



CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Volcanic Gold Mines Inc.

Opinion

We have audited the accompanying consolidated financial statements of Volcanic Gold Mines Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficiency) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Hawkshaw.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 28, 2021

VOLCANIC GOLD MINES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
ASSETS		
Current		
Cash	\$ 11,719,530	\$ 162,739
Receivables	15,315	3,923
Prepaid expenses and deposits (Note 9)	33,021	3,152
Exploration advances (Note 9)	8,796	-
Total current assets	11,776,662	169,814
Non-current		
Long-term deposits (Note 9)	61,000	61,000
Equipment (Note 5)	861	1,230
Mineral properties (Note 7)	100,000	-
Total non-current assets	161,861	62,230
	\$ 11,938,523	\$ 232,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 216,675	\$ 130,987
Total liabilities	216,675	130,987
Shareholders' equity		
Share capital (Note 10)	24,691,346	13,746,875
Other equity reserves (Note 10)	3,113,948	1,346,557
Deficit	(15,907,035)	(14,815,964)
Equity attributed to shareholders of the Company	11,898,259	277,468
Non-controlling interest (Note 6)	(176,411)	(176,411)
Total shareholders' equity	11,721,848	101,057
	\$ 11,938,523	\$ 232,044

Approved and authorized by the Board on April 28, 2021.

<u>“Simon Ridgway”</u>	Director	<u>“Michael Povey”</u>	Director
Simon Ridgway		Michael Povey	

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

VOLCANIC GOLD MINES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
Exploration expenditures (Note 8)	\$ 450,966	\$ -
General and administrative expenses		
Consulting and management fees (Note 9)	96,992	69,000
Depreciation (Note 5)	369	5,123
Legal and audit fees (Note 9)	58,250	23,544
Office and administration (Note 9)	50,746	53,549
Salaries and benefits (Note 9)	52,583	60,707
Share-based payments (Notes 9 and 11)	1,458,521	-
Shareholder communications (Note 9)	79,993	3,728
Transfer agent and regulatory fees (Note 9)	17,226	19,899
Travel (Note 9)	5,213	4,875
	1,819,893	240,425
Loss before other items	(2,270,859)	(240,425)
Other items		
Interest and other income	9,764	-
Foreign exchange gain	516	4,220
Gain on debt settlement (Note 10)	-	38,406
Loss and comprehensive loss for the year	\$ (2,260,579)	\$ (197,799)
Loss and comprehensive loss attributable to:		
Equity shareholders of the Company	\$ (2,260,579)	\$ (197,799)
Non-controlling interest (Note 6)	-	-
	\$ (2,260,579)	\$ (197,799)
Basic and diluted loss per common share attributable to equity shareholders of the Company	\$(0.11)	\$(0.03)
Weighted average number of common shares outstanding – basic and diluted	20,264,479	8,040,493

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

VOLCANIC GOLD MINES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (2,260,579)	\$ (197,799)
Items not affecting cash:		
Depreciation	369	5,123
Gain on debt settlement	-	(38,406)
Share-based payments	1,458,521	-
Non-cash working capital item changes:		
Receivables	(11,392)	8,493
Prepaid expenses and deposits	(29,869)	1,963
Accounts payable and accrued liabilities	49,882	(69,405)
Net cash used in operating activities	(793,068)	(290,031)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	13,614,980	375,000
Share issuance costs	(1,156,325)	(4,905)
Net cash provided by financing activities	12,458,655	370,095
INVESTING ACTIVITIES		
Exploration advances	(8,796)	-
Mineral property acquisitions	(100,000)	-
Net cash used in investing activities	(108,796)	-
Change in cash for the year	11,556,791	80,064
Cash, beginning of year	162,739	82,675
Cash, end of year	\$ 11,719,530	\$ 162,739

Supplemental cash flow information (Note 16)

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

VOLCANIC GOLD MINES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Equity (deficiency) attributed to shareholders of the Company							
	Number	Amount	Warrants and compensation options reserve	Share-based payment reserve	Deficit	Total equity attributed to shareholders	Non-controlling interest	Total
Balance, December 31, 2018	6,555,219	\$ 13,191,847	\$ 208,357	\$ 1,934,870	\$ (15,383,527)	\$ (48,453)	\$ (176,411)	\$ (224,864)
Loss for the year	-	-	-	-	(197,799)	(197,799)	-	(197,799)
Shares issued for debt settlement	548,661	153,625	-	-	-	153,625	-	153,625
Shares issued for private placement	1,500,000	375,000	-	-	-	375,000	-	375,000
Share issuance costs	-	(4,905)	-	-	-	(4,905)	-	(4,905)
Fair value of expired and forfeited options	-	-	-	(765,362)	765,362	-	-	-
Fair value of expired warrants	-	31,308	(31,308)	-	-	-	-	-
Balance, December 31, 2019	8,603,880	13,746,875	177,049	1,169,508	(14,815,964)	277,468	(176,411)	101,057
Loss for the year	-	-	-	-	(2,260,579)	(2,260,579)	-	(2,260,579)
Shares issued for private placements	23,117,100	6,683,234	31,171	-	-	6,714,405	-	6,714,405
Shares issued for public offering	12,546,500	6,775,110	125,465	-	-	6,900,575	-	6,900,575
Share issuance costs	-	(2,513,873)	1,321,742	-	-	(1,192,131)	-	(1,192,131)
Fair value of expired and forfeited options	-	-	-	(1,169,508)	1,169,508	-	-	-
Share-based payments	-	-	-	1,458,521	-	1,458,521	-	1,458,521
Balance, December 31, 2020	44,267,480	\$ 24,691,346	\$ 1,655,427	\$ 1,458,521	\$ (15,907,035)	\$ 11,898,259	\$ (176,411)	\$ 11,721,848

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

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Volcanic Gold Mines Inc. is a publicly traded 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 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.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses from inception and, despite a strong current working capital position, does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favorable terms. Management believes the Company has sufficient current working capital to operate for at least the next year at the current level of operations.

At the time these consolidated financial statements were prepared, the COVID-19 pandemic has caused significant disruptions to the global economy and increased volatility in the global financial markets. The extent to which COVID-19 may adversely impact the Company’s business and financing opportunities will depend on future developments such as the geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing at the properties, business closures or business disruptions, and the effectiveness of actions taken in Canada, and other countries to contain and treat the disease.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Measurement

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

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

The preparation of consolidated 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 consolidated financial statements are disclosed in Note 4.

Basis of Consolidation

These consolidated 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. The Company had no active subsidiaries during the years ended December 2020 and 2019.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

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 corporate group 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.

Loss Per Share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Exploration and Evaluation - Mineral Properties

Pre-exploration costs are expensed as incurred. Costs related to the acquisition of mineral properties are capitalized by property, and costs related to the exploration and evaluation of mineral properties are expensed as incurred, until the property reaches development stage. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments or periodic share issuances, amounts unpaid and unissued are not recorded as liabilities since they are payable and issuable entirely at the Company’s option. Option payments are recorded as mineral property costs when the payments are made and the share issuances are recorded as mineral property costs using the fair market value of the Company’s common shares at the earlier of the date the counterparty’s performance is complete or the share issuance date.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equipment and Depreciation

Recognition and Measurement

Equipment is recorded at cost less accumulated depreciation and any impairment losses.

Depreciation

Depreciation is recognized in profit or loss, and equipment is amortized over their estimated useful lives using the following methods:

Computer equipment	30% declining-balance
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Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning Provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties, oil and gas interests, and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the related asset.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "Unit") and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The value of the warrant components is measured using the residual value approach.

Share-based Payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. On the exercise of stock options, the applicable amounts of reserves are transferred to share capital and consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments, such as stock options and warrants, are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received. Upon expiry or forfeiture, the recorded value is transferred to deficit for stock options or share capital for warrants.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments

Financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized costs

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are not transferred to retained earnings (deficit) when the financial instrument is derecognized, or its fair value substantially decreases.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments (cont'd)

Financial liabilities

Financial liabilities are classified as amortized cost, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period, which are unpaid. Accounts payable and accrued liabilities are unsecured and are usually paid within 45 days of recognition.

The Company has made the following designations of its financial instruments:

Cash	FVTPL
Receivables	Amortized cost
Deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

New Standards Not Yet Adopted

The Company has reviewed upcoming policies and determined that none are expected to have an impact on the Company's consolidated financial statements.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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 consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) 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 no 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.

- b) 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.
- c) 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 consolidated 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) In estimating the fair value of share-based payments, using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates. Changes in assumptions used to estimate fair value could result in materially different results.

VOLCANIC GOLD MINES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2020 and 2019

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5. EQUIPMENT

	Computer equipment
Cost	
Balance, December 31, 2018 and 2019	\$ 11,628
Balance, December 31, 2020	\$ 11,628
Accumulated amortization	
Balance, December 31, 2018	\$ 5,275
Charge for year	5,123
Balance, December 31, 2019	10,398
Charge for year	369
Balance, December 31, 2020	\$ 10,767
Carrying amounts	
At December 31, 2019	\$ 1,230
At December 31, 2020	\$ 861

6. NON-CONTROLLING INTEREST

Non-controlling interests (“NCI’s”) in the net assets of consolidated subsidiaries are identified separately from the Company’s equity therein. Total comprehensive loss of the Company’s subsidiary is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

The Company adjusts the non-controlling interest by attributing a proportionate amount of the subsidiaries net identifiable assets. The Company also adjusts other comprehensive loss to reflect the new ownership interest. These adjustments are also recognized in equity.

For the year ended December 31, 2020, 25% of the net assets of the Company’s consolidated subsidiary, Guiord SA (“Guiord”), which formerly held the Mandiana mineral property, were attributable to its non-controlling interest. The value of the NCI at December 31, 2020 was a deficiency of \$176,411 (2019: \$176,411). There was no income or loss allocated to NCI during the years ended December 31, 2020 and 2019.

Summarized financial information in relation to Guiord, before intra-group eliminations, is presented below together with amounts attributed to NCI:

As at December 31	2020	2019
Current and non-current assets	\$ -	\$ -
Non-current liabilities	(705,643)	(705,643)
Net assets	\$ (705,643)	\$ (705,643)
Accumulated non-controlling interests	\$ (176,411)	\$ (176,411)

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7. MINERAL PROPERTIES

The Company capitalized the following acquisition costs of its mineral property interests during the period from January 1, 2019 to December 31, 2020:

	Holly and Banderas
Balance, December 31, 2018 and 2019	\$ -
Acquisition costs	100,000
Balance, December 31, 2020	\$ 100,000

Holly and Banderas Properties - Guatemala

In May 2020, the Company signed an agreement whereby it has been granted by Radius Gold Inc. (“Radius”) the exclusive option (the “Option”) to acquire a 60% interest in the Holly and Banderas gold-silver properties in Guatemala (the “Properties”). The Company may exercise the Option by raising a minimum \$3.0 million (completed on July 27, 2020) and spending US\$7.0 million on exploration of the Properties within 48 months from the date drilling permits for the properties are granted (granted subsequent to December 31, 2020). An initial US\$1.0 million must be spent on exploration within 12 months of receiving the required drill permits, including a minimum 3,000 metres of drilling. The Company also made a cash payment of \$100,000 to Radius which was recorded as a mineral property acquisition cost. Upon exercise of the Option, the Company will enter into a standard 60/40 joint venture with Radius in order to further develop the properties.

The Company also has the exclusive right for 24 months following the execution of the Option to evaluate the other property interests of Radius in eastern Guatemala and to enter into an agreement to acquire an interest in any of such other properties on reasonable mutually agreed upon terms.

The Company and Radius have one common director, namely, Simon Ridgway.

8. EXPLORATION EXPENDITURES

During the year ended December 31, 2020, the Company incurred the following exploration expenditures on the Holly and Banderas properties and property investigation costs:

	2020
Environmental	\$ 19,696
Field expenses	68,842
Geological and other consulting	199,979
Geophysics	7,904
Licenses, permitting and taxes	5,096
Office and administration	44,034
Project management	65,811
Salaries and benefits	17,228
Travel	22,376
	\$ 450,966

During the year ended December 31, 2019, no exploration expenditures were incurred.

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9. RELATED PARTY TRANSACTIONS

The Company had transactions during the years ended December 31, 2020 and 2019 with related parties consisting of directors, officers and the following companies with common directors:

Related party	Nature of transactions
Gold Group Management Inc. (“Gold Group”)	Shared office and administrative related charges
Mill Street Services Ltd. (“Mill Street”)	Consulting services
Radius	Property transaction and exploration support

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

- a) During the years ended December 31, 2020 and 2019, the Company reimbursed Gold Group, a private company controlled by Simon Ridgway, a Director and Chief Executive Officer of the Company, for the following costs:

	2020	2019
General and administrative expenses:		
Consulting and management fees	\$ -	\$ 3,000
Office and administration	45,055	42,083
Salaries and benefits	52,583	57,727
Shareholder communications	3,595	1,054
Transfer agent and regulatory fees	6,194	8,679
Travel and accommodation	3,654	4,684
	\$ 111,081	\$ 117,227

Gold Group is reimbursed by the Company for certain shared costs and other business-related expenses paid by Gold Group on behalf of the Company. Salaries and benefits for the years ended December 31, 2020 and 2019 include those for the Chief Financial Officer and the Corporate Secretary.

- b) Prepaid expenses and deposits as of December 31, 2020 includes an amount of \$231 (2019: \$1,152) paid to Gold Group.
- c) Exploration advances as of December 31, 2020 includes an amount of \$8,796 (2019: \$Nil) advanced to Radius for exploration expenditures to be incurred on the Company’s behalf.
- d) Long-term deposits as of December 31, 2020 consists of \$61,000 (2019: \$61,000) paid to Gold Group as a deposit pursuant to the Company’s office and administrative services agreement with Gold Group.
- e) Included in accounts payable and accrued liabilities as of December 31, 2020 was \$25,168 (2019: \$5,089) owing to Gold Group and \$2,000 (2019: \$Nil) to Michael Povey, a Director and Chairman of the Company, for consulting fees. The amount for Gold Group is due on a monthly basis and secured by a deposit.
- f) During the year ended December 31, 2019, the Company issued 548,660 common shares to related parties and a former related party to settle a total of \$192,031 in debt.

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9. RELATED PARTY TRANSACTIONS (cont'd)

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the years ended December 31, 2020 and 2019 are the following items paid or accrued to key management personnel and/or companies with common directors.

	2020	2019
General and administrative expenses:		
Consulting and management fees	\$ 83,775	\$ 66,000
Salaries and benefits	18,516	16,042
Share-based payments (value of stock options granted and vested)	617,804	-
Exploration expenditures:		
Project management	35,475	-
	<u>\$ 755,570</u>	<u>\$ 82,042</u>

Key management compensation includes consulting fees paid in 2019 and 2020 to Mill Street, a company controlled by Simon Ridgway, a Director and Chief Executive Officer of the Company.

The value of stock option grants issued to non-key management directors during the year ended December 31, 2020 was \$314,711 (2019: \$Nil).

10. SHAREHOLDERS EQUITY

a) Common shares

During the 2019 fiscal year, the Company completed a consolidation of the issued shares, warrants and stock options outstanding at April 8, 2019 on a one new for seven old basis. All references to common shares, warrants, stock options, and per share amounts in these consolidated financial statements have been updated to reflect the share consolidation.

During the year ended December 31, 2020, the following share capital activity occurred:

- i) On July 27, 2020, the Company closed a non-brokered private placement consisting of 20,000,000 units at \$0.25 per unit, for gross proceeds of \$5.0 million. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 for a period of two years. In connection with this financing, the Company paid finders' fees of \$312,083 cash and issued 1,497,330 finders fees warrants with the same terms as the private placement warrants. The fair value of the finders' fee warrants was \$1,014,441 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 0.24%, dividend yield of 0%, volatility of 126% and expected life of two years. Other share issuance costs associated with this financing totalled \$36,572.
- ii) On October 20, 2020, the Company closed a bought-deal public financing (the "Offering") with a syndicate of underwriters led by Haywood Securities Inc. and including Canaccord Genuity Corp. (collectively the "Underwriters"), and a concurrent private placement (the "Concurrent Private Placement"), for aggregate gross proceeds of \$8,614,980 (the "October Financings"). Pursuant to the Offering, the Company issued 12,546,500 units to the Underwriters at a price of \$0.55 per unit (the "Issue Price") for aggregate gross proceeds of \$6,900,575. Each unit consists of one common share in the capital of the Company and one-half of a warrant. Each whole warrant (the "Warrants") entitles the holder thereof to purchase one common share at a price of \$0.70 until April 20, 2022. Of the \$6,900,575 in gross proceeds, \$6,775,110 was allocated to share capital and \$125,465 to warrants using the residual value method.

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10. SHAREHOLDERS EQUITY (cont'd)

a) Common shares (cont'd)

ii) (cont'd)

Pursuant to the Concurrent Private Placement, the Company issued 3,117,100 units to Silvercorp Metals Inc. (“Silvercorp”) at the Issue Price for gross proceeds of \$1,714,405. Each unit consists of one common share in the capital of the Company and one-half of a warrant with the same terms as the Warrants. Of the \$1,714,405 in gross proceeds, \$1,683,234 was allocated to share capital and \$31,171 to warrants. Silvercorp, which held approximately 19.9% of the issued and outstanding shares of the Company prior to the Offering, exercised its participation right to maintain its 19.9% interest upon closing of the October Financings.

In connection with the Offering, the Underwriters received a cash commission of \$408,029 and were issued 741,870 compensation options exercisable at any time prior to October 20, 2022 at a price of \$0.55 per compensation option to purchase such number of units (the “Compensation Units”). Each compensation unit consists of one common share and one-half of a warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.70 until October 20, 2022. The fair value of the compensation options was \$251,642 and was recorded as share issuance costs and an offset to other equity reserves. The fair value of each compensation option 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 0.19%, dividend yield of 0%, volatility of 127% and expected life of two years.

In connection with the Concurrent Private Placement and a portion of the Offering, the Company paid a finder’s fee to Roth Capital Partners LP of \$133,098 cash and 241,997 finder’s warrants with the same terms as the Warrants. The fair value of the finder’s warrants was \$55,659 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finder’s 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 0.16%, dividend yield of 0%, volatility of 108% and expected life of eighteen months.

Other share issuance costs associated with the October Financings totalled \$302,349.

During the year ended December 31, 2019, the following share capital activity occurred:

- i) 548,661 common shares with a fair value of \$153,625 were issued to related parties and a former related party to settle a total of \$192,031 in debt, resulting in a gain on debt settlement of \$38,406. Share issuance costs associated with this transaction totalled \$1,660.
- ii) The Company closed a private placement of 1,500,000 units at \$0.25 per unit for gross proceeds of \$375,000. Each unit consisted of one common share of the Company and one warrant, each warrant entitling the holder to purchase one additional common share of the Company at \$0.35 for one year from closing. Share issuance costs associated with this financing totalled \$3,245.

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

A summary of warrants activity from January 1, 2019 to December 31, 2020 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2018	2,136,951	\$4.90
Issued on private placement	1,500,000	\$0.35
Expired during the year	(285,714)	\$0.35
Balance, December 31, 2019	3,351,237	\$3.25
Issued on private placements	13,274,077	\$0.35
Issued on public offering	6,297,050	\$0.70
Expired during the year	(1,500,000)	\$0.35
Balance, December 31, 2020	21,422,364	\$0.91

Details of warrants outstanding as of December 31, 2020 are:

Expiry date	Number of warrants	Exercise price
March 8, 2022	1,851,237	\$5.60
April 20, 2022	8,073,797	\$0.70
July 26, 2022	11,497,330	\$0.30
	21,422,364	

c) Compensation options

During the year ended December 31, 2020, a total of 741,870 compensation options with an exercise price \$0.55 and expiry date of October 20, 2022 were granted. Each compensation option is exercisable to purchase one common share of the Company and one-half of a warrant. Each whole warrant is exercisable to purchase one common share of the Company at \$0.70 until October 20, 2022.

There were no compensation options granted or outstanding during the year ended December 31, 2019.

Compensation options outstanding as of December 31, 2020 totaled 741,870 (2019: Nil).

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11. 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 year ended December 31, 2020:

Grant date	Expiry date	Exercise price	Opening balance	During the year			Closing balance	Vested and exercisable
				Granted	Exercised	Forfeited / cancelled		
Mar 15, 2017	Mar 14, 2027	\$4.20	367,855	-	-	(367,855)	-	-
Jun 27, 2017	Jun 26, 2027	\$4.20	3,571	-	-	(3,571)	-	-
Oct 7, 2020	Oct 6, 2030	\$0.57	-	2,525,000	-	-	2,525,000	2,325,000
Oct 9, 2020	Oct 8, 2030	\$0.57	-	325,000	-	-	325,000	325,000
			371,426	2,850,000	-	(371,426)	2,850,000	2,650,000
Weighted average exercise price			\$4.20	\$0.57	-	\$4.20	\$0.57	\$0.57

The following is a summary of stock option activity during the year ended December 31, 2019:

Grant date	Expiry date	Exercise price	Opening balance	During the year			Closing balance	Vested and exercisable
				Granted	Exercised	Forfeited / cancelled		
Mar 15, 2017	Mar 14, 2027	\$4.20	514,284	-	-	(146,429)	367,855	367,855
Jun 27, 2017	Jun 26, 2027	\$4.20	32,143	-	-	(28,572)	3,571	3,571
			546,427	-	-	(175,001)	371,426	371,426
Weighted average exercise price			\$4.20	-	-	\$4.20	\$4.20	\$4.20

The weighted average fair value at grant date of options granted during the year ended December 31, 2020 was \$0.57 per option. There were no options granted during the year ended December 31, 2019.

The weighted average remaining contractual life of the options outstanding at December 31, 2020 is 9.77 (2019: 7.21) 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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11. SHARE-BASED PAYMENTS (cont'd)

The model inputs for options granted during the year ended December 31, 2020 included a risk-free interest rate of 0.67%, dividend yield of 0%, volatility of 120% and expected life of ten years. The model inputs for options modified during the year ended December 31, 2020 included a risk-free interest rate of 0.43%, dividend yield of 0%, volatility of 103% and expected life of 6.4 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 year ended December 31, 2020 and recorded as share-based payments expense was \$1,458,521 (2019: \$Nil).

12. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Loss before income taxes	\$ (2,260,579)	\$ (197,799)
Expected income tax (recovery)	\$ (610,000)	\$ (53,000)
Non-deductible and other items	(49,000)	169,000
Change in foreign exchange and income tax rates	72,000	(63,000)
Change in unrecognized deductible temporary differences	587,000	(53,000)
Income tax recovery	\$ -	\$ -

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2020	Expiry date range	2019
Exploration and evaluation assets	\$ 5,499,000	N/A	\$ 4,830,000
Investment tax credits	4,000	2020-2040	4,000
Property and equipment	13,000	N/A	14,000
Share issue costs	1,004,000	2039-2044	99,000
Non-capital losses	5,958,000	2026-2039	5,387,000
	\$ 12,478,000		\$ 10,334,000

13. SEGMENT INFORMATION

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

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14. 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 significance 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, deposits 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 and long-term deposits are classified as amortized cost. Accounts payable and accrued liabilities are classified as amortized cost.

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.

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 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 December 31, 2020, the Company is not exposed to significant interest rate risk.

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

Market risk (cont'd)

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 Guatemala. 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 December 31, 2020 and 2019, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

As at December 31,	<u>2020</u>		<u>2019</u>	
	US Dollars (CDN equivalent)		US Dollars (CDN equivalent)	
Cash	\$	10,848	\$	2,735
Accounts payable and accrued liabilities		(135,938)		(88,335)
Net exposure	\$	(125,090)	\$	(85,600)

Based on the above net exposure as at December 31, 2020, 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 \$12,500 in the Company's loss and comprehensive loss for the year ended December 31, 2020 (2019: \$8,600).

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.

15. 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.

With the proceeds of a public offering and private placements raised during the current year, the Company expects its capital resources to be sufficient to carry out its planned exploration expenditures and cover operating costs through the next twelve months.

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16. SUPPLEMENTARY CASH FLOW INFORMATION

No cash was paid for interest or taxes for the years ended December 31, 2020 and 2019.

During the year ended December 31, 2020, significant non-cash investing and financing transactions included the Company issuing i) 1,497,330 finders' fee warrants with a fair value of \$1,014,441; ii) 241,997 finders' fee warrants with a fair value of \$55,659, iii) 741,870 compensation options with a fair value of \$251,642 as part of equity financings; and iv) accrued share issuance costs of \$35,806 through accounts payable and accrued liabilities.

During the year ended December 31, 2019, significant non-cash investing and financing transactions included the Company issuing 548,661 common shares to related parties and a former related party to settle a total of \$192,031 in debt.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the following events which have not been disclosed elsewhere in these consolidated financial statements have occurred:

- a) A total of 332,600 warrants with an exercise price of \$0.30 per share were exercised for proceeds of \$99,780.
- b) A total of 300,000 stock options with an exercise price of \$0.45 per share and life of ten years and 800,000 stock options with an exercise price of \$0.57 per share and life of ten years were granted.