

AVALON WORKS CORP.

Financial Statements For the years ended August 2020 and 2019 (in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Avalon Works Corp.

Opinion

We have audited the financial statements of Avalon Works Corp. (the Company), which comprise the statements of financial position as at August 31, 2020 and 2019, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2020 and 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 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.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis but does not include the financial statements and our auditor's report thereon.

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

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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 IFRSs, 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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 Luc Dubé, CPA auditor, CA.

Brunet Roy Dubé, CPA S.E.N.C.R.L.¹

Montreal,
December 18, 2020

¹by CPA auditor, CA, public accountancy permit No. A115197

AVALON WORKS CORP.
Statements of financial position
As at August 31
(in Canadian dollars)

	Notes	2020	2019
		\$	\$
Assets			
Current			
Cash and cash equivalents	7	247	35,622
Other receivables		-	9,269
Total assets		247	44,891
Liabilities			
Current			
Accounts payable and accrued liabilities		232,854	208,845
Total liabilities		232,854	208,845
Shareholders' equity			
Share capital	11	206,000	206,000
Contributed Surplus		14,400	-
Deficit		(453,007)	(369,954)
Total shareholders' equity		(232,607)	(163,954)
Total liabilities and shareholders' equity		247	44,891

Approved and authorized by the Board of Directors on December 18, 2020

/s/ Michael Clemann
Director and CEO/CFO

The accompanying notes are an integral part of the financial statements

AVALON WORKS CORP.**Statements of loss and comprehensive loss****Years ended August 31****(in Canadian dollars)**

	Notes	2020	2019
		\$	\$
Expenses			
Professional fees		34,409	56,141
Consulting fees		15,000	-
Trustee and registration fees		18,696	108,106
Business development expenses		264	-
Share-based compensation		14,400	-
Bank charges		284	319
		83,053	164,566
Net loss and comprehensive loss for the year		(83,053)	(164,566)
Basic and diluted loss per share	10	0.019	0.103
Weighted average number of common shares outstanding		4,297,422	1,599,066

The accompanying notes are an integral part of the financial statements

AVALON WORKS CORP.**Statements of changes in shareholders' equity****Years ended August 31, 2020 and 2019****(in Canadian dollars)**

	Notes	Common Share	Amount	Contributed Surplus	Deficit	Equity
			\$	\$	\$	\$
Balance, September 1, 2018		19,742,200	1,000	-	(205,388)	(204,388)
New shares issued	11	410,000,000	205,000	-	-	205,000
Net loss for the year		-	-	-	(164,566)	(164,566)
Balance, August 31, 2019		429,742,200	206,000	-	(369,954)	(163,954)
Balance, September 1, 2019		429,742,200	206,000	-	(369,954)	(163,954)
Share-based compensation		-	-	14,400	-	14,400
Net loss for the year		-	-	-	(83,053)	(83,053)
Consolidation of shares 100:1	11	(425,444,778)	-	-	-	-
Balance, August 31, 2020		4,297,422	206,000	14,400	(453,007)	(232,607)

The accompanying notes are an integral part of the financial statements

AVALON WORKS CORP.
Statements of cash flows
Years ended August 31
(in Canadian dollars)

	Notes	2020	2019
		\$	\$
Operating activities			
Net loss and comprehensive loss for the year		(83,053)	(164,566)
Net changes in non-cash working capital items			
Other receivables		9,269	(9,269)
Accounts payable and accrued liabilities		24,009	4,457
Share-based compensation		14,400	-
Net operating cash flows		(35,375)	(169,378)
Financing activities			
Short-term loans	8-11	-	125,000
Private placements	11	-	80,000
Net financing cash flows		-	205,000
Net change in cash and cash equivalents		(35,375)	35,622
Cash and cash equivalents, beginning of year		35,622	-
Cash and cash equivalents, end of year	7	247	35,622

Cash and cash equivalents consist of cash.

The accompanying notes are an integral part of the financial statements

1. Incorporation and nature of operations

Avalon Works Corp. (the "Company") was incorporated under the Canada Business Corporations Act on April 6, 2000. The Company terminated its operations in 2007. On July 31, 2009, the Company's Securities were delisted from the TSX Venture Exchange. The Company obtained its certificate of revival on November 9, 2018 and the revocation of cease trade orders (CTO) on September 24, 2019. The Company's securities are listed under symbol AWB. The address of the Company's registered office is 237 Argyle Avenue, suite 100, Ottawa, Ontario, K2P 1B8.

Avalon Works Corp. is deemed to hold no value as it is solely used as a shell company to allow prospective investors to enter into a go public transaction.

2. Statement of compliance

These financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

These financial statements of the Company were approved and authorized for issue by the Board of Directors on December 18, 2020.

These financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

3. Going concern assumption

These financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at August 31, 2020, the Company has a working capital deficiency of \$232,607 and a deficit of \$453,007 (working capital deficiency of \$163,954 and a deficit of \$369,954 as at August 31, 2019).

The Company has ceased active operations. The Company's ability to continue as a going concern is in substantial doubt and dependent on its ability to achieve profitable operations in the future from new business ventures, on its ability to obtain additional capital and on the continued support of its shareholders and/or any lenders. The outcome of these matters cannot be predicted at this time. Any possible business or asset purchase transactions may be subject to required regulatory, legal, securities, board and shareholder approvals, the completion of which is uncertain. These material uncertainties may cast a significant doubt regarding the Company's ability to continue as a going concern.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate.

4. Judgements, estimates and assumptions

Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

While management believes that these estimates and judgments are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying results or amounts of assets and liabilities are as follows:

- **Going concern**

The assessment of the Company's ability to continue as a going concern and to raise additional financing which will allow for settlement of debt and to have future operations involves significant judgement based on experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 3 for more information.

- **Recovery of deferred tax assets**

The measurement of taxes payable and deferred tax assets and liabilities requires management to make estimates in the interpretation and application of the relevant tax laws. Management assesses whether it is probable that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. If changes were made to management's assessment regarding the Company's ability to use future tax deductions, the Company could be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements. To date, management has not recognized any deferred tax assets.

- **Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has to perform estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes model.

5. Significant accounting policies

The Company's principal accounting policies are outlined below and have been applied consistently to all periods presented.

(a) *Equity*

i) *Share capital*

Share capital represents the amount received on the issue of shares less issuance costs.

(b) *Income taxes*

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statements of loss and comprehensive loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(c) *Loss per share*

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period.

(d) *Cash and cash equivalents*

Cash and cash equivalents consist of cash that are readily available or convertible to amounts of cash and held with Canadian financial institutions which is subject to insignificant risk of changes in value.

5. Significant accounting policies (continued)

(e) Classification of financial instruments

Following the initial adoption of IFRS 9 on September 1, 2018, the Company updated its accounting policy as follows:

(i) Recognition and initial measurement

The Company initially recognizes a financial asset or a financial liability on the date it becomes a party to the contractual provisions of the instrument. Except for trade receivables that do not contain a significant financing component, a financial asset or financial liability is initially measured at fair value. If a financial asset or financial liability is not subsequently recognized at fair value through profit or loss, the initial measurement includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not contain a significant financing component are initially recognized at their transaction price.

(ii) Classification and subsequent measurement – Non-derivative financial assets

On initial recognition, the Company classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are reclassified subsequently to their initial recognition when, and only when, the Company changes its business model for managing financial assets.

Financial assets measured at amortized cost

The Company classifies cash and cash equivalents as well as other receivables as financial assets measured at amortized cost. A financial asset is subsequently measured at amortized cost using the effective interest method, less impairment losses, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Upon derecognition, all gains or losses are also recognized in profit or loss.

(iii) Classification and subsequent measurement – Non-derivative financial liabilities

Financial liabilities measured at amortized cost

The Company currently classifies accounts payables and accrued liabilities as financial liabilities measured at amortized cost. A financial liability is subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains or losses are recognized in profit or loss. Upon derecognition, all gains or losses are also recognized in profit or loss.

5. Significant accounting policies (continued)

(iv) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Company transfers contractual rights to receive the cash flows of the financial asset in a transaction where substantially all the risks and rewards of ownership of the financial asset have been transferred or in a transaction where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but does not retain control of the asset. Any rights and obligations created or retained in the transfer by the Company are recognized as separate assets or liabilities.

Financial liabilities

The Company derecognizes a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

The Company also derecognizes a financial liability when there is a substantial modification of the terms of an existing financial liability or a part of it. In this situation, a new financial liability under the new terms is recognized at fair value, and the difference between the carrying amount of the financial liability or a part of the financial liability extinguished and the new financial liability under the new terms is recognized in profit or loss.

(v) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost or fair value through other comprehensive income. The Company uses a matrix to determine the lifetime expected credit losses for other receivables.

The Company uses historical patterns for the probability of default, the timing of collection and the amount of the incurred credit loss, which is adjusted based on management's judgment about whether current economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

The amount of the impairment loss on a financial asset measured at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and applied against other receivables through a loss allowance account.

(f) *Share-based payments*

The Company offers a share option plan for its eligible directors, employees and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based compensation are measured at their fair value. Where employees are rewarded using share-based compensation, the fair value of the services rendered by the employees is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is evaluated at the attribution date.

5. Significant accounting policies (continued)

(f) Share-based payments (continued)

All equity-settled share-based compensation are ultimately recognized as an expense in net income or capitalized as an asset, depending on the nature of the payment with a corresponding credit to contributed surplus, in equity.

If vesting period or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are credited to share capital.

The share-based compensation is recorded at their fair value determined by the Black-Scholes model.

6. Adoption of new and amended standards and interpretations

Changes in accounting policies

IFRS 2 – Share-based payment

This standard has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in June 2016. The amendments provide guidance on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The retrospective application of these amendments had no impact on the Company's profit or loss or financial position.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

IFRS 9 Financial Instruments has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in October 2017. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met.

IFRIC 23 Uncertainty Over Income Tax Treatments

This new Interpretation was issued by the IASB in June 2017. The Interpretation requires that: an entity determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty; an entity considers whether it is probable that a taxation authority will accept an uncertain tax treatment; and if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, it must reflect the effect of uncertainty by using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

6. Adoption of new and amended standards and interpretations (continued)

Future changes in accounting policies

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the applied pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. The Company is currently analyzing the possible impact of these standards on its financial statements.

IFRS 3 – Business Combinations

This standard has been revised to incorporate amendments issued by the International Accounting Standards Board in October 2018. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are applicable to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted.

IAS 1 - Presentation of Financial Statements

This standard has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2020. The amendments clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

IFRS 9 Financial Instruments

The standard IFRS 9 Financial Instruments has been revised to incorporate amendments issued by the IASB in May 2020. The standard IFRS 9 Financial Instruments has been revised to incorporate amendments issued by the IASB in May 2020. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

7. Cash and cash equivalents

As at August 31, 2019, the cash includes an amount of \$6,837 held in trust with the Company's legal counsel and is available on demand. None as at August 31, 2020.

AVALON WORKS CORP.
Notes to financial statements
August 31, 2020 and 2019
(in Canadian dollars)

8. Loans

In November and December 2018, The Company contracted three loans of \$25,000 each and one loan of \$50,000, non-interest bearing and payable in one year from the date of the loan's agreements. One of the \$25,000 loan is from a related party, as the Lender is a company owned by a key management personnel. The loans were repaid in exchange of shares before August 31, 2019.

9. Income and deferred taxes

Income tax recovery differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% to income before income taxes. The reasons for the differences are as follows:

	2020	2019
	\$	\$
Loss before income taxes	(83,053)	(164,566)
Statutory income tax rate	27%	27%
Expected income tax recovery	22,424	44,433
Unrecognized benefit of deferred tax assets	(22,424)	(44,433)
Deferred tax recovery	-	-

Temporary differences that give rise to the net deferred tax asset, which is not recognized on the Company's statement of financial position, as of August 31, 2020 and 2019 are due to non-capital losses available for carry forward against future taxable income that expire as follows:

	Federal	Provincial
	\$	\$
2026	520,620	520,620
2027	297,308	298,887
2028	453,354	454,574
2029	106,049	106,049
2036	22,600	22,600
2037	22,600	22,600
2038	159,188	159,188
2039	164,566	164,566
2040	83,053	83,053
	1,829,338	1,832,137

AVALON WORKS CORP.
Notes to financial statements
August 31, 2020 and 2019
(in Canadian dollars)

10. Loss per common share

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding during the period, plus the effects of dilutive common share equivalents such as warrants and stock options.

Diluted net loss per share is calculated using the treasury method, where the exercise of warrants and options is assumed to be at the beginning of the period and the proceeds from the exercise of warrants and options and the amount of compensation expense measured, but not yet recognized in loss are assumed to be used to purchase common shares of the Corporation at the average market price during the period.

Basic and diluted loss per common share

The following table sets forth the computation of basic and diluted loss per share:

	2020	2019
	\$	\$
Loss for the period	(83,053)	(164,566)
Weighted average number of common shares - basic and diluted	4,297,422	1,599,066
Loss per share – basic and diluted	0.019	0.103

11. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of voting shares without nominal or par value.

As at August 31, 2020, no dividends were declared or unpaid.

(b) Issued and outstanding

4,297,422 common shares as at August 31, 2020 (429,742,200 (before consolidation) common shares as at August 31, 2019).

During the year ended August 31, 2020, the following share transactions occurred:

- i) On August 4, 2020, the Company proceeded to the consolidation of its shares at rate of 100: 1 share.

AVALON WORKS CORP.
Notes to financial statements
August 31, 2020 and 2019
(in Canadian dollars)

11. Share capital (continued)

During the year ended August 31, 2019, the following share transactions occurred:

- ii) On March 2019, the Company closed a non-brokered private placement and issued 250,000,000 (before consolidation) shares at a price of \$0.0005 per share for a total amount of \$125,000.
- iii) On June 2019, the Company closed a non-brokered private placement and issued 160,000,000 (before consolidation) shares at a price of \$0.0005 per share for a total amount of \$80,000.

12. Share-based payments

The Company adopted an employee stock incentive plan on March 31, 2000. The Company is permitted to issue options to a limit of 20% of the issued and outstanding common shares. At year end, 20% of the issued and outstanding common shares totals 859,484 common shares under the stock plan. The Board of Directors is authorized to grant from time-to-time options to purchase common shares and to determine the beneficiary of these grants among the Company's directors, officers, employees, executives and service providers on a continuous basis, as well as determine the number of common shares affected by each option, the vesting date, the exercise price and the expiration date for each option and any other related matter. 450,000 options are outstanding as at August 31, 2020 (None for 2019).

Date	Transaction	Number of options	Weighted Average Exercise Price	Remaining Contractual term in years	Fair Value in dollars	Volatility	Risk-free rate	Vesting Term
Balance August 1, 2019		-	-	-				
August 5, 2020	Grant	450,000	\$0.10	5	\$14,400	100%	0.25%	5 years
Balance August 31, 2020		450,000	\$0.10	5				

The weighted average price at time of grant of stock options was \$0.05 per share.

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
450,000	450,000	\$0.10	August 5, 2025

AVALON WORKS CORP.
Notes to financial statements
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(in Canadian dollars)

13. Related party disclosures

Company's key management personnel are member of the board of directors. The transactions were provided on terms equivalent to those that prevail in arm's length transaction.

	2020	2019
	\$	\$
Key management transactions:		
Consulting fees	15 000	-
Share-based payment (450,000 options)	14,400	-
Amount due to related parties:		
Accounts payable to a company related to the director of the Company (see note 17)	161,900	146,900

On November 2018, the Company contracted a loan of \$25,000 from a related party as the lender is a company owned by a director of the Company. During the year ended August 31, 2019, the loan was repaid in exchange of shares.

On August 5, 2020, the Company granted 450,000 options to directors.

14. Financial instruments

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) *Fair value measurements*

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at August 31, 2020, the Company believes that the carrying values of cash and cash equivalents, other receivable, and accounts payables and accrued liabilities approximate its fair value because of their nature and relatively short maturity dates or durations.

(b) *Credit risk*

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is limited to its cash and accounts receivable. The Company limits its exposure to credit risk by holding its cash with high credit quality Canadian financial institutions and other receivables are credit notes from a supplier in 2019.

14. Financial instruments (continued)

(c) Liquidity risk

The Company attempts to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at August 31, 2020, the Company had a cash balance of \$247 to settle current liabilities of \$217,854. Accounts payable and accrued liabilities are due within less than 90 days. The Company is exposed to significant liquidity risk.

15. Capital management disclosures

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued share capital and deficit. The Company's objectives when managing capital are to: (i) preserve capital; (ii) obtain the best available net return; and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. There were no changes to the Company's approach to capital management during the years ended August 31, 2020 and 2019.

The Company is not subject to externally imposed capital requirements.

16. Contingencies

The Company does not have a directors and officers insurance policy to reduce the various risks inherent to the Company's activities.

17. Events after the reporting year

On September 1, 2020, the Company issued 4,087,750 shares in payment of invoices in the amount of \$ 204,387.50 including an amount due to a related party of \$146,900 (see note 13)

In November 2020, the Company completed a private placement by convertible debenture in the amount of \$70,000 bearing interest at 10% with a maturity date of August 3.1, 2021.

On November 17, 2020, the Company has entered into an agreement to acquire Elmtree Gold project in Northeast N.B., \$150,000 bridge financing and minimum \$2,500,000 concurrent financing for the acquisition of two mineral exploration properties.

The Acquisition is anticipated to be completed by an amalgamation (the "Amalgamation") of a wholly owned subsidiary of Avalon ("Sub1"), which will acquire the Property, with another wholly-owned subsidiary of Avalon ("Sub2"), which will issue securities pursuant to Bridge Financing and Concurrent Financing (as defined below). In consideration for the Amalgamation, the security holders (other than Avalon) of Sub1 and Sub2 will exchange their securities for like securities of Avalon on a 1-for-1 basis, post-Consolidation (as defined below), upon closing (the "Closing") of the Acquisition.

17. Events after the reporting year (continued)

The Property Acquisition, Bridge Financing, Finder's Fees, and Concurrent Financing (the "Transactions") will be subject to approval of the TSXV in connection with the Company's application for listing on the TSXV. The securities of the Company issued at Closing in connection with the Bridge Financing, Finder's Fees, and Concurrent Financing will not be subject to resale restrictions, in accordance with applicable securities laws, subject to the policies of the TSXV. Upon completion of the Property Acquisition, it is intended that the post-Consolidation common shares of the Company will be listed and posted for trading on the TSXV as a Tier 2 listed mining exploration issuer. The Transactions are expected to result in a "reverse takeover" of Avalon under the policies of the TSXV.

The Consolidation was previously approved by the shareholders of the Company at a shareholders meeting held on December 23, 2019, which is subject to approval of the board of directors of the Company and TSXV approval. To address requirements of TSXV policies, the Company intends to obtain approval for creation of a new control person by way of written approval of shareholders holding over 50% of the issued and outstanding common shares in the capital of the Company.

In regards to the Transactions, the Company specifically confirms that it will not be seeking shareholder approval under the policies of the TSXV for the Transactions as a reverse takeover because such approval is not required under the policies of the TSXV where: (i) the Transaction does not consist of "Related Party Transactions"; (ii) the Company is without active operations as it is not listed on any stock exchange; (iii) the Company is not and will not be subject to a cease trade order and will not otherwise be suspended from trading upon completion of the Transaction; and (iv) shareholder approval of the Transaction is not required under applicable corporate or securities laws.

The net proceeds of the Bridge Financing will be used to pay Transaction-related expenses of the Company. The net proceeds of the Concurrent Financing will be used to fund exploration of the Elmtree Gold Project, and for working capital and general corporate purposes, as will be more specifically described in the Transaction disclosure document of the Company that will be used to describe the Transactions and the Elmtree Gold Project in greater detail, which will be publicly filed on SEDAR at www.sedar.com.

The Company intends to apply to the TSXV for an exemption from the sponsorship requirements under the policies of the TSXV as a domestic issuer with suitable management, the Initial Technical Report, size of the Concurrent Financing, and a comprehensive disclosure document in respect of the Transactions and will file the required filings in respect thereof.

Under the Letter Agreement, the parties have agreed to issue the Purchase Shares to the Vendors in consideration for the Elmtree Gold Project and geological technical information in connection therewith pursuant to the provisions of Section 85 of the Income Tax Act (Canada) and the Company will complete and necessary documentation and file any forms or elections in connection therewith.

The Letter Agreement will terminate, other than with respect to confidentiality and costs and expenses of the Transactions, upon the earliest day on which one of the following events occurs: (i) written agreement of the parties; (ii) the Closing not having occurred by the outside date of Closing of 5:00 p.m. (Vancouver time) on February 28, 2021 or such later date as the parties may agree upon in writing; or (ii) if any applicable regulatory authority has notified the Company in writing that it will not permit the Property Acquisition to proceed.

The parties have agreed to issue a comprehensive disclosure document and related news releases more fully detailing the Transactions and other pertinent information as required pursuant to the policies of the TSXV as soon as practicably possible, which shall likewise be publicly disseminated and filed under the Company's profile on SEDAR.

17. Events after the reporting year (continued)

As a separate matter from the Transaction, the Company has also entered into an agreement (the "Termination Agreement") with Leede Jones Gable Inc. ("Leede") dated November 12, 2020 for the termination of an agency agreement in consideration for issuance to Leede of 100,000 common share purchase warrants (the "Termination Warrants"), each of which will be exercisable at a price of \$0.50 per common share for a period of 24 months from the date of the Termination Agreement. The Termination Warrants and common shares issuable upon exercise thereof will be subject to a 4-month period resale restriction in accordance with the policies of the TSXV and applicable securities laws.