



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

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2020. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

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

	June 30, 2020	December 31, 2019
ASSETS		
Current		
Cash	\$ 220,605	\$ 162,739
Receivables	2,777	3,923
Prepaid expenses and deposits	5,691	3,152
Total current assets	229,073	169,814
Non-current		
Long-term deposits (Note 9)	61,000	61,000
Property and equipment (Note 5)	1,045	1,230
Total non-current assets	62,045	62,230
	\$ 291,118	\$ 232,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 177,250	\$ 130,987
Total liabilities	177,250	130,987
Shareholders' equity		
Share capital (Note 10)	13,746,875	13,746,875
Share subscriptions received in advance (Note 16)	131,000	-
Other equity reserves (Note 10)	1,335,309	1,346,557
Deficit	(14,922,905)	(14,815,964)
Equity attributed to shareholders of the Company	290,279	277,468
Non-controlling interest (Note 6)	(176,411)	(176,411)
Total shareholders' equity	113,868	101,057
	\$ 291,118	\$ 232,044

Approved and authorized by the Board on August 20, 2020.

“Charles Straw” Director
Charles Straw

“Simon Ridgway” Director
Simon Ridgway

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Exploration expenditures (Note 8)	\$ 23,713	\$ -	\$ 23,713	\$ -
General and administrative expenses				
Consulting and management fees (Note 9)	\$ 20,750	\$ 16,500	\$ 37,250	\$ 33,000
Depreciation	93	477	185	953
Legal and audit fees	428	1,111	856	3,544
Office and administration (Note 9)	8,399	13,905	18,571	30,294
Salaries and benefits (Note 9)	7,878	21,393	15,699	41,912
Shareholder communications (Note 9)	1,360	882	1,360	1,562
Transfer agent and regulatory fees (Note 9)	6,147	11,484	12,910	17,880
Travel (Note 9)	567	981	3,485	1,186
	45,622	66,733	90,316	130,331
Loss before other item	(69,335)	(66,733)	(114,029)	(130,331)
Other item				
Foreign exchange gain (loss)	(3,771)	1,771	(4,160)	3,560
Loss and comprehensive loss for the period	\$ (73,106)	\$ (64,962)	\$ (118,189)	\$ (126,771)
Loss and comprehensive loss attributable to:				
Equity shareholders of the Company	\$ (73,106)	\$ (64,962)	\$ (118,189)	\$ (126,771)
Non-controlling interest (Note 6)	-	-	-	-
	\$ (73,106)	\$ (64,962)	\$ (118,189)	\$ (126,771)
Basic and diluted loss per common share attributable to equity shareholders of the Company	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.02)
Weighted average number of common shares outstanding	8,603,880	8,340,144	8,603,880	7,467,768

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (73,106)	\$ (64,962)	\$ (118,189)	\$ (126,771)
Item not affecting cash:				
Depreciation	93	477	185	953
	(73,013)	(64,485)	(118,004)	(125,818)
Non-cash working capital item changes:				
Amounts receivable	(449)	(882)	1,146	8,280
Prepaid expenses and deposits	(4,769)	2,230	(2,539)	(2,498)
Accounts payable and accrued liabilities	39,538	(110,372)	46,263	(83,685)
Net cash used in operating activities	(38,693)	(173,509)	(73,134)	(203,721)
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	-	375,000	-	375,000
Share subscriptions received	131,000	-	131,000	-
Share issuance costs	-	(4,905)	-	(4,905)
Net cash provided by financing activities	131,000	370,095	131,000	370,095
Change in cash for the period	92,307	196,586	57,866	166,374
Cash, beginning of period	128,298	52,463	162,739	82,675
Cash, end of period	\$ 220,605	\$ 249,049	\$ 220,605	\$ 249,049

Supplemental disclosure with respect to cash flows (Note 15)

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

VOLCANIC GOLD MINES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**
(UNAUDITED)

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Equity (deficiency) attributed to shareholders of the Company						Total equity attributed to shareholders	Non-controlling interest	Total
	Number	Amount	Share subscriptions received	Warrants reserve	Share-based payment reserve	Deficit			
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 period	-	-	-	-	-	(126,771)	(126,771)	-	(126,771)
Shares issued for debt settlement	548,661	192,031	-	-	-	-	192,031	-	192,031
Shares issued for private placement	1,500,000	375,000	-	-	-	-	375,000	-	375,000
Share issuance costs	-	(4,905)	-	-	-	-	(4,905)	-	(4,905)
Balance, June 30, 2019	7,103,880	13,753,973	-	208,357	1,934,870	(15,510,298)	386,902	(176,411)	210,491
Loss for the period	-	-	-	-	-	(71,028)	(71,028)	-	(71,028)
Shares issued for debt settlement	-	(38,406)	-	-	-	-	(38,406)	-	(38,406)
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 period	-	-	-	-	-	(118,189)	(118,189)	-	(118,189)
Shares subscriptions received	-	-	131,000	-	-	-	131,000	-	131,000
Fair value of expired and forfeited options	-	-	-	-	(11,248)	11,248	-	-	-
Balance, June 30, 2020	8,603,880	\$ 13,746,875	\$ 131,000	\$ 177,049	\$ 1,158,260	\$ (14,922,905)	\$ 290,279	\$ (176,411)	\$ 113,868

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

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 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 (“TSXV”).

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 condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material. At June 30, 2020, the Company had not yet achieved profitable operations, has accumulated losses of \$14,922,905 since its inception, and expects to incur further losses in the development of its business. This material uncertainty may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has continued to result in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of Measurement

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

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

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

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (cont'd...)

Basis of Consolidation

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

Foreign Currency Translation

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

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

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The Company will be required to adopt the following standard and amendments issued by the IASB as described below.

IFRS 17 Insurance Contracts

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, *Insurance Contracts*, and related interpretations.

This standard will be effective for the Company’s annual period beginning January 1, 2021. The Company has yet to assess the impact of IFRS 17 on its financial statements.

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

For the six months ended June 30, 2020 and 2019

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

- a) The 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.

5. PROPERTY AND EQUIPMENT

	Computer equipment
Cost	
Balance, December 31, 2018 and 2019	\$ 11,628
Balance, June 30, 2020	\$ 11,628
Accumulated amortization	
Balance, December 31, 2018	\$ 5,275
Charge for period	5,123
Balance, December 31, 2019	10,398
Charge for period	185
Balance, June 30, 2020	\$ 10,583
Carrying amounts	
At December 31, 2019	\$ 1,230
At June 30, 2020	\$ 1,045

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2020 and 2019

(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 period ended June 30, 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 June 30, 2020 was a deficiency of \$176,411 (December 31, 2019: \$176,411). There was no income or loss allocated to NCI during the periods ended June 30, 2020 and 2019.

7. MINERAL PROPERTIES

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. 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 must also make a cash payment to Radius of \$100,000. 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 will also have 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.

On August 18, 2020, the TSXV approved the terms of the Option agreement and confirmed that the Company has completed the TSXV’s filing requirements, including providing a title opinion and draft geological report, in order to proceed with the Option. Due to COVID-19 restrictions, travel to Guatemala is not currently possible and although the Qualified Person that authored the geological report has been to the Properties in the past, he has not been there in recent years. Accordingly, the TSXV has required that drilling on the Properties will not begin until a QP is able to visit the Properties and the geological report is then finalized and approved by the Exchange.

The Company and Radius have one common director.

8. EXPLORATION EXPENDITURES

During the six-month period ended June 30, 2020, the Company incurred \$23,713 (2019: \$Nil) on property investigation costs.

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

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended June 30, 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	Proposed property transaction

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

- a) During the periods ended June 30, 2020 and 2019, the Company reimbursed Gold Group, a private company controlled by a Director (and former Chief Executive Officer) of the Company, for the following costs:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
General and administrative expenses:				
Office and administration	\$ 8,154	\$ 11,428	\$ 16,213	\$ 24,984
Salaries and benefits	7,878	21,393	15,699	38,932
Shareholder communications	770	518	770	1,018
Transfer agent and regulatory fees	5,391	8,515	5,891	8,515
Travel and accommodation	566	978	2,029	1,186
	\$ 22,759	\$ 42,832	\$ 40,602	\$ 74,635

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 periods ended June 30, 2020 and 2019 include those for the Chief Financial Officer and the Corporate Secretary.

- b) Prepaid expenses and deposits as of June 30, 2020 includes an amount of \$691 (December 31, 2019: \$1,152) paid to Gold Group.
- c) Long-term deposits as of June 30, 2020 consists of \$61,000 (December 31, 2019: \$61,000) paid to Gold Group as a deposit pursuant to the Company’s office and administrative services agreement with Gold Group.
- d) Included in accounts payable and accrued liabilities as of June 30, 2020 was \$20,435 (December 31, 2019: \$5,089) owing to Gold Group, \$10,000 (December 31, 2019: \$Nil) to the Chief Executive Officer of the Company for management fees, and \$4,000 (December 31, 2019: \$Nil) to a Director of the Company for consulting fees. The amount for Gold Group is due on a monthly basis and secured by a deposit.
- e) During the period ended June 30, 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.

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

For the six months ended June 30, 2020 and 2019

(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 periods ended June 30, 2020 and 2019 are the following items paid or accrued to key management personnel and/or companies with common directors.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
General and administrative expenses:				
Consulting and management fees	\$ 20,750	\$ 16,500	\$ 37,250	\$ 33,000
Salaries and benefits	2,200	5,042	5,775	10,084
Exploration expenditures:				
Consulting and management fees	7,000	-	7,000	-
	\$ 29,950	\$ 21,542	\$ 50,025	\$ 43,084

Key management compensation includes consulting fees paid to Mill Street, a company controlled by a Director (and former Chief Executive Officer) of the Company.

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 condensed consolidated interim financial statements have been updated to reflect the share consolidation.

During the period ended June 30, 2020, there was no share capital activity.

b) Warrants

A summary of share purchase warrants activity from January 1, 2019 to June 30, 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
Expired during the period	(1,500,000)	\$0.35
Balance, June 30, 2020	1,851,237	\$5.60

Details of warrants outstanding as of June 30, 2020 are:

Expiry date	Number of warrants	Exercise price
March 8, 2022	1,851,237	\$5.60

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

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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 period ended June 30, 2020:

Grant date	Expiry date	Exercise price	Opening balance	During the period			Closing balance	Vested and exercisable
				Granted	Exercised	Forfeited / cancelled		
March 15, 2017	March 14, 2027	\$4.20	367,855	-	-	(3,571)	364,284	364,284
June 27, 2017	June 26, 2027	\$4.20	3,571	-	-	-	3,571	3,571
			371,426	-	-	(3,571)	367,855	367,855
Weighted average exercise price			\$4.20	-	-	\$4.20	\$4.20	\$4.20

The weighted average remaining contractual life of the options outstanding at June 30, 2020 is 6.71 (December 31, 2019: 7.21) years.

12. SEGMENT INFORMATION

As at June 30, 2020, the Company operated in one reportable operating segment, being the acquisition, exploration, and evaluation of resources properties in one geological location, being Canada.

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

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

The carrying value of receivables, 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.

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

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

13. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**Risk management**

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

Credit risk

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

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

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 June 30, 2020, the Company is not exposed to significant interest rate risk.

b) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign currency rates. The Company currently operates in Canada though a substantial portion of the Company's current liabilities are 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 June 30, 2020, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

As at	June 30, 2020	December 31, 2019
	US Dollars (CDN equivalent)	US Dollars (CDN equivalent)
Cash	\$ 2,820	\$ 2,735
Accounts payable and accrued liabilities	(99,344)	(88,335)
Net exposure	\$ (96,524)	\$ (85,600)

Based on the above net exposure as at June 30, 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 \$9,700 in the Company's net loss and comprehensive loss for the period ended June 30, 2020 (2019: \$8,400).

VOLCANIC GOLD MINES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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

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.

14. 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 the private placement closed subsequent to the period end (Note 16), 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.

15. SUPPLEMENTARY CASH FLOW INFORMATION

No cash was paid for interest or taxes for the periods ended June 30, 2020 and 2019.

There were no significant non-cash investing and financing transactions during the periods ended June 30, 2020 and 2019.

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the following events which have not been disclosed elsewhere in these condensed consolidated interim financial statements have occurred:

- a) The Company closed a non-brokered private placement (the "Private Placement") consisting of 20,000,000 units at \$0.25 per unit, for gross proceeds of \$5.0 million, of which \$131,000 was received prior to June 30, 2020. 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 from the closing date.

With an investment of approximately \$1.42 million in the Private Placement, Silvercorp Metals Inc. acquired beneficial ownership of 19.9% of the Company's issued and outstanding common shares and has the right to appoint one director to the Company's Board.

In connection with the Private Placement, the Company paid finder's fees totaling \$311,833 in cash and issued a total of 1,497,330 finder's warrants with the same terms as the Private Placement warrants.

As the TSXV has not yet granted final approval for the Holly and Banderas property transaction (Note 7), the TSXV required that \$1.6 million of the Private Placement proceeds be held in trust until final TSXV approval is granted. Subsequent to the financing closing, the TSXV approved a release of \$118,800 of the escrowed funds in order to allow such funds to be spent on initial permitting at the Holly and Banderas Properties.