader is advised that the above results are historic in nature and are yet to be verified by the Company.*

Earlier works at the Seimana Project include surface geochemical and rock-chip sampling, and broad prospecting of artisanal workings over much of the property. Mineralization at Seimana lies along strike from Avocet Mining's Resource<sup>1</sup> of 1.99 million ounces (Measured and Indicated) and 1.02 million ounces (Inferred) of gold at the Tri-K property, located 7 kilometres to the south of the Seimana Project. Mineralization appears to be associated with NW trending geological structures, in common with other known gold deposits within the Siguiri Basin. It is anticipated that the Company will include Seimana in its airborne geophysical survey program currently planned over its consolidated land package, to be followed-up by further prospecting, with the aim of defining and refining drilling targets at the Project.

<sup>1</sup> *Competent Persons' Report, 31 December 2014 (JORC standards)*

*Simon Meadows Smith, consulting geologist to the Company, is a Qualified Person as defined by National Instrument 43-101 -- Standards of Disclosure for Mineral Projects, and has reviewed and approved the disclosure of technical information contained in this MD&A. Mr. Meadows-Smith holds a BSc degree in geology from Nottingham University, England, and has been involved in mineral exploration since 1988, including 20 years of experience working in West Africa. He is a Fellow in good standing of the Institute of Materials, Minerals & Mining in London.*

**RESULT OF OPERATIONS**

The financial statements reflect the financial condition of the Company's business as at and for the periods ended March 31, 2017 and 2016.

During the period ended March 31, 2017 the Company incurred a loss \$2,456,739, compared to a loss of \$26,496 for the period ended March 31, 2016. Significant revenue and expenses for the period are as follows:

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Exploration expenditures	\$ 422,495	\$ -
Consulting and management fees	66,900	15,000
Investor relations	144,208	-
Office and administration	20,116	3,752
Professional fees	23,459	945
Regulatory and filing fees	17,980	6,799
Salaries and benefits	15,525	-
Share-based payments (relating to value of stock option grants)	1,732,230	-
Travel	28,724	-
Recovery on write-off of accounts payable	49,750	-

The Company incurred a significantly higher loss for the quarter ended March 31, 2017 due to more corporate and exploration activities, with the acquisition of the Mandiana Project and equity financings totaling \$6.0 million, whereas the Company had minimal activity during the comparative quarter. The current quarter was also significantly impacted by a non-cash share-based compensation expense of \$1,732,230 that relates to the value of stock options granted during the current quarter and vested immediately. Exploration costs are related to activity at the Mandiana Project and in other parts of Guinea. Consulting and management fees consist of fees paid or accrued to Radius for personnel costs prior to the Mandiana acquisition and fees paid or accrued to the VP, Capital Markets and a consultant providing advisory services, whereas the comparative period costs were related to fees paid or accrued to the CEO. Investor relations costs include agreements with third parties for capital market consulting and corporate development. Professional fees relate mostly to legal fees associated with corporate and property investigations activity, and accounting services provided by the former CFO. Salaries and benefits costs relate primarily to an administrative services company that provides personnel, including the Company's CFO and Corporate Secretary. The recovery on write-off of accounts payable relates to an amount owing to a director of the Company for past services. The director agreed to waive a portion of the amount owing and therefore a write-off was recorded.

**SUMMARY OF QUARTERLY RESULTS**

The Company's quarterly mineral properties, working capital balance and operating results over the last eight quarters are summarized as follows:

	Mar '17	Dec '16	Sept '16	June '16	Mar '16	Dec '15	Sept '15	Jun '15
Total assets	\$ 7,460,714	\$ 479,719	\$ 358,175	\$ 395,018	\$ 402,751	\$ 418,516	\$ 422,413	\$ 425,727
Mineral properties	2,001,276	-	-	-	-	-	-	-
Working capital	5,050,971	168,295	178,658	246,569	269,775	296,271	332,515	354,121
Loss for the period	(2,456,739)	(429,543)	(67,911)	(23,206)	(26,496)	(36,244)	(21,606)	(33,611)
Loss per share	(0.08)	(0.03)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)

For the quarters presented, the Company had minimal business activity up to the quarter ended September 30, 2016. With property investigation activities in the latter part of 2016 and the completion of a property acquisition in the most recent quarter, the Company has become significantly more active and hired a new President of the Company and engaged several consultants. As a result, there was an increase in operating expenses for the quarter ended December 31, 2016 and a larger

increase for the most recent quarter with exploration activity underway on the Mandiana Project. The most recent quarter's loss for the period also includes the aforementioned non-cash share-based compensation expense of \$1,732,230.

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2017, the Company had working capital of \$5,050,971. The Company has financed its operations to date primarily through the issuance of common shares. The Company's exploration activities do not provide a source of income and therefore the Company has a history of losses and an accumulated deficit.

During the period ended March 31, 2017, the Company completed equity financings to raise gross proceeds of \$6.0 million, and received \$400,000 from the exercise of 8,000,000 warrants. The Company expects its current capital resources to be sufficient to cover its corporate operating costs and to carry out exploration activities on its recently acquired properties over 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.

Net cash used in operating activities during the period ended March 31, 2017 was \$1,080,689 (2016: \$14,395).

Net cash used in investing activities during the period ended March 31, 2017 was \$193,417 (2016: \$Nil).

Net cash provided from financing activities during the period ended March 31, 2017 was \$5,861,602 (2016: \$Nil).

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations rely on the ability of the Company to continue to raise capital as and when needed.

## OUTSTANDING SHARE DATA

At the date of this Interim MD&A, the Company had outstanding 45,814,038 common shares and the following stock options and warrants:

<u>No. of options</u>	<u>Exercise price</u>	<u>Expiry date</u>
3,850,000	\$0.60	March 15, 2027
<u>No. of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
3,751,034	\$0.25	January 5, 2018
2,000,000	\$0.05	January 17, 2019
13,050,655	\$0.80	March 8, 2022
<u>18,801,689</u>		

## TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions that occurred during the current period are the following:

- i) An amount of \$49,750 owing to a director for past services was waived by the director and written off as of March 31, 2017.

See Note 6 of the condensed consolidated interim financial statements for the three months ended March 31, 2017 for details of other related party transactions which occurred in the normal course of business.

## RISKS AND UNCERTAINTIES

The operations of the Company are highly speculative due to the high-risk nature of its business in the mineral exploration industry. Companies in the exploration stage face a variety of risks and, while unable to eliminate all of them, the Company aims at managing and reducing such risks as much as possible. The Company faces a variety of risk factors such as, but not limited to, the following:

*Mineral Property Exploration and Mining Risks*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

*Joint Venture Funding Risk*

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

*Commodity Price Risk*

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

*Financing and Share Price Fluctuation Risks*

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues and corresponding effect on the Company's financial position.

*Political, Regulatory and Currency Risks*

The Company's mineral properties are located in the Republic of Guinea, which currently suffers from certain governance issues and a stressed economic and business climate. Operations in the Republic of Guinea are consequently subject to a higher level of risk compared to less economically stressed and more politically stable countries. Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in such nations can be affected by changing economic, regulatory and political situations. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its exploration expenditures in US dollars and Guinean francs. At this time there are no currency hedges in place. Therefore a weakening of the Canadian dollar against the US dollar and Guinean franc could have an adverse impact on the amount of exploration conducted.

*Insured and Uninsured Risks*

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise,

they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

#### *Environmental and Social Risks*

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are of consideration in the Republic of Guinea, the Company's primary area of operation, due to the existence of poverty. These social risks could have an adverse impact on the efficiency of performing planned exploration activities.

#### *Competition*

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.