



## **Financial Statements**

For the Years Ended December 31, 2018 and 2017

**RED MOON RESOURCES INC.**  
December 31, 2018 and 2017

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## *Independent auditor's report*

To the Shareholders of Red Moon Resources Inc.

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Red Moon Resources Inc. (the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

The Company's financial statements comprise:

- the balance sheets as at December 31, 2018 and 2017;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the 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 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 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 financial statements, which describes matters and 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Financial Conditions and Results of Operations.

Our opinion on the 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 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 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 financial statements*

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

In preparing the 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 financial statements*

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 M. Gagné.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

St. John's, Newfoundland and Labrador  
April 29, 2019

# RED MOON RESOURCES INC.

## Balance Sheets

As at December 31

(in Canadian dollars)	2018	2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	1,755	28,609
Accounts receivable	1,182	7,153
Government grant receivable (Note 5)	-	14,401
Prepaid expenses	5,305	5,900
	<b>8,242</b>	56,063
Capital assets	1,225	1,750
Mineral exploration and evaluation (Note 6)	2,092,732	2,037,910
<b>Total Assets</b>	<b>2,102,199</b>	2,095,723
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	254,378	199,412
Asset retirement obligations (Note 7)	35,777	-
<b>Total Liabilities</b>	<b>290,155</b>	199,412
<b>Shareholders' Equity</b>		
Share capital (Notes 9 (a) and (b))	2,622,179	2,622,179
Warrants (Note 9 (c))	66,000	66,000
Contributed surplus	292,678	180,752
Deficit	(1,168,813)	(972,620)
<b>Total Shareholders' Equity</b>	<b>1,812,044</b>	1,896,311
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,102,199</b>	2,095,723

Nature of operations and going concern (Note 1)

Subsequent Event (Note 14)

Approved on behalf of the Board of Directors

Patrick J. Laracy **Director**

William Koenig **Director**

See accompanying notes to the financial statements

**RED MOON RESOURCES INC.**  
**Statements of Loss and Comprehensive Loss**  
**Years Ended December 31**

(in Canadian dollars)	2018	2017
	\$	\$
<b>Income (Expenses)</b>		
Interest income	-	52
Management and subcontract fees (Note 11)	<b>(10,500)</b>	(14,000)
Transfer agent, regulatory and professional fees	<b>(41,505)</b>	(38,834)
Office and other	<b>(23,832)</b>	(22,152)
Conferences and travel	<b>(8,563)</b>	(6,670)
Depreciation	<b>(525)</b>	(750)
Exploration and evaluation expense	-	(6,840)
Share-based compensation (Note 10 (b))	<b>(111,268)</b>	(5,591)
<b>Net and comprehensive loss</b>	<b>(196,193)</b>	(94,785)
Net loss per share - basic and diluted	<b>(0.004)</b>	(0.002)
Weighted-average number of common shares outstanding - basic and diluted	<b>48,050,004</b>	48,050,004

See accompanying notes to the financial statements

## RED MOON RESOURCES INC.

### Statements of Changes in Equity

(in Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
	\$	\$	\$	\$	\$
Balance, December 31, 2016	2,622,929	66,000	170,967	(877,835)	1,982,061
Net and comprehensive loss					
January 1, 2017 - December 31, 2017	-	-	-	(94,785)	(94,785)
Share issuance costs	(750)	-	-	-	(750)
Share-based compensation	-	-	9,785	-	9,785
<b>Balance, December 31, 2017</b>	<b>2,622,179</b>	<b>66,000</b>	<b>180,752</b>	<b>(972,620)</b>	<b>1,896,311</b>
Net and comprehensive loss					
January 1, 2018 - December 31, 2018	-	-	-	(196,193)	(196,193)
Share-based compensation	-	-	111,926	-	111,926
<b>Balance, December 31, 2018</b>	<b>2,622,179</b>	<b>66,000</b>	<b>292,678</b>	<b>(1,168,813)</b>	<b>1,812,044</b>

See accompanying notes to the financial statements

**RED MOON RESOURCES INC.**  
**Statements of Cash Flows**  
**Years Ended December 31**

(in Canadian dollars)	2018	2017
	\$	\$
<b>Operating Activities</b>		
Net loss	(196,193)	(94,785)
Income taxes paid		
Adjustment for non-cash item:		
Depreciation	525	750
Share-based compensation	111,268	5,591
	<b>(84,400)</b>	<b>(88,444)</b>
Changes in non-cash working capital		
Accounts receivable	5,971	1,848
Prepaid expenses	595	-
Accounts payable and accrued liabilities	11,810	96,708
	<b>(66,024)</b>	<b>10,112</b>
<b>Financing Activities</b>		
Share issuance costs	-	(750)
	-	(750)
<b>Investing Activities</b>		
Mineral exploration and evaluation assets	(30,379)	(95,509)
Gypsum sales	48,248	-
Deposits refunded	6,900	-
Purchase of capital assets	-	(2,500)
Change in accounts payable-mineral exploration assets	-	47,106
Government grant	14,401	4,317
	<b>39,170</b>	<b>(46,586)</b>
Net change in cash for the year	<b>(26,854)</b>	<b>(37,224)</b>
Cash, beginning of year	<b>28,609</b>	<b>65,833</b>
<b>Cash, end of year</b>	<b>1,755</b>	<b>28,609</b>

See accompanying notes to the financial statements

# **RED MOON RESOURCES INC.**

## **Notes to the Financial Statements**

**December 31, 2018 and 2017**

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

The Company was formed on June 15, 2011 under the Alberta Business Corporations Act and was listed on the TSX Venture Exchange on August 17, 2012. Prior to listing on the TSX Venture Exchange, the Company was inactive. Its registered address is 333 Duckworth Street, St. John's, NL A1C 1G9. On November 14, 2016, the Company changed its name from Red Moon Potash Inc. to Red Moon Resources Inc. to more accurately reflect the nature of its operations.

Red Moon Resources Inc. (the "Company") is a junior mineral exploration company engaged in the acquisition, evaluation and exploration of mineral properties in Newfoundland and Labrador. The Company's immediate objectives are to define and develop a world-class industrial mineral projects. The Company plans to ultimately develop properties as joint ventures, bring them into production, option or lease properties to third parties, or sell the properties outright. Currently the Company's Ace Gypsum mine is in the pre-production stage and has had pre-production income of 48,248 (2017 - nil) during the year. The Company is also seeking a financing partner with respect to its Captain Cook Salt mine. As commercial viability of these projects has not yet been established, 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 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 \$196,193 for the year ended December 31, 2018 (2017- \$94,785) and had an accumulated deficit of \$1,168,812 (2017 - \$972,620). The Company had no income or cash flow from operations at December 31, 2018 and had a negative working capital of \$246,136 (2017- \$143,349). Pre-production income from the Ace Gypsum mine has provided a source of cash inflows; however, the Company must secure sufficient funding to further develop the Ace Gypsum mine to full commercial production, as well as to continue to fund the Company's working capital requirements while it continues its exploration efforts on its other mineral projects. 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 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 financial statements with Canadian generally accepted accounting principles ("GAAP") as set out in the Canadian Professional Accountants of Canada Handbook – Accounting –

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

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.

These financial statements have been prepared on an historical cost basis.

The functional and presentation currency of the financial statements is Canadian dollars.

These financial statements were approved and authorized for issuance by the Board of Directors on April 26, 2019.

**3. NEW AND AMENDED ACCOUNTING STANDARDS**

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

On January 1, 2018, the Company adopted IFRS 9, which replaced IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 provides a revised model for the classification and measurement of financial assets that eliminates the previous categories of financial assets under IAS 39 of “available for sale”, “held-to-maturity”, or “loans and receivables”.

Under IFRS 9, on initial recognition, a financial asset is classified as and measured at: amortized cost, fair value through profit and loss (“FVPL”), or fair value other comprehensive income (“FVOCI”). The revised model for classifying financial assets results in classification according to their contractual cash flow characteristics and the business models under which they are held. This standard incorporates a new hedging model, which increases the scope of hedged items eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 replaces the “incurred” loss model in IAS 39 with “an expected credit loss” (“ECL”) model for calculating impairment. This new standard also increases required disclosure about an entity’s risk management strategy, cash flows from hedging activities, and the impact of hedge accounting on the financial statements. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The following table summarizes the classification and measurement changes for the Corporation’s financial assets and financial liabilities as a result of the adoption of IFRS 9.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

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3. NEW AND AMENDED ACCOUNTING STANDARDS (continued)

	IFRS 9		IAS 39	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial Assets</b>				
Cash	Amortized cost	1,755	Amortized cost (Loans and receivables)	28,609
Accounts receivable	Amortized cost	1,182	Amortized cost (Loans and receivables)	7,153
Due to related party	Amortized cost	216,940	Amortized cost (Loans and receivables)	179,462
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	Amortized cost	37,438	Other financial liabilities	19,950

The measurement for these instruments and the line item in which they are included in the financial statements were unaffected by the adoption of IFRS 9. In accordance with the transitional provisions, the comparative information for prior periods have not been restated.

**Standards and amendments not yet effective and not yet applied**

IFRS 16, "*Leases*" ("IFRS 16") is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. 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 will be recorded on the balance sheet as an asset under property and equipment and will have a corresponding liability with both current and long-term portions.

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.

The Company is reviewing the standards and amendments, to determine the potential impact, if any, on its financial statements.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

*a) Significant management accounting estimates and judgments*

The preparation of 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 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 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.

*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.

*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

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

to estimate the Company's ability to meet current obligations and commitments over the upcoming 12 months.

*b) Share-based compensation*

The Company has an equity settled share-based payment plan. 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.

*c) Income taxes*

Income tax expense is comprised of current and deferred income tax. Current tax and deferred 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 by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax liabilities and assets 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.

*d) 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 and warrants is anti-dilutive.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

*e) Cash*

Cash consists of balances on hand and amounts on deposit in banks.

*f) 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. Deposits relating to petroleum and natural gas consist of bond deposits, abandonments and work commitments which are refundable once the work has been completed or the site abandoned. All of the non-current deposits relate to petroleum and natural gas exploration and evaluation.

*g) Government Grant*

Government grant 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.

*h) Mineral exploration and evaluation assets*

All costs directly associated with the exploration and evaluation of mineral properties is initially capitalized. Mineral 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, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net loss as exploration and evaluation expense. 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 loss as exploration and evaluation expense.

Incidental revenue and cost recoveries relating to mineral exploration and evaluation assets 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 statement of loss.

*i) Capital Assets*

Capital Assets are recorded at cost. Depreciation is based on the estimated useful life using the declining balance method. The Company has one class of capital asset, computer equipment - depreciated at 30% declining balance.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

*j) Asset retirement obligations*

The Company recognizes a provision 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.

*k) Impairment of non-financial assets*

The carrying amount of the Company's mineral exploration and evaluation assets 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 or "CGU"). A CGU may include certain aggregated exploration and evaluation assets. 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.

*l) Warrants*

Share purchase warrants are issued together with shares as private placement units. The shares issued to raise capital are classified in equity in accordance with IAS 32. The fair value of the proceeds of the units is allocated to separate components of equity – share capital and warrants. Subsequent modifications to an entire class of share purchase warrants classified as equity are not subsequently remeasured.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

*m) Financial instruments - 2018*

From January 1, 2018, the Company has applied IFRS 9 and 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 from January 1, 2018 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

*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.

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.

*n) Financial instruments- 2017*

Under IAS 39 the Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortized cost less any provision for impairment.

Fair value through profit or loss

This category includes derivatives and investments acquired for the purpose of selling or repurchasing in the near term. These assets are reflected on the balance sheet at fair value with changes in fair value recognized in the statement of net and comprehensive loss. The Company currently has no financial instruments recorded in this category.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company intends to hold until maturity. These assets are measured at amortized cost using the effective interest rate method. If there is evidence that the investment is impaired, the financial asset is measured at the present value of estimated future cash flows. Any changes in the carrying amount of the investment are recognized in the statement of loss. The Company currently has no financial instruments recorded in this category.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale. These assets are carried at fair value with changes in fair value recognized directly in the statement of other comprehensive loss. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the accumulated loss is removed from other comprehensive loss and recognized in the statement of loss. The Company currently has no financial instruments recorded in this category.

Financial liabilities

The Company classifies its financial liabilities into one of two categories:

Fair value through profit or loss

This category includes derivatives, or liabilities incurred for the purpose of selling or repurchasing in the near term. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of comprehensive loss. The Company currently has no financial instruments recorded in this category.

Other financial liabilities

This category includes accounts payable and accrued liabilities which are recognized at amortized cost.

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as defined by the accounting standard.

*o) Flow-through shares*

The Company finances a portion of its exploration activities through the issuance of flow-through common shares, whereby the related resource expenditure deductions normally available for income tax purposes are renounced to investors, in accordance with flow-through share agreements. At the time of share issuance, the proceeds are allocated between share capital and the obligation to deliver the tax deduction (flow through premium liability). 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

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 statement of loss.

**5. GOVERNMENT GRANT**

In the prior year the company reflected a government grant receivable in the amount of \$14,401 from the Government of Newfoundland and Labrador under the “Junior Exploration Assistance” (JEA) program, with a corresponding amount reflected as a reduction of mineral exploration and evaluation assets. The difference, if any, between the amount recorded and the amount ultimately received was recorded as an adjustment to the related mineral exploration and evaluation asset. In 2017, the Company received a grant in the amount of \$4,317 related to exploration expenditures incurred in 2016.

**6. MINERAL EXPLORATION AND EVALUATION ASSETS**

The Company has 14 mineral licences (2017 -17) which consist of 260 claims (2017 – 625 claims), 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. The Company has a mining lease (Ace Mining Lease #239) registered with the Department of Natural Resources in the Province of Newfoundland and Labrador on mineral licence 022132M situated near St. George’s, Western Newfoundland.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**6. MINERAL EXPLORATION AND EVALUATION ASSETS (continued)**

A summary of the costs of these licences is as follows:

	December 31, 2018				December 31, 2017				
	Balance, Beginning of Year	Additions	Refunds	Incidental Revenue	Balance, End of Year	Balance, Beginning of Year	Additions	Write downs	Balance, End of Year
	\$	\$	\$		\$	\$	\$	\$	\$
Property acquisition costs	1,079,325	12,540	(6,900)	-	1,084,965	1,084,350	1,815	(6,840)	1,079,325
Exploration costs	958,585	97,430	-	(48,248)	1,007,767	869,988	88,597	-	958,585
	<b>2,037,910</b>	<b>109,970</b>	<b>(6,900)</b>	<b>(48,248)</b>	<b>2,092,732</b>	<b>1,954,338</b>	<b>90,412</b>	<b>(6,840)</b>	<b>2,037,910</b>

Incidental revenue includes proceeds from the sale of gypsum from the Ace Gypsum mine. Current year additions to mineral exploration and evaluation assets have been reduced by a government grant of nil (2017- \$16,131) (Note 5). Current year additions to mineral exploration costs include share based compensation of \$658 (2017- \$4,194).

**7. 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, 2018 was \$35,777. The estimated future cash flows have been discounted using a risk-free rate of 1.90% and an inflation rate of 1.79%. As at December 31, 2018, 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

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

A reconciliation of the asset retirement obligation is provided below:

	<b>2018</b>
	<b>\$</b>
Balance, beginning of year	-
Provisions incurred	<b>35,777</b>
<b>Balance, end of year</b>	<b>35,777</b>

**8. INCOME TAXES**

*a) Deferred income taxes*

The Company has an unrecorded deferred income tax asset as follows:

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Temporary differences related to mineral exploration and evaluation assets	<b>6,838</b>	6,642
Share issuance costs	<b>(457)</b>	(894)
Non-capital loss carryforwards	<b>(276,385)</b>	(250,570)
<b>Unrecognized deferred tax asset</b>	<b>(270,004)</b>	(244,822)

*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% (2017-30%) to (loss) before income taxes as follows:

	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Expected income tax recovery	<b>(58,857)</b>	(28,210)
Non-deductible share-based compensation	<b>33,380</b>	1,677
Deferred tax asset not recognized	<b>25,477</b>	26,533
<b>Deferred income tax expense</b>	<b>-</b>	<b>-</b>

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

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**8. INCOME TAXES (continued)**

*c) Non-capital losses*

The Company has non-capital losses amounting to \$921,289 which are available to reduce taxable income of future years. These non-capital losses expire as follows:

2032	\$ 93,451
2033	\$ 234,324
2034	\$ 178,849
2035	\$ 150,364
2036	\$ 96,235
2037	\$ 83,668
2038	\$ 84,398

The Company also has Canadian exploration expense of \$2,069,938 which may be deducted in determining taxable income of future years.

**9. SHARE CAPITAL**

*a) Authorized*

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

*b) Issued and outstanding*

	2018		2017	
	Number	Share Capital	Number	Share Capital
<b>Common Shares</b>		\$		\$
Balance, beginning of year	48,050,004	2,622,179	48,050,004	2,622,929
Share issuance cost	-	-	-	(750)
<b>Balance, end of year</b>	<b>48,050,004</b>	<b>2,622,179</b>	<b>48,050,004</b>	<b>2,622,179</b>

*c) Warrants*

A summary of warrants as at December 31, 2018 and 2017 and changes during the years then ended is as follows:

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

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**9. SHARE CAPITAL (continued)**

	2018		2017	
	Number of Warrants	Weighted- Average Exercise Price \$	Number of Warrants	Weighted- Average Exercise Price \$
Outstanding, beginning of year	2,525,000	0.10	2,525,000	0.10
<b>Outstanding, end of year</b>	<b>2,525,000</b>	<b>0.10</b>	<b>2,525,000</b>	<b>0.10</b>

	2018	2017
	\$	\$
Balance, beginning of year	66,000	66,000
<b>Balance, end of year</b>	<b>66,000</b>	<b>66,000</b>

On November 6, 2017 the Board approved amendments to the terms of the outstanding warrants to extend the expiry date of the 2,525,000 warrants of \$0.10 from Dec 1, 2015 to November 6, 2020.

**10. SHARE-BASED COMPENSATION**

*a) Stock option plan*

The Company 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.

*b) Stock options*

A summary of stock options outstanding and exercisable is as follows:

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

**10. SHARE-BASED COMPENSATION (continued)**

	2018		2017	
	Number of Options	Weighted- Average Exercise Price \$	Number of Options	Weighted- Average Exercise Price \$
Outstanding, beginning of year	3,150,000	0.10	3,350,000	0.10
Granted	2,400,000	0.10	-	-
Forfeited	-	-	(100,000)	0.10
Cancelled	-	-	(100,000)	0.10
Expired	(1,750,000)	0.10	-	-
Outstanding, end of year	3,800,000	0.10	3,150,000	0.10
<b>Outstanding and exercisable, end of year</b>	<b>2,600,000</b>	<b>0.10</b>	<b>2,550,000</b>	<b>0.10</b>

The weighted average remaining contractual life of outstanding options is 3.54 years (2017 – 1.47 years). The weighted average remaining contractual life of exercisable options is 3.18 years (2017- 1.47 years). The weighted average fair value of stock options granted in the current year was estimated on the date of the grant to be \$0.066 using the Black-Scholes fair value option pricing model and the following weighted average assumptions:

	2018	2017
Expected volatility (%)	181	-
Risk free interest rate (%)	2.12	-
Weighted-average expected life (years)	5.0	-
Dividend yield (%)	0	-

The Company recognized share-based compensation in the amount of \$111,926 in the year ended December 31, 2018 (2017 - \$9,785). Share-based compensation in the amount of \$111,268 was expensed for the year ended December 31, 2018 (2017 - \$5,591) and \$658 (2017 - \$4,194) was capitalized to mineral exploration and evaluation assets.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2018 and 2017

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**11. RELATED PARTY TRANSACTIONS**

The Company is controlled by Vulcan Minerals Inc., which owns 66.4% of the Company's common shares (2017- 66.6%). The remaining 33.6% (2017-33.4%) is widely held. The following transactions were carried out with related parties:

	<b>2018</b>	2017
	\$	\$
Expenditures paid/payable to Vulcan Minerals Inc., parent of the Company and reflected as:		
Mineral exploration and evaluation assets	<b>44,331</b>	29,960
General and administrative expenses	<b>10,500</b>	14,000
Rent paid to a corporation which is controlled by the President of the Company	<b>12,000</b>	12,000

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

	<b>2018</b>	2017
	\$	\$
Management fees, salaries and benefits for key management personnel paid/payable to parent and included in Note 11 above, and reflected as the following:		
General and administrative expenses	<b>10,500</b>	14,000
Capitalized as mineral and exploration and evaluation assets	<b>2,970</b>	3,700
Share-based compensation		
General and administrative expense	<b>111,268</b>	5,591
Mineral exploration and evaluation assets	<b>658</b>	4,194
	<b>125,396</b>	27,485

Accounts payable and accrued liabilities include \$216,940 owing to parent company, Vulcan Minerals Inc. at December 31, 2018 (2017 - \$179,462). Included in expenses are costs of \$19,809 re-chargeable from the parent (2017 - \$87,676) as well as a pre-paid of \$7,074.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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**12. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity comprised of share capital, contributed surplus, warrants, and deficit. 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 fund exploration activities. The Company maintains its capital on deposit with Canadian chartered banks.

**13. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT**

*Fair values of financial instruments*

The carrying amount of cash, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature. The Company does not have any other financial assets or liabilities.

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 the risk of loss associated with a counterparty's inability to fulfil its payment obligation. The Company is exposed to credit risk on its cash and accounts receivable. Cash is maintained on deposit with a major Canadian chartered bank. The Company believes its credit risk with respect to cash and accounts receivable is not significant.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As of December 31, 2018 the Company had a cash balance of \$1,755 and a negative working capital of \$246,135. The Company has no source of operating cash flow. There is no assurance that additional funding will be available to allow the Company to fund exploration programs. Liquidity risk is significant to the Company (refer to Note 1).

*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 mineral exploration and evaluation assets is partially related to the market price of base metals and commodities. 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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**14. SUBSEQUENT EVENT**

The Company completed a private placement dated April 9, 2019 for 2,550,000 units at a price of \$0.10 per unit, total proceeds \$255,000. Each unit consist 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 of \$0.25 per share until April 9, 2021.

**RED MOON RESOURCES INC.**  
**Quarterly Adjustment (Unaudited)**  
December 31, 2018 and 2017

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**QUARTERLY ADJUSTMENT (UNAUDITED)**

The unaudited interim consolidated financial statements for the three and nine months ended September 30, 2018 reported impairment to exploration and evaluation assets in the amount of \$27,949 associated with recording fees. Upon further review of the facts and circumstances, it was determined that while the claims associated with these recording fees have lapsed the work performed is reflective of the continuing work in the Bay St. George area and therefore no impairment exists.

Adjustment to the unaudited interim balance sheet:

	<b>Previously Stated</b>	<b>Adjust</b>	<b>Adjusted</b>
Mineral exploration and evaluation	2,042,252	27,949	2,070,201
<b>Total Assets</b>	<b>2,104,619</b>	<b>27,949</b>	<b>2,132,568</b>

Adjustment to the unaudited interim condensed consolidated statement of loss:

	<b>For the three months ended</b>			<b>For the nine months ended</b>		
	<b>Previously Stated</b>	<b>Adjust</b>	<b>Adjusted</b>	<b>Previously Stated</b>	<b>Adjust</b>	<b>Adjusted</b>
<b>Income (Expenses)</b>						
Write-off- exploration and evaluation assets	(26,599)	26,599	-	(27,949)	27,949	-
Net Loss	(50,580)	26,599	(23,981)	(174,001)	27,949	(146,052)
 Net loss per share - basic and diluted	 \$ (0.001)	 \$ -	 \$ (0.000)	 \$ (0.004)	 \$ -	 \$ (0.003)

# **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

Rex Gibbons

Carson Noel

William Koenig

## **EXCHANGE LISTING**

TSX Venture – “RMK”

## **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

## **HEAD OFFICE**

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