



**Interim Condensed Consolidated Financial Statements**  
For the Periods Ended September 30, 2011 and 2010  
(Unaudited)

*...exploring for petroleum and minerals in Canada...  
searching new areas for large deposits...*

**VULCAN MINERALS INC.**  
September 30, 2011 and 2010

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*This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address exploration, drilling, exploration activities and events or developments that Vulcan Minerals Inc. (the “Company”) expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements.*

## INTRODUCTION

The Interim Condensed Consolidated Financial Statements and comparative information have been prepared in Canadian dollars and in accordance with International Financial Reporting Standard 1, “First-time Adoption of International Financial Reporting Standards”, and with International Accounting Standard 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles. As a result, substantial reclassifications have occurred.

### General Business

The Company is engaged in petroleum and natural gas and mineral exploration on properties in Newfoundland and Labrador. The Company owns petroleum rights onshore in Western Newfoundland and Offshore Labrador. The Company’s efforts have focused on exploring these properties. The Company is a pure exploration venture and has no proven petroleum or mineral reserves.

The MDA should be read in conjunction with the consolidated financial statements for the period ended September 30, 2011 and accompanying notes.

### DATE

The date of this MDA is November 18, 2011.

### OVERALL PERFORMANCE

For the period ended September 30, 2011, total assets increased to \$14,511,787 (2010 - \$13,539,497) primarily reflecting an increase in petroleum and natural gas exploration and evaluation assets from \$6,961,274 to \$10,286,233 (as a result of activity at Parsons Pond and the Company now paying its 50% share of capital costs at Bay St. George effective September 2010) offset by a decrease in investments (shares in public companies - see Financial Instruments and Other Instruments) and a decrease in cash to \$2,993,950 (2010 - \$5,140,403) (2010 was higher as a result of a private placements in May 2010). Current liabilities related to normal trade payables and current exploration activities increased to \$960,690 (2010 - \$376,235). Other accrued liabilities relate to premiums on flow-through monies to be spent; the amount accrued for 2011 is \$70,363 (2010 - \$372,179). The Company had revenue increases related to interest income of \$27,741 (2010 - \$17,319) primarily reflecting increased cash balances throughout 2011 and a

higher interest rate. Other income of \$500,000 (2011 – \$Nil) relates to revenue earned by the Company as a result of the sale of part of its working interest in an oil and gas related property in 2010. Long-term deposits decreased due to the write-off of deposits at Parsons Pond offset by staking of mineral licences. General and administrative expenses were higher for the nine month period ended September 30, 2011 (\$496,220) compared to 2010 (\$277,531) and include the following material components:

General & Admin. Expenses Include:	Three Months Ended Sept 30			Nine Months Ended Sept 30		
	2011	2010	Change	2011	2010	Change
	\$	\$	%	\$	\$	%
Office (including reimbursements)	(57,009)	(201,645)	-72%	(286,880)	(445,776)	-36%
Mgmt Fees / Admin / Subcontract	163,504	275,541	-41%	596,221	667,417	-11%
Transfer Agent & Professional Fees	80,492	2,055	3817%	151,482	28,268	436%
Travel & Accommodation	13,101	1,000	1210%	35,397	27,622	28%

Although actual office expenses were fairly consistent for the nine month period, reimbursements of G&A in 2010 were higher as personnel spent less time during 2011 on joint venture projects. Management and subcontract fees decreased in 2011 as a result of a decrease in personnel. Transfer agent and professional fees were higher in 2011 as a result of meeting and professional fees relating to the corporate spinout and higher professional accounting fees. Travel and accommodation was slightly higher in 2011 relating to the corporate spinout. There was a net loss for the period of \$886,640 compared to net earnings of \$79,409 in 2010. Net earnings in 2010 were a result of the income received as a result of the sale of part of an interest in a petroleum asset. Net loss in 2011 was also a result of increased stock based compensation expenses from 2010 issuances which vested during 2011 and the write-off of deposits of \$95,071.

#### SELECTED ANNUAL INFORMATION

Year Ended December 31	2010	2009	2008
	\$	\$	\$
Total Revenue	526,193	255,968	17,099
Net Loss	(414,557)	(229,577)	(834,087)
Net Loss per Share - basic & diluted	(0.01)	(0.005)	(0.019)
Total Assets	15,056,149	11,417,393	10,051,768
Total Long-term Financial Liabilities	730,444	231,334	296,852
Cash Dividends	Nil	Nil	Nil

Revenue in 2010 relates to the sale of 5.98% working interest in EP 03-101 at Parsons Pond for \$500,000; revenue in 2009 was due to the recognition of option payments received as shares of \$176,000 and revenue for the use of the Company's drilling rig of \$76,500 offset by lower interest income. Net loss in 2010 was a result of an IFRS adjustment to deferred income tax expense of \$459,723. Net loss in 2009 was lower than 2008 due to higher general and administrative reimbursements on personnel, lower stock based compensation costs (due to

higher exercise prices on issuances in 2008) offset by greater future income taxes recovery. Assets increased over the past three years due to increased exploration activity and financings offset by decreases in investments.

## RESULTS OF OPERATIONS

### Western Newfoundland-Petroleum (Onshore)

#### *Bay St. George*

The Company owns three petroleum permits in the Bay St. George Basin, onshore Western Newfoundland, covering an area of approximately 236,000 acres. The Company has been exploring this frontier basin for several years.

In February 2008, the Company entered into a purchase and sale agreement with Investcan Energy Corporation (“Investcan”), for a 50% working interest in the Company’s petroleum permits 96-105, 03-106, and 03-107 onshore Bay St. George, Western Newfoundland. Pursuant to the agreement, the Company received a cash payment of \$51,000 plus a commitment by Investcan to incur \$15,000,000 in exploration expenditures (carrying the Company for this first \$15,000,000 of expenditures; this commitment was met in September 2010).

The first well, Robinsons #1, was completed on October 15, 2009 and reached a total depth of 3,560 metres. It is the deepest well ever drilled in the basin. The well encountered natural gas shows in several sandstones interbedded with shales and siltstones over a gross interval of 1,290 metres. Initial interpretations suggest the sandstone interbeds represent approximately 20% of that gross interval. The second well, Red Brook #2, was drilled to a total final depth of 1,965 metres on November 23, 2009 and flowed natural gas to surface on three drill stem tests. Both wells require fracture stimulation to properly measure flow rates. Towards that end, pressure testing and injectivity testing on the Robinsons #1 and Red Brook #2 wells were completed in late fall 2010. These test results provide the necessary parameters to design the optimal hydraulic fracture stimulation of the zones previously perforated. The wells are suspended and ready for future fracture stimulation.

Flat Bay #1 is cased to a depth of 239 metres and encountered a thick oil charged conglomerate in excess of 100 metres gross thickness commencing at a depth of 120 metres. The reservoir has low porosity and permeability. It was previously fracture stimulated at 192 -197 metres depth. Although initial flow backs immediately following stimulation were encouraging with an increasing oil cut in the retrieved frac fluid, the well’s flow rate and oil cut decreased significantly and could not be produced. Preliminary analysis indicates that the reservoir temperatures at the shallow depths of Flat Bay #1 are below the measured pour point temperature of the oil which prohibits the flow of oil into the wellbore.

During the fall of 2011 a six hole core program was carried out for a total of 1,673 metres. The target reservoir horizons of the Ship Cove Fm. and the Fischell’s Brook Fm. were oil bearing in three of the six holes. Core recovery was near 100%. Oil is bleeding from the core over the Ship Cove-Fischell’s Brook gross intervals as follows:

Hole Number	Ship Cove-Fischell's Brook Interval	Thickness (bottomed in oil bearing rock)
6	183-202m end of hole	19m
7	171-220m end of hole	49m
8	301-349m end of hole	48m

A map showing the hole locations is available at [www.vulcanminerals.ca](http://www.vulcanminerals.ca)

The drilling depth of the core holes was limited by rig capacity and regulatory requirements. As a result it was not possible to drill through the entire reservoir thickness. For reference, the gross thickness of the oil-bearing Fischell's Brook Fm. in the Flat Bay #1 discovery well was approximately 100 metres. Hole #6 is located 2.0 kilometres south of Flat Bay #1. Hole #7 is 2.5 kilometres south of Flat Bay #1. Hole #8 is 1.5 kilometres northeast of Flat Bay #1. The Ship Cove-Fischell's Brook Fm. was deeper than expected at Hole #5 and was beyond the depth capacity of the rig. However, minor live oil shows were encountered in a sandy lense within the anhydrite which overlies the unpenetrated target formations. Holes #4 and #9 were drilled approximately 1 kilometre west and updip of the discovery hole Flat Bay #1 and encountered shallow basement without any oil bearing target intervals, though live oil shows were encountered in basement fractures in both holes. These holes will assist in determining the oil-in-place volumes for this deposit.

The main purpose of the current program was to obtain a distribution of core samples from the reservoir to better understand the spatial and facies variation of rock properties and oil saturations. The services of Weatherford Laboratories were retained onsite to preserve representative sections of core for detailed fluid analysis. The current data acquisition along with previous drill results will be reviewed by a qualified reservoir engineering group towards formulating a pilot project to extract the oil from the Flat Bay pool. In conjunction with this analysis it is expected that a well will be drilled geologically down-dip of core holes #7 and #6. An evaluation of the optimal location for this well is underway and is planned to be drilled as soon as possible in 2012.

#### *Parsons Pond*

The Parsons Pond permits are situated on the west side of the northern peninsula in western Newfoundland. This is a frontier onshore petroleum exploration area. The Company has held non-operating minority interests in this area for several years.

On August 6, 2009, Nalcor Energy acquired an average 67% working interest and operatorship in the permits from a private company. Nalcor Energy is a provincial (Newfoundland and Labrador) crown corporation active in hydro-electric generation and oil and gas development. The first drilled well, Seamus #1 on exploration permit 03-103 reached a total depth of 3,160 metres in late May 2010 and encountered a gas bearing zone. Seamus was re-entered early 2011 for testing operations, the results of which are currently being evaluated. The Company owns a 10% working interest in EP 03-103.

The second drilled well, Finnegan #1 on exploration permit 03-102 (where the Company owns a 7.39% working interest) reached a total depth of 3,130 metres in early December 2010. The well encountered natural gas and is currently suspended. These wells are the first deep wells to be drilled in this part of the Cambrian-Ordovician aged Anticosti Basin in western Newfoundland.

## Labrador Offshore

During September 2008, the Company entered into a joint bidding agreement with Investcan on a 50/50 basis. Pursuant to that agreement the Company and Investcan bid on Parcel #2 as per the Call for Bids NL07-2 for exploration licences offshore Labrador and were the successful bidders on that parcel with a work commitment bid of \$9,601,000. A refundable security deposit equal to 25% of the work commitment bid has been posted with the Canada-Newfoundland and Labrador Offshore Petroleum Board (“CNLOPB”) to secure the exploration licence 1107 (EL 1107).

The joint bidding agreement between the Company and Investcan provides that Investcan shall initially post 100% of the refundable security deposit. The Company’s obligation to pay 50% of the security deposit was carried by Investcan for two years without dilution of the Company’s working interest in the exploration licence. On July 23, 2010, the Company entered into an earn-in agreement with Investcan regarding the 2010 seismic program offshore Labrador in which Investcan had the right to earn a 20% working interest from the Company in EL1107 by solely funding 100% of the costs of a 2D seismic survey on the license to a limit of \$8.2 million on or before December 1, 2010. Upon completion of the seismic program during fall 2010, Investcan earned its 20% interest with Vulcan retaining a 30% working interest. The current program and ongoing evaluation work is anticipated to satisfy the bulk of the work bid and provide for the return of the corresponding portion of the \$2,400,250 security deposit posted by Investcan; the Company would fund its 30% interest of any balance remaining of the security deposit.

An exploration licence confers the right to explore for petroleum for six years (Period I) with a possible additional period of three years. EL 1107 covers 236,525 hectares (584,000 acres) of the Hopedale Basin on the Labrador continental shelf. It is situated adjacent to and on trend between the Bjarni-North Bjarni discoveries (approximately 3.1 trillion cubic feet of natural gas) to the northwest and the Gudrid discovery (approximately 924 billion cubic feet of natural gas) to the southeast. The gas quantities for the Bjarni-North Bjarni and Gudrid discoveries are resources as published by the CNLOPB. The Company in conjunction with its joint venture partner and operator, Investcan, carried out an environmental assessment of its offshore license and surrounding area towards permitting the area for a seismic acquisition program. An integral part of the process was a series of consultation with various communities in Labrador. A seismic acquisition program commenced late August 2010 and was completed early October 2010. The program consisted of approximately 3,000 line kilometres of 2D seismic and extended over the entire 236,000 hectares of EL1107. The data has been processed and interpreted. Further detailed processing work is underway.

## Western Newfoundland Offshore

Through its interests in NWest Energy Corp. (“NWest”), the Company has exposure to the exploration potential of offshore western Newfoundland. This area has petroleum potential in Cambrian-Ordovician targets similar to rocks which are productive in the Appalachian belt and extending as far south as Texas. A seismic program was carried out in 2008 over key target areas and the data has been processed and interpreted by NWest. NWest is soliciting partners to pursue additional exploration on the licences including the evaluation of a tight oil unconventional resource in the Green Pt. formation.

The Company was a founding shareholder of NWest in 2006 and currently owns approximately 19.2% of its outstanding shares. In December 2007, NWest became a public corporation via a reverse takeover of a TSX Venture listed corporation. NWest has retained its own management and consulting team to carry out its business plan. Effective November 4, 2010, NWest

completed a 10 to 1 share consolidation, such that the Company's ownership in NWest is now 1,796,437 shares post-consolidation.

### Mineral Properties

#### *TL Nickel-Copper-PGM*

The TL Nickel-Copper-Platinum group element property in Labrador is situated approximately 80 km northwest of the Voisey's Bay world-class nickel-copper-cobalt mine. On May 30, 2003, the Company announced that it had optioned the property to Nortec Venture Corp. ("Nortec").

Nortec has spent sufficient funds to keep the property in good standing since that time. An airborne geophysical survey was completed as of May 21, 2008 by Geotech using the VTEM system. A drilling program was carried out on the property during the summer of 2008 with approximately 1960 metres being drilled. Significant drill intersections of mineralization were encountered including 14 metres of 1.02% Nickel, 0.51% Copper, and 0.03% Cobalt. Full assay results are available on the Company's website at [www.vulcanminerals.ca](http://www.vulcanminerals.ca)

As of August 2009, Nortec earned its 51% working interest in the property. Nortec has elected to earn up to an additional 24% working interest by issuing 200,000 additional shares and spending \$5,000,000 on the property over a three-year period; the shares have been received. If Nortec completes this additional earn-in then the Company will retain a 25% working interest in the property, otherwise the Company will maintain a 49% participating working interest.

#### *Kingurutik Property*

The Kingurutik River property covers 234 claims (approximately 15,000 acres) of Nain Plutonic rocks approximately 90 kilometers northwest of the Voisey Bay nickel, copper cobalt mine.

#### *Flat Bay Potash/Salt*

The Carboniferous aged strata of the Maritimes Basin is a significant producer of salt and potash, including the Sussex mine operated by the Potash Corporation of Saskatchewan in New Brunswick.

The Company owns the mineral rights over a portion of the northern Bay St. George Basin (approximately 83,390 acres). In 2002, the Company drilled Captain Cook #1 which discovered a 165-meter thick section of evaporites consisting of halite (salt) and a potentially significant potash zone. Analysis of the core indicates grades varying from 4.44% - 20.40% K<sub>2</sub>O (potassium oxide). In 2004, the Company drilled the Flat Bay #2 well, which intersected approximately 200 metres of salt approximately 2 km from Captain Cook. Geological analysis suggests that these discoveries are connected and that a significant salt/potash resource exists in the area. Assessment of the discoveries is ongoing.

On August 31, 2011, the shareholders of the Company unanimously approved a corporate re-organization whereby the Company will spin-out certain of its mineral exploration assets into a separate publicly traded subsidiary company (see "Plans for 2011/2012 below").

## Plans for 2011/2012

### Exploration

The Company's focus in the Bay St. George basin will be on the Flat Bay oil deposit. The results from the 2011 coring program have significantly expanded the areal size of the Flat Bay oil pool. Detailed reservoir analysis will be undertaken on the core in order to design a pilot project to potentially extract the oil from the reservoir. The nature of that project is expected to be formulated by the end of the first quarter 2012 with an implementation commencing later in 2012.

The Company in conjunction with its project partner and operator, Investcan, completed a seismic acquisition program on the Labrador EL 1107 (See Labrador Offshore above). The data has been processed and interpreted. A marketing campaign will commence towards soliciting partners for the project.

### Corporate

Pursuant to the corporate re-organization approved August 31, 2011 and announced on May 18, 2011, the Company incorporated Red Moon Potash Inc. ("Red Moon") as a separate subsidiary to hold certain mineral assets. These assets consist of the mineral rights in the Bay St. George basin of western Newfoundland where the Company has discovered the Captain Cook potash deposit which consists of a 5 meter gross interval with varying grades up to 20.40% potassium oxide (K2O) at a depth of 287 meters. It occurs in rocks which are geologically similar to those containing the Sussex potash mine in New Brunswick operated by the Potash Corporation of Saskatchewan.

Red Moon will allow the financing of this mineral project separate from the Company's ongoing petroleum activities in the area. Shareholder and court approval for the "spinout" has been obtained and the Company is formulating a listing application with the TSX Venture Exchange. The Company is in discussions with potential financing sources towards funding the 2012 work program as per the technical report. Shareholders of the Company, as of the applicable record date, are expected to receive shares in Red Moon on a pro-rata basis of 1 share of Red Moon for every 3.812 shares of the Company. Further details regarding the arrangement are set out in the Information Circular sent to shareholders for the August 31, 2011 meeting.

## SUMMARY OF QUARTERLY RESULTS

<b>Quarter</b>	<b>Total Revenue</b>	<b>Net (Loss) Earnings</b>	<b>Net (Loss) Earnings per share</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
September 30, 2011	<b>8,864</b>	(394,083)	(0.01)
June 30, 2011	<b>9,495</b>	(152,235)	-
March 31, 2011	<b>9,382</b>	(340,322)	(0.01)
December 31, 2010	<b>8,874</b>	(493,986)	(0.01)
September 30, 2010	<b>9,090</b>	(89,225)	-
June 30, 2010	<b>5,477</b>	(121,622)	-
March 31, 2010	<b>502,752</b>	290,256	0.01
December 31, 2009	<b>160,684</b>	(27,322)	(0.01)

Total revenues quarter over quarter is limited to interest income earned every period and mineral option payments recognized for December 31, 2009 of \$106,000 and revenue from the use of the Company's drilling rig for December 31, 2009 of \$76,500 and revenue as a result of the sale of part of a working interest in a petroleum asset of \$500,000 for March 31, 2010. The net earnings for March 31, 2010 relates to this revenue. Net loss was greater for the year ended December 31, 2010 as a result of an increase to deferred income taxes relating to the premiums recorded on the issuance of flow-through shares.

## LIQUIDITY

At period-end, the Company had current assets of \$3,102,647 of which \$2,993,950 is cash and cash equivalents. This cash is readily available and is not subject to subprime debt issues nor asset backed commercial debt.

The Company has no long-term debt and as such is not sensitive to interest rate fluctuation on debt instruments. The Company has no unpaid accrued or contingent liabilities that could materially affect its financial. The Company is required to post refundable security deposits with the Government of Newfoundland and Labrador for drilling and other petroleum operations in Western Newfoundland. The Company's cash and cash equivalents are held in bank accounts with no exposure to equity market fluctuations.

Currently, the Company has no production revenue from petroleum and natural gas or minerals. Further issuance of equity and joint venturing will be required to carry on the business of the Company in the longer term. Because of volatility in the equity and commodity markets there is no guarantee either source of funding will be available in the future.

## CAPITAL RESOURCES

The Company carries out exploration on petroleum permits and mineral licenses in Newfoundland and Labrador. These tenure instruments require annual work obligations in order to maintain ownership. Failure to fulfill work obligations would result in loss of ownership interest. The following table sets out the Company's current petroleum and mineral interests.

<b>Tenure Instrument</b>	<b>Project</b>	<b>Working Interest Ownership</b>
<b>Petroleum Permits</b>		
Permit 96-105	Bay St. George, Western Newfoundland	50%
Permit 03-106	Bay St. George, Western Newfoundland	50%
Permit 03-107	Bay St. George, Western Newfoundland	50%
Permit 03-102	Parsons Pond, Western Newfoundland	7.39%
Permit 03-103	Parsons Pond, Western Newfoundland	10%
<b>Exploration Licences (Offshore)</b>		
EL 1107	Labrador-Hopedale	30%
<b>Mineral Licences</b>		
015834M	TL Nickel, Labrador	49%
008838M	Bay St. George, Western Newfoundland	100%
006107M	Bay St. George, Western Newfoundland	100%
010069M	Bay St. George, Western Newfoundland	100%
017955M	Bay St. George, Western Newfoundland	100%
017956M	Bay St. George, Western Newfoundland	100%
018054M	Bay St. George, Western Newfoundland	100%
014138M	Kingurutik, Labrador	100%
018929M	Bay St. George, Western Newfoundland	100%
019059M	Bay St. George, Western Newfoundland	100%

Tenure Instrument	Project	Working Interest Ownership
019130M	Bay St. George, Western Newfoundland	100%
019131M	Bay St. George, Western Newfoundland	100%
019304M	Bay St. George, Western Newfoundland	100%
019305M	Bay St. George, Western Newfoundland	100%

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no material off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

During the nine month period, the Company paid premises rent aggregating \$18,000 (2010: \$18,000) to a private company owned and controlled by the President and a director of the Company. As well, he received \$146,700 (2010: \$177,885) in management fees.

Directors' fees were paid during the period of \$14,000 (2010 - \$10,000). Included in accounts payable and accrued liabilities are management fees due to the President of \$1,500 (2010 - \$7,500).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the same terms and conditions as transactions with non-related parties.

## PROPOSED TRANSACTIONS

On August 31, 2011, shareholders of the Company approved a corporate re-organization whereby the Company will spin-out certain of its mineral exploration assets into a separate publicly traded subsidiary company (Red Moon). The corporate re-organization will proceed by a plan of arrangement subject to TSX-Venture Exchange and regulatory approval (see discussion above "Plans for 2011/2012"). The Company through its normal course of business solicits partners for some of its exploration prospects, both petroleum and minerals.

## CRITICAL ACCOUNTING ESTIMATES

Any critical accounting estimates are disclosed in the consolidated financial statements.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### *International Financial Reporting Standards*

In February 2008, the CICA Accounting Standards Board confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has adopted IFRS commencing January 1, 2011, using a transition date of January 1, 2010. The financial statements for the nine months ended September 30, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, *First-time Adoption of International Financial Reporting Standards*, and with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards

Board (“IASB”). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“GAAP”). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

Other significant IFRS 1 exemptions taken by the Company at January 1, 2010 include the following:

- Business combinations entered into prior to January 1, 2010 were not retrospectively restated under IFRS.
- Leases were not reassessed to determine whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, "Determining whether an Arrangement contains a Lease" for contracts that were already assessed under previous GAAP.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2010.

The adoption of IFRS has not had an impact on the Company's operations, strategic decisions nor Cash Flow. The most significant area of impact relates to the accounting for petroleum and natural gas expenditures.

The Company's IFRS accounting policies are provided in Note 3 to the Interim Consolidated Financial Statements. In addition, Note 16 to the Interim Consolidated Financial Statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at September 30, 2010 and December 31, 2010, and Consolidated Statement of Earnings and Comprehensive Loss for the three and nine months ended September 30, 2010 and the twelve months ended December 31, 2010, and Changes in Shareholders' Equity for the nine months ended September 30, 2010 and for the twelve months ended December 31, 2010. For a detailed reconciliation of the January 1, 2010 opening balance sheet please refer to the March 31, 2011 interim condensed consolidated financial statements.

The following provides summary reconciliations of the Company's 2010 previous GAAP and IFRS results, along with a discussion of the significant accounting policy changes.

## Summary Net Earnings Reconciliation

	2010				
	Annual	Q4	Q3	Q2	Q1
<b>Net Earnings - Previous GAAP</b>	\$ 61,573	\$ (196,723)	\$ (4,525)	\$ (55,104)	\$ 317,925
(Addition)/deduction:					
Stock-based compensation	(23,214)	(4,549)	9,770	910	(29,345)
Amortization	39,621	9,905	9,905	9,905	9,906
Deferred income tax expense	459,723	291,887	65,025	55,703	47,108
	476,130	297,243	84,700	66,518	27,669
<b>Net Earnings - IFRS</b>	\$ (414,557)	\$ (493,966)	\$ (89,225)	\$ (121,622)	\$ 290,256

The following discussion explains the significant differences between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

### Exploration and Evaluation (“E&E”)

Under previous GAAP, exploration and evaluation costs were capitalized as petroleum and natural gas properties or mineral properties in accordance with the CICA’s full cost accounting guidelines. Under IFRS, the Company capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

Exploration and evaluation assets (including mineral and petroleum and natural gas assets) at January 1, 2010 were deemed to be \$5,861,144, representing the unproved properties balance under previous GAAP. The asset categories have been renamed as “mineral exploration and evaluation” and “PNG exploration and evaluation”. \$40,708 was removed from the PNG exploration and evaluation asset on the Company’s Consolidated Balance Sheet as at January 1, 2010 which had been capitalized before the Company had the legal right to the asset. The application of IFRS for exploration and evaluation costs resulted in \$40,708 increase to the Company's previous GAAP deficit for the nine months ended September 30, 2010 and the twelve months ended December 31, 2010.

Under previous GAAP, the Company followed EIC 141 in which deferred option payments were shown as a liability on the balance sheet until the option had either been earned or expired at which time it would be offset against any capital costs for that property with the balance taken into income. Under IFRS, if a Company is in the exploration and evaluation phase, deferred option payments are not required to be set up as a liability and can be netted against the property first and then taken into income. The effect of the adoption of this IFRS is \$18,000 of deferred options payment liabilities were removed from the balance sheet and reduced the deficit.

## **Amortization**

Amortization of the Company's drilling rig was capitalized under previous GAAP to be allocated when the drilling rig was in use. This treatment does not meet the criteria under IFRS and all previously unallocated capitalized amortization relating to the drilling rig has been written off to amortization.

The opening balance sheet adjustment at January 1, 2010 was \$196,377. The reduction in PNG exploration and evaluation at September 30, 2010 was \$226,093 and \$235,998 at December 31, 2010 relating to the unallocated capitalized amortization on the Company's drilling rig. \$29,716 was reflected as amortization at September 30, 2010 and \$39,621 at December 31, 2010 on the Statement of earnings.

## **Asset Retirement Obligation ("ARO")**

Under previous GAAP, the asset retirement obligation was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates. The discount rate used was a credit adjusted risk-free rate.

Under IFRS, the asset retirement obligation is measured as the best estimate of the expenditure to be incurred and requires that the asset retirement obligation be re-measured using the period end discount rate. The discount rate used is a risk adjusted discount rate, which is slightly higher than a credit adjusted risk-free rate.

In conjunction with the IFRS 1 exemption regarding petroleum and natural gas assets discussed above, the Company was required to re-measure its asset retirement obligation upon transition to IFRS and recognize the difference in its deficit. The application of this exemption resulted in \$2,312 decrease to the asset retirement obligation on the Company's Consolidated Balance Sheet as at January 1, 2010. Subsequent IFRS re-measurements of the obligation are recorded through exploration and evaluation assets with an offsetting adjustment to the asset retirement obligation. As at December 31, 2010, including the January 1, 2010 adjustment, the Company's asset retirement obligation increased by \$383, which primarily reflects the re-measurement of the obligation using the Company's discount rate of 5 percent as at December 31, 2010.

## **Compensation**

### **Share-based payments**

Under previous GAAP, the Company expensed stock-based compensation costs based on the actual vesting date (straight line) of the stock option agreement. Under IFRS, stock-based compensation costs are to be expensed using a graded vesting method. Similar to GAAP, IFRS requires the liability for share-based payments be fair valued using an option pricing model, such as the Black-Scholes model, which is the model previously and currently used by the Company. At January 1, 2010, this resulted in an increase of \$46,504 to share based payment reserve. At September 30, 2010, the reassessment decreased such that the increase to share based payment reserve was \$27,839 and \$23,290 at December 31, 2010.

Under previous GAAP, the forfeiture rate was not required to be calculated on stock-based compensation costs. Under IFRS, the forfeiture rate is required to be calculated and applied. The forfeiture rate for the Company for expiring stock options is 4% as calculated using a weighted

average over the past five years. The forfeitures have been taken into account for the above increase in stock-based compensation expense.

## **Income Tax**

### **Flow-through shares**

Under the terms of the Company's flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. Under previous GAAP, to recognize the foregone tax benefits to the Company, the carrying value of the shares issued was reduced by the tax effect of the tax benefits renounced to subscribers. IFRS is silent with respect to the tax provision accounting treatment for flow through shares. As of May 2011, there is new guidance as presented by the Mining Task Force of the Canadian Institute of Chartered Accountants as discussed below. In accordance with IAS 12, *Income Taxes*, a deferred tax liability is recognized, with certain specific exceptions, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

At the time flow-through shares are issued, there is a potential premium paid on the flow-through shares calculated based on the share issuance price and the market price at the time of closing. This premium is recorded as Other Liabilities on the Balance Sheet reducing share capital and is drawn down proportionately as the flow-through exploration spending occurs and recorded to either other income or deferred tax expense. The Company has recorded the premium drawn down as deferred tax expense. The impact of this IFRS at January 1, 2010 is a new liability "other accrued liability" of \$305,970 representing the premium on the 2009 flow-through share issuance and a reduction of share capital. For the period ended September 30, 2010, there were additional flow-through shares issued which increased the liability offset by exploration spending relating to the 2009 issuance; the September 30, 2010 liability was \$372,179. During the remainder of 2010, all of the 2009 liability was exhausted with a charge to deferred tax expense. A new liability was established relating to the May and December 2010 flow-through share issuances of \$584,504 with a reduction to share capital. The balance "other accrued liability" at December 31, 2010 was \$293,265 as some of the \$584,504 exploration expenditure commitment has been achieved. There is no IFRS 1 exemption relating to Income Taxes. As a result, the Company has calculated the premiums relating to all pre-2009 flow-through share issuances, with a resulting impact of a reduction of share capital and deficit of \$507,775.

The renouncement of the taxable benefit under previous GAAP was recorded as a deferred income tax liability and a reduction of share capital. Under IFRS, this renouncement is recorded as deferred income tax liability and deferred tax expense. The pre-2009 issuances on the January 1, 2010 balance sheet resulted in an increase to share capital and deficit of \$998,233. The 2009 issuances resulted in a \$473,650 increase to share capital and deferred tax expense for September 30, 2010 and December 31, 2010.

### **Other deferred income taxes**

Under previous GAAP, capitalized stock based compensation created a taxable temporary difference. Under IFRS, a deferred tax liability related to an asset acquired in a transaction that is not a business combination is only recorded if there is an impact on profit and loss. The January 1, 2010 opening adjustment is a reduction to mineral E&E of \$17,508 and to PNG E&E of \$85,815 with a corresponding increase to deferred income tax liability. At September 30, 2010, there was an additional \$493 (cumulative \$18,001) for mineral E&E and \$13,974 (cumulative

\$99,789) for PNG E&E; at December 31, 2010, there was \$493 for mineral E&E (cumulative \$18,001) and \$16,687 for PNG E&E (cumulative \$102,502).

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between other IFRS adjustments and previous GAAP. At January 1, 2010, the Company recognized \$170,144 reduction in the deferred income tax liability. For the nine months ended September 30, 2010 and for the year ended December 31, 2010, the Company recognized \$342,297 decrease and \$395,958 increase respectively to deferred income tax liability.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's assets include cash and cash equivalents. These cash equivalents include a bank account and a treasury account.

The Company received 1,200,000 shares (initially valued at \$63,600) in Nortec, a public company pursuant to a mineral property option agreement dated May 30, 2003 and 200,000 shares (initially valued at \$60,000) pursuant to another mineral property option agreement dated July 30, 2008. The shares have been valued as an investment of \$168,000 on the balance sheet at September 30, 2011. These shares are all free trading. The Company may sell those shares at its discretion in context of the market value and prospects for Nortec.

The Company currently holds 1,796,437 shares in NWest (as a result of a 10-for-1 reverse stock split during 2010) and has recorded the shares at market of \$341,323 on the balance sheet at September 30, 2011. The Company may sell those free trading shares at its discretion in context of the market value and prospects for NWest.

During 2007, the Company received 150,000 shares (initially valued at \$93,000) in Commander Resources Ltd., a public company; pursuant to a mineral property letter agreement dated February 27, 2007. The shares have been valued as an investment of \$21,000 on the balance sheet at September 30, 2011. The Company may sell those shares at its discretion in context of the market value and prospects for Commander Resources Ltd.

## **Business Risks**

The Company is a junior exploration company principally involved in mineral and oil and gas exploration which is an inherently high-risk activity. The business of exploring for, developing, acquiring, producing oil and natural gas and minerals is subject to many risks and uncertainties, several of which are beyond the control of the Company. These risks are operational, financial, legal and regulatory in nature.

Operational risks include unsuccessful exploration and development drilling activity, reservoir performance, safety and environmental concerns, access to cost effective contract services, escalating industry costs for contracted services and equipment, product marketing and hiring and retaining qualified employees.

The Company is subject to financial risk as exploration is capital intensive and the Company has no sources of funding other than equity financing and joint venture financing arrangements. Only the skills of management and staff in mineral and oil and gas exploration and exploration financing serve to mitigate these risks.

The Company is subject to a variety of regulatory risks that it does not control. Government and Securities regulations are monitored to ensure the Company continues to be in compliance.

The Company also mitigates many of the above risks by having diversified exploration projects at low cost to the Company and to attract JV partners to finance further exploration. The more projects that can be generated and the longer the Company can obtain financing the better its chances for achieving success. The Company has been in business for 16 years and has a solid foundation technically, corporately and financially to go forward and be positioned for future success.

### **Financial Risk Factors**

Other financial risk factors in which the Company is exposed to are outlined below:

#### ***Credit risk***

The Company provides credit to its joint venture partners in the normal course of its operations. Management believes that the credit risk with respect to accounts receivable is immaterial. The credit risk on cash is limited because the counterparty is a chartered bank with a high credit rating. The Company does not expect any liquidity issues or credit losses on these amounts.

#### ***Liquidity risk***

The Company believes it has sufficient liquidity to meet its current obligations as a result of securing additional funds through equity and partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows.

#### ***Market Risk***

The value of the Company's investments is exposed to fluctuations in value depending on a number of factors, including the quoted market price and the market value of the commodities that the companies may focus on. The Company does not utilize any derivative contracts to reduce this exposure.

#### ***Interest rate risk***

The Company's cash balances are held in bank accounts or invested in short-term deposit certificates. The Company has no debt. The Company believes its interest rate risk is not significant.

#### ***Commodity price risk***

The recoverability of the Company's petroleum and natural gas and mineral properties is partially related to the market price of oil and gas and base metals. The Company does not hedge this exposure to fluctuations in commodity prices. Commodity price risk from a production perspective is not applicable because the Company is not a producing entity. The Company's ability to continue with its exploration program is also indirectly subject to commodity prices.

#### ***Foreign exchange risk***

The parent company of the Company's joint venture partner for onshore Bay St. George is located in Paris, France. The majority of transactions for this joint venture are in Canadian funds. The Company believes its foreign exchange risk is minimal.

### **SHARE CAPITAL**

As of the date of this management discussion and analysis the Company has 57,176,129 voting common shares outstanding. The Company's share capital consists of an unlimited number of

voting common shares and an unlimited number of preferred shares of which there are none outstanding.

At the end of the period, the Company had outstanding 4,380,000 options (319,796 options were not vested) to purchase voting common shares consisting of the following:

<b>Date Issued</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Details</b>
June 26, 2007	200,000	\$0.65	Director's Options, Expiry June 26, 2012
September 26, 2007	900,000	\$0.50	Directors' Options, Expiry Sept. 26, 2012
June 27, 2008	900,000	\$1.00	Employee & Directors' Options Expiry June 27, 2013
October 23, 2008	200,000	\$0.60	Employee Options, Expiry Oct. 23, 2011
April 22, 2009	350,000	\$0.45	Director's Options, Expiry April 22, 2014
April 22, 2009	175,000	\$0.45	Employee Options, Expiry April 22, 2012
September 3, 2009	50,000	\$0.70	Employee Options, Expiry September 3, 2012
March 15, 2010	100,000	\$0.61	Employee Options, Expiry March 15, 2013
August 3, 2010	950,000	\$0.45	Director's Options, Expiry August 3, 2015
August 3, 2010	505,000	\$0.45	Employee Options, Expiry August 3, 2013
September 1, 2010	50,000	\$0.45	Employee Options, Expiry September 1, 2013

At the end of the period, the Company had 2,102,364 warrants exercisable into voting common shares consisting of the following:

<b>Date Issued</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Details</b>
November 26, 2009	279,000	\$0.75	Expiry November 26, 2011
November 26, 2009	223,452	\$0.55	Expiry November 26, 2011
November 27, 2009	12,320	\$0.55	Expiry November 27, 2011
May 3, 2010	1,587,592	\$0.80	Expiry November 3, 2011

#### ADDITIONAL INFORMATION

All corporate disclosure documents are filed on [www.sedar.com](http://www.sedar.com). Additional information regarding the Company's projects and activities are available at [www.vulcanminerals.ca](http://www.vulcanminerals.ca).

## **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, “Continuous Disclosure Obligations”, part 4 subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Corporation’s external auditors, Deloitte & Touche LLP, have not performed a review of these financial statements.

**VULCAN MINERALS INC.**  
**Condensed Consolidated Balance Sheets (unaudited)**  
**As at**

	<b>30-Sep-11</b>	31-Dec-10 <i>(Note 16)</i>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,993,950	\$ 4,676,375
Accounts receivable	95,673	69,716
Prepaid expenses	13,024	18,639
	<b>3,102,647</b>	4,764,730
Deposits	212,179	290,099
Investments (Note 5)	530,323	846,467
Mineral exploration and evaluation (Note 6)	146,722	83,356
Petroleum and natural gas exploration and evaluation (Note 7)	10,286,233	8,955,718
Equipment (Note 8)	233,683	115,779
<b>Total Assets</b>	<b>\$ 14,511,787</b>	<b>\$ 15,056,149</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 960,690	\$ 700,968
Other accrued liability (Note 11 (c))	70,363	293,265
Asset retirement obligations (Note 9)	63,449	63,449
Deferred income taxes (Note 10 (a))	934,550	666,995
<b>Total Liabilities</b>	<b>2,029,052</b>	<b>1,724,677</b>
<b>Shareholders' Equity</b>		
Deficit	(9,626,045)	(8,739,405)
Accumulated other comprehensive (loss) income	(185,182)	85,120
Share capital (Note 11 (a) and (b))	19,496,717	19,496,717
Warrants (Note 11(d))	419,176	419,176
Share based payment reserve (Note 11 (e))	2,378,069	2,069,864
<b>Total Shareholders' Equity</b>	<b>12,482,735</b>	<b>13,331,472</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 14,511,787</b>	<b>\$ 15,056,149</b>

Nature of operations and continuation of the business (Note 1)

Approved on behalf of the Board of Directors on November 18, 2011

Patrick J. Laracy ("signed") **Director**

Rex Gibbons ("signed") **Director**

See accompanying notes to the consolidated financial statements

## VULCAN MINERALS INC.

### Condensed Consolidated Statements of (Loss) Earnings (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
		<i>(Note 16)</i>		<i>(Note 16)</i>
<b>Revenue</b>				
Other income	\$ -	\$ -	\$ -	\$ 500,000
Interest income	<b>8,864</b>	9,090	<b>27,741</b>	17,319
	<b>8,864</b>	9,090	<b>27,741</b>	517,319
<b>Expenses</b>				
General and administrative	<b>200,088</b>	76,951	<b>496,220</b>	277,531
Stock-based compensation (Note 12)	<b>57,293</b>	10,642	<b>182,980</b>	24,931
Write-off of deposit	<b>95,071</b>	-	<b>95,071</b>	-
Amortization	<b>26,687</b>	11,474	<b>43,957</b>	34,299
	<b>379,139</b>	99,067	<b>818,228</b>	336,761
Net (loss) earnings before income taxes	<b>(370,275)</b>	(89,977)	<b>(790,487)</b>	180,558
Income taxes				
Other tax expense (Note 10 (b))	<b>(1,368)</b>	(3,283)	<b>(5,659)</b>	(13,115)
Deferred income tax expense (Note 10 (b))	<b>(22,440)</b>	4,035	<b>(90,494)</b>	(88,034)
	<b>(23,808)</b>	752	<b>(96,153)</b>	(101,149)
<b>Net (loss) earnings</b>	<b>\$ (394,083)</b>	\$ (89,225)	<b>\$ (886,640)</b>	\$ 79,409
Net (loss) earnings per share - basic and diluted	<b>\$ (0.01)</b>	\$ -	<b>\$ (0.01)</b>	\$ -
Weighted-average number of common shares outstanding - basic and diluted	<b>57,176,129</b>	54,461,241	<b>57,176,129</b>	54,461,241

### Condensed Consolidated Statements of Comprehensive Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
		<i>(Note 16)</i>		<i>(Note 16)</i>
<b>Net (loss) earnings</b>	<b>\$ (394,083)</b>	\$ (89,225)	<b>\$ (886,640)</b>	\$ 79,409
Other comprehensive loss:				
Unrealized loss on available-for-sale financial assets, (net of tax recovery of (\$45,841); (2010 - \$304,776))	<b>(149,593)</b>	(182,783)	<b>(270,302)</b>	(1,682,805)
<b>Comprehensive loss</b>	<b>\$ (543,676)</b>	\$ (272,008)	<b>\$ (1,156,942)</b>	\$ (1,603,396)

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.****Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)  
Nine Months Ended September 30**

	2011	2010
		<i>(Note 16)</i>
<b>Deficit</b>		
Balance, beginning of period	\$ (8,739,405)	\$ (8,324,848)
Net earnings (loss)	(886,640)	79,409
Balance, end of period	\$ (9,626,045)	\$ (8,245,439)
<b>Accumulated Other Comprehensive Income</b>		
Balance, beginning of period	\$ 85,120	\$ 1,687,002
Unrealized profit (loss) on available-for-sale financial assets, (net of tax (expense) recovery of (\$45,841); (2010 - \$304,776))	(270,302)	(1,682,805)
Balance, end of period	\$ (185,182)	\$ 4,197
<b>Share Capital</b>		
Balance, beginning of period	\$ 19,496,717	\$ 14,874,021
Issued pursuant to private placements	-	3,587,809
Exercise of stock options	-	208,750
Fair value of warrants and stock options	-	168,250
Share issuance costs	-	(310,828)
Balance, end of period	\$ 19,496,717	\$ 18,528,002
<b>Warrants</b>		
Balance, beginning of period	\$ 419,176	\$ 117,533
Issued pursuant to private placements	-	301,643
Balance, end of period	\$ 419,176	\$ 419,176
<b>Share Based Payment Reserve</b>		
Balance, beginning of period	\$ 2,069,864	\$ 2,169,392
Exercise of stock options	-	(168,250)
Stock options vested during the period	308,205	57,897
Balance, end of period	\$ 2,378,069	\$ 2,059,039
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>\$ 12,482,735</b>	<b>\$ 12,764,975</b>

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
**Nine Months Ended September 30**

	2011	2010
<b>Operating activities</b>		
Interest receipts	\$ 27,741	\$ 17,314
Operating (payments) income	<b>(348,025)</b>	<b>(409,892)</b>
	<b>(320,284)</b>	<b>(392,578)</b>
<b>Financing activities</b>		
Issuance of common shares and share purchase warrants	-	4,418,750
Share issuance costs	-	<b>(363,197)</b>
	-	4,055,553
<b>Investing activities</b>		
Mineral properties expenditures	<b>(129,645)</b>	(7,000)
Petroleum and natural gas properties (expenditures) income	<b>(1,070,635)</b>	(830,074)
Acquisition of equipment	<b>(161,861)</b>	(11,996)
	<b>(1,362,141)</b>	(849,070)
Cash inflow	<b>(1,682,425)</b>	2,813,905
Cash and cash equivalents, beginning of period	<b>4,676,375</b>	2,326,498
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,993,950</b>	<b>\$ 5,140,403</b>
Cash and cash equivalents are comprised of:		
Deposits with banks	\$ 1,794,613	\$ 2,792,443
Guaranteed investment certificates with an interest rate of 1.0% (2010 - 0.9%)	<b>1,199,337</b>	2,347,960
	<b>\$ 2,993,950</b>	<b>\$ 5,140,403</b>

Supplemental cash flow information (Note 13)

See accompanying notes to the consolidated financial statements

# **VULCAN MINERALS INC.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

**September 30, 2011 and 2010**

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### **1. NATURE OF OPERATIONS AND CONTINUATION OF THE BUSINESS**

Vulcan Minerals Inc. (the "Company") is engaged in the evaluation, acquisition and exploration of mineral and petroleum and natural gas properties in Newfoundland and Labrador of which substantially all of the exploration activities of the Company are carried out with joint parties. The Company plans to ultimately develop the properties as joint ventures, bring them into production, option or lease properties to third parties, or sell the properties outright. The Company has not determined whether these properties contain reserves that are economically recoverable and the Company is considered to be in the exploration stage.

These financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, adverse conditions exist to cast significant doubt on the Company's ability to continue as a going concern. The Company is in the process of exploring its mineral and petroleum and natural gas properties and has not yet determined whether these properties contain economically recoverable reserves. The success of the Company and the recoverability of exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to fund and complete the development of such reserves, the ability of the Company to satisfy obligations as they come due and upon future profitable production from the properties or proceeds from disposition. The amounts shown as mineral and petroleum and natural gas exploration and evaluation costs represent net costs to date less any write-offs and do not necessarily represent present or future values. At September 30, 2011, the Company had an accumulated deficit of \$9,626,045 (December 31, 2010 - \$8,739,405).

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss and balance sheet classifications used.

The Company is a publicly traded company, incorporated under the laws of the Province of Alberta, Canada. Its registered address is 333 Duckworth Street, St. John's, NL A1C 1G9.

These interim condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on November 18, 2011.

### **2. BASIS OF PRESENTATION**

In conjunction with the Company's annual audited Consolidated Financial Statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these interim condensed Consolidated Financial Statements present the Company's initial financial results of operations and financial position under IFRS as at and for the nine months ended September 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

# **VULCAN MINERALS INC.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

**September 30, 2011 and 2010**

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### **2. BASIS OF PRESENTATION (continued)**

The preparation of these interim condensed Consolidated Financial Statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to the Company's accounting policies is disclosed in Note 16 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three and nine months ended September 30, 2010, and as at and for the twelve months ended December 31, 2010.

The accounting principles and practices as applied in these interim condensed consolidated financial statements for the period ended September 30, 2011 remain unchanged from the quarter ended March 31, 2011. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 16.

These interim condensed Consolidated Financial Statements have been prepared on a historical cost basis, except for derivative financial instruments and share-based payment transactions which are measured at fair value.

In these interim condensed Consolidated Financial Statements, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars which is also the Company's functional currency.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

These interim financial statements should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes disclosed in the company's first interim report for the period ended March 31, 2011. These interim financial statements have been prepared following the same accounting policies and methods of computation as the interim condensed consolidated financial statements for the Company for the period ended March 31, 2011 as described in note 3 of the March 31, 2011 interim condensed consolidated financial statements.

### **4. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard its accumulated capital in order to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of capital and equity comprised of share capital, share based payment reserve and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2010.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 5. INVESTMENTS

	30-Sep-11	31-Dec-10
	\$	\$
Investments	<b>530,323</b>	846,467

Investments, classified as available for sale, consist of:

Shares in a public company received as consideration for option payments on mineral claims with a cost of \$123,600 (December 31, 2010 - \$123,600). At September 30, 2011, the market value of the shares is \$168,000 (December 31, 2010 - \$294,000).

Shares in a public company in which the Company transferred its interest in an offshore exploration license with a cost of \$497,223 (December 31, 2010 - \$497,223). Effective November 4, 2010, there was a 10 to 1 share consolidation, such that the Company's ownership is now 1,796,437 shares post-consolidation. At September 30, 2011, the market value of the shares is \$341,323 (December 31, 2010 - \$520,967).

Shares in a public company received as consideration for option payments on mineral claims with an original value of \$93,000. At September 30, 2011, the market value of the shares is \$21,000 (December 31, 2010 - \$31,500).

### 6. MINERAL EXPLORATION AND EVALUATION ASSETS

The Company has 14 mineral licenses (December 31, 2010 - 14), which consists of 1,900 claims (December 31, 2010 - 1,978), which are active and in good standing with the Department of Mines and Energy in the Province of Newfoundland and Labrador. All of these licenses are in the exploration and evaluation stage. A summary of the costs of these licenses is as below.

	30-Sep-11			31-Dec-10		
	Balance, Beginning of Period	Additions	Balance, End of Period	Balance, Beginning of Year	Additions	Balance, End of Year
	\$	\$	\$	\$	\$	\$
Property acquisition costs	<b>129,161</b>	<b>10,400</b>	<b>139,561</b>	129,161	-	129,161
Exploration costs	<b>442,387</b>	<b>52,966</b>	<b>495,353</b>	434,264	8,123	442,387
Options payments received	<b>(53,181)</b>	-	<b>(53,181)</b>	(53,181)	-	(53,181)
Cost of abandoned properties	<b>(435,011)</b>	-	<b>(435,011)</b>	(435,011)	-	(435,011)
	<b>83,356</b>	<b>63,366</b>	<b>146,722</b>	75,233	8,123	83,356

\$28,792 of the current period additions (December 31, 2010 - \$1,123) related to stock-based compensation costs capitalized to mineral exploration and evaluation.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 7. PETROLEUM AND NATURAL GAS EXPLORATION AND EVALUATION ASSETS

The Company has three exploration permits (December 31, 2010 – three), which are active and in good standing with the Department of Natural Resources in the Province of Newfoundland and Labrador. A summary of the costs of these permits is as below.

	30-Sep-11			31-Dec-10		
	Balance, Beginning of Period	Additions	Balance, End of Period	Balance, Beginning of Year	Additions	Balance, End of Year
	\$	\$	\$	\$	\$	\$
Petroleum and natural gas costs	12,653,159	1,330,515	13,983,674	9,140,632	3,512,527	12,653,159
Exploration and evaluation expense	-	-	-	-	-	-
Cost of abandoned properties	(3,697,441)	-	(3,697,441)	(3,697,441)	-	(3,697,441)
	<b>8,955,718</b>	<b>1,330,515</b>	<b>10,286,233</b>	<b>5,443,191</b>	<b>3,512,527</b>	<b>8,955,718</b>

Amounts not subject to amortization are \$10,286,233 (December 31, 2010 - \$8,955,718). There is no amortization recorded on these properties. All properties are unproven properties. In the current year, \$96,433 (December 31, 2010 – \$38,484) of additions related to stock-based compensation costs were capitalized to petroleum and natural gas properties exploration and evaluation.

### 8. EQUIPMENT

	30-Sep-11				31-Dec-10			
	Drilling Rig	Furniture & Fixtures	Computer Equipment	TOTALS	Drilling Rig	Furniture & Fixtures	Computer Equipment	TOTALS
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	638,406	11,377	44,471	694,254	638,406	9,565	32,210	680,181
Additions	159,962	-	1,899	161,861	-	1,812	12,261	14,073
Disposals	-	-	-	-	-	-	-	-
Opening amortization	(545,955)	(7,341)	(25,179)	(578,475)	(506,333)	(6,558)	(19,539)	(532,430)
Adjustments to amortization	(38,797)	(606)	(4,554)	(43,957)	(39,622)	(783)	(5,640)	(46,045)
Closing balance	<b>213,616</b>	<b>3,430</b>	<b>16,637</b>	<b>233,683</b>	<b>92,451</b>	<b>4,036</b>	<b>19,292</b>	<b>115,779</b>

As at September 30, 2011, \$253,354 of accumulated amortization of the drilling rig (December 31, 2010 - \$253,354) has been capitalized to petroleum and natural gas properties; \$38,797 has been expensed for the period ended September 30, 2011 (December 31, 2010 - \$39,621).

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 9. ASSET RETIREMENT OBLIGATIONS

Upon termination of the Company's oil and gas sites, the Company is required to satisfy certain asset retirement obligations including the removal of any equipment and the restoration of the land and premises to their original condition.

The Company estimates the total undiscounted cash flows required to settle its asset retirement obligations at September 30, 2011 is \$68,195 (December 31, 2010 - \$68,195) which will be incurred between 2012 and 2015 and is adjusted based on the risk-adjusted discount rate of 5% (December 31, 2010 - 5%) to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligation is provided below:

	30-Sep-11	31-Dec-10
	\$	\$
Balance, beginning of period	63,449	51,253
Liabilities incurred	-	8,695
Liabilities settled and/or changes in estimated cash flows	-	1,485
Accretion expense	-	2,016
<b>Balance, end of period</b>	<b>63,449</b>	<b>63,449</b>

### 10. INCOME TAXES

#### a) *Deferred income taxes*

The components of the deferred income tax liability are as follows:

	30-Sep-11	31-Dec-10
	\$	\$
Temporary differences related to petroleum, natural gas and mineral properties	(1,707,811)	(1,320,306)
Tax effect of unrealized gain on available-for sale financial assets	20,647	(25,194)
Share issuance costs	114,629	146,031
Non-capital loss carryforwards	619,585	514,074
Asset retirement obligations	18,400	18,400
<b>Recognized deferred tax liability</b>	<b>(934,550)</b>	<b>(666,995)</b>

#### b) *Income tax rates*

Other tax expense of \$5,659 (December 31, 2010 - \$11,432) consists of Part XII.6 tax related to the renunciation of flow-through shares.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 10. INCOME TAXES (continued)

#### b) Income tax rates (continued)

Income taxes differ from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 30.5% (2010 – 32%) to net earnings (loss) before income taxes as follows:

	30-Sep-11	30-Sep-11
	\$	\$
Expected tax expense (recovery)	(241,098)	57,779
Stock-based compensation costs	55,809	7,978
Non-capital losses expired	-	-
Flow-through shares renounced	188,376	176,899
Effect of changes in rates for temporary differences and other items	87,407	(154,622)
Deferred income taxes expense	90,494	88,034

### 11. SHARE CAPITAL

#### a) Authorized

Unlimited number of voting common shares  
Unlimited number of preferred shares, issuable in series

#### b) Issued and outstanding

	30-Sep-11		31-Dec-10	
	Number	Stated Value	Number	Stated Value
		\$		\$
<b>Common Shares</b>				
Balance, beginning of period	57,176,129	19,496,717	47,509,455	14,874,021
Issued pursuant to private placements (Note 11(c))	-	-	9,091,674	4,606,133
Exercise of stock options (Note 12 (a))	-	-	575,000	208,750
Fair value of warrants and stock options	-	-	-	168,250
Share issuance cost, net of tax benefits of \$Nil (2010 - \$125,052)	-	-	-	(360,437)
<b>Balance, end of period</b>	<b>57,176,129</b>	<b>19,496,717</b>	<b>57,176,129</b>	<b>19,496,717</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 11. SHARE CAPITAL (continued)

#### c) Private placements

Pursuant to a private placement dated May 4, 2010, the Company issued 2,537,500 units at \$0.60 per unit for aggregate proceeds of \$1,522,500 (less \$241,063 attributed to the fair value of warrants). Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.80 per share until November 3, 2011. As well, 3,839,286 flow-through shares have been issued at \$0.70 per share for aggregate proceeds of \$2,687,500. Commissions in the amount of \$294,700 and 318,840 broker warrants which were fair valued at \$60,580 and have been paid in respect to the financing. The broker warrants are exercisable at \$0.80 until November 3, 2011 and were valued at \$0.19 per warrant using the Black-Scholes option pricing model, using expected volatility of 83% and a risk-free interest rate of 1.8%.

Pursuant to a flow-through private placement dated December 13, 2010, the Company issued 666,666 common shares at \$0.45 per common share for aggregate proceeds of \$300,000. Finder's fees in the amount of \$9,000 have been paid in respect of the financing.

Pursuant to a flow-through private placement dated December 23, 2010, the Company issued 2,048,222 common shares at \$0.45 per common share for aggregate proceeds of \$921,700. Commissions and finder's fees in the amount of \$32,800 have been paid in respect of the financing.

Other share issuance costs for 2010 relating to the above financings and other was \$88,410. Recorded as "Other Liabilities" with respect to the flow-through share issuances in 2010 is \$70,363 (December 31, 2010 - \$293,265), which is the remaining liability from the premium between the issuance price and the fair market value of the issuance. As the flow-through spending occurs, this amount is drawn down and moves to deferred income tax expense.

#### d) Warrants

A summary of the status of the Company's common share purchase warrants and agent's warrants are as follows:

	30-Sep-11		31-Dec-10	
	Number of	Weighted-	Number of	Weighted-
	Warrants	Average	Warrants	Average
		Exercise Price		Exercise Price
		\$		\$
Outstanding, beginning of period	2,102,364	0.77	514,772	0.66
Issued	-	-	1,587,592	0.80
Expired	-	-	-	-
<b>Outstanding, end of period</b>	<b>2,102,364</b>	<b>0.77</b>	<b>2,102,364</b>	<b>0.77</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 11. SHARE CAPITAL (continued)

#### d) Warrants (continued)

	30-Sep-11	31-Dec-10
	\$	\$
Balance, beginning of period	419,176	117,533
Fair value of warrants granted	-	301,643
Transferred to share based payment reserve upon expiry of warrants	-	-
<b>Balance, end of period</b>	<b>419,176</b>	<b>419,176</b>

#### (e) Share-based payment reserve

A summary of share-based payment reserves are as follows:

	30-Sep-11	31-Dec-10
	\$	\$
Balance, beginning of period	2,069,864	2,169,392
Stock-based compensation	308,205	68,722
Transferred to share capital upon exercise of options	-	(168,250)
Transferred to share based payment reserve upon expiry of warrants	-	-
<b>Balance, end of period</b>	<b>2,378,069</b>	<b>2,069,864</b>

### 12. STOCK-BASED COMPENSATION

#### a) Stock options

The Company has a stock option plan under which directors, officers, management, consultants and employees of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of shares to be issued upon exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company. Options granted under the plan generally have a term of five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 12. STOCK-BASED COMPENSATION (continued)

#### a) Stock options (continued)

A summary of the status of the Company's stock option plan is as follows:

		30-Sep-11		31-Dec-10
	Number of	Weighted-	Number of	Weighted-
	Options	Average	Options	Average
		Exercise Price		Exercise Price
		\$		\$
Outstanding, beginning of period	4,880,000	0.58	3,900,000	0.59
Granted	-	-	1,605,000	0.46
Expired/cancelled	(500,000)	0.40	(50,000)	0.70
Exercised	-	-	(575,000)	0.36
Outstanding, end of period	4,380,000	0.60	4,880,000	0.58
Granted but not vested	(319,796)	0.45	(1,648,750)	0.46
<b>Outstanding and exercisable, end of period</b>	<b>4,060,204</b>	<b>0.61</b>	<b>3,231,250</b>	<b>0.63</b>

During the period ended December 31, 2010, 500,000 options at \$0.35 and 75,000 options at \$0.45 were exercised. During the period ended September 30, 2011, share-based payment reserves of \$Nil (December 31, 2010 - \$168,250) has been transferred to share capital upon the exercise of stock options.

The weighted average remaining contractual life of outstanding options is 1.94 years (December 31, 2010 – 2.50 years).

#### (b) Fair value assumptions

The weighted-average fair value of stock options vested during the period ended September 30, 2011 was estimated on the dates of grant to be \$0.26 (December 31, 2010 - \$0.36) using the Black-Scholes option pricing model with the following weighted-average assumptions:

	30-Sep-11	31-Dec-10
Expected life (years)	4.20	3.39
Risk-free interest rate (%)	1.82	1.86
Expected volatility (%)	85	91

During the period ended September 30, 2011, compensation costs of \$182,980 (December 31, 2010 - \$29,115) have been expensed, \$28,792 (December 31, 2010 - \$1,123) have been capitalized to mineral exploration and evaluation, and \$96,433 (December 31, 2010 - \$38,484) has been capitalized to petroleum and natural gas exploration and evaluation, resulting in the recognition of \$308,205 (December 31, 2010 - \$68,722) in share-based payment reserve.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	30-Sep-11	31-Dec-10
	\$	\$
Shares-based payment reserve recognized upon the issuance of stock options recorded as:		
Stock-based compensation	182,980	29,115
Addition to mineral exploration and evaluation	28,792	1,123
Addition to petroleum and natural gas exploration and evaluation	96,433	38,484
Non-cash investing and financing activities	308,205	68,722
Transfer of contributed surplus and warrants to share capital upon exercise of stock options and warrants	-	168,250
Changes in asset retirement obligations		
Accretion expense	-	2,016
Increase in petroleum and natural gas exploration and evaluation	-	10,180
Increase of asset retirement obligations	-	12,196

### 14. RELATED PARTY TRANSACTIONS

	30-Sep-11	31-Dec-10
	\$	\$
Items included in general and administrative expenses:		
Rent paid to a corporation which is controlled by the President of the Company	18,000	24,000
Management fees paid to the President of the Company	146,700	227,685
Directors fees paid (\$3,500 to each of four directors in 2011)	14,000	10,000
Items included in accounts payable and accrued liabilities:		
Management fees payable	1,500	4,800

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the same terms and conditions as transactions with non-related parties. \$137,518 was expensed and \$57,422 was capitalized to petroleum and mineral exploration costs for the period ended September 30, 2011 for vested share-based options related to key management personnel (President and Directors).

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 15. FINANCIAL INSTRUMENTS

#### *Fair values*

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means;

Level 3 – valuation techniques with significant unobservable market inputs.

The carrying amount of cash and cash equivalents, accounts receivables, accounts payables and accrued liabilities, approximate their fair value due to their short-term nature. The Company's financial assets would thus be classified as Level 1 as presented below.

2011	Level 1	Level 2	Level 3	Total financial assets/financial liabilities at fair value
Financial assets				
Investments	\$ 530,323	\$ -	\$ -	\$ 530,323

#### *Liquidity risk*

The Company believes it has sufficient liquidity to meet its current obligations as a result of securing additional funds through equity and partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows. The maturity of the Company's financial liabilities is presented below:

	Due 0-3 months	Due 3-6 months	Due 6-12 Months	Due > 1 year	Total
Accounts payable and accrued liabilities	\$ 955,031	\$ 5,659	\$ -	\$ -	\$ 960,690
Other accrued liabilities	-	70,363	-	-	70,363
	\$ 955,031	\$ 76,022	\$ -	\$ -	\$ 1,031,053

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 16. TRANSITION TO IFRS

As disclosed in Note 2, these interim condensed Consolidated Financial Statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the period ended September 30, 2011 in conjunction with the Company's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these interim condensed Consolidated Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with previous GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

Other significant IFRS 1 exemptions taken by the Company at January 1, 2010 include the following:

- Business combinations entered into prior to January 1, 2010 were not retrospectively restated under IFRS.
- Leases were not reassessed to determine whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, "Determining whether an Arrangement contains a Lease" for contracts that were already assessed under previous GAAP.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Consolidated Balance Sheet at the date of transition to IFRS on January 1, 2010.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's condensed Consolidated Balance Sheets as at September 30, 2010 and December 31, 2010, and condensed Consolidated Statements of Earnings and condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2010 and for the twelve months ended December 31, 2010, and condensed Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2010 and for the twelve months ended December 31, 2010. As the Company uses the direct method for its Consolidated Statement of Cash Flows there was no impact with the transition to IFRS as all adjustments were non-cash related items. For a detailed reconciliation of the January 1, 2010 opening balance sheet please refer to the March 31, 2011 interim condensed consolidated financial statements.

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### IFRS Consolidated Balance Sheet

As at September 30, 2010

	Previous GAAP	IFRS Adjustments					IFRS
		E&E (Note 16A)	Amortization (Note 16B)	ARO (Note 16C)	Comp. (Note 16D)	Income Taxes (Note 16E)	
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 5,140,403	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,140,403
Accounts receivable	192,548						192,548
Prepaid expenses	14,888						14,888
	5,347,839	-	-	-	-	-	5,347,839
Deposits	289,150						289,150
Investments	732,431						732,431
Mineral exploration and evaluation	101,357					(18,001)	83,356
PNG exploration and evaluation	-	7,289,468	(226,093)	(2,312)		(99,789)	6,961,274
Petroleum and natural gas properties	7,330,176	(7,330,176)					-
Equipment	125,447						125,447
<b>Total Assets</b>	<b>\$ 13,926,400</b>	<b>\$ (40,708)</b>	<b>\$ (226,093)</b>	<b>\$ (2,312)</b>	<b>\$ -</b>	<b>\$ (117,790)</b>	<b>\$ 13,539,497</b>
<b>Liabilities</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 376,235	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 376,235
Other accrued liability	-					372,179	372,179
Deferred option payments	18,000	(18,000)					-
Asset retirement obligations	53,565			(2,312)			51,253
Deferred income taxes	150,360					(175,505)	(25,145)
<b>Total Liabilities</b>	<b>598,160</b>	<b>(18,000)</b>	<b>-</b>	<b>(2,312)</b>	<b>-</b>	<b>196,674</b>	<b>774,522</b>
<b>Shareholders' Equity</b>							
Deficit	(7,377,326)	(22,708)	(226,093)		(27,839)	(591,473)	(8,245,439)
Accumulated other comprehensive income	4,197						4,197
Share capital	18,250,993					277,009	18,528,002
Warrants	419,176						419,176
Share based payment reserve	2,031,200				27,839		2,059,039
<b>Total Shareholders' Equity</b>	<b>13,328,240</b>	<b>(22,708)</b>	<b>(226,093)</b>	<b>-</b>	<b>-</b>	<b>(314,464)</b>	<b>12,764,975</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 13,926,400</b>	<b>\$ (40,708)</b>	<b>\$ (226,093)</b>	<b>\$ (2,312)</b>	<b>\$ -</b>	<b>\$ (117,790)</b>	<b>\$ 13,539,497</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### IFRS Consolidated Balance Sheet

As at December 31, 2010

	Previous GAAP	IFRS Adjustments					IFRS
		E&E (Note 16A)	Amortization (Note 16B)	ARO (Note 16C)	Comp. (Note 16D)	Income Taxes (Note 16E)	
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 4,676,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,676,375
Accounts receivable	69,716						69,716
Prepaid expenses	18,639						18,639
	4,764,730	-	-	-	-	-	4,764,730
Deposits	290,099						290,099
Investments	846,467						846,467
Mineral exploration and evaluation	101,357					(18,001)	83,356
PNG exploration and evaluation	-	9,294,601	(235,998)	(383)		(102,502)	8,955,718
Petroleum and natural gas properties	9,335,309	(9,335,309)					-
Equipment	115,779						115,779
<b>Total Assets</b>	<b>\$ 15,453,741</b>	<b>\$ (40,708)</b>	<b>\$ (235,998)</b>	<b>\$ (383)</b>	<b>\$ -</b>	<b>\$ (120,503)</b>	<b>\$ 15,056,149</b>
<b>Liabilities</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 700,968	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700,968
Other accrued liability	-					293,265	293,265
Deferred option payments	18,000	(18,000)					-
Asset retirement obligations	63,832			(383)			63,449
Deferred income taxes	271,037					395,958	666,995
<b>Total Liabilities</b>	<b>1,053,837</b>	<b>(18,000)</b>	<b>-</b>	<b>(383)</b>	<b>-</b>	<b>689,223</b>	<b>1,724,677</b>
<b>Shareholders' Equity</b>							
Deficit	(7,574,049)	(22,708)	(235,998)		(23,290)	(883,360)	(8,739,405)
Accumulated other comprehensive income	85,120						85,120
Share capital	19,423,083					73,634	19,496,717
Warrants	419,176						419,176
Share based payment reserve	2,046,574				23,290		2,069,864
<b>Total Shareholders' Equity</b>	<b>14,399,904</b>	<b>(22,708)</b>	<b>(235,998)</b>	<b>-</b>	<b>-</b>	<b>(809,726)</b>	<b>13,331,472</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 15,453,741</b>	<b>\$ (40,708)</b>	<b>\$ (235,998)</b>	<b>\$ (383)</b>	<b>\$ -</b>	<b>\$ (120,503)</b>	<b>\$ 15,056,149</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### Consolidated Statement of Earnings

Three Months Ended September 30, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
		(Note 16B)	(Note 16D)	(Note 16E)	
<b>Revenues</b>					
Interest income	\$ 9,090	\$ -	\$ -	\$ -	\$ 9,090
	9,090	-	-	-	9,090
<b>Expenses</b>					
General and administrative	76,951	-	-	-	76,951
Stock-based compensation	872	-	9,770	-	10,642
Amortization	1,569	9,905	-	-	11,474
	79,392	9,905	9,770	-	99,067
<b>Net Earnings Before Income Tax</b>	\$ (70,302)	\$ (9,905)	\$ (9,770)	\$ -	\$ (89,977)
<b>Income Taxes</b>					
Other tax expense	(3,283)	-	-	-	(3,283)
Deferred income tax expense	69,060	-	-	(65,025)	4,035
	65,777	-	-	(65,025)	752
<b>Net Earnings</b>	\$ (4,525)	\$ (9,905)	\$ (9,770)	\$ (65,025)	\$ (89,225)
<b>Net Earnings per Common Share</b>					
Basic and diluted	\$ -	-	-	-	\$ -
<b>Weighted-average number of common shares outstanding</b>					
Basic and diluted	54,461,241	-	-	-	54,461,241

#### Consolidated Statement of Comprehensive Income (Loss)

Three Months Ended September 30, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
<b>Net Earnings</b>	\$ (4,525)	\$ (9,905)	\$ (9,770)	\$ (65,025)	\$ (89,225)
<b>Other Comprehensive Loss, net of tax</b>	(182,783)	-	-	-	(182,783)
<b>Comprehensive Income</b>	\$ (187,308)	\$ (9,905)	\$ (9,770)	\$ (65,025)	\$ (272,008)

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### Consolidated Statement of Earnings

Nine Months Ended September 30, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
		(Note 16B)	(Note 16D)	(Note 16E)	
<b>Revenues</b>					
Other income	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Interest income	17,319	-	-	-	17,319
	517,319	-	-	-	517,319
<b>Expenses</b>					
General and administrative	277,531	-	-	-	277,531
Stock-based compensation	43,596	-	(18,665)	-	24,931
Amortization	4,583	29,716	-	-	34,299
	325,710	29,716	(18,665)	-	336,761
<b>Net Earnings Before Income Tax</b>	\$ 191,609	\$ (29,716)	\$ 18,665	\$ -	\$ 180,558
<b>Income Taxes</b>					
Other tax expense	(13,115)	-	-	-	(13,115)
Deferred income tax expense	79,802	-	-	(167,836)	(88,034)
	66,687	-	-	(167,836)	(101,149)
<b>Net Earnings</b>	\$ 258,296	\$ (29,716)	\$ 18,665	\$ (167,836)	\$ 79,409
<b>Net Earnings per Common Share</b>					
Basic and diluted	\$ -	-	-	-	\$ -
<b>Weighted-average number of common shares outstanding</b>					
Basic and diluted	54,461,241	-	-	-	54,461,241

#### Consolidated Statement of Comprehensive Income (Loss)

Nine Months Ended September 30, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
<b>Net Earnings</b>	\$ 258,296	\$ (29,716)	\$ 18,665	\$ (167,836)	\$ 79,409
<b>Other Comprehensive Loss, net of tax</b>	(1,682,805)	-	-	-	(1,682,805)
<b>Comprehensive Income</b>	\$ (1,424,509)	\$ (29,716)	\$ 18,665	\$ (167,836)	\$ (1,603,396)

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### Consolidated Statement of Earnings (Loss)

#### Twelve Months Ended December 31, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
		(Note 16B)	(Note 16D)	(Note 16E)	
<b>Revenues</b>					
Other income	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Interest income	26,193	-	-	-	26,193
	526,193	-	-	-	526,193
<b>Expenses</b>					
General and administrative	375,267	-	-	-	375,267
Stock-based compensation	52,329	-	(23,214)	-	29,115
Amortization	8,439	39,621	-	-	48,060
	436,035	39,621	(23,214)	-	452,442
<b>Net Earnings Before Income Tax</b>	\$ 90,158	\$ (39,621)	\$ 23,214	\$ -	\$ 73,751
<b>Income Taxes</b>					
Other tax expense	(11,432)	-	-	-	(11,432)
Deferred income tax expense	(17,153)	-	-	(459,723)	(476,876)
	(28,585)	-	-	(459,723)	(488,308)
<b>Net Earnings</b>	\$ 61,573	\$ (39,621)	\$ 23,214	\$ (459,723)	\$ (414,557)
<b>Net Earnings per Common Share</b>					
Basic and diluted	\$ 0.001	-	-	-	(0.01)
<b>Weighted-average number of common shares outstanding</b>					
Basic and diluted	52,349,285	-	-	-	52,349,285

#### Consolidated Statement of Comprehensive Loss

#### Twelve Months Ended December 31, 2010

	Previous GAAP	Amortization	Comp.	Income Taxes	IFRS
<b>Net Earnings (Loss)</b>	\$ 61,573	\$ (39,621)	\$ 23,214	\$ (459,723)	\$ (414,557)
<b>Other Comprehensive Loss, net of tax</b>	(1,601,882)	-	-	-	(1,601,882)
<b>Comprehensive Loss</b>	\$ (1,540,309)	\$ (39,621)	\$ 23,214	\$ (459,723)	\$ (2,016,439)

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### Consolidated Statement of Changes in Shareholders' Equity

#### Nine Months Ended September 30, 2010

	Previous GAAP	IFRS Adjustments				IFRS
		E&E (Note 16A)	Amortization (Note 16B)	Comp. (Note 16D)	Income Taxes (Note 16E)	
<b>Deficit</b>						
Balance, beginning of year	\$ (7,635,622)	\$ (22,708)	\$ (196,377)	\$ (46,504)	\$ (423,637)	\$ (8,324,848)
Net earnings (loss)	258,296	-	(29,716)	18,665	(167,836)	79,409
Balance, end of period	\$ (7,377,326)	\$ (22,708)	\$ (226,093)	\$ (27,839)	\$ (591,473)	\$ (8,245,439)
<b>Accumulated other comprehensive income</b>						
Balance, beginning of year	\$ 1,687,002	\$ -	\$ -	\$ -	\$ -	\$ 1,687,002
Unrealized loss on available-for-sale financial assets, (net of tax recovery of \$304,776)	(1,682,805)	-	-	-	-	(1,682,805)
Balance, end of period	\$ 4,197	\$ -	\$ -	\$ -	\$ -	\$ 4,197
<b>Share Capital</b>						
Balance, beginning of year	\$ 14,689,533	\$ -	\$ -	\$ -	\$ 184,488	\$ 14,874,021
Issued pursuant to private placements	3,968,938	-	-	-	(381,129)	3,587,809
Exercise of stock options	208,750	-	-	-	-	208,750
Fair value of warrants and stock options	168,250	-	-	-	-	168,250
Share Issuance Costs	(310,828)	-	-	-	-	(310,828)
Flow-through shares renounced	(473,650)	-	-	-	473,650	-
Balance, end of period	\$ 18,250,993	\$ -	\$ -	\$ -	\$ 277,009	\$ 18,528,002
<b>Warrants</b>						
Balance, beginning of year	\$ 117,533	\$ -	\$ -	\$ -	\$ -	\$ 117,533
Issued pursuant to private placements	\$ 301,643	-	-	-	-	\$ 301,643
Balance, end of period	\$ 419,176	\$ -	\$ -	\$ -	\$ -	\$ 419,176
<b>Share Based Payment Reserve</b>						
Balance, beginning of year	\$ 2,122,888	\$ -	\$ -	\$ 46,504	\$ -	\$ 2,169,392
Exercise of stock options	(168,250)	-	-	-	-	(168,250)
Stock options vested during the period	76,562	-	-	(18,665)	-	57,897
Balance, end of period	\$ 2,031,200	\$ -	\$ -	\$ 27,839	\$ -	\$ 2,059,039
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>\$ 13,328,240</b>	<b>\$ (22,708)</b>	<b>\$ (226,093)</b>	<b>\$ -</b>	<b>\$ (314,464)</b>	<b>\$ 12,764,975</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

### 16. TRANSITION TO IFRS (continued)

#### Consolidated Statement of Changes in Shareholders' Equity

#### Twelve Months Ended December 31, 2010

	Previous GAAP	IFRS Adjustments				IFRS
		E&E (Note 16A)	Amortization (Note 16B)	Comp. (Note 16D)	Income Taxes (Note 16E)	
<b>Deficit</b>						
Balance, beginning of year	\$ (7,635,622)	\$ (22,708)	\$ (196,377)	\$ (46,504)	\$ (423,637)	\$ (8,324,848)
Net earnings (loss)	61,573	-	(39,621)	23,214	(459,723)	(414,557)
Balance, end of period	\$ (7,574,049)	\$ (22,708)	\$ (235,998)	\$ (23,290)	\$ (883,360)	\$ (8,739,405)
<b>Accumulated other comprehensive income</b>						
Balance, beginning of year	\$ 1,687,002	\$ -	\$ -	\$ -	\$ -	\$ 1,687,002
Unrealized loss on available-for-sale financial assets, (net of tax recovery of \$271,664)	(1,601,882)	-	-	-	-	(1,601,882)
Balance, end of period	\$ 85,120	\$ -	\$ -	\$ -	\$ -	\$ 85,120
<b>Share Capital</b>						
Balance, beginning of year	\$ 14,689,533	\$ -	\$ -	\$ -	\$ 184,488	\$ 14,874,021
Issued pursuant to private placements	5,190,637	-	-	-	(584,504)	4,606,133
Exercise of stock options	208,750	-	-	-	-	208,750
Fair value of warrants and stock options	168,250	-	-	-	-	168,250
Share Issuance Costs	(360,437)	-	-	-	-	(360,437)
Flow-through shares renounced	(473,650)	-	-	-	473,650	-
Balance, end of period	\$ 19,423,083	\$ -	\$ -	\$ -	\$ 73,634	\$ 19,496,717
<b>Warrants</b>						
Balance, beginning of year	\$ 117,533	\$ -	\$ -	\$ -	\$ -	\$ 117,533
Issued pursuant to private placements	\$ 301,643	-	-	-	-	\$ 301,643
Balance, end of period	\$ 419,176	\$ -	\$ -	\$ -	\$ -	\$ 419,176
<b>Share Based Payment Reserve</b>						
Balance, beginning of year	\$ 2,122,888	\$ -	\$ -	\$ 46,504	\$ -	\$ 2,169,392
Exercise of stock options	(168,250)	-	-	-	-	(168,250)
Stock options vested during the period	91,936	-	-	(23,214)	-	68,722
Balance, end of period	\$ 2,046,574	\$ -	\$ -	\$ 23,290	\$ -	\$ 2,069,864
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 14,399,904</b>	<b>\$ (22,708)</b>	<b>\$ (235,998)</b>	<b>\$ -</b>	<b>\$ (809,726)</b>	<b>\$ 13,331,472</b>

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 16. TRANSITION TO IFRS (continued)

The following discussion explains the significant differences between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

#### **IFRS Adjustments**

##### **A) Exploration and Evaluation ("E&E")**

Under previous GAAP, exploration and evaluation costs were capitalized as petroleum and natural gas properties or mineral properties in accordance with the CICA's full cost accounting guidelines. Under IFRS, the Company capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore are expensed.

Exploration and evaluation assets (including mineral and petroleum and natural gas assets) at January 1, 2010 were deemed to be \$5,861,144, representing the unproved properties balance under previous GAAP. The asset categories have been renamed as "mineral exploration and evaluation" and "PNG exploration and evaluation". \$40,708 was removed from the PNG exploration and evaluation asset on the Company's Consolidated Balance Sheet as at January 1, 2010 which had been capitalized before the Company had the legal right to the asset. The application of IFRS for exploration and evaluation costs resulted in \$40,708 increase to the Company's previous GAAP deficit for the nine months ended September 30, 2010 and the twelve months ended December 31, 2010.

Under previous GAAP, the Company followed EIC 141 in which deferred option payments were shown as a liability on the balance sheet until the option had either been earned or expired at which time it would be offset against any capital costs for that property with the balance taken into income. Under IFRS, if a Company is in the exploration and evaluation phase, deferred option payments are not required to be set up as a liability and can be netted against the property first and then taken into income. The effect of the adoption of this IFRS is \$18,000 of deferred options payment liabilities were removed from the balance sheet and reduced the deficit.

##### **B) Amortization**

Amortization of the Company's drilling rig was capitalized under previous GAAP to be allocated when the drilling rig was in use. This treatment does not meet the criteria under IFRS and all previously unallocated capitalized amortization relating to the drilling rig has been written off to amortization.

The opening balance sheet adjustment at January 1, 2010 was \$196,377. The reduction in PNG exploration and evaluation at September 30, 2010 was \$226,093 and \$235,998 at December 31, 2010 relating to the unallocated capitalized amortization on the Company's drilling rig. \$29,716 was

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 16. TRANSITION TO IFRS (continued)

#### B) Amortization (continued)

reflected as amortization at September 30, 2010 and \$39,621 at December 31, 2010 on the Statement of earnings.

#### C) Asset Retirement Obligation (“ARO”)

Under previous GAAP, the asset retirement obligation was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Liabilities were not re-measured to reflect period end discount rates. The discount rate used was a credit adjusted risk-free rate.

Under IFRS, the asset retirement obligation is measured as the best estimate of the expenditure to be incurred and requires that the asset retirement obligation be re-measured using the period end discount rate. The discount rate used is a risk adjusted discount rate, which is slightly higher than a credit adjusted risk-free rate.

In conjunction with the IFRS 1 exemption regarding petroleum and natural gas assets discussed above, the Company was required to re-measure its asset retirement obligation upon transition to IFRS and recognize the difference in its deficit. The application of this exemption resulted in \$2,312 decrease to the asset retirement obligation on the Company’s Consolidated Balance Sheet as at January 1, 2010. Subsequent IFRS re-measurements of the obligation are recorded through exploration and evaluation assets with an offsetting adjustment to the asset retirement obligation. As at December 31, 2010, including the January 1, 2010 adjustment, the Company’s asset retirement obligation increased by \$383, which primarily reflects the re-measurement of the obligation using the Company’s discount rate of 5 percent as at December 31, 2010.

#### D) Compensation

##### Share-based payments

Under previous GAAP, the Company expensed stock-based compensation costs based on the actual vesting date (straight line) of the stock option agreement. Under IFRS, stock-based compensation costs are to be expensed using a graded vesting method. Similar to GAAP, IFRS requires the liability for share-based payments be fair valued using an option pricing model, such as the Black-Scholes model, which is the model previously and currently used by the Company. At January 1, 2010, this resulted in an increase of \$46,504 to share based payment reserve. At September 30, 2010, the reassessment decreased such that the increase to share based payment reserve was \$27,839 and \$23,290 at December 31, 2010.

Under previous GAAP, the forfeiture rate was not required to be calculated on stock-based compensation costs. Under IFRS, the forfeiture rate is required to be calculated and applied. The forfeiture rate for the Company for expiring stock options is 4% as calculated using a weighted

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 16. TRANSITION TO IFRS (continued)

#### D) Compensation (continued)

##### Share-based payments (continued)

average over the past five years. The forfeitures have been taken into account for the above increase in stock-based compensation expense.

#### E) Income Tax

##### Flow-through shares

Under the terms of the Company's flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. Under previous GAAP, to recognize the foregone tax benefits to the Company, the carrying value of the shares issued was reduced by the tax effect of the tax benefits renounced to subscribers. IFRS is silent with respect to the tax provision accounting treatment for flow through shares. As of May 2011, there is new guidance as presented by the Mining Task Force of the Canadian Institute of Chartered Accountants as discussed below. In accordance with IAS 12, *Income Taxes*, a deferred tax liability is recognized, with certain specific exceptions, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

At the time flow-through shares are issued, there is a potential premium paid on the flow-through shares calculated based on the share issuance price and the market price at the time of closing. This premium is recorded as Other Liabilities on the Balance Sheet reducing share capital and is drawn down proportionately as the flow-through exploration spending occurs and recorded to either other income or deferred tax expense. The Company has recorded the premium drawn down as deferred tax expense. The impact of this IFRS at January 1, 2010 is a new liability "other accrued liability" of \$305,970 representing the premium on the 2009 flow-through share issuance and a reduction of share capital. For the period ended September 30, 2010, there were additional flow-through shares issued which increased the liability offset by exploration spending relating to the 2009 issuance; the September 30, 2010 liability was \$372,179. During the remainder of 2010, all of the 2009 liability was exhausted with a charge to deferred tax expense. A new liability was established relating to the May and December 2010 flow-through share issuances of \$584,504 with a reduction to share capital. The balance "other accrued liability" at December 31, 2010 was \$293,265 as some of the \$584,504 exploration expenditure commitment has been achieved. There is no IFRS 1 exemption relating to Income Taxes. As a result, the Company has calculated the premiums relating to all pre-2009 flow-through share issuances, with a resulting impact of a reduction of share capital and deficit of \$507,775.

The renouncement of the taxable benefit under previous GAAP was recorded as a deferred income tax liability and a reduction of share capital. Under IFRS, this renouncement is recorded as deferred income tax liability and deferred tax expense. The pre-2009 issuances on the January 1, 2010 balance sheet resulted in an increase to share capital and deficit of \$998,233. The 2009 issuances

# VULCAN MINERALS INC.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2011 and 2010

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### 16. TRANSITION TO IFRS (continued)

#### E) Income Tax (continued)

##### Flow-through shares (continued)

resulted in a \$473,650 increase to share capital and deferred tax expense for September 30, 2010 and December 31, 2010.

##### Other deferred income taxes

Under previous GAAP, capitalized stock based compensation created a taxable temporary difference. Under IFRS, a deferred tax liability related to an asset acquired in a transaction that is not a business combination is only recorded if there is an impact on profit and loss. The January 1, 2010 opening adjustment is a reduction to mineral E&E of \$17,508 and to PNG E&E of \$85,815 with a corresponding increase to deferred income tax liability. At September 30, 2010, there was an additional \$493 (cumulative \$18,001) for mineral E&E and \$13,974 (cumulative \$99,789) for PNG E&E; at December 31, 2010, there was \$493 for mineral E&E (cumulative \$18,001) and \$16,687 for PNG E&E (cumulative \$102,502).

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between other IFRS adjustments and previous GAAP. At January 1, 2010, the Company recognized \$170,144 reduction in the deferred income tax liability. For the nine months ended September 30, 2010 and for the year ended December 31, 2010, the Company recognized \$342,297 decrease and \$395,958 increase respectively to deferred income tax liability.

### 17. SUBSEQUENT EVENTS

Subsequent to quarter-end, the Company was served with a statement of claim by Geophysical Services Incorporated wherein it is claimed that the Company, as a co-defendant with Investcan Energy Inc., has committed a copyright infringement. The claim relates to an allegation that accessing offshore Labrador seismic data, which is released to the public by the Canada Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) after the relevant statutory privilege-confidentiality period, is a breach of copyright. The Company is of the opinion that this claim is without basis and vexatious. The Company will fully defend its interests and take all other actions available to it. Related cases have been initiated by the same claimant against the CNLOPB and the National Energy Board for, amongst other things, declarations that the regulations allowing public access to seismic data are invalid and in violation of copyright.

# **CORPORATE INFORMATION**

## **OFFICERS AND MANAGEMENT**

Patrick J. Laracy  
President and Chairman

Dawn E. Bishop  
Chief Financial Officer and Corporate  
Secretary

## **BOARD OF DIRECTORS**

Patrick J. Laracy

Rex Gibbons

Philip E. Collins

William Koenig

## **EXCHANGE LISTING**

TSX Venture – “VUL”

## **LEGAL COUNSEL**

Morris McManus, Calgary, AB  
Stewart McKelvey, St. John’s, NL

## **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada

## **AUDITORS**

Deloitte & Touche LLP

## **INVESTOR RELATIONS**

Gerri MacNeil

## **BANKERS**

Scotiabank

## **HEAD OFFICE**

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## **ADDITIONAL INFORMATION**

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