



CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2023

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, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit 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 audit is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no KAMs to communicate within our auditor's report.

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 Accounting Standards, 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 18, 2024

VOLCANIC GOLD MINES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
ASSETS		
Current		
Cash	\$ 3,161,749	\$ 5,595,923
Receivables (Note 9)	19,376	18,506
Prepaid expenses and deposits (Note 9)	19,460	28,264
Total current assets	3,200,585	5,642,693
Non-current		
Long-term deposits (Note 9)	61,000	61,000
Equipment (Note 5)	95,431	141,056
Mineral properties (Note 7)	304,873	100,000
Total non-current assets	461,304	302,056
	\$ 3,661,889	\$ 5,944,749
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 234,330	\$ 265,446
Total liabilities	234,330	265,446
Equity		
Share capital (Note 10)	26,575,256	26,575,256
Other equity reserves (Note 10)	1,989,185	1,960,086
Deficit	(24,960,471)	(22,679,628)
Equity attributed to shareholders of the Company	3,603,970	5,855,714
Non-controlling interest (Note 6)	(176,411)	(176,411)
Total equity	3,427,559	5,679,303
	\$ 3,661,889	\$ 5,944,749

Nature and continuance of operations (Note 1)

Subsequent event (Note 17)

Approved and authorized by the Board on April 18, 2024.

<u>“Simon Ridgway”</u>	Director	<u>“Scott Ackerman”</u>	Director
Simon Ridgway		Scott Ackerman	

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, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
Exploration expenditures (Notes 8 and 9)	\$ 1,861,236	\$ 2,211,924
General and administrative expenses		
Consulting and management fees (Note 9)	78,000	72,000
Depreciation (Note 5)	48,063	44,904
Legal and audit fees	49,806	53,330
Office and administration (Note 9)	111,640	86,295
Salaries and benefits (Note 9)	136,175	139,245
Share-based payments expense (recovery) (Notes 9 and 11)	42,048	(33,990)
Shareholder communications (Note 9)	49,251	75,631
Transfer agent and regulatory fees (Note 9)	27,952	27,380
Travel (Note 9)	26,435	24,813
	569,370	489,608
	(2,430,606)	(2,701,532)
Interest and other income	142,088	94,702
Foreign exchange loss	(5,274)	(49,672)
Loss on disposal of equipment (Note 5)	-	(152)
Loss and comprehensive loss for the year	\$ (2,293,792)	\$ (2,656,654)
Loss and comprehensive loss attributable to:		
Equity shareholders of the Company	\$ (2,293,792)	\$ (2,656,654)
Non-controlling interest (Note 6)	-	-
	\$ (2,293,792)	\$ (2,656,654)
Basic and diluted loss per common share attributable to equity shareholders of the Company	\$(0.05)	\$(0.06)
Weighted average number of common shares outstanding – basic and diluted	45,551,210	45,549,957

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, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (2,293,792)	\$ (2,656,654)
Items not affecting cash:		
Depreciation	48,063	44,904
Share-based payments expense (recovery)	42,048	(33,990)
Loss on disposal of equipment	-	152
Non-cash working capital item changes:		
Receivables	(870)	(3,834)
Prepaid expenses and deposits	8,804	20,216
Exploration advances	-	5,271
Accounts payable and accrued liabilities	(31,116)	12,352
Net cash used in operating activities	(2,226,863)	(2,611,583)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	-	2,250
Net cash provided by financing activities	-	2,250
INVESTING ACTIVITIES		
Purchase of equipment	(2,438)	(40,303)
Proceeds on disposal of equipment	-	21,139
Mineral property acquisition	(204,873)	-
Net cash used in investing activities	(207,311)	(19,164)
Change in cash for the year	(2,434,174)	(2,628,497)
Cash, beginning of year	5,595,923	8,224,420
Cash, end of year	\$ 3,161,749	\$ 5,595,923

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 EQUITY
For the years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Equity attributed to shareholders of the Company							Non-controlling interest	Total
	Number	Amount	Warrants and compensation options reserve	Share-based payment reserve	Deficit	Total equity attributed to shareholders			
Balance, December 31, 2021	45,543,710	\$ 25,140,089	\$ 1,589,553	\$ 1,965,090	\$ (20,150,624)	\$ 8,544,108	\$ (176,411)	\$ 8,367,697	
Loss for the year	-	-	-	-	(2,656,654)	(2,656,654)	-	(2,656,654)	
Warrants exercised	7,500	2,250	-	-	-	2,250	-	2,250	
Transfer of other equity reserve on exercise of warrants	-	1,181,275	(1,181,275)	-	-	-	-	-	
Transfer of other equity reserve on expiry of compensation options	-	251,642	(251,642)	-	-	-	-	-	
Reversal of share-based payments	-	-	-	(33,990)	-	(33,990)	-	(33,990)	
Transfer of other equity reserve of expired and forfeited options	-	-	-	(127,650)	127,650	-	-	-	
Balance, December 31, 2022	45,551,210	26,575,256	156,636	1,803,450	(22,679,628)	5,855,714	(176,411)	5,679,303	
Loss for the year	-	-	-	-	(2,293,792)	(2,293,792)	-	(2,293,792)	
Transfer of other equity reserve of expired and forfeited options	-	-	-	(12,949)	(12,949)	-	-	-	
Share-based payments	-	-	-	42,048	-	42,048	-	42,048	
Balance, December 31, 2023	45,551,210	\$ 26,575,256	\$ 156,636	\$ 1,832,549	\$ (24,960,471)	\$ 3,603,970	\$ (176,411)	\$ 3,427,559	

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, 2023 and 2022

(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 (“TSX-V”).

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 IFRS Accounting 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.

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”).

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 intercompany transactions and balances have been eliminated on consolidation.

Details of the Company’s principal subsidiary as at December 31, 2023 is as follows:

Name	Place of incorporation	Ownership %	Principal activity
Recursos del Golfo S.A.	Guatemala	100%	Exploration company

The Company also has interests in other, inactive, subsidiaries (Note 6).

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION

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 Assets - Mineral Properties

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, 2023 and 2022

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (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
Furniture and equipment	20% declining-balance
Field equipment	4 years straight-line
Vehicles	5 years straight-line

Impairment of Non-Financial Assets

At the end of each reporting period, the Company's non-financial assets, including exploration and evaluation 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.

As at December 31, 2023 and 2022, the Company had no significant asset retirement or rehabilitation obligations.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (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, 2023 and 2022

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (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).

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.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd)

Financial Instruments (cont'd)

Financial liabilities (cont'd)

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	Amortized cost
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 a material impact on the Company's consolidated financial statements.

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.

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

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.

5. EQUIPMENT

	Computer equipment	Furniture and equipment	Field equipment	Vehicles	Total
Cost					
Balance, December 31, 2021	\$ 18,516	\$ 2,562	\$ -	\$ 186,155	\$ 207,233
Additions	8,231	-	32,072	-	40,303
Disposals	(2,060)	-	-	(25,048)	(27,108)
Balance, December 31, 2022	24,687	2,562	32,072	161,107	220,428
Additions	2,438	-	-	-	2,438
Balance, December 31, 2023	\$ 27,125	\$ 2,562	\$ 32,072	\$ 161,107	\$ 222,866
Accumulated amortization					
Balance, December 31, 2021	\$ 12,318	\$ 256	\$ -	\$ 27,711	\$ 40,285
Charge for year	3,473	692	8,018	32,721	44,904
Disposals	(2,060)	-	-	(3,757)	(5,817)
Balance, December 31, 2022	13,731	948	8,018	56,675	79,372
Charge for year	5,451	484	8,237	33,891	48,063
Balance, December 31, 2023	\$ 19,182	\$ 1,432	\$ 16,255	\$ 90,566	\$ 127,435
Carrying amounts					
At December 31, 2022	\$ 10,956	\$ 1,614	\$ 24,054	\$ 104,432	\$ 141,056
At December 31, 2023	\$ 7,943	\$ 1,130	\$ 15,817	\$ 70,541	\$ 95,431

During the 2022 fiscal year, the Company sold a vehicle for proceeds of \$21,139 and recorded a loss on disposal of \$152.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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, 2023, 25% (2022: 25%) of the net assets of the Company’s consolidated subsidiary, Guiord SA (“Guiord”), were attributable to its non-controlling interest. The value of the NCI at December 31, 2023 was a deficiency of \$176,411 (2022: \$176,411). There was no income or loss allocated to NCI during the years ended December 31, 2023 and 2022.

7. MINERAL PROPERTIES

The Company capitalized the following acquisition costs of its mineral property interests during the years ended December 31, 2022 and December 31, 2023:

<u>Acquisition costs</u>	<u>Holly</u>	<u>Motagua Norte</u>	<u>Total</u>
Balance, December 31, 2021 and 2022	\$ 100,000	\$ -	\$ 100,000
Additions - cash	-	204,873	204,873
Balance, December 31, 2023	\$ 100,000	\$ 204,873	\$ 304,873

Holly, Banderas, and Motagua Norte 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. During the year ended December 31, 2023, Radius was granted the Cirilo I exploration licence in the Motagua Norte project area of Guatemala. In September 2023, the Option was modified to include the Motagua Norte project in substitution for the Banderas project. Management determined the projects were of equivalent value and accordingly no gain or loss was recognized on this substitution. The original earn-in requirement to spend US\$7.0 million in exploration of the properties remains unchanged. Under the modified option agreement, the Company has an exclusive option to earn a 60% interest in Radius’ Holly and Motagua Norte properties by spending US\$7.0 million on exploration of the properties, of which US\$1,764,778 is required to be spent on Motagua Norte. Expenditures made by the Company on exploration of the Banderas property are credited towards the US\$7.0 million expenditure requirement.

In December 2023, Radius entered into a surface rights option agreement (the “Surface Rights Option”) with the owner of certain lands comprising a portion of the Motagua Norte project, and Radius granted to the Company the option to acquire a 60% interest in such lands by assuming the option payments due to the landowner. At that time, the Company paid \$204,873 (US\$150,000) as an initial option payment and recorded this amount as a mineral property acquisition cost. Pursuant to the terms of these agreements and the Mineral Rights Option described above, the Company can acquire a 60% interest in minerals rights to the Holly and Motagua Norte Projects and 60% of a portion of the surface rights to Motagua Norte. To exercise the Surface Rights Option, the Company must make staged payments totaling US\$2.5 million over 24 months, with the final payment of US\$2.0 million being due on the twenty-fourth month. Any reimbursement of such payments made by the Company will be credited toward the US\$7.0 million required to exercise the Mineral Rights Option.

If the Mineral Rights Option and the Surface Rights Option are exercised, the Company and Radius will form a 60/40 joint venture ownership of said mineral rights and surface rights, and Radius will contribute to the joint venture its 40% share of the Surface Rights Option payments made by the Company which are over and above the US\$7.0 million to be incurred by the Company in order to exercise the Mineral Rights Option.

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

8. EXPLORATION EXPENDITURES

During the year ended December 31, 2023, the Company incurred the following exploration expenditures:

	2023			
	Holly and Banderas	Motagua Norte	Regional and General	Total
Assaying	\$ 306	\$ 45,061	\$ 8,146	\$ 53,513
Community relations	112,117	19,744	-	131,861
Environmental	17,494	28,292	8,964	54,750
Field expenses	36,815	28,257	30,812	95,884
Geological and other consulting	382,579	237,969	145,716	766,264
Legal and accounting	77,969	88,708	9,861	176,538
Licenses, permitting and taxes	8,417	5,152	-	13,569
Office and administration	75,482	45,522	61,028	182,032
Project management	74,369	44,656	-	119,025
Salaries and benefits	137,932	63,411	2,740	204,083
Travel	51,960	25,895	24,692	102,547
	975,440	632,667	291,959	1,900,066
Expense recoveries	(19,158)	(6,413)	(13,259)	(38,830)
	\$ 956,282	\$ 626,254	\$ 278,700	\$ 1,861,236

During the year ended December 31, 2022, the Company incurred the following exploration expenditures:

	2022		
	Holly and Banderas	Regional	Total
Assaying	\$ 118,184	\$ 38,059	\$ 156,243
Community relations	180,931	4,366	185,297
Drilling	102,479	-	102,479
Environmental	54,189	-	54,189
Field expenses	131,177	28,713	159,890
Geological and other consulting	557,036	201,893	758,929
Legal and accounting	105,227	40,232	145,459
Licenses, permitting and taxes	23,105	-	23,105
Office and administration	144,890	70,131	215,021
Project management	114,861	-	114,861
Salaries and benefits	202,743	6,997	209,740
Travel	95,293	29,471	124,764
	1,830,115	419,862	2,249,977
Expense recoveries	(30,442)	(7,611)	(38,053)
	\$ 1,799,673	\$ 412,251	\$ 2,211,924

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

The Company had transactions during the years ended December 31, 2023 and 2022 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, 2023 and 2022, 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:

	2023	2022
General and administrative expenses:		
Office and administration	\$ 85,671	\$ 67,033
Salaries and benefits	136,175	139,245
Shareholder communications	30,963	33,218
Transfer agent and regulatory fees	11,874	8,004
Travel and accommodation	25,922	21,862
	\$ 290,605	\$ 269,362
Exploration expenditures	\$ 12,509	\$ -

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 year ended December 31, 2023 include those for the Chief Financial Officer, the Vice President of Corporate Development, and the Corporate Secretary (2022: includes those for the Chief Financial Officer and the Corporate Secretary).

- b) Receivables as of December 31, 2023 includes an amount of \$9,594 (2022: \$9,556) due from Radius for shared exploration costs.
- c) Prepaid expenses and deposits as of December 31, 2023 includes an amount of \$3,744 (2022: \$10,973) paid to Gold Group.
- d) Long-term deposits as of December 31, 2023 consists of \$61,000 (2022: \$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, 2023 was \$21,839 (2022: \$73,708) owing to Gold Group, \$6,000 (2022: \$4,000) owing to Michael Povey, a Director and Chairman of the Company, for consulting fees, and \$8,730 (2022: \$Nil) owing to Luc English, the Vice President of Exploration of the Company, for consulting fees and expense reimbursement. The amount for Gold Group is due on a monthly basis and secured by a deposit.

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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, 2023 and 2022 are the following items paid or accrued to key management personnel and/or companies with common directors.

	2023	2022
General and administrative expenses:		
Consulting and management fees	\$ 78,000	\$ 72,000
Salaries and benefits	60,816	29,684
Share-based payments (value of stock options granted and vested)	42,048	-
Exploration expenditures:		
Consulting and management fees	227,741	181,580
	\$ 408,605	\$ 283,264

Key management compensation includes consulting fees paid in 2022 and 2023 to Mill Street, a company controlled by Simon Ridgway, a Director and Chief Executive Officer of the Company.

There were no stock option grants issued to key or non-key management directors during the years ended December 31, 2023 and 2022.

10. EQUITY**a) Common shares**

The Company is authorized to issue an unlimited number of common and preferred shares without par value.

As at December 31, 2023, 45,551,210 (2022: 45,551,210) common shares and nil preferred shares were issued and outstanding.

There was no share capital activity during the year ended December 31, 2023.

During the year ended December 31, 2022, a total of 7,500 share purchase warrants were exercised at a price of \$0.30 per share for proceeds of \$2,250.

b) Warrants

A summary of warrants activity from January 1, 2022 to December 31, 2023 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2021	20,146,134	\$0.95
Exercised during the year	(7,500)	\$0.30
Expired during the year	(3,493,334)	\$3.14
Balance, December 31, 2022	16,645,300	\$0.49
Balance, December 31, 2023	16,645,300	\$0.49

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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

Details of warrants outstanding as of December 31, 2023 are:

<u>Expiry date</u>	<u>Number of warrants</u>	<u>Exercise price</u>
July 26, 2024 ⁽¹⁾ ⁽³⁾	8,813,500	\$0.30
April 18, 2025 ⁽²⁾ ⁽³⁾	7,831,800	\$0.70
	16,645,300	

⁽¹⁾ During the 2022 fiscal year, the expiry date for these warrants was extended by one year to July 26, 2023. During the 2023 fiscal year, the expiry date for these warrants was extended further by one year to July 26, 2024.

⁽²⁾ During the 2022 fiscal year, the expiry date for these warrants was extended by one year to April 20, 2023. During the 2023 fiscal year, the expiry date for these warrants was extended further by one year to April 19, 2024. Subsequent to December 31, 2023 and subject to TSX-V approval, the expiry date for these warrants were extended further by one year to April 18, 2025.

⁽³⁾ There was no additional value attributed to the warrants upon modification.

c) Compensation options

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

During the year ended December 31, 2022, all 741,870 compensation options expired unexercised.

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, 2023:

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Opening balance</u>	<u>During the year</u>			<u>Closing balance</u>	<u>Vested and exercisable</u>
				<u>Granted</u>	<u>Exercised</u>	<u>Forfeited / cancelled</u>		
Oct 7, 2020	Oct 6, 2030	\$0.57	2,300,000	-	-	(25,000)	2,275,000	2,275,000
Oct 9, 2020	Oct 8, 2030	\$0.57	325,000	-	-	-	325,000	325,000
Jan 28, 2021	Jan 27, 2031	\$0.57	800,000	-	-	-	800,000	800,000
Jan 10, 2023	Jan 9, 2033	\$0.205	-	225,000	-	-	225,000	225,000
			3,425,000	225,000	-	(25,000)	3,625,000	3,625,000
		Weighted average exercise price	\$0.57	\$0.21	-	\$0.57	\$0.55	\$0.55

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

11. SHARE-BASED PAYMENTS (cont'd)

The following is a summary of stock option activity during the year ended December 31, 2022:

Grant date	Expiry date	Exercise price	Opening balance	During the year		Forfeited / cancelled	Closing balance	Vested and exercisable
				Granted	Exercised			
Oct 7, 2020	Oct 6, 2030	\$0.57	2,525,000	-	-	(225,000)	2,300,000	2,300,000
Oct 9, 2020	Oct 8, 2030	\$0.57	325,000	-	-	-	325,000	325,000
Jan 28, 2021	Jan 27, 2031	\$0.57	800,000	-	-	-	800,000	800,000
Nov 30, 2021	Nov 29, 2031	\$0.50	800,000	-	-	(800,000)	-	-
			4,450,000	-	-	(1,025,000)	3,425,000	3,425,000
Weighted average exercise price			\$0.56	-	-	\$0.52	\$0.57	\$0.57

The fair value at grant date of 225,000 options granted during the year ended December 31, 2023 was \$0.19 per option. There were no options granted during the year ended December 31, 2022.

The weighted average remaining contractual life of the options outstanding at December 31, 2023 is 6.98 (2022: 7.84) 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.

The model inputs for options granted during the year ended December 31, 2023 included a risk-free interest rate of 3.1%, dividend yield of 0%, volatility of 103% and expected life of ten 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, 2023 and recorded as share-based payments expense was \$42,048. There was a share-based payments recovery of \$33,990 arising from the forfeiture of unvested options recorded during the year ended December 31, 2022.

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

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

12. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Loss before income taxes	\$ (2,293,790)	\$ (2,656,654)
Expected income tax (recovery)	\$ (619,000)	\$ (717,000)
Non-deductible and other items	35,000	10,000
Adjustments to prior years provision versus statutory returns	-	(230,000)
Change in unrecognized deductible temporary differences	584,000	937,000
Income tax recovery	\$ -	\$ -

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

	2023	Expiry date range	2022
Exploration and evaluation assets	\$ 9,857,000	N/A	\$ 7,996,000
Investment tax credits	4,000	2021-2043	4,000
Allowable capital losses	899,000	N/A	899,000
Property and equipment	132,000	N/A	100,000
Share issue costs	238,000	N/A	478,000
Non-capital losses	8,012,000	2026-2043	7,429,000
	\$ 19,142,000		\$ 16,906,000

13. SEGMENT INFORMATION

The Company operates in a single reportable operating segment, being the exploration and evaluation of mineral properties. The mineral property interests and substantially all property and equipment 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.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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 cash, receivables, deposits and accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments. Cash, 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, 2023, the Company is not exposed to significant interest rate risk.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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 and Guatemalan quetzals. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar and quetzal 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, 2023 and 2022, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

As at	2023		2022	
	US Dollars (CAD equivalent)	Guatemalan Quetzal (CAD equivalent)	US Dollars (CAD equivalent)	Guatemalan Quetzal (CAD equivalent)
Cash	\$ 84,189	\$ 31,739	\$ 83,085	\$ 50,898
Receivables	-	2,033	-	994
Accounts payable and accrued liabilities	(126,048)	(6,672)	(127,953)	(8,190)
Net exposure	\$ (41,859)	\$ 27,100	\$ (44,868)	\$ 43,702

Based on the above net exposure as at December 31, 2023, and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and Guatemalan quetzal would result in an increase/decrease of approximately \$1,500 in the Company's loss and comprehensive loss for the year ended December 31, 2023 (2022: \$100).

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 equity.

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

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

The Company expects its capital resources to be sufficient to carry out its planned exploration expenditures and cover operating costs through the next twelve months. Actual funding requirements may vary from those planned due to a number of factors, including expanded exploration activity and property acquisition opportunities. The Company believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto.

VOLCANIC GOLD MINES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

16. SUPPLEMENTARY CASH FLOW INFORMATION

No cash was paid for interest or taxes for the years ended December 31, 2023 and 2022.

There were no significant non-cash investing and financing transactions during the years ended December 31, 2023 and 2022 not disclosed elsewhere in these consolidated financial statements.

17. SUBSEQUENT EVENT

Subsequent to December 31, 2023, the following event which has not been disclosed elsewhere in these consolidated financial statements has occurred:

A total of 850,000 stock options with a ten-year life and exercise price of \$0.23 per share were granted.