

## FORM 5

### QUARTERLY LISTING STATEMENT

Name of Listed Issuer: Avarone Metals Inc. (the "Issuer").

Trading Symbol: AVM.X

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

#### **General Instructions**

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

#### **SCHEDULE A: FINANCIAL STATEMENTS**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

**The unaudited interim consolidated financial statements of the Issuer for the three months ended October 31, 2020, as filed with the securities regulatory authorities, are attached to this Form 5 as Schedule A (the “Interim Financial Statements”).**

## **SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

### **1. Related party transactions**

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

**All related party transactions have been disclosed in Note 11 to the Interim Financial Statements and “Transactions with Related Parties” section of the Management’s Discussion and Analysis dated December 24, 2020 (“MD&A”). The Interim Financial Statements and MD&A are attached hereto as Schedules A and B, respectively.**

**2. Summary of securities issued and options granted during the period.**

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) Summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number (#)	Price (\$)	Total Proceeds (\$)	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid (\$)
No securities were issued during the period August 1, 2020 to October 31, 2020.								

(b) Summary of options granted during the period,

Date	Number (#)	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price (\$)	Expiry Date	Market Price on date of Grant (\$)
No stock options were granted during the period August 1, 2020 to October 31, 2020.						

**3. Summary of securities as at the end of the reporting period.**

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

**An unlimited number of common shares without par value.**

(b) number and recorded value for shares issued and outstanding,

**As at October 31, 2020, there were 91,414,661 issued and outstanding common shares.**

- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Warrants outstanding at October 31, 2020:

Exercise Price (\$)	Warrants Outstanding (#)	Expiry Date
0.05	340,000	November 28, 2023
<b>Total</b>	<b>340,000</b>	

Stock options outstanding at October 31, 2020:

Exercise Price (\$)	Options Outstanding (#)	Expiry Date
0.05	162,500	April 26, 2022
0.085	250,000	April 27, 2023
0.05	250,000	October 15, 2023
0.05	50,000	January 27, 2024
0.05	500,000	January 29, 2024
0.06	570,000	May 16, 2024
0.13	250,000	July 8, 2024
0.13	350,000	August 12, 2024
0.05	780,000	April 23, 2025
0.05	15,000	February 23, 2026
0.08	425,000	July 8, 2026
0.05	50,000	September 19, 2026
0.05	580,000	December 7, 2026
0.05	750,000	December 3, 2027
0.08	250,000	March 6, 2028
<b>Total</b>	<b>5,232,500</b>	

- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

**None**

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

<b>Name</b>	<b>Position</b>
Marc Levy	Chief Executive Officer and Director
Marc Enright-Morin	President
Kulwant Sandher	Chief Financial Officer
Max Pinsky	Corporate Secretary
John Bean	Director
Peter Lee	Director

### **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

Provide Interim MD&A if required by applicable securities legislation.

The MD&A is attached to this Form 5 as Schedule B.

**THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.**

**Certificate of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated December 29, 2020.

Kulwant Sandher  
Name of Director or Senior Officer

Signed: "Kulwant Sandher"  
Signature

Chief Financial Officer  
Official Capacity

<b>Issuer Details</b> Name of Issuer <b>Avarone Metals Inc.</b>	For Quarter Ended <b>October 31, 2020</b>	Date of Report YYYY/MM/D <b>2020/12/29</b>
Issuer Address <b>Suite 610 – 700 West Pender Street, Vancouver</b>		
City/Province/Postal Code <b>British Columbia, V6C 1G8</b>	Issuer Fax No. <b>(604) 669-9768</b>	Issuer Telephone No. <b>(604) 669-9788</b>
Contact Name <b>Kulwant Sandher</b>	Contact Position <b>CFO</b>	Contact Telephone No. <b>(604) 669-9788</b>
Contact Email Address <b>kulwant.sandher@gmail.com</b>	Web Site Address <b>www.avarone.com</b>	

**SCHEDULE A**  
**Interim Financial Statements**

**AVARONE METALS INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three months ended October 31, 2020 and 2019**

**(Expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF  
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.



# AVARONE METALS INC.

## Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

Three months ended October 31, 2020 and 2019

	October 31, 2020	July 31, 2020
<b>ASSETS</b>		
Current		
Cash	\$ 1,455	\$ 2,780
Accounts receivable	846	1,945
Prepaid expenses	419	838
	2,720	5,563
Non-current		
Property and Equipment (note 4)	236,237	254,375
	<b>\$ 238,957</b>	<b>\$ 259,938</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (note 6)	\$ 571,157	\$ 526,667
Note payable (notes 7 and 11)	170,100	170,100
Loans payable (note 8)	155,000	155,000
Lease obligation - short-term (note 12)	79,350	78,660
	975,607	930,427
Non-current		
Loans payable (note 8)	21,104	20,101
Lease obligation - long-term (note 12)	96,593	111,959
	117,697	132,060
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (note 9)	14,888,929	14,888,929
Share subscriptions (notes 8 and 9)	24,300	24,300
Reserve (note 9)	756,595	756,595
Deficit	(16,524,171)	(16,472,373)
	(854,347)	(802,549)
	<b>\$ 238,957</b>	<b>\$ 259,938</b>

Subsequent Events (note 16)

On behalf of the Board:

"Marc Lew" Director

"John Bean" Director

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

## **AVARONE METALS INC.**

### **Condensed Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian dollars)

Three months ended October 31, 2020 and 2019

	<b>Three months ended October 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Expenses</b>		
General and administrative		
Depreciation (note 4)	\$ 18,137	\$ 96
Management fees (note 11)	22,500	42,500
Office costs	682	2,240
Professional fees	7,500	9,500
Regulatory and transfer agent	2,250	2,311
Share-based payments (note 9)	-	51,176
Travel, promotion and shareholder communication	-	1,024
Salaries and benefits (note 11)	-	21,539
Rent (note 11)	-	7,755
	<u>(51,069)</u>	<u>(138,141)</u>
<b>Other items:</b>		
Government assistance	-	-
Other income	13,128	-
Finance and other costs (notes 8 and 10)	(13,858)	(7,350)
	<u>(51,799)</u>	<u>(145,491)</u>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (51,799)</b>	<b>\$ (145,491)</b>
<b>Loss per common share, basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding, basic and diluted</b>	<b>91,414,994</b>	<b>90,005,574</b>

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

## AVARONE METALS INC.

### Condensed Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

Three months ended October 31, 2020 and 2019

	Notes	Share capital		Reserve		Total shareholders' deficiency	
		Common shares	Amount	Share subscriptions	Stock options and warrants		Deficit
		#	\$	\$	\$		\$
<b>Balance as at July 31, 2019</b>		<b>89,871,661</b>	<b>14,739,256</b>	<b>24,300</b>	<b>706,888</b>	<b>(16,082,387)</b>	<b>(611,944)</b>
Exercise of stock options	9	-	-	-	-	-	-
Fair value of stock options exercised	9	-	-	-	-	-	-
Exercise of warrants	9	160,000	8,000	-	-	-	8,000
Fair value of warrants exercised	9	-	1,600	-	(1,600)	-	-
Share-based payments	9	-	-	-	45,172	-	45,172
Fair value of options vested	9	-	-	-	6,004	-	6,004
Loss for the period		-	-	-	-	(145,491)	(145,491)
<b>Balance as at October 31, 2019</b>		<b>90,031,661</b>	<b>14,748,856</b>	<b>24,300</b>	<b>756,464</b>	<b>(16,227,878)</b>	<b>(698,258)</b>
Exercise of stock options	9	1,383,000	77,480	-	-	-	77,480
Fair value of stock options exercised	9	-	62,593	-	(62,593)	-	-
Share-based payments	9	-	-	-	57,862	-	57,862
Fair value of options vested	9	-	-	-	4,862	-	4,862
Loss for the period		-	-	-	-	(244,494)	(244,494)
<b>Balance as at July 31, 2020</b>		<b>91,414,661</b>	<b>14,888,929</b>	<b>24,300</b>	<b>756,595</b>	<b>(16,472,372)</b>	<b>(802,548)</b>
Loss for the period		-	-	-	-	(51,799)	(51,799)
<b>Balance as at October 31, 2020</b>		<b>91,414,661</b>	<b>14,888,929</b>	<b>24,300</b>	<b>756,595</b>	<b>(16,524,171)</b>	<b>(854,347)</b>

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

## **AVARONE METALS INC.**

### **Condensed Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)

Three months ended October 31, 2020 and 2019

	<b>Three months ended October 31,</b>	
	<b>2020</b>	<b>2019</b>
Operating activities:		
Net loss for the period	\$ (51,798)	\$ (145,491)
Items not involving cash:		
Finance costs	7,350	7,350
Depreciation	18,138	96
Fair value of vested options	-	6,004
Share-based payments	-	45,172
	<u>(26,311)</u>	<u>(86,869)</u>
Changes in working capital:		
Accounts receivable	1,099	17,167
Prepaid expenses	419	(1,142)
Accounts payable and accrued liabilities	37,140	27,726
	<u>12,348</u>	<u>(43,118)</u>
Financing activities:		
Exercise of warrants	-	8,000
Proceeds from loans	1,003	5,000
Repayment of lease liabilities	(14,676)	-
	<u>(13,673)</u>	<u>13,000</u>
Change in cash	(1,325)	(30,118)
Cash, beginning	2,780	48,040
Cash, end	\$ 1,455	\$ 17,922

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

# **AVARONE METALS INC.**

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

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## 1. Nature of Operations and Going Concern

The Company was incorporated under the laws of the Province of British Columbia on November 3, 1993. The Company's shares are listed on the Canadian Securities Exchange ("Exchange" or "CSE") under the symbol "AVM".

The head office and principal address of the Company are located at Suite 610 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's records office and registered office address is located at Suite 700 – 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5.

The Company is in the process of looking for resource properties to explore and has not yet identified any properties that contain established mineral reserves that are economically recoverable. The Company's ability to continue as a going concern is dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of resource properties, the discovery of economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's resource properties. As a resource company in the exploration stage, the ability of the Company to complete its acquisition, exploration and development will be affected principally by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means.

These condensed consolidated financial statements have been prepared using accounting policies applicable to a going concern which contemplate the realization of assets and settlement of liabilities in the normal course of business. At October 31, 2020, the Company had not yet achieved profitable operations, had accumulated losses of \$16,524,171 (2020 - \$16,472,373), a working capital deficit of \$972,887 (2020 - \$924,864) and expects to incur further losses in the development of its business. The Company will be required to raise additional capital in order to fund future exploration and evaluation activity and meet its working capital requirements. While the Company has been successful in the past, there is no assurance that it will be able to obtain adequate financing or that such financing will be available on acceptable terms. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities. These material uncertainties may cast significant doubt on the entity's ability to continue as a going concern.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company is not currently determinable, but management continues to monitor the situation.

These condensed consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

## 2. Significant Accounting Policies

The condensed consolidated financial statements were authorized for issue on December 24, 2020 by the Directors of the Company.

### **Statement of compliance with International Financial Reporting Standards**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent 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"). The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended July 31, 2020.

The condensed consolidated interim financial statements do not include all the information and note disclosures required for full annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended July 31, 2020.

## AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

### 3. Deposit

The deposit consists of a security deposit for the Company's leased office space (Note 4). During the year ended July 31, 2020, the lease deposit was capitalized with the right-of-use asset as per the Company's accounting policy. (Note 12).

### 4. Property and Equipment

	Building <sup>1</sup>	Office equipment	Total
<b>Cost:</b>	\$	\$	\$
Balance, July 31, 2020	322,085	42,314	364,399
Addition	-	-	-
Balance, October 31, 2020	322,085	42,314	364,399
<b>Accumulated depreciation:</b>			
Balance, July 31, 2020	69,240	32,585	101,825
Depreciation	18,060	77	18,137
Balance, October 31, 2020	87,300	32,662	119,962
<b>Impairment:</b>			
Balance, October 31, 2020	-	8,200	8,200
<b>Net book value:</b>			
July 31, 2020	252,845	1,529	254,374
October 31, 2020	234,785	1,452	236,237

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 5. Exploration and Evaluation Expenditures

Exploration expenditures have been expensed as incurred in accordance with the Company's accounting policy for exploration and evaluation costs. During the period ended October 31, 2020, expenditures incurred by the Company on the properties was \$Nil (2020 - \$Nil).

### (a) Wildnest and Phantom Lake Properties

The Company entered into an option agreement with Ray-Dor Resources Ltd. (the "Optionor") dated November 15, 2012, as amended on October 28, 2013 and November 24, 2014, ("Agreement"), pursuant to which it has been granted an option to acquire a 100% interest in seven mineral claims known as the Wildnest and Phantom Lake gold properties located in the Flin Flon area of Manitoba and Saskatchewan (the "Claims").

Under the terms of the Agreement, the Company may earn a 100% interest by completing the following: making cash payments of \$32,500 (\$7,500 paid) over four years; and issuing 450,000 common shares (400,000 shares issued) of the Company over three years, in accordance with the schedule below. In addition, the Company is required to complete exploration programs totaling \$850,000 over a five year period. The option agreement is in default since December 2015 as required payments were not made.

Date	Cash	Common shares	Exploration Expenditures
	\$	#	\$
Upon Exchange approval	2,500 (paid)	50,000 (issued)	-
On or before November 7, 2013	-	200,000 (issued)	-
On or before June 21, 2014	5,000 (paid)	-	-
On or before December 21, 2014	-	150,000 (issued)	-
On or before December 21, 2015	10,000*	50,000*	16,515
On or before December 21, 2016	15,000**	-	50,000**
On or before December 21, 2017	-	-	150,000***
On or before December 21, 2018	-	-	200,000****
On or before December 21, 2019	-	-	433,485
<b>Totals</b>	<b>32,500</b>	<b>450,000</b>	<b>850,000</b>

\*As at October 31, 2020, the Company had not made the \$10,000 payment or issued the 50,000 common shares due on December 21, 2015, and the option agreement is in default.

\*\* On December 21, 2016 the Company failed to make the cash payment of \$15,000 or incur \$50,000 of exploration expenditures as required under the option agreement for the Wildnest and Phantom Lake Properties.

\*\*\* On December 21, 2017 the Company failed to incur \$150,000 of exploration expenditures as required under the option agreement for the Wildnest and Phantom Lake Properties.

\*\*\*\* On December 21, 2018, the Company failed to incur \$200,000 of exploration expenditures as required under the option agreement for the Wildnest and Phantom Lake Properties.

The Claims are subject to a 2% net smelter royalty (NSR), of which, 50% of the NSR or 1% NSR may be acquired by the Company at any time for \$500,000.

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 6. Accounts payable and accrued liabilities

	October 31, 2020	July 31, 2020
	\$	\$
Accounts payable	32,589	21,116
Due to related parties (Note 11)	384,375	361,872
Accrued interest on loans (Note 8)	99,653	91,441
Other accruals	51,237	51,237
Other payables	1,000	1,000
	568,854	526,666

## 7. Note payable

	October 31, 2020	July 31, 2020
	\$	\$
Amounts due to related parties	170,100	170,100

The note payable is unsecured, due on demand and bears no interest.

## 8. Loans payable

	October 31, 2020	July 31, 2020
	\$	\$
Loan payable - CEBA	21,104	20,101
Promissory notes	155,000	155,000
	176,104	175,101

During the year ended July 31, 2017, the Company issued two promissory notes. The first promissory note, for \$60,000, was due August 8, 2017, and bears interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020 is \$52,057 (July 31, 2020 - \$48,427) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$12,000 in common shares of the Company. The shares have not been issued as at October 31, 2020 and are included in share subscriptions.

The second promissory note, for \$16,500, was due September 30, 2017, and bears interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$13,746 (July 31, 2020 - \$12,478) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$3,300 in common shares of the Company. The shares have not been issued as at October 31, 2020 and are included in share subscription.

During the year ended July 31, 2018, a third and fourth promissory note were issued. The third promissory note for \$25,000 was issued on October 10, 2017, bears interest at 18% and was due April 10, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$17,663 (July 31, 2020 - \$16,150) and is included in accrued liabilities.

The fourth promissory note for \$20,000 was issued on November 27, 2017, bears interest at 18% and was due May 27, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$13,499 (July 31, 2020 - \$12,289) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$4,000 in common shares of the Company. The shares have not been issued as at July 31, 2020 and are included in share subscriptions.



# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

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## 8. Loans payable – (continued)

The fifth promissory note for \$5,000 was issued on October 11, 2019. The promissory note is non-interest-bearing loan due on demand.

The sixth promissory note for \$23,500 was issued on January 21, 2020, bears interest at 12% and is due on demand. Total interest accrued on the promissory note at October 31, 2020 is \$2,217 (July 31, 2020 - \$1,507).

The seventh promissory note for \$5,000 was issued on January 22, 2020, bears interest at 12% and is due on demand. Total interest accrued on the promissory note at October 31, 2020 is \$470 (July 31, 2020 - \$320).

During the year ended July 31, 2020, as part of the Canadian government funded COVID-19 financial assistance programs, the Company received loans in the amount of \$40,000 from the Bank of Montreal (CEBA term loan). The CEBA term loan is due on December 25, 2025. The loan is interest free until December 31, 2022 and bears interest at 5% per annum thereafter. If at least 75% of the loan principal is paid on or before December 31, 2022, the balance of the loan will be forgiven.

The benefit of the government loan received at below market rate of interest is treated as a government grant. The loan was recognized at fair value using the Company's incremental borrowing rate of 18% per annum, totaling \$19,201. The difference between the initial carrying amount and proceeds received is the value of the grant of \$20,799. The Company recognized in income the value of the grant as it incurred the related expenses for which the grant was intended to compensate. As at July 30, 2020, \$20,799 of government grant had been recognized as income in the condensed consolidated statements of loss. During the period ended October 31, 2020, the Company recorded interest of \$929 on the loan (July 31, 2020 - \$900). The balance of the loan at July 31, 2020 is \$21,104.

## 9. Share Capital and Reserves

### (a) Authorized

The Company has authorized an unlimited number of voting common shares without par value.

### (b) Issued

At October 31, 2020, there were 91,414,661 issued and fully paid common shares (July 31, 2020 – 91,414,661).

During the period-ended October 31, 2020, there were no share issued by the Company.

### Shares Issued during the Year Ended July 31, 2020

During the year ended July 31, 2020, 160,000 share purchase warrants with an exercise price of \$0.05 were exercised for proceeds of \$8,000. In addition, \$1,600, representing the fair value of the warrants determined using the residual value method at the original grant date, was reclassified from warrant reserve to share capital in accordance with the Company's accounting policy.

During the year ended July 31, 2020, 550,000 and 833,000 stock options with an exercise price of \$0.05 and \$0.06 respectively, were exercised for total proceeds of \$77,480. In addition, \$62,593, representing the fair value of the options determined using the Black Scholes Option Pricing Model at the original grant date, was reclassified from stock option reserve to share capital in accordance with the Company's accounting policy.

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 9. Share Capital and Reserves (continued)

### (c) Stock Options

The Company has a stock option plan under which it is authorized to grant options to directors, officers, employees and consultants for up to a maximum of 10% of the issued and outstanding common stock of the Company. The exercise price (less any discounts permitted by regulatory policies and determined by the directors at the time of grant) under each option shall be the market price of the Company's stock at the date of grant. The options have expiry dates of no later than ten years from the date of grant and vest immediately as determined by the Board of Directors or as to 25% on the date of the grant and 12.5% every three months thereafter for a total vesting period of 18 months.

On October 12, 2020, a total of 177,500 stock options with a weighted average exercise price of \$0.05 have expired unexercised.

#### Year Ended July 31, 2020

On August 12, 2019, the Company issued a total of 350,000 incentive stock options at an exercise price of \$0.13 to a consultant of the Company. The options are exercisable for a period of 5 years from the date of grant and have a grant date fair value of \$45,172 determined by the Black-Scholes Option Pricing Model. These options vested upon grant.

On December 12, 2019, the Company issued a total of 833,000 incentive stock options at an exercise price of \$0.13 to a consultant of the Company. The options are exercisable for a period of 5 years from the date of grant and have a grant date fair value of \$57,862 determined by the Black-Scholes Option Pricing Model. These options vested upon grant.

During the year ended July 31, 2020, the Company recognized \$10,866 in share-based compensation expense for the fair value of options vested in the current year from a prior year grant.

On February 4, 2019, 100,000 stock options at an exercise price of \$0.05 were forfeited, on February 18, 2019, 100,000 stock options at an exercise price of \$0.05 were forfeited and on February 28, 2019, 300,000 stock options at an exercise price of \$0.05 were forfeited. On May 6, 2019, 450,000 stock options at an exercise price of \$0.05 were forfeited. The fair value of the 950,000 options at \$56,992 was reclassified from reserves to deficit.

Stock option transactions for the period ended October 31, 2020 and year ended July 31, 2020 are as follows:

	Number of Options	Weighted Average Exercise Price
	#	\$
Balance, July 31, 2019	5,610,000	0.06
Granted	1,183,000	0.06
Exercised	(1,383,000)	0.06
Forfeited	-	-
Balance, July 31, 2020	5,410,000	0.06
Granted	-	-
Exercised	-	-
Forfeited	(177,500)	0.05
Balance, October 31, 2020	5,232,500	0.06

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 9. Share Capital and Reserves (continued)

### (c) Stock Options (continued)

Stock options outstanding and exercisable at October 31, 2020 are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
162,500	0.05	April 26, 2022	162,500
250,000	0.09	April 27, 2023	250,000
250,000	0.05	October 15, 2023	250,000
50,000	0.05	January 27, 2024	50,000
500,000	0.05	January 29, 2024	500,000
570,000	0.06	May 16, 2024	570,000
250,000	0.13	July 8, 2024	250,000
350,000	0.13	August 12, 2024	350,000
780,000	0.05	April 23, 2025	780,000
15,000	0.05	February 23, 2026	15,000
425,000	0.08	July 8, 2026	425,000
50,000	0.05	September 19, 2026	50,000
580,000	0.05	December 7, 2026	580,000
750,000	0.05	December 3, 2027	750,000
250,000	0.08	March 6, 2028	250,000
<u>5,232,500</u>			<u>5,232,500</u>

The weighted average remaining contractual life of outstanding options is 4.71 years (July 31, 2020: 4.80 years).

### (d) Warrants

Each whole warrant entitles the holder to purchase one common share of the Company.

During the period ended October 31, 2020, there were no share purchase warrant transactions.

#### Year Ended July 31, 2020

During the year ended July 31, 2020, 160,000 warrants were exercised at a price of \$0.05 for gross proceeds of \$8,000.

During the year ended July 31, 2020, 1,000,000 warrants with a weighted average exercise price of \$0.05 expired unexercised.

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 9. Share Capital and Reserves (continued)

### (d) Warrants (continued)

Share purchase warrant transactions for the period ended October 31, 2020 and year ended July 31, 2019 are as follows:

	Warrants #	Expiry Date	Weighted Average Exercise Price \$
Balance, July 31, 2019	1,500,000		0.073
Exercised	(160,000)	28-Nov-23	0.05
Expired	(1,000,000)	23-Mar-20	0.05
Balance, July 31, 2020	340,000		0.05
Exercised	-		-
Expired	-		-
Balance, October 31, 2020	340,000		0.05

Warrants outstanding at October 31, 2020 are as follows:

Warrants #	Exercise Price \$	Expiry date
340,000	0.05	November 28, 2023

The weighted average remaining contractual life of the warrants outstanding is 3.08 years

### (e) Reserves

Stock options and warrants reserves represent the fair value of stock options or warrants until such time that the stock options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

### (f) Share subscriptions

Share subscriptions consist of shares to be issued for loans payable (note 8).

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

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## 10. Finance costs

During the period ended October 31, 2020, the Company incurred \$8,212 (July 31, 2020 - \$31,457) of interest expense pertaining to the promissory notes.

## 11. Related Party Transactions

### (a) Related Party Transactions

The Company has been reimbursed for expenses from companies having directors and officers in common netted directly against the related expense as represented in the statement of comprehensive loss:

	Three month period ended	
	October 31, 2020	October 31, 2019
	\$	\$
<u>Office, rent, and administration</u>	<u>29,154</u>	<u>8,750</u>

### (b) Compensation of Key Management Personnel

The Company's key management personnel has authority and responsibility for planning, directing and controlling the activities of the Company and consists of its directors, officers, Chief Executive Officer and Chief Financial Officer.

	Three month period ended	
	October 31, 2020	October 31, 2019
	\$	\$
<u>Management fees</u>	<u>22,500</u>	<u>22,500</u>

Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (note 9).

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

## 11. Related Party Transactions – (continued)

### (c) Related Party Balances

The following related party amounts were included in accounts payable, accrued liabilities and notes payable:

	October 31, 2020	July 31, 2020
	\$	\$
A company controlled by an officer of the Company (notes 6 and 7)	585,850	555,475

## 12. Lease Commitment

On August 1, 2019, a right-of-use (“ROU”) asset of \$33,120 and lease liability of \$33,120 were recognized in accordance with the modified retrospective approach for the Company’s office lease, which expired January 31, 2020.

The Company entered into a new office lease on February 1, 2020. The terms and outstanding balances as at October 31, 2020 are as follows:

	October 31, 2020	July 31, 2020
	\$	\$
Right-of use asset from base rent of office lease repayable in monthly average payments of \$6,785 with an interest rate of 10% per annum and a lease end date of January 2024	175,943	190,619
Less: Current portion	(79,350)	(78,660)
Non-current portion	96,593	111,959

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2024, as follows:

Year	\$
2020	12,880
2021	79,810
2022	82,570
2023	17,318
2024	-
Total	192,578

As at October 31, 2020, the Company has a lease deposit of \$68,242, which will be applied against the final lease payments due for the lease. The lease deposit is being amortized over the lease term with the ROU asset.

## 13. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at October 31, 2020 and 2019, with its assets located in North America.

# AVARONE METALS INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

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## 14. Financial Instruments and Risk Management

### a) Fair Value of Financial Instruments

As at October 31, 2020, the Company's financial instruments consist of cash, accounts receivable, accounts payable, note payable and loans payable. The carrying values of these financial instruments approximate their fair values because of their short-term nature and/or the existence of market-related interest rates on the 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 - 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 for the asset or liability that are not based on observable market data.

Cash is classified as Level 1.

### (b) Financial Instruments Risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

#### (i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank and on amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Accounts receivable consists of GST input tax credits receivable from the Government of Canada. Management considers that credit risks related to cash are minimal and credit risks related to accounts receivable are also minimal.

#### (ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2020, the Company had cash of \$1,455 to settle current liabilities of \$975,607.

The Company is dependent on the availability of credit from its suppliers and its ability to generate sufficient funds from equity and debt financing to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company (note 1).

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's loans payable bear a fixed interest rate. Management considers interest rate risk to be minimal.

During the period ended October 31, 2020, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

# **AVARONE METALS INC.**

Notes to the Condensed Consolidated Financial Statements  
(Unaudited - Expressed in Canadian Dollars)  
Three months ended October 31, 2020 and 2019

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## 15. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' deficiency as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of resource properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders.

The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the period ended October 31, 2020.

## 16. Subsequent Events

On November 3, 2020, the Company issued a total of 2,675,000 incentive stock options at an exercise price of \$0.08 to the employees and consultants of the Company. The options are exercisable for a period of 5 years from the date of grant and have a grant date fair value of \$213,887 determined by the Black-Scholes Option Pricing Model. These options vested upon grant.

Subsequent to the period ended October 31, 2020, the Company received a loan of \$14,300, which bears interest at 12% and is due on demand.



**SCHEDULE B**  
**MD&A**

**AVARONE METALS INC.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three months ended October 31, 2020 and 2019

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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Avarone Metals Inc. (the "Company" or "Avarone") incorporated under the laws of the Province of British Columbia on November 3, 1993, is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. It presently has the right to acquire a 100% interest in the Wildnest and Phantom Lake gold properties located in Manitoba and Saskatchewan, however the option agreement on these properties has been in default since December 2015 as required payments have not been made by the Company. The Company is currently searching for a new exploration property.

On January 20, 2016, the Company listed on the Canadian Securities Exchange ("Exchange") while simultaneously delisting from the TSX Venture Exchange. The Company's shares are listed for trading on the Exchange under the symbol "AVM".

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the three months ended October 31, 2020, and 2019, and is prepared as of December 24, 2020. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended July 31, 2020 and 2019, which were prepared in accordance with IFRS.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

### **Cautionary Note Regarding Forward-Looking Information**

This document may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its planned exploration activities, the adequacy of its financial resources and statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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consolidated financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

### **Description of Business**

The Company is a junior resource exploration company engaged in the acquisition, exploration and development of precious metals and energy-based resource properties.

The Company entered into an option agreement with Ray-Dor Resources Ltd. (the "Optionor") dated November 15, 2012, as amended on October 28, 2013, and November 24, 2014, ("Agreement"), pursuant to which it has been granted an option to acquire a 100% interest in seven mineral claims known as the Wildnest and Phantom Lake gold properties located in the Flin Flon area of Manitoba and Saskatchewan (the "Claims"). As of October 31, 2019, the two Wildnest claims have lapsed.

### **Risk Factors**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Mineral property exploration is a speculative business and involves a high degree of risk. There is a probability that the expenditures made by the Company in exploring its properties will not result in discoveries of commercial quantities of minerals. A high level of ongoing expenditures is required to locate and estimate ore reserves, which are the basis to further the development of a property. Capital expenditures to support the commercial production stage are also very substantial.

**Matters related to the principal risks faced by the Company have been disclosed in previous MD&As filed on SEDAR and continue to apply to the activity and business of the Company.**

### **Summary of Quarterly Results**

The following is a summary of certain consolidated financial information concerning the Company for each of the last eight reported quarters:

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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Quarters ended	Total Revenues (\$)	Net earnings (loss) (\$)	Earnings (loss) per share (\$)
October 31, 2020	Nil	(51,799)	(0.00)
July 31, 2020	Nil	(31,546)	(0.00)
April 30, 2020	Nil	(72,074)	(0.00)
January 31, 2020	Nil	(140,874)	(0.00)
October 31, 2019	Nil	(145,491)	(0.00)
July 31, 2019	Nil	(127,068)	(0.00)
April 30, 2019	Nil	(53,263)	(0.00)
January 31, 2019	Nil	(128,981)	(0.00)

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There are no general trends regarding the Company's quarterly results and the Company's business of resource exploration is not seasonal, as it can work on its properties on a year-round basis subject to the availability of sufficient funds. Quarterly results can vary significantly depending mainly on the Company's acquisition of mineral rights and exploration activities and whether the Company has granted any stock options or modified the terms of stock options. These are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable.

The Company leases its office space and charges accounting, administration and other office costs to other reporting issuers with common directors and/or officers. The other major factor which can cause a material variation in net loss on a quarterly basis is the change in this arrangement with related companies.

### **Three Months Ended October 31, 2020**

During the quarter ended October 31, 2020, the Company reported a net loss and comprehensive loss of \$51,799 compared to a net loss of \$145,491 during the quarter ended October 31, 2019, representing a decrease in loss of \$93,692. The decrease in loss is primarily attributable to the following:

- The depreciation expense for the three months ended October 31, 2020 was \$18,137 (2019: \$96). Depreciation expense primarily relates to the amortization of right-of-use asset pertaining to the long-term lease for the quarter ended October 31, 2020.
- Management fees for the three months ended October 31, 2020 was \$22,500 (2019: 42,500). The decrease in professional fees is caused by the Company re-structuring its operations.
- Professional fees for the three months ended October 31, 2020 was \$7,500 (2019:\$9,500). Professional fees includes accounting and audit costs.
- Salaries and benefits for the three months ended October 31, 2020 was \$nil (2019: \$21,539). The reduction in expense when compared to the corresponding period in the prior year is caused by the Company re-structuring its operations.
- Share-based payments for the three months ended October 31, 2020 was \$Nil (2019: \$51,176). The reduction in share-based payments was caused by the Company not granting any stock options during the period. The Company values its stock option grants by using the Black-Sholes method of valuing stock options.

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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### **Other Items**

The Company paid finance costs associated with loans advanced by arms length and related parties of \$13,858 for the quarter ended October 31, 2020. The Company also received other income of \$13,128 (2019: \$Nil) from rent received from other Company's sharing its office space.

### **Liquidity and Capital Resources**

The Company has no revenue generating operations from which it can internally generate funds. The Company has financed its operations and met its capital requirements primarily through the issuance of capital stock by way of private placements, the exercise of common share purchase warrants, loans from related parties and third-party short-term loans. As at October 31, 2020, the Company had a working capital deficiency of \$972,887 compared to \$924,864 at July 31, 2020.

During the year ended July 31, 2017, the Company issued two promissory notes. The first promissory note, for \$60,000, was due August 8, 2017, and bears interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020 is \$52,057 (July 31, 2020 - \$48,427) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$12,000 in common shares of the Company. The shares have not been issued as at October 31, 2020 and are included in share subscriptions.

The second promissory note, for \$16,500, was due September 30, 2017, and bears interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$13,746 (July 31, 2020 - \$12,478) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$3,300 in common shares of the Company. The shares have not been issued as at October 31, 2020 and are included in share subscription.

During the year ended July 31, 2018, a third and fourth promissory note were issued. The third promissory note for \$25,000 was issued on October 10, 2017, bears interest at 18% and was due April 10, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$17,663 (July 31, 2020 - \$16,150) and is included in accrued liabilities.

The fourth promissory note for \$20,000 was issued on November 27, 2017, bears interest at 18% and was due May 27, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at October 31, 2020, is \$13,499 (July 31, 2020 - \$12,289) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$4,000 in common shares of the Company. The shares have not been issued as at July 31, 2020 and are included in share subscriptions.

The fifth promissory note for \$5,000 was issued on October 11, 2019. The promissory note is non-interest-bearing loan due on demand.

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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The sixth promissory note for \$23,500 was issued on January 21, 2020, bears interest at 12% and is due on demand. Total interest accrued on the promissory note at October 31, 2020 is \$2,217 (July 31, 2020 - \$1,507).

The seventh promissory note for \$5,000 was issued on January 22, 2020, bears interest at 12% and is due on demand. Total interest accrued on the promissory note at October 31, 2020 is \$470 (July 31, 2020 - \$320).

During the year ended July 31, 2020, as part of the Canadian government funded COVID-19 financial assistance programs, the Company received loans in the amount of \$40,000 from the Bank of Montreal (CEBA term loan). The CEBA term loan is due on December 25, 2025. The loan is interest free until December 31, 2022 and bears interest at 5% per annum thereafter. If at least 75% of the loan principal is paid on or before December 31, 2022, the balance of the loan will be forgiven.

The benefit of the government loan received at below market rate of interest is treated as a government grant. The loan was recognized at fair value using the Company's incremental borrowing rate of 18% per annum, totaling \$19,201. The difference between the initial carrying amount and proceeds received is the value of the grant of \$20,799. The Company recognized in income the value of the grant as it incurred the related expenses for which the grant was intended to compensate. As at July 30, 2020, \$20,799 of government grant had been recognized as income in the condensed consolidated statements of loss. During the period ended October 31, 2020, the Company recorded interest of \$929 on the loan (July 31, 2020 - \$900). The balance of the loan at July 31, 2020 is \$21,104.

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2024, as follows:

	\$
2020	12,880
2021	79,810
2022	82,570
2023	17,218
2024	-
	<u>192,798</u>

As of the date of this MD&A, financing for the Company's operations is also potentially available through the exercise of vested stock options and share purchase warrants. See "Summary of Outstanding Share Data". However, there can be no assurance that any of these outstanding convertible securities will be exercised, particularly if the trading price of the common shares on the Exchange does not exceed, by a material amount and for a reasonable period, the exercise price of such convertible securities at some time prior to their expiry dates.

The Company needs to raise additional capital to fund general working capital requirements, exploration commitments and other obligations for the next twelve months. Although the Company has previously been successful in raising the funds required for its operations, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on

## **AVARONE METALS INC.**

Management's Discussion and Analysis  
For the three months ended October 31, 2020 and 2019

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terms acceptable to the Company in the future.

The Company has not had a history of operations or earnings and its overall success will be affected by its current or future business activities. The continued operations of the Company and the recoverability of expenditures incurred to earn an interest in resource properties are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, and upon future profitable production or proceeds from disposition of the resource properties. See "Risk Factors".

### **Transactions with Related Parties**

During the year three-months October 31, 2020, and 2019, the Company entered into the following transactions with related parties:

The Company was reimbursed expenses from companies having officers in common netted directly against the related expense:

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	October 31, 2020	October 31, 2019
	\$	\$
Office, rent, administration and wages	29,154	8,750

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The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consists of its Directors, Officers, Chief Executive Officer and Chief Financial Officer.

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	July 31, 2020	Year ended July 31, 2019
	\$	\$
Management fees	22,500	22,500
	22,500	22,500

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The following related party amounts were included in liabilities:

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July 31, 2020	July 31, 2019	
	\$	\$
A company controlled an Officer of the Company	585,850	555,475

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### **Critical Accounting Estimates**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and

## **AVARONE METALS INC.**

Management's Discussion and Analysis

For the three months ended October 31, 2020 and 2019

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expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed consolidated interim financial statements relate to going concern assessments, share-based payments.

### **Financial Instruments and Risk Management**

#### (a) Fair Value of Financial Instruments

As at October 31, 2020, the Company's financial instruments consist of cash, accounts receivable, accounts payable, note payable and loans payable. The carrying values of these financial instruments approximate their fair values because of their short-term nature and/or the existence of market related interest rates on the 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 - 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 for the asset or liability that are not based on observable market data.

Cash is measured using level 1 inputs.

#### (b) Financial Instruments Risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

##### (i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank and on amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Accounts receivable consists of GST input tax credits receivable from the Government of Canada. Management considers that credit risks related to cash are minimal and credit risks related to accounts receivable are also minimal.



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(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2020, the Company had cash of \$1,455 to settle current liabilities of \$975,607.

The Company is dependent on the availability of credit from its suppliers and its ability to generate sufficient funds from equity and debt financing to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company.

(iii) Market Risk

a. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's loans payable bear a fixed interest rate. Management considers interest rate risk to be minimal.

b. Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its resource properties described in note 6 of the financial statements of which production is not expected in the near future.

During the three months ended October 31, 2020, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

### **Capital Management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of resource properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders.

The Company is not subject to externally imposed capital requirements.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

There were no changes in the Company's management of capital during the three months ended October 31, 2020.

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### **Outstanding Share Data**

As at December 24, 2020, the Company had 91,414,994 common shares outstanding. As at the same date there were 340,000 warrants outstanding at an exercise prices of \$0.05 per share. In addition, 8,060,000 stock options were outstanding at exercise prices from \$0.05 to \$0.13 per share.

Stock options outstanding and exercisable at December 24, 2020, are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
177,500	0.05	October 12, 2020	177,500
162,500	0.05	April 26, 2022	162,500
250,000	0.085	April 27, 2023	250,000
250,000	0.05	October 15, 2023	250,000
50,000	0.05	January 27, 2024	50,000
500,000	0.05	January 29, 2024	500,000
570,000	0.06	May 16, 2024	490,000
250,000	0.13	July 8, 2024	250,000
350,000	0.13	August 12, 2024	350,000
780,000	0.05	April 23, 2025	780,000
15,000	0.05	February 23, 2026	15,000
425,000	0.08	July 8, 2026	425,000
50,000	0.05	September 19, 2026	50,000
580,000	0.05	December 7, 2026	580,000
750,000	0.05	December 3, 2027	750,000
250,000	0.08	March 6, 2028	250,000
2,675,000	0.08	November 3, 2025	2,675,000
8,060,000			8,060,000

Warrants outstanding at December 24, 2020, are as follows:

Warrants Outstanding	Exercise Price	Expiry Date
340,000	\$0.05	November 20, 2023

### **Additional Disclosure**

Additional disclosures pertaining to the Company, including its most recent management information circular, material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.avarone.com](http://www.avarone.com).