

# **FOUNDERS METALS INC.**

*(formerly Avalon Works Corp.)*

Consolidated Interim Financial Statements

For the three and six months ended February 28, 2022 and 2021

Expressed in Canadian Dollars

To the shareholders of Founders Metals Inc:

The consolidated interim financial statements of Founders Metals Inc. (the “Company”) for the three and six months ended February 28, 2022 and 2021 have been compiled by management.

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

FOUNDERS METALS INC. (formerly Avalon Works Corp.)

Consolidated Interim Statements of Financial Position

Expressed in Canadian Dollars

(unaudited)

As at	February 28 2022	August 31 2021
<b>ASSETS</b>		
Current		
Cash	\$ 1,506,029	\$ 3,292,639
Good and services tax receivable	264,664	85,455
Prepays and deposits	5,617	64,042
	<b>1,776,310</b>	3,442,136
Equipment (note 4)	45,402	53,414
Exploration and evaluation properties (note 5)	8,503,754	7,205,823
	<b>\$ 10,325,466</b>	\$ 10,701,373
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 122,594	\$ 182,380
Deferred flow-through liability	-	184,800
	<b>122,594</b>	367,180
<b>EQUITY</b>		
Share capital (note 6)	11,090,972	11,090,972
Option and warrant reserve	629,886	597,486
Deficit	(1,517,986)	(1,354,265)
	<b>10,202,872</b>	10,334,193
	<b>\$ 10,325,466</b>	\$ 10,701,373

Approved by the Board of Directors on April 29, 2022

Director (signed by) "Nicholas Stajduhar"

Director (signed by) "John Williamson"

The accompanying notes form an integral part of these consolidated interim financial statements.

FOUNDERS METALS INC. *(formerly Avalon Works Corp.)*

Consolidated Interim Statements of Loss and Comprehensive Loss

Expressed in Canadian Dollars

*(unaudited)*

For the	three months ended February 28		six months ended February 28	
	2022	2021	2022	2021
<b>Expenses</b>				
Advertising and promotion	48,241	1,028	97,624	1,028
General and administration	15,847	(311)	36,613	827
Management fees	51,000	9,000	102,000	16,600
Professional fees	35,934	36,026	59,265	44,699
Project evaluation	6,616	-	6,616	-
Regulatory and filing fees	19,620	12,139	21,070	13,507
	(177,258)	(57,882)	(323,188)	(76,661)
<b>Other income</b>				
Interest income	2,899	-	7,067	-
Settlement of flow-through liability	50,160	-	184,800	-
Share based compensation	(32,400)	-	(32,400)	-
<b>Comprehensive loss for the period</b>	<b>\$ (156,599)</b>	<b>\$ (57,882)</b>	<b>\$ (163,721)</b>	<b>\$ (76,661)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
Basic and diluted weighted average number of common shares outstanding	26,217,000	9,203,532	26,217,000	8,789,805

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

FOUNDERS METALS INC. *(formerly Avalon Works Corp.)*

Consolidated Interim Statements of Changes in Equity

Expressed in Canadian Dollars

*(unaudited)*

	Share capital	Option and warrant reserve	Deficit	Total equity
<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	6,390,000	-	-	6,390,000
Shares issued for debt settlement	229,388	-	-	229,388
Share issuance costs	(392,841)	-	-	(392,841)
Share issuance costs – non-cash	(103,136)	-	-	(103,136)
Warrants issued	-	103,136	-	103,136
Net loss	-	-	(76,661)	(76,661)
<b>Balance at February 28, 2021</b>	<b>\$11,519,911</b>	<b>\$ 117,536</b>	<b>\$ (529,668)</b>	<b>\$11,107,779</b>
Options issued	-	434,750	-	434,750
Warrants issued	-	45,200	-	45,200
Share issuance costs	(119,739)	-	-	(119,739)
Share issuance costs – non-cash	(45,200)	-	-	(45,200)
Flow-through liability	(264,000)	-	-	(264,000)
Net loss	-	-	(824,597)	(824,597)
<b>Balance at August 31, 2021</b>	<b>\$11,090,972</b>	<b>\$ 597,486</b>	<b>\$(1,354,265)</b>	<b>\$10,334,193</b>
Options issued	-	32,400	-	32,400
Net loss	-	-	(163,721)	(163,721)
<b>Balance at February 28, 2022</b>	<b>\$11,090,972</b>	<b>\$ 629,886</b>	<b>\$(1,517,986)</b>	<b>\$10,202,872</b>

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

FOUNDERS METALS INC. *(formerly Avalon Works Corp.)*

Consolidated Interim Statements of Cash Flows

Expressed in Canadian Dollars

*(unaudited)*

For the six months ended	February 28 2022	February 28 2021
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (163,721)	\$ (76,661)
Items not affecting cash:		
Settlement of flow-through liability	(184,800)	-
Share based compensation	32,400	-
	<u>(316,121)</u>	<u>(76,661)</u>
Changes in non-cash working capital:		
Goods and services tax receivable	(179,210)	(29,761)
Prepayments and receivables	58,425	-
Accounts payable and accrued liabilities	(144,579)	(184,093)
Cash used in operating activities	<u>(581,485)</u>	<u>(290,515)</u>
<b>Investing activities</b>		
Exploration and evaluation property acquisition expenditures (note 5)	-	(532,025)
Exploration and evaluation property exploration expenditures (note 5)	(1,205,125)	-
Cash used in investing activities	<u>(1,205,125)</u>	<u>(532,025)</u>
<b>Financing activities</b>		
Proceeds from private placements (note 6)	-	5,419,888
Cash share issuance costs	-	(392,841)
Cash provided by financing activities	<u>-</u>	<u>5,027,047</u>
<b>Net increase (decrease) in cash</b>	<b>(1,786,610)</b>	<b>4,204,507</b>
Cash, beginning of period	<u>3,292,639</u>	<u>247</u>
<b>Cash, end of period</b>	<b>\$ 1,506,029</b>	<b>\$ 4,204,754</b>

As at February 28, 2022, \$84,794 (2021 – \$nil) of exploration and evaluation property expenditures are included in accounts payable and accrued liabilities.

During the period ended February 28, 2022, the Company capitalized amortization of \$8,012 (2021 –\$nil) as exploration and evaluation expenditures.

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

**1. Nature of operations**

Founders Metals Inc. ("Founders" or the "Company"), formerly Avalon Works Corp. ("Avalon"), 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 acquired an aggregate 100% interest in the Elmtree Gold Project in northeast New Brunswick (note 5). Effective March 25, 2021, Avalon 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 registered office is Suite 780 - 1111 West Hastings Street, Vancouver, BC V6E 2J3. 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 of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were authorized for issue by the Board of Directors of the Company on April 29, 2022.

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, 2021, unless otherwise stated.

**4. Equipment**

During the year ended August 31, 2021, the Company purchased a vehicle for \$62,840 (2020 - \$nil) and recorded amortization of \$9,426 (2020 - \$nil). During the six months ended February 28, 2022, the Company recorded amortization of \$8,012 (2021 - \$nil) which was capitalized to exploration and evaluation properties.

## 5. 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 with an estimated fair value of \$0.45 per share for a total consideration of \$6,650,000. 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 with an estimated fair value of \$0.45 per share. Transaction costs of \$27,103 are included in acquisition cost. On completion of this transaction, the four vendors of the property became the directors of the Company.

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

	Acquisition	Exploration	Total
<b>Balance, August 31, 2021</b>	<b>\$ 6,767,103</b>	<b>\$ 438,720</b>	<b>\$ 7,205,823</b>
Drilling	-	567,020	567,020
Amortization	-	8,012	8,012
Community relations	-	14,677	14,677
Assays and analysis	-	248,043	248,043
Fieldwork supplies	-	26,785	26,785
Fieldwork	-	43,591	43,591
General and administrative	-	34,506	34,506
Geological consulting	-	235,453	235,453
Permits	-	657	657
Rentals	-	26,507	26,507
Travel and support	-	92,680	92,680
<b>Balance, February 28, 2022</b>	<b>\$ 6,767,103</b>	<b>\$ 1,736,651</b>	<b>\$ 8,503,754</b>

## 6. 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, August 31, 2021 and February 28, 2022</b>	<b>26,217,000</b>	<b>\$ 11,090,972</b>



#### Flow-through shares

As at February 28, 2022, the Company has incurred all of eligible exploration expenditures relating to flow-through shares. As a result, the amount of \$184,800 in connection with the settlement of the flow-through liability was recognized in other income.

#### Escrowed common shares

Upon closing of the transaction on February 26, 2021, 14,049,867 common shares of the Company are 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, 10,537,400 common shares 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, 2021</b>	<b>1,266,162</b>	<b>\$ 0.50</b>
Issued	162,000	0.75
<b>Outstanding options, February 28, 2022</b>	<b>1,428,162</b>	<b>\$ 0.53</b>

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

February 28, 2022			August 31, 2021		
Exercise Price	Number of options	Remaining contractual life (years)	Exercise Price	Number of options	Remaining contractual life (years)
\$ 0.50	91,162	1.2	\$ 0.50	91,162	1.5
0.50	1,175,000	4.3	0.50	1,175,000	4.5
0.75	162,000	4.8	-	-	-
<b>\$ 0.53</b>	<b>1,428,162</b>	<b>3.9</b>	<b>\$ 0.50</b>	<b>91,162</b>	<b>4.3</b>

i

- i On December 1, 2021, the Company granted stock options to acquire up to an aggregate 162,000 common shares of the Company under the Plan, vesting immediately upon grant. The stock options are exercisable at a price of \$0.75 per common share and have an expiry date of December 1, 2026 or earlier in accordance with the terms of the Plan. The estimated fair value of these options of \$32,400, or \$0.20 per option, has been recorded as share-based compensation expense during the year ended February 28, 2022 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 \$0.33; expected life, 5 years; expected volatility, 100%; risk-free rate 1.35%; 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.

c) Warrants

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

	Number of options	Weighted average exercise price
<b>Outstanding warrants, August 31, 2021</b>	<b>8,041,398</b>	<b>\$ 0.73</b>
Expired	(200,000)	0.75
<b>Outstanding warrants, February 28, 2022</b>	<b>7,841,398</b>	<b>\$ 0.73</b>

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

February 28, 2022			August 31, 2021		
Exercise Price	Number of warrants	Remaining contractual life (years)	Exercise Price	Number of warrants	Remaining contractual life (years)
\$ 0.50	100,000	0.7	\$ 0.50	100,000	1.2
-	-	-	0.75	200,000	0.4
0.75	7,176,998	1.0	0.75	7,176,998	1.5
0.50	406,000	1.0	0.50	406,000	1.5
0.55	158,400	1.0	0.55	158,400	1.5
<b>\$ 0.73</b>	<b>7,841,398</b>	<b>1.0</b>	<b>\$ 0.73</b>	<b>8,041,398</b>	<b>1.5</b>

7. 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 February 28, 2022, 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 February 28 2022, 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.

#### Classification of financial instruments

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

	<b>February 28 2022</b>	<b>August 31 2021</b>
Financial assets at amortized cost		
Cash	\$ 1,506,029	\$ 3,292,639
Goods and services tax receivable	264,664	85,455
	<b>\$ 1,770,693</b>	<b>\$ 3,378,094</b>

FOUNDERS METALS INC. *(formerly Avalon Works Corp.)*  
Notes to the Consolidated Interim Financial Statements  
For the three and six months ended February 28, 2022 and 2021  
Expressed in Canadian Dollars

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

	<b>February 28 2022</b>	<b>August 31 2021</b>
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	\$ 122,594	\$ 182,380
	<u>\$ 122,594</u>	<u>\$ 182,380</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.

**8. 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:

<b>For the six months ended</b>	<b>February 28 2022</b>	<b>February 28 2021</b>
Management fees paid to key management and directors	\$ 102,000	\$ 9,000
Management fees paid to companies controlled by directors, officers - capitalized to exploration and evaluation assets	24,000	-
Investor relations fees paid to a director	60,000	-
	<u>\$ 186,000</u>	<u>\$ 9,000</u>