



## **Financial Statements**

For the Years Ended December 31, 2019 and 2018

# **RED MOON RESOURCES INC.**

December 31, 2019 and 2018

## **Table of Contents**

	<u>PAGE</u>
Independent Auditor's Report	1-3
Balance Sheets	4
Statements of Loss and Comprehensive Loss	5
Statements of Changes in Equity	6
Statements of Cash Flows	7
Notes to the Financial Statements	8-23



## *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, 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 financial statements comprise:

- the balance sheets as at December 31, 2019 and 2018;
- 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 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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"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.

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 Gagne.

**(Signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

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

# RED MOON RESOURCES INC.

## Balance Sheets

As at December 31

(in Canadian dollars)

	2019	2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash	266,831	1,755
Accounts receivable	6,355	1,182
Prepaid expenses	4,655	5,305
	<b>277,841</b>	8,242
Capital assets	700	1,225
Mineral exploration and evaluation (Note 5)	1,907,217	2,092,732
<b>Total Assets</b>	<b>2,185,758</b>	2,102,199
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	124,423	254,378
Asset retirement obligations (Note 6)	129,430	35,777
<b>Total Liabilities</b>	<b>253,853</b>	290,155
<b>Shareholders' Equity</b>		
Share capital (Notes 8 (a) and (b))	2,839,083	2,622,179
Warrants (Note 8 (c))	102,121	66,000
Contributed surplus	373,412	292,678
Deficit	(1,382,711)	(1,168,813)
<b>Total Shareholders' Equity</b>	<b>1,931,905</b>	1,812,044
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,185,758</b>	2,102,199

Nature of operations and going concern (Note 1)

Subsequent Event (Note 13)

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)	2019	2018
	\$	\$
<b>Income (Expenses)</b>		
Management and subcontract fees (Note 10)	(22,487)	(10,500)
Transfer agent, regulatory and professional fees	(41,446)	(41,505)
Office and other	(43,516)	(23,832)
Conferences and travel	(26,313)	(8,563)
Depreciation	(525)	(525)
Exploration and evaluation expense	(1,440)	-
Share-based compensation (Note 9 (b))	(78,171)	(111,268)
<b>Net and comprehensive loss</b>	<b>(213,898)</b>	<b>(196,193)</b>
Net loss per share - basic and diluted	<b>(0.004)</b>	<b>(0.004)</b>
Weighted-average number of common shares outstanding - basic and diluted	<b>50,600,004</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, 2017	2,622,179	66,000	180,752	(972,620)	1,896,311
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>
Net and comprehensive loss					
January 1, 2019 - December 31, 2019	-	-	-	(213,898)	(213,898)
Share-based compensation	-	-	80,734	-	80,734
Share issuance costs	(1,975)	-	-	-	(1,975)
Issuance of shares and warrents pursuant to private placement	218,879	36,121	-	-	255,000
<b>Balance, December 31, 2019</b>	<b>2,839,083</b>	<b>102,121</b>	<b>373,412</b>	<b>(1,382,711)</b>	<b>1,931,905</b>

See accompanying notes to the financial statements

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

(in Canadian dollars)	2019	2018
	\$	\$
<b>Operating Activities</b>		
Net loss	(213,898)	(196,193)
Income taxes paid		
Adjustment for non-cash item:		
Depreciation	525	525
Exploration and evaluation expense	1,440	-
Share-based compensation	78,171	111,268
	<b>(133,762)</b>	<b>(84,400)</b>
Changes in non-cash working capital		
Accounts receivable	(5,173)	5,971
Prepaid expenses	650	595
Accounts payable and accrued liabilities	(158,100)	11,810
	<b>(296,385)</b>	<b>(66,024)</b>
<b>Financing Activities</b>		
Issuance of common shares & warrants	255,000	-
Share issuance costs	(1,975)	-
	<b>253,025</b>	<b>-</b>
<b>Investing Activities</b>		
Mineral exploration and evaluation assets	(57,964)	(30,379)
Gypsum sales	366,400	48,248
Deposits refunded	-	6,900
Government grant	-	14,401
	<b>308,436</b>	<b>39,170</b>
Net change in cash for the year	<b>265,076</b>	<b>(26,854)</b>
Cash, beginning of year	<b>1,755</b>	<b>28,609</b>
<b>Cash, end of year</b>	<b>266,831</b>	<b>1,755</b>

See accompanying notes to the financial statements

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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 minerals 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 \$366,400 (2018 - \$48,248) 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 \$213,898 for the year ended December 31, 2019 (2018- \$196,193) and had an accumulated deficit of \$1,382,711 (2018 - \$1,168,813). The Company had no income or cash flow from operations at December 31, 2019 and had a positive working capital of \$153,418 (2018- negative \$246,136). 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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**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 –

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 23, 2020.

**3. NEW AND AMENDED ACCOUNTING STANDARDS**

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

On January 1, 2019, the Company adopted IFRS 16, “Leases” (“IFRS 16”) and IFRIC 23, “Uncertainty over income tax treatments” (“IFRIC 23”).

IFRS 16 “Leases” 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” 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) 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

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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 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

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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.

*e) Cash*

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

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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*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.

*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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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 and comprehensive 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.

*m) 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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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.

*n) 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.

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. MINERAL EXPLORATION AND EVALUATION ASSETS**

The Company has 19 mineral licences (2018 – 14) which consist of 233 claims (2018 – 260 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, 2019 and 2018**

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

<b>December 31, 2019</b>					
	<b>Balance, Beginning of Year</b>	<b>Additions</b>	<b>Write- downs</b>	<b>Incidental Revenue</b>	<b>Balance, End of Year</b>
	\$	\$	\$	\$	\$
Property acquisition costs	1,084,965	11,425	-	-	1,096,390
Exploration costs	1,007,767	170,900	(1,440)	(366,400)	810,827
	<b>2,092,732</b>	<b>182,325</b>	<b>(1,440)</b>	<b>(366,400)</b>	<b>1,907,217</b>

<b>December 31, 2018</b>					
	<b>Beginning of Year</b>	<b>Additions</b>	<b>Refunds</b>	<b>Incidental Revenue</b>	<b>Balance, End of Year</b>
	\$	\$	\$	\$	\$
Property acquisition costs	1,079,325	12,540	(6,900)	-	1,084,965
Exploration costs	958,585	97,430	-	(48,248)	1,007,767
	<b>2,037,910</b>	<b>109,970</b>	<b>(6,900)</b>	<b>(48,248)</b>	<b>2,092,732</b>

Incidental revenue includes proceeds from the sale of gypsum from the Ace Gypsum mine. Current year additions to mineral exploration costs include share-based compensation of \$2,563 (2018 - \$658).

**6. 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- \$35,177), The estimated future cash flows have been discounted using a risk-free rate of 1.69% 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.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2019 and 2018

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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>

**7. INCOME TAXES**

*a) Deferred income taxes*

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

	2019	2018
	\$	\$
Temporary differences related to mineral exploration and evaluation assets	(66,974)	6,838
Share issuance costs	(631)	(457)
Non-capital loss carryforwards	(207,062)	(276,385)
<b>Unrecognized deferred tax asset</b>	<b>(274,667)</b>	<b>(270,004)</b>

*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	(64,169)	(58,857)
Non-deductible share-based compensation	23,451	33,380
Effect of not recognizing deductible temporary differences	110,114	25,477
Permanent differences	366	-
Loss carryforwards utilized	(69,762)	-
<b>Deferred income tax expense</b>	<b>-</b>	<b>-</b>

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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*c) Non-capital losses*

The Company has non-capital losses amounting to \$690,208 which are available to reduce taxable income of future years. These non-capital losses expire as follows:

2033	\$ 95,236
2034	\$ 178,846
2035	\$ 150,364
2036	\$ 96,235
2037	\$ 83,668
2038	\$ 85,859

The Company also has Canadian exploration expense of \$2,130,461 which may be deducted in determining taxable income of future years.

**8. 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
<b>Common Shares</b>		\$		\$
Balance, beginning of year	<b>48,050,004</b>	<b>2,622,179</b>	48,050,004	2,622,179
Issued pursuant to private placement (Note 8 (c))	<b>2,550,000</b>	<b>218,879</b>	-	-
Share issuance cost	-	<b>(1,975)</b>	-	-
<b>Balance, end of year</b>	<b>50,600,004</b>	<b>2,839,083</b>	48,050,004	2,622,179

*c) Private Placement*

The Company completed a private placement on 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 unit until April 9, 2021.

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
December 31, 2019 and 2018

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d) *Warrants*

A summary of warrants 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
		\$		\$
Outstanding, beginning of year	2,525,000	0.10	2,525,000	0.10
Issued	1,275,000	0.25	-	-
<b>Outstanding, end of year</b>	<b>3,800,000</b>	<b>0.15</b>	2,525,000	0.10

	2019	2018
	\$	\$
Balance, beginning of year	66,000	66,000
Fair value of warrants issued	36,121	-
<b>Balance, end of year</b>	<b>102,121</b>	66,000

The weighted average fair value of the warrants issued during the year was estimated on the dates of the issuance to be grants to be \$0.0283 using the Black-Scholes fair value option pricing model and the following weighted average assumptions:

	December 31, 2019	December 31, 2018
Expected volatility (%)	130	-
Risk free interest rate (%)	1.61	-
Weighted-average expected life (years)	2.0	-
Dividend yield (%)	0	-

**9. 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

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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:

	<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>Weighted- Average Exercise Price</b>
	<b>\$</b>	<b>\$</b>
Outstanding, beginning of year	<b>3,800,000</b>	0.10
Granted	<b>700,000</b>	0.10
Expired	-	0.10
Outstanding, end of period	<b>4,500,000</b>	0.10
<b>Outstanding and exercisable, end of year</b>	<b>4,150,000</b>	0.10

The weighted average remaining contractual life of outstanding options is 2.91 years (December 31, 2018 – 3.54 years). The weighted average remaining contractual life of exercisable options is 2.54 years (December 31, 2018- 3.18 years). The weighted average fair value of stock options granted in the year was estimated on the dates of the grants 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 (%)	183	181
Risk free interest rate (%)	1.65	2.12
Weighted-average expected life (years)	5.0	5.0
Dividend yield (%)	0	0

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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The Company recognized share-based compensation in the amount of \$80,734 in the year ended December 31, 2019 (2018 - \$111,926). Share-based compensation in the amount of \$78,171 was expensed for the year ended December 31, 2019 (2018 - \$111,268) and \$2,563 (2018 - \$658) was capitalized to mineral exploration and evaluation assets.

**10. RELATED PARTY TRANSACTIONS**

The Company is controlled by Vulcan Minerals Inc., which owns 63.03% of the Company's common shares (December 31, 2018- 66.4%). The following transactions were carried out with related parties:

	<b>2019</b>	2018
	\$	\$
Expenditures paid/payable to Vulcan Minerals Inc., parent of the Company and reflected as:		
Mineral exploration and evaluation assets	<b>43,310</b>	44,331
Royalty	<b>12,255</b>	-
General and administrative expenses	<b>18,500</b>	10,500
Rent paid to a corporation which is controlled by the President of the Company	<b>12,000</b>	12,000
	<b>86,065</b>	66,831

A 3% Net Production Royalty of \$12,255 due to the parent Company on net proceeds from the Ace Gypsum mine production was incurred in the year (2018 - \$nil).

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

	<b>2019</b>	2018
	\$	\$
Management fees, salaries and benefits for key management personnel paid/payable to parent and included in Note 10 above, and reflected as the following:		
General and administrative expenses	<b>18,500</b>	10,500
Capitalized as mineral and exploration and evaluation assets	<b>29,715</b>	2,970
Share-based compensation		
General and administrative expense	<b>78,171</b>	111,268
Mineral exploration and evaluation assets	<b>2,563</b>	658
	<b>128,949</b>	125,396

**RED MOON RESOURCES INC.**  
**Notes to the Financial Statements**  
**December 31, 2019 and 2018**

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Accounts payable and accrued liabilities include \$73,672 owing to parent company, Vulcan Minerals Inc. at December 31, 2019 (2018 - \$216,940). Included in expenses are costs of \$44,185 re-chargeable from the parent (2018 - \$19,809) as well as pre-paid of \$nil (2018 - \$7,074).

**11. 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.

**12. 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, 2019 the Company had a cash balance of \$266,831 and a positive working capital of \$153,418. 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, 2019 and 2018**

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**13. 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

Fraser Edison

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**  
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