



## ANNUAL REPORT 2008

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

**VULCAN MINERALS INC.**  
December 31, 2008 and 2007

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*...exploring for petroleum and minerals in Canada...  
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## ***REPORT TO SHAREHOLDERS***

Dear Shareholder,

Frontier exploration is never an easy task, even in good equity markets. When you are engaged in very high risk frontier exploration, raising capital can be a challenge. Fortunately, we have always been able to fund our operations. Currently our exploration programs are funded through our \$15,000,000 joint venture with Investcan Energy Corporation. This will finance our Bay St. George 2009 drilling program which is scheduled to commence drilling in June. We are nearing the end of our procurement stage and are in final negotiations for drilling equipment. As a result of the global credit crisis and downturn in the petroleum drilling business, the availability and pricing of drilling equipment and services has improved significantly. This will help with our cost management which is always a challenge on frontier projects. The upcoming drill program will consist of 2-3 wells testing separate structural targets which have been developed as a result of previous shallow drilling and new seismic data. The first well, Robinsons #1, will be the first deep well into the basin at greater than 3000 metres. It will provide valuable information about the petroleum system within the basin. Our expectation is that the drill program will run continuously until the Fall of 2009. We are hopeful that positive news will reward our shareholders accordingly. The company has only 44 million shares outstanding which is very low given that the company has been engaged in high risk exploration for several years. Company's management has always tried to minimize dilution to the corporate structure. As a result, the company has generally operated with modest cash on the balance sheet. Our leverage to the Investcan joint venture (\$15,000,000 with Vulcan fully carried) does not appear on our balance sheet but amounts to significant funding for the company. This project financing avoids equity dilution while allowing the drill program in western Newfoundland to proceed.

Given the current equity markets, it is important for us to comment on the value of investments held by the company. These investments consist of shares in public companies that were obtained as part consideration for optioning out exploration properties to these companies. In December 2007 the investments were worth \$8,067,116 but in December 2008 they were worth \$2,982,122 based on stock exchange market value. This "mark to market" valuation decrease may be an aberration of unusually depressed market conditions. These shares represent companies whose equity

is generally illiquid leading to circumstances where the market may not always be the best measure of value. We note that even the depressed December 2008 valuation exceeds the company's cost for these shares which consisted primarily of exchange of property interests. We are not in the business of buying and selling shares for investment purposes in the open market. We are confident that the shares in the companies we own have a reasonable chance of increasing in value as they carry out their individual exploration programs in more normalized market conditions. They continue to represent the potential for significant reward for our shareholders without any additional call on our capital.

The company's acquisition of a working interest in the EL1107 offshore Labrador with partner Investcan Energy Corporation is a milestone event. It may be the first time a junior company has gone head to head with the multinationals in a competitive bidding process in the offshore Newfoundland and Labrador area and came out a winner with an exploration licence. We now have an address in a very substantial neighbourhood. Our exploration licence lies in between two substantial gas discoveries with resources exceeding 4 trillion cubic feet (CNLOPB). The development of Labrador gas will hinge on explorers in the area discovering additional reserves to cross a commercial threshold. The harsh environment challenges can be overcome with current engineering technology. We are very pleased to be part of this new round of exploration in the offshore Labrador area.

We thank our dedicated shareholder base for your support and sharing our vision of discovering new and exciting petroleum and mineral resources. The journey continues.

Yours truly,

A handwritten signature in black ink, appearing to read "Patrick J. Laracy". The signature is fluid and cursive, with a large initial "P" and "L".

Patrick J. Laracy  
President & CEO

**VULCAN MINERALS INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F**  
**For the Year Ended December 31, 2008**

*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 that actual results or developments may differ materially from those projected in the forward-looking statements.*

1.0 INTRODUCTION

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 first management, discussion and analysis (MDA) filed pursuant to Form 51-102 F of National Instrument 51-102 was for the quarter ended March 31, 2004. The MDA should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007 and accompanying notes.

1.1 DATE

The date of this MDA is April 8, 2009.

1.2 OVERALL PERFORMANCE

For the year ended December 31, 2008, total assets decreased to \$10,051,768 (2007 - \$15,037,657) primarily reflecting a decrease in investments (shares in a public company - see Section 1.14). Current liabilities related to normal trade payables decreased to \$97,299 (2007 - \$756,343), 2007 payables were higher due to the late 2007 seismic program. The Company had revenue decreases related to interest income of \$17,099 (2007 - \$39,343) reflecting increased cash balances in 2007. There were no option payments shown under revenue for 2008 (2007 - \$62,070 relating to option payments taken into income as a result of the cancellation of agreements). Deferred option payments on the balance sheet were \$130,000 (2007 - \$40,000) which increased during 2008 as a result of the current year option payment for the TL Nickel and Kingurutik properties. Long-term deposits increased in 2008 due to work commitment and well performance bonds for the Parsons Pond petroleum permits. General and administrative expenses were higher in 2008 (\$650,782) compared to 2007 (\$626,438) and include the following material components:

<b>General &amp; Admin. Expenses Include:</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>% Change</b>
Office (\$)	58,883	147,229	-60%
Mgmt Fees/Admin/Subcontract (\$)	461,383	365,008	+26%
Transfer Agent & Professional Fees (\$)	86,728	80,168	+8%
Travel & Accommodation (\$)	43,788	34,033	+29%

Office expenses decreased from 2007 due to reimbursement of G&A from personnel time spent on optioned and joint venture projects, other G&A costs increased due to increased marketing activities (such as attendance at technical and investment conferences) and increased personnel (such as rent, insurance). Management and subcontract fees increased during the period due to additional full time support personnel. Professional fees were lower in 2007 due to expenses incurred in prior years and determined in 2007 to be written off. Travel and accommodation increased during the year due to attendance at extra trade shows during the year. Net loss for the year was \$834,087 compared to net loss of \$1,920,589 in 2007 and on a per share basis, a net loss of \$0.02 in 2008 compared to net loss of \$0.05 in 2007. Net loss was higher in 2007 due to higher stock-based compensation costs relating to the vesting of stock options issued (\$123,255 higher in 2007), write downs of petroleum and natural gas properties (\$Nil in 2008 versus \$1,514,525 in 2007), offset by higher future income tax recovery in 2007 (\$449,743 greater in 2007).

During the year ended December 31, 2008, the Company received \$113,750 pursuant to the exercise of stock options and \$100,000 pursuant to the exercise of broker warrants. The Company received \$1,000,000 by way of a private placement of non flow-through shares and \$160,000 by way of a private placement of flow-through shares.

### 1.3 SELECTED ANNUAL INFORMATION

<b>Year Ended December 31</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total revenue (\$)	17,099	101,413	96,502
Net loss (\$)	834,087	1,920,589	1,233,455
Net loss per share (\$) – basic & diluted	0.02	0.05	0.03
Total assets (\$)	10,051,768	15,037,657	7,103,193
Total long-term financial liabilities (\$)	296,852	1,284,600	366,855
Cash dividends (\$)	Nil	Nil	Nil

Total revenue in 2008 decreased from 2007 due to decreased interest income reflecting less cash during the year 2008 and due to the recognition of option payments received as shares of \$Nil versus \$62,070 in 2007. In 2007, there were higher write-downs of petroleum and natural gas properties, higher stock-based compensation costs expenses offset by greater future income taxes recovery compared to 2008. This contributed to the increase of net loss in 2007 compared to 2008. The decrease in total assets in 2008 is related to investments during the year (see 1.14 below).

### 1.4 NEW ACCOUNTING STANDARDS

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standards related to "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862), "Financial Instruments – Presentation" (Section 3863), and "General Standards of Financial Statement Presentation" (Section 1400). Please refer

to note 3 of the financial statements for the year ended December 31, 2008, which discusses the classifications and accounting impacts.

## 1.5 FUTURE ACCOUNTING STANDARDS

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section increases harmonization of Canadian standards with international financial reporting standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently reviewing the potential impact, if any, on its consolidated statements.

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 is in the process of developing a plan for the conversion to IFRS and the impact on the Company's consolidated financial statements has not yet been determined.

## 1.6 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 these permits for several years. During 2007, the Company completed a seismic acquisition program in the Bay St. George basin of Western Newfoundland. Approximately 60 km of lines were surveyed. The new seismic data was processed in late December 2007. The data has been interpreted in the context of the Company's ongoing geoscientific analysis of the Bay St. George Basin. In particular, this new data is designed to delineate the Hurricane Deeps target. This target is a seismically mapped petroleum prospect, which is currently interpreted to require deep drilling to at least 3000 metres through multiple stacked reservoir targets. The Company feels that this deeper target is prospective because it provides access to geologic horizons closer to source rock, potentially better reservoir characteristics and higher probability for maintenance of trap integrity. The new seismic data has been successful in firming up exact drill locations.

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 to January 31, 2010 (carrying the Company for this first \$15,000,000 of expenditures). This purchase and sale has closed and has received all necessary regulatory approvals. It is the Company's intention, subject to rig availability, to drill the Hurricane Deep prospect in 2009. Pre-drilling engineering, "well design" work and permitting and procurements are ongoing. Also, the Company is prioritizing other

prospects in the basin for a 2009 drill program. Depending on actual drilling costs, the Company and Investcan expect to drill two to three wells in total on the Bay St. George permits in 2009.

Subsequent to year-end, the Company drilled two shallow core holes in the Flat Bay oil deposit to gather reservoir engineering data. The holes were successful in encountering petroleum in the targeted reservoir and the core is currently being analyzed.

#### *Parsons Pond*

On December 18, 2008, the Company entered into an agreement with a private company to acquire an additional 8% working interest in each of EP 03-101, EP 03-102, and EP 03-103 whereby the Company will hold 26.57% of EP 03-101, 15.39% of EP 03-102, and 18% of EP 03-103. In the same transaction, the Company acquired a right of first refusal on the private company's remaining 2% working interest in each of the three permits.

The operator of the permits has advised the Company that they plan on a drill program prior to February 2010, subject to acquiring the necessary financing. The Company plans on participating in any drill program subject to financing and has entered into an agreement with a private company to finance its recent acquisition and potentially form a joint venture to participate in any future drilling.

#### 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 this parcel with a work commitment bid of \$9,601,000. A refundable security deposit equal to 25% of the work commitment bid with the Canada-Newfoundland and Labrador Offshore Petroleum Board ("CNLOPB") has been posted to secure the exploration licence. Further information regarding Call for Bids NL07-2 is available at [www.cnlopb.nl.ca](http://www.cnlopb.nl.ca)

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 (maximum of \$1,200,125) will be carried by Investcan for two years without dilution of the Company's working interest in the exploration licence. If the Company assumes its 50% share of the security deposit at the end of two years, it shall preserve its 50% working interest in the exploration licence. If the Company does not assume its 50% share of the security deposit at the end of two years, Investcan shall carry the obligation up to an additional two years subject to a dilution of the Company's interest in the licence up to a maximum of 22% (i.e.: the Company would maintain a minimum 28% working interest) at which time the Company will assume its share of the security deposit.

An exploration licence confers the right to explore for petroleum for an initial Period I of six years with a possible additional period of three years. Parcel #2 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 has carried out an internal evaluation of the parcel and has identified prospects and leads worthy of further exploration in the

context of an emerging gas play. The Company and Investcan are seeking to farmout an interest in the project.

#### Western Newfoundland Offshore

Through its interests in NWest Energy Inc. (“NWest”), the Company has exposure to the exploration potential of offshore western Newfoundland, an area with petroleum potential in Cambrian-Ordovician targets, which are productive in the Appalachian belt of New York State extending as far south as Texas.

NWest’s current total offshore land package covers 650,000 hectares. The Company assisted NWest with the retention of Sproule Associates Limited of Calgary to carry out a resource assessment of the offshore licenses in 2007. Sproule identified 155 prospects and leads at three different stratigraphic horizons on the licenses. Some of these geophysical leads are very interpretive, based upon limited 2D seismic control, and will require additional seismic to prove their validity and size. All require further seismic delineation to upgrade them to drill ready status. Many of the prospects and leads are stacked vertically, enhancing their prospectivity by providing multiple targets at any individual drilling location. Sproule selected the eleven highest priority geophysical anomalies based on the geophysical and geological data available and concluded “The 11 most significant geophysical anomalies herein considered as forming the initial exploratory drilling phase of NWest's ongoing program may have an undiscovered in-place resource in the order of 3.8 billion barrels”. These offshore licenses have never been drilled and the resource estimate is of undiscovered resources with no certainty that any of the resources will be discovered, recovered or developed. A seismic program was carried out in 2008 over key target areas and the data is currently being processed and interpreted by NWest. NWest is soliciting partners to pursue additional exploration on the licences.

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 and raised \$10,000,000 by way of private placement. NWest has retained its own management and consulting team to carry out its business plan. NWest announced in 2008 that Dr. James Buckee, retired CEO of Talisman Energy Inc. and Ms. Jacqueline Sheppard, retired executive Vice-President and Corporate Secretary of Talisman Energy Inc. have joined the Board of Directors. NWest has expressed its desire to participate in petroleum ventures outside of offshore western Newfoundland to diversify its exposure.

#### 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 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 up to 14 metres of 1.02% Nickel, 0.51% Copper, and 0.03% Cobalt as follows:

Hole_ID	From (m)	To (m)	Interval (m)	Nickel %	Copper %	Cobalt %	Platinum, Palladium+ Gold g/t
08-LP-55	7	21	14	0.80	0.85	0.03	0.36
<b>incl.</b>	<b>10</b>	<b>19</b>	<b>9</b>	<b>1.02</b>	<b>0.55</b>	<b>0.04</b>	<b>0.40</b>
<b>incl.</b>	<b>7</b>	<b>13</b>	<b>6</b>	<b>1.02</b>	<b>1.59</b>	<b>0.05</b>	<b>0.30</b>
<b>WITH</b>	<b>7</b>	<b>8</b>	<b>1</b>	<b>0.55</b>	<b>4.02</b>	<b>0.03</b>	<b>0.30</b>
08-AA-60	3	42	39	0.57	0.28	0.02	0.25
<b>incl.</b>	<b>6</b>	<b>20</b>	<b>14</b>	<b>1.02</b>	<b>0.51</b>	<b>0.03</b>	<b>0.35</b>
<b>WITH</b>	<b>13</b>	<b>14</b>	<b>1</b>	<b>2.15</b>	<b>0.38</b>	<b>0.05</b>	<b>0.36</b>
08-AA-61	2	31	29	0.42	0.21	0.02	0.15
<b>incl.</b>	<b>5</b>	<b>6</b>	<b>1</b>	<b>1.62</b>	<b>0.66</b>	<b>0.05</b>	<b>0.35</b>
<b>incl.</b>	<b>8</b>	<b>10</b>	<b>2</b>	<b>1.23</b>	<b>0.34</b>	<b>0.04</b>	<b>0.41</b>

Full assay results are available on the Company's website at [www.vulcanminerals.ca](http://www.vulcanminerals.ca)

#### *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. Work on part of the property by a previous operator included an airborne magnetic and frequency domain electromagnetic survey in the mid 1990's. That survey identified several co-incident magnetic and electro-magnetic anomalies with individual anomalies up to 800 metres in length. None of these anomalies were drill tested. Subsequent prospecting located extensive gossans within a mixed zone of Tasiuyak gneiss, monzonite, anorthosite and gabbro. Gossanous zones containing disseminated sulphides were heavily weathered and highly altered to hematite and limonite inhibiting any sampling of fresh rock.

The property was staked by the Company in the Fall of 2007. On April 1, 2008, the Company signed a letter of intent with Nortec Ventures Corp. ("Nortec") whereby Nortec could acquire up to a 100% working interest subject to underlying carried interests by the Company in return for work expenditures and cash and share payments to the Company. A final option agreement was executed on July 30, 2008. An airborne VTEM survey was flown over most of the property in May with several co-incident magnetic and electromagnetic anomalies identified. Three scout holes were drilled on the property as an extension of the Tasisuak Lake drill program in August. No significant mineralization was encountered though encouraging sulphide segregations were intersected. In February 2009, Nortec advised the Company that it wished to withdraw from this option agreement. The Company continues with its evaluation of the property.

#### *Flat Bay Potash/Salt*

The Carboniferous aged strata of the Maritimes Basin is a significant producer of salt and potash. Presently there are three producing mines in Atlantic Canada: Sussex, New Brunswick - Potash Corporation of Saskatchewan (potash/salt); Pugwash, Nova Scotia - The Canadian Salt Company Limited (salt); Nappan Salt Mine, Nova Scotia - Sifto Canada Inc. (evaporation operation for salt).

The Company owns the mineral rights (in addition to petroleum rights) over a portion of the northern Bay St. George Basin (approximately 100,000 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. Seismic data, which provides subsurface imaging, suggests that these discoveries are connected and that a significant salt/potash resource exists in the area. Assessment of the discoveries is ongoing through the use of the Company's seismic data for mapping of the evaporitic rocks which contain the potash and salt.

#### Plans for 2009

As a result of the Company's joint venture with Investcan and its ongoing exploration assessment of the Bay St. George area, a drill program is being designed and permitted for the Hurricane Deep area. The 2007 seismic program is an integral part of preparing for that drill program. The Company is gearing up for the deep drilling program to commence in the second quarter of 2009, subject to the availability of a drilling rig (with greater than 3000 metre capability). The agreement with Investcan Energy Corporation will provide funding for the drilling program whereby the Company's interest will be carried 100%. This will be the first deep well in the Bay St. George basin and is currently in the midst of pre-drilling engineering, procurement work and planning. It is the Company's plan to conduct a drill program on additional shallower targets within the basin in 2009. A prioritization evaluation of these prospects is underway in anticipation of this program. The Company is currently in negotiations to contract a suitable drill rig for the 2009 drill program. Depending on drilling costs, the total program should consist of two-three wells in the Bay St. George Basin.

The Company and Investcan will continue with its geological and geophysical evaluation of its recently acquired offshore Labrador exploration licence towards acquiring a joint venture partner and the acquisition of new seismic data.

The Company is also evaluating the merits of its potash and salt discoveries in the Flat Bay area. The Company has an extensive seismic database, which is very effective in delineating evaporitic rocks, which contain salt and potash.

#### 1.7 SUMMARY OF QUARTERLY RESULTS

	Dec 31/08	Sept 30/08	Jun 30/08	Mar 31/08	Dec 31/07	Sept 30/07	Jun 30/07	Mar 31/07
Total Revenue (\$)	4,497	4,569	3,833	4,200	73,601	19,116	6,275	2,421
Net Income (Loss) (\$)	42,041	(186,778)	(551,041)	(138,309)	(1,138,856)	(491,070)	(198,283)	(92,380)
Net Loss per share	(0.00)	(0.01)	(0.01)	(0.00)	(0.03)	(0.01)	(0.01)	(0.00)

Total revenues quarter over quarter is limited to interest income earned every period and mineral option payments recognized for December 31, 2007 of \$62,070 and for June 30, 2006 of \$74,000 (adjusted at year end to show \$20,000 of this as deferred income). The net income in December 2008 relates to some stock-based compensation costs being capitalized and reimbursement of costs from partners. The increased net loss in June 2008 relates to stock-based compensation expenses as a result of the fair market value of the issuance of stock options in the quarter of which \$157,569 was capitalized at year-end. The increased net loss in December 2007 relates to the write down of some of the Company's mineral and petroleum and natural gas properties. The

increased net loss in September 2007 relates to stock-based compensation expenses as a result of the fair market value of the issuance of stock options in the quarter.

## 1.8 LIQUIDITY

At year-end, the Company had current assets of \$1,181,896 of which \$884,053 is cash and cash equivalents. This cash is readily available and is not subject to subprime debt issues nor asset backed commercial debt. Due to the agreement with Investcan (see 1.5), there are sufficient funds to carry out the estimated capital expenditures for 2009. Due to the financing in May 2008 (see 1.2), the Company has adequate working capital. There were no flow-through obligations for 2008.

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 position except for the item disclosed in the notes to the consolidated financial statements. 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 is 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.

## 1.9 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. In the following table, most of the work obligations have been fulfilled by virtue of carrying forward excess work carried out in previous years on the permits and licenses. In any other case, the status of the work commitment is indicated.

Tenure Instrument	Status	Comment
<b>Petroleum Permits</b>		
Permit 96-105	Subject to lease conversion	2004-2009 drilling and seismic program has advanced lease conversion process
Permit 03-106	Good Standing	Security deposit refunded
Permit 03-107	Good Standing	Security deposit refunded
<b>Mineral Licences</b>		
		<b>Work Obligations</b>
015834M	Subject to Nortec option-TL	\$262,800 by September 11, 2018
008838M	Good Standing – Bay St. George	\$165,489 by June 10, 2013
006107M	Good Standing – Bay St. George	\$72,000 by June 8, 2016
010069M	Good Standing – Bay St. George	\$21,655 by April 12, 2011
011159M	Good Standing – Bay St. George	\$61,620 by August 1, 2011
011160M	Good Standing – Bay St. George	\$136,958 by August 1, 2016
012501M	Good Standing – Bay St. George	\$120,444 by September 18, 2012
012502M	Good Standing – Bay St. George	\$28,318 by September 18, 2011
012504M	Good Standing – Bay St. George	\$102,083 by September 18, 2014
012669M	Good Standing – Bay St. George	\$73,533 by October 27, 2014
014138M	Good Standing - Kingurutik, Labrador	\$55,477 by Nov. 15, 2012
015032M	Good Standing - Lac Pilliamet, Labrador	\$20,933 by June 9, 2010
015033M	Good Standing - W. Siugak Brook, Labrador	\$9,860 by June 9, 2010

The Company also owns non-operating working interests in petroleum permits 03-101, 03-102 and 03-103 at Parsons Pond (see 1.5 above). Permit 03-103 is in good standing until January 2010 by virtue of previous drilling. Permit 03-101 and 03-102 have been extended to January 2010 by virtue of well bonds posted with the Government of Newfoundland and Labrador.

There are no sources of financing currently identified by the Company that are unused (i.e., lines of credit or similar instruments).

#### 1.10 OFF BALANCE SHEET ARRANGEMENTS

The Company has no material off-balance sheet arrangements.

#### 1.11 TRANSACTIONS WITH RELATED PARTIES

During the year, the Company paid premises rent aggregating \$24,000 (2007: \$16,750) to a private company owned and controlled by the President and a director of the Company. As well, he received \$166,931 (2007: \$111,250) in management fees.

Directors' fees were paid during the year of \$10,000 (2007 - \$22,760 of which \$8,760 related to 2007 and \$13,500 to prior years). Included in accounts payable and accrued liabilities are directors' fees payable of \$Nil (2007 - \$Nil) and management fees due to the President of \$3,912 (2007 - \$20,520).

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.

During the year, the Company acquired certain gross overriding royalties on exploration permit 96-105 from the President in consideration for 51,000 common shares directly and 54,000 common shares indirectly (through a private company).

#### 1.12 PROPOSED TRANSACTIONS

There are no material proposed transactions relating to any asset or business acquisition or disposition being considered by management except that described in 1.6 above. The Company through its normal course of business solicits partners for some of its exploration prospects, both petroleum and minerals.

#### 1.13 CRITICAL ACCOUNTING ESTIMATES

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

#### 1.14 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 800,000 shares (initially valued at \$29,600) in Nortec Ventures Corp., a public company pursuant to a mineral property option agreement dated May 30, 2003. During 2008, the Company received an additional 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 \$100,000 on the balance sheet at December 31, 2008. All of these shares are currently free trading. The Company may sell those shares at its discretion in context of the market value and prospects for Nortec Ventures Corp.

During 2008, the Company acquired an additional 3,553,058 shares of NWest, a public company (see 1.5 Western Newfoundland Offshore). The Company currently holds 17,964,372 shares in NWest (of which 11,928,049 are currently held in escrow, 5,875,009 to be released December 2009 and the remainder December 2010) and has recorded the shares at market of \$2,874,300 on the balance sheet at December 31, 2008. The Company may sell those free trading shares at its discretion in context of the market value and prospects for NWest. The Company also holds 161,314 warrants in NWest which are exercisable at \$0.75 up to December 2009 which have been fair valued at \$322 at December 31, 2008.

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 \$7,500 on the balance sheet at December 31, 2008. The Company may sell those shares at its discretion in context of the market value and prospects for Commander Resources Ltd.

#### 1.15 SHARE CAPITAL

As of the date of this management discussion and analysis the Company has 44,229,301 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 year, the Company had outstanding 3,800,000 options (481,250 options were not vested) to purchase voting common shares consisting of the following:

Date Issued	Number	Exercise Price	Details
May 26, 2004	325,000	\$0.30	Director's Options, Expiry May 26, 2009
February 2, 2005	500,000	\$0.35	Director's Options, Expiry February 2, 2010
June 22, 2006	500,000	\$0.40	Director's Options, Expiry June 22, 2011
June 26, 2007	200,000	\$0.65	Director's Options, Expiry June 26, 2012
June 26, 2007	150,000	\$0.65	Employee Options, Expiry June 26, 2009
August 13, 2007	25,000	\$0.54	Employee Options, Expiry August 13, 2009
September 26, 2007	900,000	\$0.50	Directors' Options, Expiry Sept. 26, 2012
May 9, 2008	50,000	\$0.70	Employee Options Expiry May 9, 2010
June 27, 2008	950,000	\$1.00	Employee & Directors' Options Expiry June 27, 2013
October 23, 2008	200,000	\$0.60	Employee Options, Expiry Oct. 23, 2011

At the end of the year, the Company had outstanding 969,586 warrants exercisable into voting common shares consisting of the following:

Date Issued	Number	Exercise Price	Details
January 17, 2007	31,250	\$0.60	Expiry January 17, 2009
May 7, 2008	938,336	\$0.80	Expiry May 7, 2009

#### 1.16 DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been established and designed to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company and is disclosed by the Company. The Chief Executive Officer and Chief Financial Officer are reasonably assured that the disclosure controls and procedures are effective in the context of the Company's operations.

#### 1.17 INTERNAL CONTROLS OVER FINANCIAL REPORTING

During our assessment of internal controls over financial reporting, management has identified a lack of segregation of duties to be a material weakness within the system of internal controls. Inadequate segregation of duties is a typical issue for smaller companies due to their size and nature. Management feels that the financial reporting risk associated with the lack of segregation of duties has been mitigated by compensating controls. In addition, the Company retains an external independent accounting firm to assist with financial reporting and there is a substantial review of the financial statements by management and a qualified audit committee that oversees the financial reporting.

#### 1.18 ADDITIONAL INFORMATION

All corporate disclosure documents are filed on [www.sedar.com](http://www.sedar.com). Copies of the documents referred to herein are available to any person upon request. Additional information regarding the Company's projects and activities are available at [www.vulcanminerals.ca](http://www.vulcanminerals.ca).

## Management's Report

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the financial statements and the safeguarding of the Company's assets.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The financial statements have been approved by the Board of Directors on recommendation from the Audit Committee. The external auditors have full and free access to the Audit Committee.



Patrick J. Laracy  
President and Chief Executive Officer  
March 31, 2009



Dawn Bishop  
Chief Financial Officer

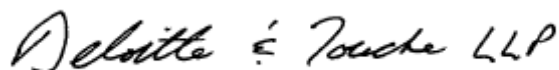
## Auditors' report

To the Shareholders of  
Vulcan Minerals Inc.

We have audited the consolidated balance sheets of Vulcan Minerals Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss and deficit, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
St. John's, Newfoundland and Labrador  
March 31, 2009

**VULCAN MINERALS INC.**  
**Consolidated Balance Sheets**  
**As at December 31**

	2008	2007
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	884,053	1,139,266
Accounts receivable	58,863	68,691
Prepaid expenses	18,330	10,523
Deposits	220,650	172,712
	<b>1,181,896</b>	1,391,192
Deposits	100,000	35,000
Investments (Note 6)	2,982,122	8,067,116
Minerals properties (Note 7)	83,602	37,437
Petroleum and natural gas properties (Note 8)	5,495,109	5,227,780
Equipment (Note 9)	209,039	279,132
	<b>10,051,768</b>	15,037,657
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	97,299	756,343
Other accrued liability (Note 18)	221,878	221,878
	<b>319,177</b>	978,221
Deferred option payments (Note 10)	130,000	40,000
Asset retirement obligations (Note 11)	60,921	56,011
Future income taxes (Note 12 (a))	105,931	1,188,589
	<b>616,029</b>	2,262,821
<b>Shareholders' Equity</b>		
Share capital (Note 13 (a) and (b))	12,968,316	11,740,697
Warrants (Note 13(d))	312,618	32,968
Contributed surplus (Note 13 (e))	1,624,793	1,158,230
Deficit	(7,406,045)	(6,571,958)
Accumulated other comprehensive income	1,936,057	6,414,899
	<b>9,435,739</b>	12,774,836
	<b>10,051,768</b>	15,037,657

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

Approved by the Board of Directors,

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

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

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Consolidated Statements of Loss and Deficit**  
**Years Ended December 31**

	2008	2007
	\$	\$
<b>Revenue</b>		
Interest	17,099	39,343
Option payments	-	62,070
	<b>17,099</b>	<b>101,413</b>
<b>Expenses</b>		
General and administrative (Note 16)	650,782	626,438
Stock-based compensation	373,245	496,500
Write down of petroleum and natural gas properties (Note 8)	-	1,514,525
Amortization	7,548	4,755
Decrease in fair value of share purchase warrants	23,743	5,123
	<b>1,055,318</b>	<b>2,647,341</b>
Net loss before income taxes	<b>(1,038,219)</b>	<b>(2,545,928)</b>
Income taxes		
Other tax expense (Note 12 (b))	-	(28,536)
Future income taxes recovery (Note 12 (b))	204,132	653,875
	<b>204,132</b>	<b>625,339</b>
Net loss	<b>(834,087)</b>	<b>(1,920,589)</b>
Deficit, beginning of year	<b>(6,571,958)</b>	<b>(4,651,369)</b>
<b>Deficit, end of year</b>	<b>(7,406,045)</b>	<b>(6,571,958)</b>
Net loss per share - basic and diluted (Note 2 (n))	<b>(0.02)</b>	<b>(0.05)</b>
Weighted-average number of common shares outstanding - basic and diluted	<b>42,776,054</b>	<b>39,421,542</b>

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31**

	2008	2007
	\$	\$
<b>Operating activities</b>		
Interest receipts	17,099	39,343
Operating payments	(1,018,179)	(423,490)
	<b>(1,001,080)</b>	<b>(384,147)</b>
<b>Financing activities</b>		
Issuance of common shares and share purchase warrants	1,373,750	2,038,249
Share issuance costs	(74,310)	(2,383)
	<b>1,299,440</b>	<b>2,035,866</b>
<b>Investing activities</b>		
Acquisition of investments	(211,457)	(140,657)
Options payments received	30,000	20,000
Mineral properties expenditures	(5,603)	(12,108)
Petroleum and natural gas properties expenditures	(350,845)	(1,010,379)
Acquisition of equipment	(15,668)	(6,463)
	<b>(553,573)</b>	<b>(1,149,607)</b>
Cash inflow (outflow)	(255,213)	502,112
Cash and cash equivalents, beginning of year	1,139,266	637,154
<b>Cash and cash equivalents, end of year</b>	<b>884,053</b>	<b>1,139,266</b>
Cash and cash equivalents is comprised of:		
Deposits with banks	480,700	1,139,266
Guaranteed investment certificates (interest rate 3.4%)	403,353	-
	<b>884,053</b>	<b>1,139,266</b>

Supplemental cash flow information (Note 15)

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Consolidated Statements of Comprehensive (Loss) Income**  
**Years Ended December 31**

	2008	2007
	\$	\$
<b>Net loss</b>	<b>(834,087)</b>	<b>(1,920,589)</b>
Other comprehensive (loss) income:		
Unrealized (loss) gain on available-for-sale financial assets, (net of tax recovery (loss) of \$849,175; 2007 - (\$1,187,287))	<b>(4,478,842)</b>	6,279,295
<b>Comprehensive (loss) income</b>	<b>(5,312,929)</b>	<b>4,358,706</b>

**VULCAN MINERALS INC.**  
**Consolidated Statements of Accumulated Other Comprehensive Income**  
**As at December 31**

	2008	2007
	\$	\$
<b>Accumulated other comprehensive income, beginning of year</b>	<b>6,414,899</b>	-
Transitional adjustment to accumulated other comprehensive income (Note 2)	-	135,604
Other comprehensive (loss) income	<b>(4,478,842)</b>	6,279,295
<b>Accumulated other comprehensive income, end of year</b>	<b>1,936,057</b>	<b>6,414,899</b>

See accompanying notes to the consolidated financial statements

# **VULCAN MINERALS INC.**

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

**December 31, 2008 and 2007**

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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. 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. 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 properties represent net costs to date less any write-offs and do not necessarily represent present or future values. At December 31, 2008, the Company had an accumulated deficit of \$7,406,045 (December 31, 2007 - \$6,571,958).

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 recovery of expenditures on these properties and the related deferred mineral exploration expenditures and capitalized petroleum and natural gas costs are dependent upon the existence of economically recoverable mineralization and reserves, the ability of the Company to obtain financing necessary to complete the exploration and the development of the mineral and petroleum and natural gas properties, and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported loss and balance sheet classifications used.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

*a) Basis of consolidation*

The consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries. Intercompany transactions have been eliminated upon consolidation.

*b) Cash and cash equivalents*

Cash and cash equivalents consist of amounts on deposit with banks and guaranteed investment certificates with original maturities of three months or less.

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*c) Deposits*

The Company makes deposits on its various mineral and petroleum and natural gas properties which are refundable when and if the Company incurs sufficient exploration expenditures within a specified time frame and files a related report with the appropriate government authorities. Should the Company not incur the applicable exploration expenditures or post a bond in lieu thereof or fail to submit the related exploration report within the applicable timeframe, the deposit becomes non-refundable and is added to mineral or petroleum and natural gas properties.

*d) Mineral properties*

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

Management periodically reviews the carrying values of mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties, which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program, are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred exploration costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations on a unit-of-production basis over economically recoverable reserves.

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*e) Petroleum and natural gas properties*

Capitalized costs

The Company follows the full cost method of accounting for petroleum and natural gas expenditures. All costs related to the acquisition, exploration, and development of petroleum and natural gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, together with overhead and interest directly related to acquisition, exploration and development activities and lease and well equipment. Gains and losses are not recognized upon disposition of petroleum and natural gas properties, unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

Amortization

Costs capitalized will be amortized using the unit-of-production method based on the estimated gross proved reserves before royalties, as will be determined by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based on their estimated relative energy content at a ratio of six thousand cubic feet of natural gas to one barrel of oil. The cost of unproved properties are excluded initially from costs subject to amortization until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. These unproved properties are assessed regularly to ascertain whether impairment has occurred.

Ceiling test

The Company will perform a ceiling test for each cost centre in a two-stage test performed at least annually to determine whether the carrying amount of petroleum and natural gas properties is recoverable and that it does not exceed the fair value of properties as follows:

- (i) Impairment is recognized if the carrying value of the petroleum and natural gas properties less accumulated amortization, related asset retirement obligations and the lesser of cost and fair value of unproved properties exceeds the estimated future cash flows from proved petroleum and natural gas reserves, on an undiscounted basis, using forecast prices and costs. Future cash flows are calculated before interest, general and administrative expenses and income taxes.
- (ii) If an impairment is indicated by applying the calculations described in (i) above, the Company measures the amount of the impairment by comparing the carrying value of the petroleum and natural gas properties less accumulated amortization, related asset retirement obligations and the lesser of cost and fair value of unproved properties to the estimated future cash flows from proved and probable petroleum and natural gas reserves, discounted at the Company's risk-free rate of interest, using forecast prices and costs. Any impairment recognized will be recorded as additional amortization.

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*f) Equipment*

Equipment is recorded at cost. Amortization is based on their estimated useful life using the declining balance method at rates ranging from 20% to 30% per annum.

*g) Deferred option payments*

The Company records the proceeds from option payments on its properties as a deferred liability. Should the party purchasing the option exercise their option to purchase an interest in the Company's property, the Company will record the option payments as part of the proceeds of disposition from the property in the year that the option is exercised. Should the party purchasing the option not exercise their rights within the agreed upon time frame, the Company will record the option payments previously received as a credit against mineral properties to reduce the balance and the remainder of the balance, if any, to income in the year that the option rights expire.

*h) Asset retirement obligations*

The Company recognizes a liability for retirement obligations associated with long-lived assets, which includes the abandonment of petroleum and natural gas wells, related facilities, compressors and plants, removal of equipment from leased acreage and returning such land to its original condition.

The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is determined through a review of engineering studies, industry guidelines, and management estimates. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk-free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statements of loss. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production method based on estimated gross proved reserves as determined by independent engineers.

*i) Revenue recognition*

Revenue from the sale of petroleum and natural gas will be recognized based on volumes delivered to customers at contractual delivery points and rates, when all contractual obligations have been met and collection is reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses will be recognized in the same period in which the related revenue is earned and recorded.

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*j) Flow-through shares*

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

*k) Stock-based compensation*

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

*l) Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

*m) Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to valuation of mineral and petroleum and natural gas properties, the determination of asset retirement obligations, the determination of the valuation allowance for income tax assets, rates for depletion and amortization, recoverability of accounts receivable, contingent liabilities and valuation of warrants and options. Actual results could differ from these estimates.

*n) Loss per share*

Basic loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the year. Diluted net loss per year is equivalent to basic loss per share as the inclusion of outstanding options and warrants is anti-dilutive.

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*o) Financial Instruments*

The Company has implemented the following classifications:

Cash and cash equivalents are classified as "financial assets held for trading" and any adjustments to fair value are reflected in net income for each period.

Accounts receivable are classified as "loans and receivables" and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short-term nature of the financial asset.

Accounts payable and accrued liabilities are classified as "other liabilities" and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short-term nature of the financial liabilities.

Investments are classified as "available-for-sale-investments". A gain or loss on available-for-sale investments is recognized directly in other comprehensive income until the investment is sold or considered permanently impaired, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net income (loss) for the period. For investments carried at amortized cost, a gain or loss is recognized in net income (loss) when the investment is impaired, and through the amortization process. Any impairments that would be considered other than temporary would result in a realized gain or loss in the statement of loss. The investments as per note 6 in public companies were accounted for using the cost method at December 31, 2006. Effective January 1, 2007, the Company adopted this new policy and has been accounting for the investments in public companies based on the fair value as determined by the stock price at closing on the date of the statements with unrealized fair value adjustments reflected in the statement of comprehensive income for each period. As at January 1, 2007, the impact on the consolidated balance sheet was an increase of \$135,604, net of a future income tax impact of \$26,796.

The Company holds share purchase warrants which are considered derivative financial instruments and have been designated as held-for-trading and are measured at fair value. A gain or loss on held-for-trading investments is recognized on the statement of loss as an increase or decrease in the fair value. The warrants in a public company as per note 6 were accounted for using the Black-Scholes pricing method at December 31, 2008 with realized fair value adjustments reflected in the statement of loss and deficit for each period.

Transaction costs are included in the initial carrying amount of financial instruments, except for held for trading items which are expensed as incurred.

The Company has determined that it does not have derivatives or embedded derivatives.

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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### 3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standards related to "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862), "Financial Instruments – Presentation" (Section 3863), and "General Standards of Financial Statement Presentation" (Section 1400). Under the new standards:

#### *Capital Disclosures*

Both qualitative and quantitative information on capital assets is disclosed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. It requires the disclosure of information about: (i) an entity's objectives, policies and processes for managing capital; (ii) qualitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by Section 1535 in note 5 of these financial statements.

#### *Financial Instruments Disclosures*

Disclosure for financial instruments enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

#### *Financial Instruments Presentation*

Presentation of financial instruments deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. The Company has included disclosures recommended by these new Handbook Sections in note 17 of these financial statements.

#### *General Standards of Financial Statement Presentation*

CICA Section 1400 "General Standards of Financial Statement Presentation" provides additional guidance related to management's assessment of the Company's ability to continue as a going concern.

### 4. FUTURE ACCOUNTING CHANGES

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section increases harmonization of Canadian

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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**4. FUTURE ACCOUNTING CHANGES (continued)**

*Goodwill and Intangible Assets (continued)*

standards with international financial reporting standards and applies to annual and interim financial statements beginning January 1, 2009. The Company is currently reviewing the potential impact, if any, on its consolidated statements.

*International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards "(IFRS)" by the end of 2011. The Company is in the process of developing a plan for the conversion to IFRS and the impact on the Company's consolidated financial statements has not yet been determined.

**5. 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, contributed surplus 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, 2007.

**6. INVESTMENTS**

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Investments	<b>2,982,122</b>	8,067,116

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 \$89,600 (December 31, 2007 - \$29,600). At December 31, 2008, the market value of the shares is \$100,000 (December 31, 2007 - \$224,000).

**VULCAN MINERALS INC.**  
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**6. INVESTMENTS (continued)**

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, 2007 - \$285,766). At December 31, 2008, the market value of the shares is \$2,874,300 (December 31, 2007 - \$7,782,110). Of the 17,964,372 shares owned by the Company, 11,928,049 are held in escrow with 5,875,009 to be released December 2009 and the remainder December 2010.

Shares in a public company received as consideration for option payments on mineral claims and recorded at a cost of \$93,000 (December 31, 2007 - \$93,000). At December 31, 2008, the market value of the shares is \$7,500 (December 31, 2007 - \$32,250).

Investments, classified as held for trading, consist of:

Warrants to purchase 161,314 shares at \$0.75 in a public company purchased as part of a private placement with a cost of \$34,891. At December 31, 2008, the fair value of the warrants was \$322 (December 31, 2007 - \$28,756)

**7. MINERAL PROPERTIES**

The Company has sixteen mineral licenses, which consists of 2,055 claims, which are active and in good standing with the Department of Mines and Energy in the Province of Newfoundland and Labrador. A summary of the costs of these licenses is as below.

	31-Dec-08		31-Dec-07			
	Balance, Beginning of Year	Additions	Balance, End of Year	Balance, Beginning of Year	Additions	Balance, End of Year
	\$	\$	\$	\$	\$	\$
Property acquisition costs	<b>129,161</b>	-	<b>129,161</b>	129,161	-	129,161
Exploration costs	<b>396,468</b>	<b>46,165</b>	<b>442,633</b>	384,360	12,108	396,468
Options payments received	<b>(53,181)</b>	-	<b>(53,181)</b>	(22,251)	(30,930)	(53,181)
Cost of abandoned properties	<b>(435,011)</b>	-	<b>(435,011)</b>	(435,011)	-	(435,011)
	<b>37,437</b>	<b>46,165</b>	<b>83,602</b>	56,259	(18,822)	37,437

\$40,562 (December 31, 2007 - \$Nil) of the current year additions related to stock-based compensation costs capitalized to minerals properties.

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**8. PETROLEUM AND NATURAL GAS PROPERTIES**

The Company has three exploration permits, 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.

	31-Dec-08			31-Dec-07		
	Balance, Beginning of Year \$	Additions \$	Balance, End of Year \$	Balance, Beginning of Year \$	Additions \$	Balance, End of Year \$
Petroleum and exploration costs	8,884,513	267,329	9,151,842	7,557,408	1,327,105	8,884,513
Cost of abandoned properties	(3,656,733)	-	(3,656,733)	(2,142,208)	(1,514,525)	(3,656,733)
	<b>5,227,780</b>	<b>267,329</b>	<b>5,495,109</b>	<b>5,415,200</b>	<b>(187,420)</b>	<b>5,227,780</b>

Amounts not subject to amortization are \$5,495,109 (December 31, 2007 - \$5,227,780). There is no amortization recorded to date. All properties are unproven properties. \$117,006 (December 31, 2007 - \$Nil) of the current year additions related to stock-based compensation costs capitalized to petroleum and natural gas properties.

In February 2008, the Company entered into an agreement with Investcan Energy Corporation ("Investcan"), transferring 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 to January 31, 2010 (carrying the Company for this first \$15,000,000 of expenditures). The Company is the operator for this project; as expenditures are incurred, they are also reduced on the Company's balance sheet to reflect the carry by Investcan such that there are no additions to the Company's assets. Once expenditures reach \$15,000,000, expenditures will be shared 50/50.

**9. EQUIPMENT**

	31-Dec-08			31-Dec-07		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Drilling rig	638,406	449,730	188,676	638,406	368,869	269,537
Other equipment	40,467	20,104	20,363	24,799	15,204	9,595
	<b>678,873</b>	<b>469,834</b>	<b>209,039</b>	<b>663,205</b>	<b>384,073</b>	<b>279,132</b>

Amortization of the drilling rig of \$449,730 (December 31, 2007 - \$368,869) has been capitalized to Petroleum and Natural Gas Properties.

**VULCAN MINERALS INC.**  
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**10. DEFERRED OPTION PAYMENTS**

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
TL mineral property	<b>130,000</b>	40,000

In May 2003, the Company entered into an option agreement with Nortec Ventures Corp. (“Nortec”) in relation to the Company's TL mineral property. Nortec has an option to earn an initial 51% interest in the property over a five year period by incurring exploration expenditures of \$1,500,000 and by making option payments of 700,000 common shares, 500,000 share purchase warrants and \$100,000 cash. As at December 31, 2008, 500,000 common shares having a market value of \$18,500 at the time of their issuance and \$70,000 cash have been received. \$60,000 (December 31, 2007 - \$40,000) received as of December 31, 2008 has been recorded as deferred option payments. After Nortec earns its 51% interest, the Company can retain its 49% interest or allow Nortec to increase its interest to 75% by making additional option payments and incurring additional exploration expenditures. If the Company elects to retain its 49% interest, Nortec can convert its interest to a 2.5% net smelter royalty. If Nortec acquires 75% interest, the Company can retain its 25% interest or allow Nortec to increase its interest to 90% by making additional option payments and incurring additional exploration expenditures. When Nortec’s interest is 90%, the Company’s 10% will convert to a 2.5% net smelter royalty.

On July 30, 2008, the Company entered into an option agreement with Nortec in relation to the Company's Kingurutik River mineral property. Nortec has an option to earn an initial 51% interest in the property over a four-year period by incurring exploration expenditures of \$1,500,000 and by making option payments of 3,000,000 common shares and \$200,000 cash. After Nortec earns its 51% interest, it can increase its interest by an extra 49% by issuing additional shares of Nortec. If Nortec acquires an additional 49% interest, the Company shall retain a 10% net profits interest convertible at any time to a 2% net smelter royalty. If Nortec forfeits its option to acquire an additional 49% interest, its working interest will remain at 51%. As at December 31, 2008, 200,000 common shares having a market value of \$60,000 at the time of their issuance and \$10,000 cash have been received. \$70,000 (December 31, 2007 - \$Nil) has been recorded as deferred option payments.

**11. ASSET RETIREMENT OBLIGATIONS**

The Company estimates the total undiscounted cash flows required to settle its asset retirement obligations at December 31, 2008 is \$62,500 (December 31, 2007 - \$52,500) which will be incurred between 2008 and 2011 and is adjusted based on the credit adjusted risk-free rates of 2.59% - 2.82% (December 31, 2007 – 5.44% - 5.48%) to calculate the fair value of the asset retirement obligations.

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**11. ASSET RETIREMENT OBLIGATIONS (continued)**

A reconciliation of the asset retirement obligation is provided below:

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Balance, beginning of year	<b>56,011</b>	47,917
Liabilities incurred	-	-
Liabilities settled and changes in estimated cash flows	<b>2,262</b>	5,557
Accretion expense	<b>2,648</b>	2,537
<b>Balance, end of year</b>	<b>60,921</b>	56,011

**12. INCOME TAXES**

*a) Future income taxes*

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

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Temporary differences related to assets and liabilities	<b>(382,409)</b>	(484,031)
Tax effect of unrealized gain on available-for sale financial assets	<b>(360,215)</b>	(1,214,083)
Share issuance costs	<b>44,871</b>	59,780
Non-capital loss carryforwards	<b>571,718</b>	431,261
Asset retirement obligations	<b>20,104</b>	18,484
<b>Recognized future tax liability</b>	<b>(105,931)</b>	(1,188,589)

*b) Income tax rates*

Other tax expense of \$Nil (December 31, 2007 - \$28,536) consists of Part XII.6 tax related to the renunciation of flow-through shares.

Income taxes differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 33.5% (December 31, 2007 - 36.12%) to loss before income taxes as follows:

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Expected tax recovery	<b>(347,803)</b>	(929,897)
Stock-based compensation costs	<b>125,037</b>	179,336
Non-capital losses expired	-	39,358
Effect of changes in rates for temporary differences & other items	<b>18,634</b>	57,328
<b>Future income taxes recovery</b>	<b>(204,132)</b>	(653,875)

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**12. INCOME TAXES (continued)**

*c) Non-capital losses*

The Company has non-capital losses amounting to \$1,726,567, which is available to reduce future taxable income. These non-capital losses expire as follows:

<u>Year of Expiry</u>	<u>Tax Loss</u>
	\$
2009	64,091
2010	97,291
2014	183,776
2015	268,193
2026	291,120
2027	397,921
2028	424,175
	<u>1,726,567</u>

The Company also has available the following other tax pools, which may be deducted in determining taxable income of future years:

	\$
Canadian exploration expense	3,393,889
Canadian development expense	168,385
Canadian oil and gas petroleum expense	33,498

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**13. SHARE CAPITAL**

*a) Authorized*

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

*b) Issued and outstanding*

	31-Dec-08		31-Dec-07	
	Number	Stated Value \$	Number	Stated Value \$
<b>Common Shares</b>				
Balance, beginning of year	41,169,634	11,740,697	37,318,384	9,919,381
Issued pursuant to private placements (Note 13(c))	2,306,667	885,000	62,500	22,031
Exercise of warrants (Note 13 (d))	200,000	100,000	3,072,500	1,772,000
Exercise of stock options (Note 14 (a))	325,000	113,750	716,250	241,250
Fair value of warrants and stock options	-	94,250	-	117,861
Purchase of GORR (Note 13(b))	228,000	118,920	-	-
Share issuance cost, net of tax benefits of \$24,659 (2007 - \$557)	-	(84,301)	-	(1,826)
Tax benefits renounced on flow-through shares	-	-	-	(330,000)
<b>Balance, end of year</b>	<b>44,229,301</b>	<b>12,968,316</b>	41,169,634	11,740,697

On February 28, 2008, the Company signed Royalty Conveyance Agreements to purchase 6.69% of gross overriding royalties ("GORR") on petroleum permit 96-105 in western Newfoundland and Labrador from arms length and non-arms length parties for 228,000 common shares which were fair valued based on the market price on the date of the agreements.

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**13. SHARE CAPITAL (continued)**

*c) Private placements*

Pursuant to a flow-through private placement dated December 24, 2008, the Company issued 640,000 common shares at \$0.25 per common share for aggregate proceeds of \$160,000.

Pursuant to a private placement dated May 7, 2008, the Company issued 1,666,667 units at \$0.60 per unit for aggregate proceeds of \$1,000,000 (less \$275,000 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 May 7, 2009. A finder's fee was paid in the form of cash of \$63,000 and 105,000 warrants to purchase 105,000 common shares of the Company at \$0.80 until May 7, 2009. The warrants were valued at \$0.33 per warrant using the Black-Scholes option pricing model, using expected volatility of 89% and a risk-free interest rate of 2.79%.

Pursuant to a private placement dated February 27, 2007, the Company issued 62,500 common share units at \$0.40 per unit for aggregate proceeds of \$25,000. 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 \$0.60 per share until February 27, 2009. The warrants were valued at \$0.095 using the Black-Scholes option pricing model, using expected volatility of 74% and a risk-free interest rate of 4.08%.

*d) Warrants*

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

	<b>31-Dec-08</b>		<b>31-Dec-07</b>	
	<b>Number of</b>	<b>Weighted-</b>	<b>Number of</b>	<b>Weighted-</b>
	<b>Warrants</b>	<b>Average</b>	<b>Warrants</b>	<b>Average</b>
		<b>Exercise Price</b>		<b>Exercise Price</b>
		<b>\$</b>		<b>\$</b>
Outstanding, beginning of year	<b>231,250</b>	<b>0.57</b>	3,408,750	0.57
Issued	<b>938,336</b>	<b>0.80</b>	31,250	0.60
Expired	-		(136,250)	0.60
Exercised	<b>(200,000)</b>	<b>0.50</b>	(3,072,500)	0.58
<b>Outstanding, end of year</b>	<b>969,586</b>	<b>0.79</b>	231,250	0.57

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**13. SHARE CAPITAL (continued)**

*d) Warrants (continued)*

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Balance, beginning of year	<b>32,968</b>	30,000
Fair value of warrants granted	<b>309,650</b>	2,968
Transferred to share capital upon exercise of warrants	<b>(30,000)</b>	-
<b>Balance, end of year</b>	<b>312,618</b>	32,968

At December 31, 2008 the following warrants to purchase common shares are outstanding:

Number	Exercise Price	Expiry Date
	\$	
31,250	0.60	January 17, 2009
938,336	0.80	May 7, 2009
969,586		

*(e) Contributed surplus*

A summary of contributed surplus is as follows:

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Balance, beginning of year	<b>1,158,230</b>	779,592
Fair value of stock options granted	<b>530,813</b>	496,500
Transferred to share capital upon exercise of options	<b>(64,250)</b>	(117,862)
<b>Balance, end of year</b>	<b>1,624,793</b>	1,158,230

**14. 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.

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**14. STOCK-BASED COMPENSATION (continued)**

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

	31-Dec-08		31-Dec-07	
	Number of	Weighted-	Number of	Weighted-
	Options	Average	Options	Average
		Exercise Price		Exercise Price
		\$		\$
Outstanding, beginning of year	2,950,000	0.44	2,671,250	0.37
Granted	1,200,000	0.92	1,425,000	0.53
Expired	(25,000)	0.45	(430,000)	0.48
Exercised	(325,000)	0.35	(716,250)	0.34
Outstanding, end of year	3,800,000	0.60	2,950,000	0.44
Granted but not vested	(481,250)	0.78	(125,000)	0.59
<b>Outstanding and exercisable, end of year</b>	<b>3,318,750</b>	<b>0.57</b>	<b>2,825,000</b>	<b>0.43</b>

During the year ended December 31, 2008, contributed surplus of \$64,250 (December 31, 2007 - \$117,862) has been transferred to share capital upon the exercise of stock options and \$30,000 (December 31, 2008 - \$Nil) has been transferred from warrants upon the exercise of warrants.

At December 31, 2008 the following options to purchase common shares are outstanding:

Number	Exercise Price	Expiry Date
	\$	
325,000	0.30	May 26, 2009
150,000	0.65	June 26, 2009
25,000	0.54	August 13, 2009
500,000	0.35	February 2, 2010
500,000	0.40	June 22, 2011
200,000	0.65	June 26, 2012
900,000	0.50	September 26, 2012
50,000	0.70	May 9, 2010
950,000	1.00	June 27, 2013
200,000	0.60	October 23, 2011
<b>3,800,000</b>		

The weighted average remaining contractual life of outstanding options is 2.88 years (December 31, 2007 – 3.04 years).

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**14. STOCK-BASED COMPENSATION (continued)**

*(b) Fair value assumptions*

The weighted-average fair value of stock options granted during the year ended December 31, 2008 and year ended December 31, 2007 was estimated on the dates of grant to be \$0.62 (December 31, 2007 - \$0.38) using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<b>31-Dec-08</b>	31-Dec-07
Expected life (years)	<b>4.61</b>	4.65
Risk-free interest rate (%)	<b>3.49</b>	4.33
Expected volatility (%)	<b>89</b>	85
Expected dividend yield (%)	<b>Nil</b>	Nil

During the year ended December 31, 2008, compensation costs of \$373,245 (December 31, 2007 - \$496,500) have been expensed, \$40,562 (December 31, 2007 - \$Nil) have been capitalized to mineral properties, and \$117,006 (December 31, 2007 - \$Nil) capitalized to petroleum and natural gas properties, resulting in the recognition of \$530,813 (December 31, 2007 - \$496,500) in contributed surplus.

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Non-cash investing and financing activities:		
Contributed surplus recognized upon the issuance of stock options recorded as:		
Stock-based compensation expenses	<b>373,245</b>	496,500
Addition to mineral properties	<b>40,562</b>	-
Addition to petroleum and natural gas properties	<b>117,006</b>	-
	<b>530,813</b>	496,500
Transfer of contributed surplus and warrants to share capital upon exercise of stock options and warrants	<b>94,250</b>	117,862
Changes in asset retirement obligations		
Accretion expense	<b>2,648</b>	2,537
Increase in petroleum and natural gas properties	<b>2,262</b>	5,558
Increase of asset retirement obligations	<b>4,910</b>	8,095

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**16. RELATED PARTY TRANSACTIONS**

	<b>31-Dec-08</b>	31-Dec-07
	\$	\$
Items included in general and administrative expenses:		
Rent paid to a corporation which is controlled by the President of the Company	<b>24,000</b>	16,750
Management fees paid to the President of the Company	<b>166,931</b>	111,250
Directors fees paid	<b>10,000</b>	8,760
Items included in accounts payable and accrued liabilities:		
Management fees payable	<b>3,912</b>	20,520

During the year, the Company acquired certain gross overriding royalties on exploration permit 96-105 from the President in consideration for 51,000 common shares directly and 54,000 common shares indirectly (through a private company).

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.

**17. FINANCIAL INSTRUMENTS**

*Fair values*

The fair values of the Company's financial instruments approximate their carrying value due to the short-term to maturity of those instruments. Deferred option payments approximate fair value as payments recorded are either cash or shares. Shares are recorded based on market price at the date share certificates are received by the Company and updated quarterly based on current market price.

As at December 31, 2008, the carrying amount of financial instruments equals fair market value. The carrying amount of cash, accounts receivables, accounts payables and accrued liabilities and deposits, approximate their fair value due to their short-term nature.

*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 remote.

*Liquidity risk*

To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board considers securing additional funds through equity or partnering transactions. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows.

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**17. FINANCIAL INSTRUMENTS (continued)**

*Liquidity risk (continued)*

Although the Company has no operating cash flow, the Company's exploration project for 2009 is funded up to \$15,000,000 as per Note 8 which will allow the Company to complete its drilling project planned for 2009.

*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 is remote since the Company is not a producing entity.

*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.

*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.

*Market value*

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.

*Sensitivity Analysis*

The Company's investments in public companies (Note 6) are listed on the TSX Venture Exchange and are classified as "available-for-sale" and measured at fair value. Changes in fair value are recognized in other comprehensive income until their disposition or their decline is other than temporary, at which time they are transferred to net income.

The Company also holds share purchase warrants in a public company listed on the TSX Venture Exchange which are classified as "held for trading" and are measured at fair value. These warrants were accounted for using the Black-Scholes pricing method with realized fair value adjustments reflected in the statement of loss and deficit for each period.

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**17. FINANCIAL INSTRUMENTS (continued)**

*Sensitivity Analysis (continued)*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one-year period:

The Company's investments in public companies listed as "available-for-sale", is denominated in Canadian dollars. Sensitivity to a +/- 72-83% movement in the prices would affect comprehensive income (loss) by \$6,402,418 (net of tax of \$1,213,374).

The Company's investments in a public company listed as "held-for-trading", is denominated in Canadian dollars. Sensitivity to a +/- 79% movement in the prices would affect net income (loss) by \$22,584 (net of tax of \$4,463).

**18. OTHER ACCRUED LIABILITY**

The Company has received a claim by way of invoice from a subcontractor over drilling related costs. The Company believes its maximum exposure to be \$221,878 due to a third party partnering arrangement. Although the Company's position is that it is not responsible for the claim, this amount had been accrued under current liabilities in December 2005 and remains in current liabilities at December 31, 2008 under other accrued liability. Any resolution of this matter will be reflected as a recovery in the period in which it occurs.

**19. COMMITMENTS**

In September 2008, the Company and Investcan Energy Corporation ("Investcan") were the successful bidders (50/50) on Parcel #2 as per the Call for Bids NL07-2 for exploration licences offshore Labrador with a work commitment bid of \$9,601,000. This exploration licence confers the right to explore for petroleum for an initial Period I of six years with a possible additional period of three years. A refundable security deposit of \$2,400,250 has been posted to secure the exploration licence by Investcan. The Company's obligation to pay 50% of the security deposit will be carried by Investcan for two years without dilution of the Company's working interest in the exploration licence. If the Company assumes its 50% share of the security deposit at the end of two years, it shall preserve its 50% working interest in the exploration licence. If the Company does not assume its 50% share of the security deposit at the end of two years, Investcan shall carry the obligation up to an additional two years subject to a dilution of the Company's interest in the licence up to a maximum of 22% (i.e.: the Company would maintain a minimum 28% working interest) at which time the Company will assume its share of the security deposit.

The Company currently has a lease of \$2,000 per month which is on a month-to-month term. Any party can terminate the lease with six months notice. Rent is payable to a company which is controlled by the President of the Company (see Note 16 for current year expenses).

# **VULCAN MINERALS INC.**

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### **20. SUBSEQUENT EVENTS**

In February 2009, the Company received notice from Nortec Ventures Corp. (“Nortec”) that they are withdrawing from the Option Agreement dated March 31, 2008 in connection with the Kingurutik property. During the year, the Company received 200,000 common shares of Nortec valued at \$60,000 and \$10,000 cash as option payments related to this agreement which is shown as deferred option payments in 2008.

In March 2009, the Company received the 5<sup>th</sup> anniversary payment pursuant to the TL Nickel Option Agreement (Note 10) being \$30,000 and 200,000 common shares of Nortec. Nortec has spent the required amount and has now earned 51% working interest in the property. The Company has the option to retain its 49% or allow Nortec to earn an additional 24%; a decision has not yet been made by management.

### **21. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified between Contributed Surplus and Warrants on the Balance Sheet to conform to the current year’s presentation.

# **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

**REGISTRAR AND TRANSFER AGENT**  
Computershare Trust Company of Canada

**AUDITORS**  
Deloitte & Touche LLP

**INVESTOR RELATIONS**  
Gerri MacNeil

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