



**Consolidated Financial Statements**  
For the Years Ended December 31, 2019 and 2018

**VULCAN MINERALS INC.**  
December 31, 2019 and 2018

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## *Independent auditor's report*

To the Shareholders of Vulcan Minerals Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Vulcan Minerals Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

**(Signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

St. John's, Newfoundland and Labrador  
April 28, 2020

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

(in Canadian dollars)	2019	2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash	322,672	34,678
Accounts receivable	5,516	7,956
Prepaid expenses	9,891	12,692
Inventory	10,000	30,000
	<b>348,079</b>	<b>85,326</b>
Due from related company (Note 5)	42,000	94,490
Investments (Note 5)	92,032	19,923
Exploration and evaluation assets (Note 6)	1,739,524	1,905,468
Capital assets (Note 7)	20,542	29,428
	<b>2,242,177</b>	<b>2,134,635</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	113,764	91,627
Deferred option payments (Note 8)	-	10,000
Flow through premium liability (Note 11d)	-	8,666
Subscriptions received in advance	-	10,000
	<b>113,764</b>	<b>120,293</b>
Asset retirement obligation (Note 9)	129,430	35,777
	<b>243,194</b>	<b>156,070</b>
<b>Equity (note 11)</b>		
Shareholders' equity	1,185,628	1,369,026
Non-controlling interest	813,355	609,539
	<b>1,998,983</b>	<b>1,978,565</b>
<b>Total Liabilities and Equity</b>	<b>2,242,177</b>	<b>2,134,635</b>
Nature of operations and going concern (Note 1)		
Contingencies (Note 17)		
Subsequent event (Note 18)		
Approved on Behalf of the Board of Directors		
Patrick J. Laracy	<b>Director</b>	
William Koenig	<b>Director</b>	

See accompanying notes to the consolidated financial statements

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

(in Canadian dollars)	2019	2018
	\$	\$
<b>Income (Expenses)</b>		
Income from equity accounted investments	72,119	17,551
Interest income	-	748
Impairment of exploration and evaluation assets	(1,440)	(851,800)
Write down of inventory	(20,000)	(30,224)
Bad debt expense	-	(3,500)
General and administrative (Note 13)	(383,134)	(622,618)
Share-based compensation (Note 12)	(132,369)	(217,206)
Depreciation (Note 7)	(8,885)	(12,431)
<b>Loss before income taxes recovery</b>	<b>(473,709)</b>	<b>(1,719,480)</b>
Deferred income tax recovery (Note 10)	8,666	-
<b>Net loss</b>	<b>(465,043)</b>	<b>(1,719,480)</b>
Net loss attributable to:		
Common shareholders	(385,989)	(1,653,502)
Non-controlling interest	(79,054)	(65,978)
	<b>(465,043)</b>	<b>(1,719,480)</b>
Net loss per share - basic and diluted	<b>(0.01)</b>	<b>(0.03)</b>
Weighted-average number of common shares outstanding - basic and diluted	<b>61,120,439</b>	<b>58,526,129</b>

**Consolidated Statements of Comprehensive Loss**  
**Years Ended December 31**

(in Canadian dollars)	2019	2018
	\$	\$
<b>Net loss</b>	<b>(465,043)</b>	<b>(1,719,480)</b>
Other comprehensive loss:		
Items that may subsequently be reclassified to profit or loss		
Change in fair value on investments classified as FVOCI	-	15,863
	-	15,863
<b>Comprehensive loss</b>	<b>(465,043)</b>	<b>(1,703,617)</b>
Comprehensive loss attributable to:		
Common shareholders	(385,989)	(1,637,639)
Non-controlling interest	(79,054)	(65,978)
	<b>(465,043)</b>	<b>(1,703,617)</b>

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Consolidated Statements of Changes in Equity**

(in Canadian dollars)

	Share Capital	Warrants	Share Capital and Warrants to be Issued	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	\$		\$	\$	\$	\$	\$	\$	\$
	Notes 11 (a) and (b)	Notes 11 (b) and (d)	Notes 11 (d)	Notes 11 (c), (e), (f)					
<b>Balance, December 31, 2017</b>	19,101,419	-	-	2,693,847	16,298	(19,029,079)	2,782,485	632,204	3,414,689
Net loss and comprehensive loss									
January 1, 2018 - December 31, 2018									
Issuance of shares and warrants pursuant to private placements	-	-	43,332	-	-	-	43,332	-	43,332
Share issuance costs	-	-	(1,125)	-	-	-	(1,125)	-	(1,125)
Share-based compensation in parent	-	-	-	107,365	-	-	107,365	-	107,365
Gain/loss on Red Moon shares	-	-	-	-	-	322	322	5,673	5,995
Share-based compensation in subsidiary	-	-	-	-	-	74,286	74,286	37,640	111,926
<b>Balance, December 31, 2018</b>	<b>19,101,419</b>	<b>-</b>	<b>42,207</b>	<b>2,801,212</b>	<b>32,161</b>	<b>(20,607,973)</b>	<b>1,369,026</b>	<b>609,539</b>	<b>1,978,565</b>
Net loss and comprehensive loss									
January 1, 2019 - December 31, 2019									
Issuance of shares and warrants pursuant to private placements	121,417	19,915	(43,332)	-	-	-	98,000	-	98,000
Share issuance costs	(2,220)	-	1,125	-	-	-	(1,095)	-	(1,095)
Issuance of shares and warrants by subsidiary to non-controlling interest	-	-	-	-	-	-	-	255,000	255,000
Share issuance costs of subsidiary	-	-	-	-	-	-	-	(1,977)	(1,977)
Share-based compensation in parent	-	-	-	54,799	-	-	54,799	-	54,799
Share-based compensation in subsidiary	-	-	-	-	-	50,887	50,887	29,847	80,734
<b>Balance, December 31, 2019</b>	<b>19,220,616</b>	<b>19,915</b>	<b>-</b>	<b>2,856,011</b>	<b>32,161</b>	<b>(20,943,075)</b>	<b>1,185,628</b>	<b>813,355</b>	<b>1,998,983</b>

See accompanying notes to the consolidated financial statements

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

(in Canadian dollars)	2019	2018
	\$	\$
<b>Operating Activities</b>		
Net loss	(465,043)	(1,719,480)
Adjustment for non cash items :		
Impairment of exploration and evaluation assets	1,440	851,800
Write down of inventory	20,000	30,224
Allowance for bad debt expense	-	3,500
Income from equity accounted investments	(72,119)	(17,551)
Deferred income tax recovery	(8,666)	-
Share-based compensation	132,369	217,206
Depreciation	8,885	12,431
	<b>(383,134)</b>	<b>(621,870)</b>
Changes in non-cash working capital		
Accounts receivable	2,440	3,201
Prepaid expenses	2,801	1,558
Accounts payable and accrued liabilities	20,847	3,905
	<b>(357,046)</b>	<b>(613,206)</b>
<b>Financing Activities</b>		
Issuance of common shares and warrants	88,000	51,998
Share issuance costs	(1,095)	(1,125)
Private Placement - Subsidiary	255,000	-
Share issuance costs - Subsidiary	(1,977)	-
Deferred option payments	-	10,000
Subscriptions received in advance	-	10,000
	<b>339,928</b>	<b>70,873</b>
<b>Investing Activities</b>		
Exploration and evaluation assets	(113,778)	(221,601)
Deposits refunded	-	366,150
Change in accounts payable -exploration and evaluation assets	-	7,280
Government grant	-	18,000
Proceeds from gypsum revenues	366,400	48,248
Proceeds from investments	-	43,329
Repayment from (advances to) related company	52,490	(35,000)
Acquisition of capital assets	-	(5,121)
	<b>305,112</b>	<b>221,285</b>
Net change in cash for the year	<b>287,994</b>	<b>(321,048)</b>
Cash, beginning of year	<b>34,678</b>	<b>355,726</b>
<b>Cash, end of year</b>	<b>322,672</b>	<b>34,678</b>

See accompanying notes to the consolidated financial statements

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Vulcan Minerals Inc. is engaged in the evaluation, acquisition and exploration of minerals 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 is considered to be in the exploration stage on most of its projects except through its subsidiary Red Moon Resources Inc. which is in the pre-production phase for gypsum.

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

These financial statements have been prepared using accounting principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company reflected a loss of \$465,043 for the year ended December 31, 2019 (2018-\$1,719,480) and had an accumulated deficit of \$20,943,075 (2018 - \$20,607,973). The Company had no income (2018 - \$748) from interest and \$72,119 (2018- \$17,551) income from equity accounted investments for the year ended December 31, 2019. The Company had positive working capital of \$234,315 at December 31, 2019 (2018- negative \$34,967).

The Company has entered the pre-production stage with respect to its Ace Gypsum mining project and had proceeds from pre-production income of \$366,400 (2018 - \$48,248) during the year. While this has provided the Company with a source of cash inflows, the Company must secure sufficient funding to further develop this project and to meet its on-going working capital requirements, as well as to identify, acquire and maintain exploration licenses. Such material uncertainties cast significant doubt as to the ability of the Company to meet its obligations as they come due, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company's ability to continue as a going concern is dependent upon its ability to fund working capital and future acquisition costs and exploration requirements and eventually to generate positive cash flows, either from operations or proceeds from disposition of exploration assets. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

**2. BASIS OF PRESENTATION**

The Company prepares its consolidated financial statements with Canadian generally accepted accounting principles ("GAAP") as set out in the Canadian Professional Accountants of Canada Handbook - Accounting - Part I ("CPA Canada Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

A summary of the Company's significant accounting policies under IFRS is presented in Note 4.

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

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These consolidated financial statements have been prepared on an historical cost basis, except for investments which are measured at fair value.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 23, 2020.

### 3. NEW AND AMENDED ACCOUNTING STANDARDS

#### New and amended standards adopted by the Company

During the year the Company adopted IFRS 16, "*Leases*" ("IFRS 16") and IFRIC 23, "*Uncertainty over income tax treatments*" ("IFRIC 23") that were effective and adopted as of January 1, 2019.

IFRS 16, "*Leases*" ("IFRS 16") is effective for annual periods beginning on or after January 1, 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17, "*Leases*" ("IAS 17"). Qualifying leases are recorded on the balance sheet as an asset under property and equipment and have a corresponding liability with both current and long-term portions. The Company has a lease arrangement that is considered short-term. The Company has elected the practical expedient for recognition exemption on short term leases and therefore the adoption of the new standard has no impact on the financial statements.

IFRIC 23, "*Uncertainty over income tax treatments*" ("IFRIC 23") is effective for annual periods on or after January 1, 2019 and clarifies how the recognition and measurement requirements of IAS 12, "*Income taxes*" ("IAS 12"), are applied where there is uncertainty over income tax treatments. There was no impact to the Company's financial statements as a result of adopting this new standard.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### a) *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and the entities controlled by the Company (its subsidiaries). The Company's subsidiaries include Red Moon Resources Inc. (formerly Red Moon Potash Inc.) in which the Company has a 63.03% interest (2018 – 66.4%) and a wholly owned inactive subsidiary. Control is achieved by having each of: power over the investee via existing rights that give the Company the current ability to direct the relevant activities of the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability of the Company to use its power over the investee to affect the amount of the Company's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All significant intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of Red Moon Resources Inc. is identified separately from the Company's equity. The non-controlling interest consists of the non-controlling interest's portion of net assets, income (loss), and other comprehensive income (loss).

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

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### *b) Significant management accounting estimates and judgements*

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from the estimates. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

*Mineral exploration and evaluation assets:* At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as, the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account.

Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

*Fair value of investments:* The Company follows the guidance of IFRS 9 “Financial Instruments-Recognition and Measurement” to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health and short-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows.

*Asset retirement obligation:* The Company’s exploration activities are subject to various laws and regulations governing the protection of the environment. The Company recognizes management’s best estimate for asset retirement obligations in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, timing of estimated cash flows and discount rates could affect the carrying amount of this provision.

*Share-based compensation:* Management is required to make certain estimates when determining the fair value of stock options, deferred share units and compensation units issued including future volatility of the Company's share price, expected forfeiture rates, expected lives of the underlying securities, expected dividends and other relevant assumptions.

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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*Going concern:* When preparing financial statements, management is required to make an assessment of the entity's ability to continue as a going concern. This assessment requires management to estimate the Company's ability to meet current obligations and commitments over the upcoming twelve months.

#### *c) Share-based compensation*

The Company has equity settled share-based payment plans. The Company uses the fair value method to measure compensation expense at the date of grant of stock options to directors, officers and employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings or loss over the vesting period with a corresponding increase to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

Forfeiture of stock options is estimated on issuance and the number of stock options expected to vest is reviewed at least annually with any adjustment being recognized immediately.

#### *d) Income taxes*

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in earnings or loss except to the extent that they relate to items recognized directly in shareholders' equity or in other comprehensive income.

Current tax expense comprises the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on either the same taxable entity, or on different taxable entities, which intend to settle tax liabilities and assets on a net basis or realize their tax assets and liabilities simultaneously.

A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses, unused tax credits and temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that all or part of the related tax benefit will be realized.

#### *e) Earnings (loss) per share*

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

**VULCAN MINERALS INC.**  
**Notes to the Consolidated Financial Statements**  
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*f) Cash and cash equivalents*

Cash consists of cash on hand and deposits in banks.

*g) Deposits*

The Company makes deposits on mineral licences 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, 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 properties.

*h) Inventory*

The Company has inventory of casing purchased for previous drilling which was not utilized. The Company may sell or use this inventory in a future period. Inventory is valued at the lower of cost and net realizable value.

*i) Government grants*

Government grants received or receivable in respect of mineral exploration and evaluation assets is reflected as a reduction of the cost of the mineral exploration and evaluation asset.

*j) Exploration and evaluation*

All costs directly associated with the exploration and evaluation of mineral and petroleum and natural gas exploration and evaluation assets are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings or loss as exploration and evaluation expense. The Company holds a database of geological and geophysical data which are reflected at the costs to acquire the data net of provision for loss.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings or loss as exploration and evaluation expense.

The Company defines technical feasibility and commercial viability as an economic, commercial discovery wherein cash flows can be demonstrated and achieved.

Incidental revenue and cost recoveries relating to exploration and evaluation are recorded first as a reduction of the specific exploration and evaluation property to which the fees and payments relate, and any excess as other revenue on the consolidated statement of earnings (loss).

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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#### *k) Capital assets*

Capital assets are recorded at cost. Depreciation is based on the estimated useful life using the declining balance method at rates ranging from 20% to 30% per annum. The Company has three classes of capital assets: drilling rig is depreciated at 30% declining balance; furniture and fixtures are depreciated at 20% declining balance; and computer equipment is depreciated at 30% declining balance.

#### *l) Investments*

The Company accounts for its investments over which it has significant influence using the equity accounting method.

#### *m) Asset retirement obligations*

The Company recognizes a liability for retirement obligations associated with long-lived assets, which includes the abandonment of exploration and evaluation and costs required to return the property 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 asset's risk-free discount 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. If the retirement obligation relates to an area still in the exploration and evaluation stage the retirement obligation is capitalized to the exploration and evaluation asset. Subsequent to original measurement, accretion expense is also capitalized to the exploration and evaluation asset.

#### *n) Impairment of non-financial assets*

The carrying amount of the Company's mineral exploration and evaluation assets, petroleum and natural gas exploration and evaluation assets, and equipment is assessed at each reporting period to determine whether there is any indication of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Assets are grouped at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating unit "CGU"). A CGU may include certain aggregated mineral exploration and evaluation assets and equipment. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount, with the impairment loss recognized in net loss for the reporting period. Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but only to the extent that this amount does not exceed the carrying amount that would have been recognized, net of depletion, depreciation and amortization, had an impairment loss not been recognized in previous periods.

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

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#### *o) Financial instruments*

The Company classifies its financial instruments in the following measurement categories: fair value through profit and loss (FVTPL); fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition.

The accounting policies related to these financial assets and liabilities are as follows:

#### *Amortized cost and effective interest rate*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Initial recognition and measurement*

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments, other than financial instruments at FVTPL are added to or deducted from the fair value of the financial instrument, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at FVTPL are recognized immediately in net earnings.

#### *Classification and subsequent measurement*

A financial asset is subsequently measured at:

- amortized cost if it is held for the purposes of collecting contractual cash flows with such cash flows solely comprising payments of principal and interest on the principal amount outstanding;
- fair value through other comprehensive income if it is: held for the purposes of collecting contractual cash flows and selling financial assets with such cash flows solely comprising payments of principal and interest on the principal amount outstanding; or irrevocably designated as such upon initial recognition; and
- FVTPL if it is: neither classified as subsequently measured at amortized cost nor FVOCI; or irrevocably designated as such upon initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

The Company classifies its financial assets using the following measurement categories:

- FVOCI; or
- Amortized cost

Liabilities carried at amortized cost will continue to be measured as outlined in measurement methods above.

#### *Impairment of financial assets*

Financial assets which are measured subsequent to initial recognition at amortized cost are assessed for indicators of impairment at the end of each reporting period. The amount of the impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The Company's financial assets carried at amortized cost consist only of cash, accounts receivable and due from related company.

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The Company's exposure to credit risk on its cash balance is mitigated as cash deposits are held with major financial institutions with strong credit ratings.

A loss allowance provision, which reflects the Company's estimate of credit losses, is applied to reduce the carrying amount of trade receivables and due from related parties. Subsequent recoveries of amounts previously provided for are credited against the allowance.

*q) Flow-through shares*

Deferred income taxes related to the temporary differences created by the renouncement of flow-through share tax benefits to subscribers are recorded on a pro-rata basis as the qualified expenditures are incurred. The tax value of the renunciation is recorded as a deferred income tax liability with a corresponding charge to deferred income tax expense in the statement of loss. Additionally, as the qualified expenditures are incurred, the Company recognizes a pro-rata reduction of the flow through premium liability as other income in the consolidated statements of loss.

**5. INVESTMENTS**

Investments	31-Dec-19	31-Dec-18
	\$ 92,032	\$ 19,923

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Investments, classified as fair value through other comprehensive income consist of shares in a public company with a cost of \$91,512 and a fair value of \$2,362. The Company has shares in an equity accounted investment with a value of \$89,670 (2018 - \$17,561). The Company also provided a non-interest bearing loan to the equity accounted investment in the amount \$52,500 (2018 - \$104,990).

# VULCAN MINERALS INC.

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### 6. EXPLORATION AND EVALUATION ASSETS

The Company has 37 mineral licences (2018 - 33) which consist of 736 claims (2018 – 800), which are active and in good standing with the Department of Natural Resources in the Province of Newfoundland and Labrador. These licences are in the exploration and evaluation stage. A summary of the exploration and evaluation assets is as follows:

	December 31, 2019				
	Balance, Beginning of Year	Additions	Writedown	Incidental Revenue	Balance, End of Period
	\$	\$	\$	\$	\$
<b>Mineral properties</b>					
Property acquisition costs	79,743	7,866	-	-	87,609
Exploration costs	1,825,725	194,030	(1,440)	(366,400)	1,651,915
	<b>1,905,468</b>	<b>201,896</b>	<b>(1,440)</b>	<b>(366,400)</b>	<b>1,739,524</b>

	December 31, 2018				
	Balance, Beginning of Year	Additions	Writedown	Incidental Revenue	Balance, End of Year
	\$	\$	\$	\$	\$
<b>Mineral properties</b>					
Property acquisition costs	131,995	20,248	(72,500)	-	79,743
Exploration costs	1,744,230	203,715	(73,972)	(48,248)	1,825,725
Geological and geophysical data	705,328	-	(705,328)	-	-
	<b>2,581,553</b>	<b>223,963</b>	<b>(851,800)</b>	<b>(48,248)</b>	<b>1,905,468</b>

Current year additions to mineral exploration costs include share based compensation of \$3,163 (2018 - \$2,085).

The Company held a database of geological and geophysical data. In 2018 the Company regrouped certain of its mineral licences at licence renewal dates, and as result, surrendered a portion of the lands associated with the licences. The Company recorded a write-down to the geological and geophysical data in 2018 in the amount of \$705,328 which was in proportion to the land surrendered as compared to the total area covered by the geological and geophysical data. No comparable amount in 2019. During the year, the Company recorded \$1,440 (2018-\$146,472) in write-downs to property acquisition and exploration costs.

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The Company recorded \$366,400 (2018 - \$48,248) in incidental revenue from sales of gypsum from the Ace Gypsum mine.

**7. CAPITAL ASSETS**

	2019				2018			
	Drilling Rig	Furniture & Fixtures	Computer Equipment	TOTAL	Drilling Rig	Furniture & Fixtures	Computer Equipment	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	798,368	12,296	77,568	888,232	798,368	12,296	72,447	883,111
Additions	-	-	-	-	-	-	5,121	5,121
Subtotal	798,368	12,296	77,568	888,232	798,368	12,296	77,568	888,232
Opening depreciation	(781,841)	(11,278)	(65,686)	(858,805)	(774,759)	(11,022)	(60,592)	(846,373)
Adjustments to depreciation	(4,958)	(204)	(3,723)	(8,885)	(7,082)	(255)	(5,094)	(12,431)
Closing balance	11,569	814	8,159	20,542	16,527	1,019	11,882	29,428

**8. DEFERRED OPTION PAYMENTS**

	2019	2018
	\$	\$
South Voisey's Bay	-	10,000
	-	10,000

On March 21, 2018 a binding Letter of Intent was signed with Fjordland Exploration Inc. (“Fjordland”) granting Fjordland the option to acquire a 65% working interest in 30 mineral claims located in the South Voisey’s area, Labrador. Fjordland had an option to earn a 65% interest in the property over a three year period by incurring exploration expenditures of \$150,000 and by making option payments of \$45,000 cash. As at December 31, 2018, \$10,000 cash had been received. During the year, this option agreement was terminated.

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**9. ASSET RETIREMENT OBLIGATIONS**

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

The total discounted cash flows estimated to settle its asset retirement obligations at December 31, 2019 was \$129,430 (2018- \$35,777). The estimated future cash flows have been discounted using a risk-free rate of 1.68% and an inflation rate of 2.20%. As at December 31, 2019, the Company had entered an agreement with an insurance company to provide a surety bond to the Newfoundland and Labrador government in compliance with its requirements under the approved site development plan, as submitted and reviewed by the government of Newfoundland and Labrador. As additional work and reclamation is completed on the property, the Company will increase or decrease this bond as required by the Newfoundland and Labrador government.

A reconciliation of the asset retirement obligation is provided below:

	2019	2018
	\$	
Balance, beginning of year	35,777	-
Provisions incurred	93,653	35,777
<b>Balance, end of year</b>	<b>129,430</b>	<b>35,777</b>

**10. INCOME TAXES**

*a) Deferred income taxes*

The components of the unrecognized deferred income tax asset are as follows:

	2019	2018
	\$	\$
Temporary differences related to exploration and evaluation assets	(1,405,568)	(1,295,355)
Temporary differences related to inventory	(29,767)	(23,767)
Tax effect on investments classified as FVOCI	(13,373)	(13,371)
Tax effect on equity investment	13,449	2,633
Share issuance costs	(894)	(338)
Non-capital loss carryforwards	(899,173)	(927,139)
Capital loss carryforwards	(86,844)	(184,939)
<b>(Unrecognized deferred tax asset)</b>	<b>(2,422,170)</b>	<b>(2,442,276)</b>

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*b) Income tax rates*

Income taxes differ from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 30% (2018 – 30%) to loss before income taxes as follows:

	2019	2018
	\$	\$
Expected income tax recovery	(142,113)	(515,844)
Share-based compensation costs	39,711	65,162
Permanent differences	496	(4,932)
Reduction to flow-through premium liability	(8,666)	-
Deferred income tax asset not recognized	-	197,308
Net loss carry forwards utilized	(24,878)	-
Effect of not recognizing deductible temporary differences	126,784	258,306
Deferred income tax	(8,666)	-

*c) Non-capital losses*

The Company has non-capital losses at December 31, 2019 amounting to \$2,997,244 which are available to reduce future taxable income. These non-capital losses expire as follows:

2033	\$607,347
2034	\$596,121
2035	\$446,893
2036	\$396,659
2037	\$423,520
2038	\$389,346
2039	\$137,358

The Company also has Canadian exploration expenses of \$6,395,019 which may be deducted in determining taxable income of future years.

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**11. SHARE CAPITAL**

*a) Authorized*

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

*b) Issued and outstanding*

	2019		2018	
	Number	Share Capital \$	Number	Share Capital \$
Balance, beginning of year	58,526,129	19,101,419	58,526,129	19,101,419
Issued pursuant to private placements (Notes 11 (d) and (e))	2,826,636	121,417	-	-
Share issuance cost	-	(2,220)	-	-
<b>Balance, end of year</b>	<b>61,352,765</b>	<b>19,220,616</b>	58,526,129	19,101,419

*(c) Contributed surplus*

A summary of contributed surplus is as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of year	2,801,212	2,693,847
Share-based compensation (Note 12)	54,799	107,365
<b>Balance, end of year</b>	<b>2,856,011</b>	2,801,212

*(d) Private Placements*

Pursuant to a private placement dated December 14, 2018, the Company closed 866,636 flow through units at \$0.06 per unit for total cash consideration of \$51,998. Each flow-through unit consisted of one flow-through common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.12 per share until December 14, 2020. In the prior year, an amount of \$37,299 had been allocated to share to be issued, \$6,033 to the fair value of the warrants (note 11(e)) and \$8,666 to flow-through premium liability

# VULCAN MINERALS INC.

## Notes to the Consolidated Financial Statements

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representing the obligation to deliver the tax deduction to the subscriber. During the current year these shares were issued and the related obligation for the flow-through premium has been completed.

The Company completed the second tranche of the private placement announced on December 14, 2018 and on January 31, 2019. The second tranche included 1,960,000 units at \$0.05 per unit for total cash consideration of \$98,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price per share of \$0.12 until January 31, 2021.

### e) Warrants

A summary of warrants issued and exercisable as at December 31, 2019 and changes during the periods then ended is as follows:

	2019		2018	
	Number of Warrants	Weighted-Average Exercise Price	Number of Warrants	Weighted-Average Exercise Price
		\$		\$
Beginning of year	433,318	0.12	-	-
To be issued	(433,318)	0.12	433,318	0.12
Issued	1,413,318	0.12	-	-
End of year	1,413,318	0.12	433,318	0.12

	2019	2018
	\$	\$
Balance, beginning of year	6,033	-
Fair value of warrants to be issued	-	6,033
Fair value of warrants issued	13,882	-
<b>Balance, end of year</b>	<b>19,915</b>	<b>6,033</b>

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The weighted average fair value of the warrants was estimated on the date of issuance to be \$0.0142 (2018- \$0.0139) using the Black-Scholes fair value option pricing model and the following weighted average assumptions:

	2019	2018
Expected volatility (%)	114	102
Risk free interest rate (%)	1.76	2.04
Weighted-average expected life (years)	2.0	2.0
Dividend yield (%)	0	0

**12. SHARE-BASED COMPENSATION**

*a) Vulcan Minerals Inc. stock options*

The Company has a stock option plan under which directors, officers, management, consultants and employees of the Company and its subsidiary 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 is 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.

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

	December 31, 2019		December 31, 2018	
	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
		\$		\$
Outstanding, beginning of year	5,600,000	0.10	4,050,000	0.10
Granted	700,000	0.10	3,250,000	0.10
Expired	(350,000)	0.10	(1,700,000)	0.10
Forfeited	(450,000)	0.10	-	-
Outstanding, end of year	5,500,000	0.10	5,600,000	0.10
Exercisable, end of year	5,050,000	0.10	3,825,000	0.10

The weighted average remaining contractual life of outstanding options is 2.79 years (2018 – 3.52 years). The weighted average remaining contractual life of exercisable options is 2.63 years (2018 – 3.10 years).

**VULCAN MINERALS INC.**  
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On December 30, 2019, the Company granted 700,000 stock options to a director with each option entitling the holder to purchase one common share at \$0.10 per share for a period of five years. 350,000 options vested on the date of the grant and the remaining 350,000 options vest March 31, 2021.

On February 1, 2018, 1,700,000 stock options issued to Directors expired pursuant to their five-year term. Prior to December 31, 2018 the Company granted 3,250,000 stock options to directors, employees and advisory board members, with each option entitling the holder to purchase one common share at \$0.10 per share for a period of five years. 1,475,000 options vested on the date of the grant and the remaining 1,775,000 options vested on December 31, 2019.

*b) Fair Value assumptions*

The weighted average fair value of stock options granted in the year ended December 31, 2019 was estimated to be \$0.05 (2018- \$0.05) using the Black- Scholes fair value option pricing model and the following weighted average assumptions:

	2019	2018
Expected volatility (%)	177	153
Risk free interest rate (%)	1.65	2.27
Weighted-average expected life (years)	5.0	5.0
Dividend yield (%)	0	0

*c) Red Moon Resources Inc. stock options*

Red Moon Resources Inc. (Red Moon) has a stock option plan under which directors, officers, management, consultants and employees of the Company 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 number of shares which may be reserved for issuance in any 12 month period to any one individual may not exceed 5% of the issued shares or 2% if the optionee is a consultant, and the number of shares which may be reserved for issuance in any 12 month period to all optionees engaged in investor relations activities may not exceed 2% in the aggregate of the issued shares on a yearly basis. Options may be exercisable over periods of up to ten years, as determined by the Board of Directors of the Company and are required to have an exercise price no less than the closing market price of the Company's shares prevailing on the day that the option is granted less a discount of up to 25%, with the amount of the discount varying with market price in accordance with the policies of the TSXV.

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A summary of the Red Moon Resources Inc. stock options outstanding and exercisable is as follows:

	<b>December 31, 2019</b>		<b>December 31, 2018</b>
	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Number of Options</b>
		<b>\$</b>	
			<b>Weighted- Average Exercise Price</b>
			<b>\$</b>
Outstanding, beginning of year	<b>3,800,000</b>	<b>0.10</b>	3,150,000
Granted	<b>700,000</b>	<b>0.10</b>	2,400,000
Expired	-	-	(1,750,000)
Outstanding, end of year	<b>4,500,000</b>	<b>0.10</b>	3,800,000
<b>Outstanding and exercisable, end of period</b>	<b>4,150,000</b>	<b>0.10</b>	2,600,000

The weighted average remaining contractual life of outstanding options is 2.91 years (2018 – 3.54 years). The weighted average remaining contractual life of exercisable options is 2.54 years (2018- 3.18 years).

d) *Fair value assumptions- Red Moon Resources Inc.*

The weighted average fair value of stock options granted in the was estimated on the date of the grant to be \$0.0905 (December 31, 2018- \$0.066) using the Black-Scholes fair value option pricing model and the following weighted average assumptions:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Expected volatility (%)	177	181
Risk free interest rate (%)	1.65	2.10
Weighted-average expected life (years)	5.0	5.0
Dividend yield (%)	0	0

e) *Consolidated share-based compensation expense*

On a consolidated basis, the Company recognized share-based compensation costs in the amount of \$135,532 in the year ended December 31, 2019 (2018- \$219,291). Share-based compensation in the amount of \$132,369 was expensed for the year ended December 31, 2019 (2018-\$217,206) and \$3,163 (2018- \$2,085) was capitalized to mineral exploration and evaluation assets.

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**13. GENERAL AND ADMINISTRATIVE EXPENSES**

	2019	2018
	\$	\$
Office and administrative	120,430	117,012
Management, salaries and contract fees and benefits	132,270	350,126
Directors' fees	-	20,000
Transfer agent and professional fees	97,825	100,495
Travel and accommodation	32,609	34,985
	<b>383,134</b>	<b>622,618</b>
Expenses attributable to subsidiary, Red Moon Resources Inc.	133,762	84,399
Expenses attributable to parent, Vulcan Minerals Inc.	249,372	538,219
Total	<b>383,134</b>	<b>622,618</b>

**14. RELATED PARTY TRANSACTIONS**

Compensation for key management personnel, which includes the President and Chief Executive Officer, Chief Financial Officer and Directors, is as follows:

	2019	2018
	\$	\$
Management fees, salaries and benefits for key management personnel		
General and administrative expense	106,577	253,097
Capitalized as mineral exploration and evaluation assets	24,810	7,808
Share-based compensation for key management personnel		
General and administrative	132,369	197,565
Capitalized as mineral exploration and evaluation assets	3,163	929
Directors' fees	-	20,000
	<b>266,919</b>	<b>479,399</b>

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	2019	2018
	\$	\$
Rent paid to a corporation which is controlled by the President of the Company	<b>36,000</b>	36,000

**15. 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, to fund its exploration activities 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 will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

**16. FINANCIAL INSTRUMENTS**

*Fair values*

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

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

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

Level 3 – valuation techniques with significant unobservable market inputs.

The carrying amount of cash and cash equivalents and accounts payable and accrued liabilities, approximate their fair value due to their short-term nature.

The Company's other financial assets (Note 5) would thus be classified as Level 1 as presented below.

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<b>Financial Assets</b>		
<b>Investments</b>	<b>2019</b>	<b>2018</b>
Level 1 (shares in public companies)	\$ 2,362	\$ 2,362
Level 2	\$ -	-
Level 3	\$ -	-
<b>Total financial assets at fair value</b>	<b>\$ 2,362</b>	<b>\$ 2,362</b>

**Financial risk management**

The Company has exposure to credit risk, liquidity risk, market risk and commodity price risk. The source of risk exposure and how each is managed is outlined below:

*Credit risk*

Credit risk is risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Company is exposed to credit risk on its cash and accounts receivable. The credit risk on cash is limited because the counterparty is a chartered bank with a high credit rating. The Company assesses its credit risk with respect to cash and accounts receivable as not significant.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual cash flow from operations. See note 1 for details on going concern.

Accounts payable and accrued liabilities at December 31, 2019 in the amount of \$113,764 (2018 - \$91,627) are current and due within thirty days.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Company's net loss or the value of its financial instruments.

*Commodity price risk*

The recoverability of the Company's petroleum and natural gas and mineral exploration and evaluation assets 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. The Company's ability to continue with its exploration programs is also indirectly subject to commodity prices.

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### 17. CONTINGENCIES

- a) The legal case initiated by Geophysical Service Incorporated (GSI) in 2011 against the Company has been discontinued (dropped) by GSI. The claim related to an allegation that accessing offshore Labrador seismic data, which is released to the public by the Canada Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) after the relevant statutory privilege-confidentiality period, is a breach of copyright. The Company fully defended its interests including participating in an Alberta “common issues” trial with multiple defendants from other cases and jurisdictions which raised the same legal issues with GSI. The common legal issues pertained to whether certain GSI seismic data is subject to copyright law and if so whether the regulatory regime which prescribes for the release of that data by the regulatory bodies, including the CNLOPB, is valid and not an unlawful infringement on any copyright protection. The Alberta Court of Queen’s Bench and the Alberta Court of Appeal both upheld the validity of the regulatory regime as a full answer to any allegation of unlawful disclosure and copyright infringement by the multiple defendants. Therefore, the CNLOPB was within its rights to release the seismic data pursuant to its regulatory regime and the Company was within its rights to access the data. GSI had sought permission to appeal the decision of the Alberta Court of Appeal to the Supreme Court of Canada (SCC), however this permission was not granted by the SCC. The notice of discontinuance of this action by GSI was filed in the Supreme Court of Newfoundland and Labrador. Vulcan is seeking legal costs in the matter.
- b) The Company has been added as a co-defendant in an ongoing legal action Geophysical Service Incorporated (GSI) has with NWest Energy Corp. (now Ceylon Graphite Corp. by way of name change) regarding an alleged breach of an agreement between those parties. GSI has submitted a Statement of Claim and the Company has filed a Statement of Defence. Procedurally the action has moved slowly through the Alberta courts as multiple GSI actions in Alberta involving other parties were awaiting the resolution of the “common issues” trial noted (a) above. The Company believes the claims against it are without basis or merit and no amounts have been recorded in the Company’s accounts related to this claim. The Company is fully defending its interest.

### 18. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The impact of the outbreak on the financial results of the Company will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

# CORPORATE INFORMATION

## OFFICERS AND MANAGEMENT

Patrick J. Laracy  
President and Chairman

Jennifer Button  
Chief Financial Officer and Corporate  
Secretary

## BOARD OF DIRECTORS

Patrick J. Laracy

Carson Noel

Philip E. Collins

William Koenig

## EXCHANGE LISTING

TSX Venture – “VUL”

## LEGAL COUNSEL

Morris McManus, Calgary, AB  
Cox & Palmer, St. John’s, NL

## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

## AUDITORS

PricewaterhouseCoopers LLP

## BANKERS

Scotiabank

## ADDITIONAL INFORMATION

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