

Avalon Works Corp.
Consolidated Balance Sheets As at May 31 (unaudited)

	2001	2000
Assets		
Current assets		
Cash and cash equivalents	\$1,001,382	\$522,099
Accounts receivable	1,077,033	318,365
Unbilled and other receivables	57,774	348,653
Due from shareholders	305,697	233,432
Prepaid expenses	2,182	4,364
	<u>2,444,068</u>	<u>1,426,913</u>
Note receivable	75,000	-
Capital assets	416,385	144,056
Future income taxes	24,864	-
Goodwill	38,904	-
	<u>\$ 2,999,220</u>	<u>\$ 1,570,969</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 828,059	\$ 532,488
Income taxes payable	297,000	239,596
	<u>1,125,059</u>	<u>772,083</u>
Loans payable	9,064	-
	<u>1,134,123</u>	<u>772,083</u>
Shareholders' equity		
Capital stock	684,664	73,369
Retained earnings	1,180,433	725,517
	<u>1,865,097</u>	<u>798,886</u>
	<u>2,999,220</u>	<u>1,570,969</u>

Avalon Works Corp.
Consolidated Statements of Income and Retained Earnings
For the three months ended May 31 (unaudited)

	2001	2000
Revenue	\$ 1,473,242	\$ 985,999
Expenses		
Amortization	15,148	6,000
Salaries and benefits	398,801	116,577
Subcontractor expenses	622,166	659,299
Other expenses	136,615	91,711
	<u>1,172,730</u>	<u>873,587</u>
Income before provision for income taxes	<u>300,512</u>	<u>112,413</u>
Provision for income taxes	90,000	45,000
Net income for the period	<u>210,512</u>	<u>67,413</u>
Retained earnings, beginning of period	\$ 969,921	\$ 658,104
Retained earnings (deficit) at end of period	<u>\$ 1,180,433</u>	<u>\$ 725,517</u>
Earnings per share		
Basic	0.013	0.07
Fully diluted	0.012	0.07
Weighted average of shares		
Basic	16,400,000	1,000,000
Fully diluted	16,890,000	1,000,000

Avalon Works Corp.
Consolidated Statements of Cash Flows
For the nine months ended May 31 (unaudited)

	2001	2000
Cash flows from (used in)		
Operating activities		
Net income	\$ 412,874	\$ 181,448
Amortization	43,801	18,000
Net changes in operating components of working capital (net of assets in companies acquired during the period)	<u>96,720</u>	<u>73,699</u>
	<u>553,395</u>	<u>273,147</u>
Investing activities		
Purchase of capital assets	(273,126)	(146,606)
Goodwill	(38,904)	-
Purchase of Crosshands Group Inc., net of cash acquired	(48,873)	31,107
Purchase of eHaven Inc., net of Cash acquired		(63,824)
	<u>(360,903)</u>	<u>(179,323)</u>
Financing activities		
Issuance of capital stock	539,295	73,269
Advances to shareholders	(9,065)	-
	<u>530,230</u>	<u>73,269</u>
Increase in cash and cash equivalents	<u>722,722</u>	<u>167,093</u>
Cash and cash equivalents - beginning of period	278,660	355,006
Cash and cash equivalents -end of period	<u>1,001,382</u>	<u>522,099</u>

Jirka Danek
Director

Vitold Jordan
CEO

	2001	2000
Revenue	\$ 3,738,853	\$ 2,914,184
Expenses		
Amortization	43,801	18,000
Salaries and benefits	918,454	230,173
Subcontractor expenses	1,873,420	2,088,303
Other expenses	306,731	254,260
	<u>3,142,406</u>	<u>2,590,736</u>
Income before provision for income taxes	<u>596,447</u>	<u>323,448</u>
Provision for income taxes	183,573	142,000
Net income for the period	<u>412,874</u>	<u>181,448</u>
Retained earnings, beginning of period	\$ 767,559	\$ 544,069
Retained earnings (deficit) at end of period	<u>\$1,180,433</u>	<u>\$ 725,517</u>
Earnings per share		
Basic	0.025	0.18
Fully diluted	0.024	0.18
Weighted average of shares		
Basic	16,400,000	1,000,000
Fully diluted	16,890,000	1,000,000



Stock Exchange Listing
 Canadian Venture Exchange
 Inc.
 Trading Symbol: AWB
 Listed: Jan 29, 2001

Auditors
 PricewaterhouseCoopers
 99 Bank St
 Suite 800
 Ottawa, ON
 K1P 1E4

Solicitors
 Burnet, Duckworth and Palmer
 LLP
 350-7th Avenue S.W.
 Suite 1400
 Calgary AB
 T2P 3N9

Registrar and Transfer Agent
 CIBC Mellon Trust Company
 PO BOX 2517
 Calgary AB
 T2P 4P4

Bankers
 Royal Bank of Canada
 6505 Jeanne D'arc Blvd
 Orleans, ON
 K1C 2R1

Corporate Office
 801, 1280 Old Innes Road,
 Ottawa, Ontario, Canada, K1B 5M6
 t. 613.741.3673 f. 613.7418473

Website
<http://www.avalonworks.com>
info@avalonworks.com

Third Quarter Report

For the nine months ended May 31, 2001

Dear Shareholders,

Following the acquisition of Danek Associates Inc. (DAI) as of April 30, 2001, we are pleased to present this initial quarterly report of Avalon Works Corp. (Company) as an operating entity as compared to its previous Capital Pool Company (CPC) reports. The report includes the financial position of the Company, DAI and its subsidiaries, Crosshands Group Inc. and eHaven Inc. as of May 31 2001 and 2000 and the consolidated results of their operations for three and nine months ended May 31 2001 and 2000 and finally the consolidated statements of cash flows for the nine months period.

Revenue for the nine months was \$3,739,000 as compared to \$2,914,000 for the corresponding period a year ago and the income was \$413,000 as compared to \$181,000 in 2000. The earnings per share for the nine months were \$0.02 versus \$0.18 for the same period in the previous year, as the number of common shares increased from 1 million to 16.4 million, following the transaction between Avalon and DAI. For the third quarter ended May 31, 2001, the revenues were \$1,473,000 as compared to \$986,000 during the previous year and the net income was \$211,000 or 1 cent per share as compared to \$67,000 or 7 cents per year for the three months ended May 31, 2000.

On May 23, 2001 the Company completed acquisition of business assets of Iosphere Inc. and Glen-net Communication Inc., two Eastern Ontario internet service providers (ISPs) for a consideration of \$240,000. This transaction, together with the resulting goodwill of \$39,000 was included in the Consolidated Balance Sheet as of May 31, 2001. The acquisitions announced or concluded after period end, namely Worldchat, Western Ontario ISPs and Warnetwork Telecom Inc., an agency of AT&T Canada Inc. were excluded from this 3rd quarter report.

During the 3rd quarter we were able to attract new key personnel to the Company, which in complement to the acquisitions, enabled us to structure our activities, staff our personnel and plan the future business along four business lines, that is ITworks, Webworks, SPworks and Telcworks, thus completing the initial suite of the e-business facilitator services of the Company.

Lastly, we thank you for your interest in the Company and for extending the opportunity for us to grow the business.

Remaining at your service,

Vitold Jordan, CEO

Jirka Danek, director

Montreal, July 16, 2001