AVALON WORKS CORP.

Interim Financial Statements
(unaudited)
For the period of three months ended November 2020 and 2019
(in Canadian dollars)

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MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

The accompanying unaudited interim financial statements ("financial statements") of Avalon Works Corp. have been prepared by and are the responsibility of management and Board of Directors for all financial statement information and reporting are the responsibility of the management and Board of Directors. The financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the financial statement notes. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are compliant with *IAS 34 - Interim Financial Reporting* as issued by the International Accounting Standards Board.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Regards,
Avalon Works Corp.

Michael Clemann
Chief Executive Officer

Ottawa, ON
January 8, 2021

AVALON WORKS CORP.
Interim Statements of financial position
(Unaudited – Prepared by management)
(in Canadian dollars)

	Notes	November 30, 2020	August 31, 2020
		$	$
Assets			
Current			
Cash		29,364	247
Other receivables		-	-
Total assets		29,364	247
Liabilities			
Current			
Accounts payable and accrued liabilities		418	232,854
Convertible debentures	7	44,532	-
Total liabilities		44,950	232,854
Shareholders' equity			
Share capital	10	410,388	206,000
Contributed Surplus		14,400	14,400
Conversion option, Convertible debentures		31,413	-
Deficit		(471,787)	(453,007)
Total shareholders' equity		(15,586)	(232,607)
Total liabilities and shareholders' equity		29,364	247

Approved and authorized by the Board of Directors on January 8, 2021

/s/ Michael Clemann
Director and CEO/CFO

The accompanying notes are an integral part of the interim financial statements.

AVALON WORKS CORP.
Interim Statements of loss and comprehensive loss
For the three months ended November 30,
(Unaudited – Prepared by Manageent)
(in Canadian dollars)

	Notes	2020	2019
		$	$
Expenses			
Professional fees		8,674	8,750
Consulting fees		7,600	-
Trustee and registration fees		1,368	1,187
Debenture interest		945	-
Bank charges		193	30
		18,780	9,967
Net loss and comprehensive loss for the period		(18,780)	(9,967)
Basic and diluted loss per share	8	0.002	0.002
Weighted average number of common shares outstanding		8,385,172	4,297,422

The accompanying notes are an integral part of the interim financial statements.

AVALON WORKS CORP.
Interim Statements of changes in shareholders' equity
For the three months ended November 30, 2020 and 2019
(Unaudited – Prepared by Management
(in Canadian dollars)

	Notes	Common Share	Amount	Contributed Surplus	Conversion option Convertible debentures	Deficit	Equity
			$	$	$	$	$
Balance, September 1, 2019 (*)		4,297,422	206,000	-	-	(369,954)	(163,954)
New shares issued		-	-	-	-	-	-
Net loss for the period		-	-	-	-	(9,967)	(9,967)
Balance, November 30, 2019 (*)		4,297,422	206,000	-	-	(379,921)	(173,921)
Balance, September 1, 2020		4,297,422	206,000	14,400	-	(453,007)	(232,607)
Shares issued pursant to conversion of payables		4,087,750	204,388	-	-	-	204,388
Conversion option Convertible debenture		-	-	-	31,413	-	31,413
Net loss for the period		-	-	-	-	(18,780)	(18,780)
Balance, November 30, 2020		8,385,172	410,388	14,400	31,413	(471,787)	(15,586)

(*) After consolidation of shares 100:1

The accompanying notes are an integral part of the interim financial statements.

AVALON WORKS CORP.

Interim Statements of cash flows
For the three months ended November 30, 2020 and 2019
(Unaudited – Prepared by management)
(in Canadian dollars)

	Notes	2020	2019
		$	$
Operating activities			
Net loss and comprehensive loss for the year		(18,780)	(9,967)
Net changes in non-cash working capital items			
Other receivables		-	7,025
Accounts payable and accrued liabilities		(27,103)	(2,460)
Net operating cash flows		(45,883)	(5,402)
Financing activities			
Proceeds from convertible debentures issued	7	75,000	-
Net financing cash flows		75,000	-
Net change in cash		29,117	(5,402)
Cash, beginning of year		247	35,622
Cash, end of period		29,364	30,220

The accompanying notes are an integral part of the interim 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 interim financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

These interim financial statements of the Company were approved and authorized for issue by the Board of Directors on January 8, 2021.

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

3. Going concern assumption

These interim 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 November 30, 2020, the Company has a working capital deficiency of $15,586 and a deficit of $471,787 (working capital deficiency of $232,607 and a deficit of $453,007 as at August 31, 2020).

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.

<u>Financial assets measured at amortized cost</u>
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

<u>Financial liabilities measured at amortized cost</u>
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.

<u>IFRS 3 – Business Combinations</u>
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.

<u>IAS 1 - Presentation of Financial Statements</u>
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.

<u>IFRS 9 Financial Instruments</u>
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. Convertible Debentures

In November 2020, the Company completed a private placement by convertible debenture in the amount of $75,000 bearing interest at 10% with a maturity date of August 31, 2021.

(in Canadian dollars)

8. 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	(18,780)	(9,967)
Weighted average number of common shares - basic and diluted	8,385,172	4,297,422
Loss per share – basic and diluted	0.002	0.002

9. Share capital

(a) Authorized

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

As at November 30, 2020, no dividends were declared or unpaid.

(b) Issued and outstanding

8,385,172 common shares as at November 30, 2020 (4,297,422 as at August 31, 2019).

During the period ended November 30, 2020, the following share transactions occurred:

i) 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.

(in Canadian dollars)

9. Share capital (continued)

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

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

10. 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 November 30, 2020.

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 November 30, 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

11. 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	7,600	-
Amount due to related parties:		
Accounts payable to a company related to the director of the Company	-	146,900

12. 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 date.

As at November 30, 2020, the Company believes that the carrying values of cash, 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 2020.

12. 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 November 30, 2020, the Company had a cash balance of $29,364 to settle current liabilities of $44,950. Accounts payable and accrued liabilities are due within less than 90 days. The Company is exposed to significant liquidity risk.

13. 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 periods ended November 30, 2020 and 2019.
The Company is not subject to externally imposed capital requirements.

14. Contingencies

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

15. Events after the reporting year

none