

AVALON WORKS CORP.

Interim Financial Statements

For the period of six months ended February 2020 and 2019 (Q2)

(Unaudited)

(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
May 20, 2020

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

	Notes	February 29, 2020	August 31, 2019
		\$	\$
Assets			
Current			
Cash and cash equivalents		10,910	35,622
Other receivables		4,246	9,269
Total assets		15,156	44,891
Liabilities			
Current			
Accounts payable and accrued liabilities		211,442	208,845
Total liabilities		211,442	208,845
Shareholders' equity			
Share capital	7	206,000	206,000
Deficit		(402,286)	(369,954)
Total shareholders' equity		(196,286)	(163,954)
Total liabilities and shareholders' equity		15,156	44,891

Approved and authorized for dissemination by the Board of Directors on May 14, 2020

/s/ Michael Clemann _____
 Director and CEO/CFO

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

AVALON WORKS CORP.

Interim Statements of loss and comprehensive loss
For the three months ended February 29, 2020 and 2019
(Unaudited – Prepared by Management)
(in Canadian dollars)

	Three months ended February 29,		Six months ended February 29,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Expenses and other income				
Professional fees	13,071	25,539	21,821	52,739
Issuer expenses	8,934	29,483	10,121	33,783
Business development expenses	220	-	220	-
Bank charges	140		170	
Net loss and comprehensive loss	(22,365)	(55,022)	(32,332)	(86,522)
Net loss per share, basic and diluted	(0.000)	(0.002)	(0.000)	(0.004)
Weighted average number of shares, basic and diluted	429,742,200	19,742,200	429,742,200	19,742,200

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

AVALON WORKS CORP.**Interim Statements of changes in shareholders' equity****For the six months ended February 29, 2020 and 2019****(Unaudited – Prepared by management)****(in Canadian dollars)**

	Notes	Issued share capital		Deficit \$	Total equity \$
		Common shares	Amount \$		
Balance, September 1, 2018		19,742,200	1,000	(205,388)	(204,388)
Net loss for the period		-	-	(86,522)	(86,522)
Balance, February 28, 2019		19,742,200	1,000	(291,910)	(290,910)
Balance, September 1, 2019		429,742,200	206,000	(369,954)	(163,954)
Net loss for the period		-	-	(32,332)	(32,332)
Balance, February 29, 2020		429,742,200	206,000	(402,286)	(196,286)

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

AVALON WORKS CORP.**Interim Statements of cash flows****For the six months ended February 29, 2020 and 2019****(Unaudited – Prepared by management)****(in Canadian dollars)**

	2020	2019
	\$	\$
Operating activities		
Net loss and comprehensive loss for the period	(32,332)	(86,522)
Net changes in non-cash working capital items		
Other receivables	5,023	-
Accounts payable and accrued liabilities	2,597	12,104
Net operating cash flows	(24,712)	(74,418)
Financing activities		
Short term loans	-	125,000
Net financing cash flows	-	125,000
Net change in cash and cash equivalents	(24,712)	50,582
Cash and cash equivalents, beginning of the period	35,622	-
Cash and cash equivalents, end of the period	10,910	50,582

Cash and cash equivalents consist of cash.

AVALON WORKS CORP.

Notes to interim financial statements

February 29, 2020 and 2019

(Unaudited – Prepared by management)

(in Canadian dollars)

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 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 February 29, 2020, the Company has a working capital deficiency of \$196,286, and a deficit of \$402,286 (working capital deficiency of \$291,910 and a deficit of \$290,910 as at February 28, 2019).

The Company's ability to continue its operations is dependent upon its ability to raise additional financing which will allow for settlement of debt and to have future operations. Even if the Company has been successful in the past in doing so, there is no guarantee that it will manage to obtain additional financing in the future. 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.

- 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) 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.

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. 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.

AVALON WORKS CORP.
Notes to interim financial statements
February 29, 2020 and 2019
(Unaudited – Prepared by management)
(in Canadian dollars)

6. Loss per common share (continued)

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	(32,332)	(86,522)
Weighted average number of common shares - basic and diluted	429,742,200	19,742,200
Loss per share – basic and diluted	0.000	0.004

7. Share capital

(a) Authorized

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

As at February 29, 2020, no dividends were declared or unpaid.

(b) Issued and outstanding

429,742,200 common shares as at February 29, 2020 (19,742,200 common shares as at February 28, 2019).

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

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

8. 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 85,948,440 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. No options are outstanding as at February 29, 2020 and 2019.

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9. Related party disclosures

Company's key management personnel are member of the board of directors. No transactions occurred with related parties during the period.

	<u>2020</u>	<u>2019</u>
	\$	\$
Amount due to related parties:		
Accounts payable to a company related to the director of the Company	146,900	146,900

10. 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 February 29, 2020, the Company believes that the carrying values of cash and cash equivalents, other receivable, and accounts payables and accrued liabilities approximates 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.

(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 February 29, 2020, the Company had a cash balance of \$10,910 to settle current liabilities of \$211,442. Accounts payable and accrued liabilities are due within less than 90 days. The Company is exposed to significant liquidity risk.

11. 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 period ended February 29, 2020.

The Company is not subject to externally imposed capital requirements.

12. Contingencies

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