

# **FOUNDERS METALS INC.**

*(formerly Avalon Works Corp.)*

Consolidated Interim Financial Statements

For the three and nine months ended May 31, 2021 and 2020

Expressed in Canadian Dollars

(Unaudited)

To the shareholders of Founders Metals Inc:

The consolidated interim financial statements of Founders Metals Inc. (the “Company”) for the three and nine months ended May 31, 2021 and 2020 have been compiled by management.

No audit or review of this information has been performed by the Company’s auditors.

FOUNDERS METALS INC.

Consolidated Interim Statements of Financial Position

(unaudited)

Expressed in Canadian Dollars

As at	May 31 2021	August 31 2020
<b>ASSETS</b>		
Current		
Cash	\$ 3,880,385	\$ 247
Good and services tax receivable	48,385	-
	<b>3,928,770</b>	247
Exploration and evaluation properties (note 4)	7,695,666	-
	<b>\$ 11,624,436</b>	247
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 88,640	\$ 232,854
<b>EQUITY</b>		
Share capital (note 5)	12,110,411	206,000
Option and warrant reserve	552,286	14,400
Deficit	(1,126,901)	(453,007)
	<b>11,535,796</b>	(232,607)
	<b>\$ 11,624,436</b>	247

Approved by the Board of Directors on July 29, 2021

Director (signed by) "Nicholas Stajduhar"

Director (signed by) "John Williamson"

*The accompanying notes form an integral part of these financial statements*

FOUNDERS METALS INC.

Consolidated Interim Statements of Loss and Comprehensive Loss

(unaudited)

Expressed in Canadian Dollars

For the	three months ended May 31		nine months ended May 31	
	2021	2020	2021	2020
<b>Expenses</b>				
Advertising and promotion	54,651	16	55,679	236
Management fees	51,000	-	67,600	-
Office and administration	8,580	57	9,407	227
Professional fees	28,903	136	73,603	21,957
Regulatory and filing fees	24,045	7,430	37,552	17,551
Stock based compensation	434,750	-	434,750	-
	(601,929)	(7,639)	(678,591)	(39,971)
<b>Other income</b>				
Interest income	4,697	-	4,697	-
<b>Comprehensive loss for the period</b>	<b>\$ (597,232)</b>	<b>\$ (7,639)</b>	<b>\$ (673,894)</b>	<b>\$ (39,971)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.02)</b>	<b>\$ (0.00)</b>	<b>\$ (0.07)</b>	<b>\$ (0.00)</b>
Basic and diluted weighted average number of common shares outstanding	26,217,000	870,593	10,238,229	870,593

The accompanying notes form an integral part of these financial statements

FOUNDERS METALS INC.

Consolidated Interim Statements of Changes in Equity

(unaudited)

Expressed in Canadian Dollars

	Share capital	Option and warrant reserve	Deficit	Total equity
<b>Balance at August 31, 2019</b>	<b>\$ 206,000</b>	<b>\$ -</b>	<b>\$ (369,954)</b>	<b>\$ (163,954)</b>
Net loss	-	-	(39,971)	(39,971)
<b>Balance at May 31, 2020</b>	<b>\$ 206,000</b>	<b>\$ -</b>	<b>\$ (409,925)</b>	<b>\$ (203,925)</b>
Share based compensation	-	14,400	-	14,400
Net loss	-	-	(43,082)	(43,082)
<b>Balance at August 31, 2020</b>	<b>\$ 206,000</b>	<b>\$ 14,400</b>	<b>\$ (453,007)</b>	<b>\$ (232,607)</b>
Shares issued for cash	5,190,500	-	-	5,190,500
Shares issued for property	7,100,000	-	-	7,100,000
Shares issued for debt settlement	229,388	-	-	229,388
Options issued	-	434,750	-	434,750
Warrants issued	-	103,136	-	103,136
Share issuance costs	(512,341)	-	-	(512,341)
Share issuance costs – non-cash	(103,136)	-	-	(103,136)
Net loss	-	-	(673,894)	(674,394)
<b>Balance at May 31, 2021</b>	<b>\$12,110,411</b>	<b>\$ 552,286</b>	<b>\$ (1,126,901)</b>	<b>\$11,535,796</b>

The accompanying notes form an integral part of these financial statements

FOUNDERS METALS INC.  
Consolidated Interim Statements of Cash Flows  
Expressed in Canadian Dollars

(unaudited)

For the nine months ended	May 31 2021	May 31 2020
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (673,894)	\$ (39,971)
Items not affecting cash:		
Share based compensation	434,750	-
Changes in non-cash working capital:		
Goods and services tax receivable	(48,385)	-
Prepayments and receivables	-	4,364
Accounts payable and accrued liabilities	85,174	329
Cash used in operating activities	<u>(202,355)</u>	<u>(35,278)</u>
<b>Investing activities</b>		
Exploration and evaluation property acquisition payments (note 4)	(532,025)	-
Exploration and evaluation property exploration expenditures (note 4)	(63,641)	-
Cash used in investing activities	<u>(595,666)</u>	<u>-</u>
<b>Financing activities</b>		
Proceeds from private placements (note 5)	5,190,500	-
Cash share issuance costs	(512,341)	-
Cash provided by financing activities	<u>4,678,159</u>	<u>-</u>
<b>Net increase (decrease) in cash</b>	<b>3,880,138</b>	<b>(35,278)</b>
Cash, beginning of period	<u>247</u>	<u>35,622</u>
<b>Cash, end of period</b>	<b>\$ 3,880,385</b>	<b>\$ 344</b>

*The accompanying notes form an integral part of these financial statements*

## FOUNDERS METALS INC.

Notes to the Consolidated Interim Financial Statements

For the three and nine months ended May 31, 2021 and 2020

(unaudited)

Expressed in Canadian Dollars

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### 1. Nature of operations

Avalon Works Corp. ("Avalon" or 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 ("TSXV"). The Company obtained its certificate of revival on November 9, 2018 and the revocation of cease trade orders on September 24, 2019.

On February 26, 2021, the Company completed a reverse take-over pursuant to the policies of the TSXV to acquire an aggregate 100% interest in the Elmtree Gold Project in northeast New Brunswick (note 4). Effective March 25, 2021, Avalon Works Corp changed its name to Founders Metals Inc. and now trades under the symbol "FDR" on the TSXV.

The address of the Company's corporate office and principal place of business is 250 Southridge NW, Suite 300, Edmonton, AB, T6H 4M9. The Company's principal business is to explore and develop the gold and mineral exploration Elmtree Gold Project located in New Brunswick.

### 2. Basis of presentation

These consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issue by the Board of Directors of the Company on July 29, 2021.

These financial statements are presented in Canadian Dollars, unless otherwise noted and have been prepared on a historical cost basis. The Canadian dollar is the functional and presentation currency of the Company.

### 3. Management estimates and judgments

The preparation of these consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in its consolidated interim financial statements and related notes. Those include estimates that, by their nature, are uncertain and actual results could differ materially from those estimates. The impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

The areas which require management to make significant estimates, judgments and assumptions in determining carrying values are consistent with those applied and disclosed in the Company's financial statements for the year ended August 31, 2020, unless otherwise stated.

### 4. Exploration and evaluation properties

On February 26, 2021, the Company acquired the Elmtree Gold Project, a mineral exploration property comprised of two mineral exploration properties respectively comprised of 24 and 25 contiguous mineral claims totaling 1,063,326 hectares in northeast New Brunswick. To acquire the property, the Company paid \$350,000 cash to the vendor and issued 14,000,000 common shares of the Company at a deemed price of \$0.50 per share for a total consideration of \$7,350,000. The vendor retains a 2% net smelter royalty. The Company also paid an arm's length third party a finders' fee of 200,000 common shares of the Company at a deemed price of \$0.50 per share. Transaction cost of \$283,025 are included in acquisition cost.

FOUNDERS METALS INC.

Notes to the Consolidated Interim Financial Statements

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Total costs incurred by the Company on the Elmtree Gold Project are summarized as follows:

	Acquisition	Exploration	Total
<b>Balance, August 31, 2020</b>	\$ -	\$ -	\$ -
Acquisition costs	7,632,025	63,641	7,695,666
<b>Balance, May 31, 2021</b>	<b>\$ 7,632,025</b>	<b>\$ 63,641</b>	<b>\$ 7,695,666</b>

## 5. Share capital

### a) Common shares

On February 25, 2021, the Company consolidated all its issued and outstanding common shares based on one post-consolidation common share for every 4.9362 pre-consolidation common shares. All share data and equity-based instruments have been retroactively adjusted to give effect to the consolidation.

The Company's articles authorize an unlimited number of common shares without par value and an unlimited number of preferred shares.

A summary of changes in common share capital in the period is as follows:

	Number of shares	Amount
<b>Balance at August 31, 2020</b>	<b>870,593</b>	<b>\$ 206,000</b>
Shares issued in private placements	10,216,998	5,190,500
Shares issued for debt settlement	929,409	229,388
Shares issued to acquire property (note 4)	14,200,000	7,100,000
Share issuance cost	-	(615,477)
<b>Balance at May 31, 2021</b>	<b>26,217,000</b>	<b>\$ 12,110,411</b>

On February 26, 2021, the Company completed a non-brokered bridge financing by issuing 400,000 units of the Company at a price of \$0.375 per unit for gross proceeds of \$150,000. Included in the bridge financing was the settlement of a convertible debenture in the amount of \$50,000 into 133,000 Bridge Units of the Company. Each unit consists of one common share of the Company 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 \$0.75 for a period of one year from the date of issuance.

On February 26, 2021, the Company issued 7,176,998 units of the Company at a price of \$0.50 per unit for gross proceeds of \$3,588,500. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 for a period of two years from the date of issuance.

On February 26, 2021, the Company completed a flow-through placement of 2,640,000 shares at \$0.55 per share for gross proceeds of \$1,452,000. The Company is committed to incur eligible exploration expenditures to the extent of the flow-through proceeds raised by February 26, 2022.



FOUNDERS METALS INC.

Notes to the Consolidated Interim Financial Statements

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Escrowed Common Shares

Upon closing of the transaction on February 26, 2021, 14,049,867 common shares of the Company and 24,867 common share purchase warrants will be subject to a Tier 2 Value Escrow Agreement. Under the Tier 2 Value Escrow Agreement, 10% of the escrowed common shares will be released from escrow on the issuance of the Final Exchange Bulletin (the "Initial Release") and an additional 15% will be released on the dates that are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. As of the date of these financial statements, 12,644,880 common shares and 22,380 common share purchase warrants remained in escrow.

b) Stock options

The Company's has a stock option plan (the "Plan") for directors, officers, employees, and consultants. The Plan provides for the issuance of incentive options to acquire up to a total of 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the minimum prescribed amount allowed under the TSX. The options can be granted for a maximum term of 5 years with vesting provisions determined by the Company.

A summary of stock option activity in the periods is as follows:

	Number of options	Weighted average exercise price
<b>Outstanding options, August 31, 2020</b>	<b>91,162</b>	<b>\$ 0.50</b>
Issued	1,175,000	0.50
<b>Outstanding options, May 31, 2021</b>	<b>1,266,162</b>	<b>\$ 0.50</b>

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

Exercise Price	Number of options	May 31, 2021 Remaining contractual life (years)	Exercise Price	Number of options	August 31, 2020 Remaining contractual life (years)
\$ 0.50	91,162	1.7	\$ 0.50	91,162	5.0
0.50	1,175,000	4.7	-	-	-
<b>\$ 0.50</b>	<b>1,266,162</b>	<b>4.5</b>	<b>\$ 0.50</b>	<b>91,162</b>	<b>5.0</b>

- i On March 4, 2021, the Company granted stock options to acquire up to an aggregate 1,175,000 common shares of the Company under the Plan, vesting immediately upon grant. The stock options are exercisable at a price of \$0.50 per common share and have an expiry date of March 4, 2026 or earlier in accordance with the terms of the Plan. The estimated fair value of these options of \$434,750, or \$0.37 per option, has been recorded as share-based compensation expense during the period ended May 31, 2021 and as an increase to option and warrant reserve, and was calculated using the Black-Scholes Option Pricing Model using the following grant-date assumptions: weighted average grant date stock price \$0.50; expected life, 5 years; expected volatility, 100%; risk-free rate 0.25%; expected dividends, 0%. The options were issued with an exercise price equal to the quoted market price of the Company's common shares on the date of issuance.

FOUNDERS METALS INC.

Notes to the Consolidated Interim Financial Statements

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c) Warrants

The Following is a summary of the changes in the Company's warrants during the periods:

	Number of Warrants	Weighted average exercise price
<b>Outstanding warrants, August 31, 2020</b>	-	\$ -
Issued	7,831,398	0.74
<b>Outstanding warrants, May 31, 2021</b>	<b>7,831,398</b>	<b>\$ 0.74</b>

A summary of the warrants outstanding and exercisable is as follows:

Exercise Price	Number of warrants	May 31, 2021 Remaining contractual life (years)	Exercise Price	Number of warrants	August 31, 2020 Remaining contractual life (years)
\$ 0.75	200,000	0.6	\$ -	-	-
0.75	7,176,998	1.7	-	-	-
0.50	296,000	1.7	-	-	-
0.55	158,400	1.7	-	-	-
<b>\$ 0.74</b>	<b>7,831,398</b>	<b>1.7</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>

- i During the three months ended February 28, 2021, 296,000 warrants were issued to agents pursuant to the non-brokered private placement closing on February 26, 2021 as compensation for services provided by the agents. The estimated fair value of the agents' warrants of \$65,120, or \$0.22 per agents' warrant, has been recorded as a decrease to share capital as a cost of share issuance and an increase to option and warrant reserve, and was calculated using the Black Scholes Option Pricing Model with the following grant-date assumptions: grant date stock price \$0.50; expected life, 2 years; expected volatility, 80%; risk free rate, 0.30%; expected dividends, 0%.
- ii During the three months ended February 28, 2021, 158,400 warrants were issued to agents pursuant to the non-brokered private placement closing on February 26, 2021 as compensation for services provided by the agents. The estimated fair value of the agents' warrants of \$38,016, or \$0.24 per agents' warrant, has been recorded as a decrease to share capital as a cost of share issuance and an increase to option and warrant reserve, and was calculated using the Black Scholes Option Pricing Model with the following grant-date assumptions: grant date stock price \$0.55; expected life, 2 years; expected volatility, 80%; risk free rate, 0.30%; expected dividends, 0%.

## 6. Financial instruments and risk management

### *Fair value of financial instruments*

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of hierarchy are:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents are classified as Level 1, whereas accounts receivable and prepayments, and accounts payable and accrued liabilities are classified as Level 2. As at May 31, 2021, the Company believes that the carrying values of cash, accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

### *Financial instruments risk*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counter party limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### Credit risk

Credit risk is defined as the risk of loss associated with counterparty's inability to fulfill its payment obligations. The maximum exposure to credit risk is the carrying amount of the Company's financial assets.

#### Liquidity risk

Liquidity risk is defined as the risk that the Company will not be able to settle its obligations as they come due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds available to meet its short-term business requirements by taking into account the anticipated cash expenditures for its exploration and other operating activities, and its holding of cash and cash equivalents. The Company will pursue further equity or debt financing as required to meet its commitments. There is no assurance that such financing will be available or that it will be available on favourable terms.

As at May 31 2021, the Company's financial liabilities consist of its accounts payable and accrued liabilities, which are all current obligations.

#### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign exchange risk is minimal.

FOUNDERS METALS INC.

Notes to the Consolidated Interim Financial Statements

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(unaudited)

Expressed in Canadian Dollars

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	May 31 2021	August 31 2020
Financial asset at amortized cost		
Cash	\$ 3,880,385	\$ 247
	<u>\$ 3,880,385</u>	<u>\$ 247</u>

Financial liabilities included in the statement of financial position are as follows:

	May 31 2021	August 31 2020
Non-derivative financial liabilities		
Accounts payable and accrued liabilities	\$ 88,640	\$ 232,854
	<u>\$ 88,640</u>	<u>\$ 232,854</u>

Capital management

The Company monitors its equity as capital.

The Company's objectives in managing its capital are to maintain a sufficient capital base to support its operations and to meet its short-term obligations and at the same time preserve investor's confidence and retain the ability to seek out and acquire new projects of merit. The Company is not exposed to any externally imposed capital requirements.

**7. Related party transactions**

Unless otherwise noted, related party transactions were incurred in the normal course of operations and are measured at the amount established and agreed upon by the related parties. The Company incurred and paid fees to directors and officers for management and professional services as follows:

For the nine months ended	May 31 2021	May 31 2020
Management fees paid to key management and directors	\$ 51,000	\$ -
Management fees paid to former management and directors	<u>16,600</u>	<u>-</u>
	<u>\$ 67,600</u>	<u>\$ -</u>

As at May 31, 2021, there were no amounts payable to related parties. At the comparative period, May 31, 2020, accounts payable and accrued liabilities included \$146,900 due to companies controlled by former key management and directors of the Company, which were subsequently paid.