

FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **Avarone Metals Inc.** (the “Issuer”).

Trading Symbol: **AVM**

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.

Unaudited condensed consolidated interim financial statements for the three month period ended October 31, 2016, as filed with the securities regulatory authorities are attached to this Form 5 as Schedule A.

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 the Issuer's financial statements for the interim period ended October 31, 2016. Please refer to Note 9 to the unaudited condensed consolidated interim financial statements for the three month period ended October 31, 2016, attached hereto as Schedule "A". For information supplementary to that contained in the notes to the unaudited condensed consolidated interim financial statements with respect to related party transactions, please refer to the Management Discussion and Analysis ("MD&A") for the three month period ended October 31, 2016, as filed with the securities regulatory authorities and attached to this Form 5 as Schedule "B".

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):

All securities issued and options granted, if any, by the Issuer have been disclosed in the Issuer's financial statement notes for the interim period ended October 31, 2016.

(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
July 6, 2016	Units – each unit comprised one common share and ½ common share purchase warrant	Private Placement	1,750,000 units (1,750,000 common shares & 875,000 common share purchase warrants)	\$0.08 per unit	\$140,000	Cash	A director/officer of the issuer participated in the private placement by purchasing an aggregate 250,000 units	\$nil

(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
September 19, 2016	Aggregate of 275,000	Unrelated	Consultants	\$0.05	September 19, 2026	\$0.05

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,

Description	Number Authorized	Par Value
Common Shares	Unlimited	NPV

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

Description	Number Issued and Outstanding	Value
Common Shares	82,277,495	\$14,305,067

- (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

Description	Number Outstanding	Exercise Price	Expiry Date
Stock Options	190,000	\$0.05	May 20, 2018
Stock Options	100,000	\$0.05	February 4, 2019
Stock Options	100,000	\$0.05	February 18, 2019
Stock Options	177,500	\$0.05	October 12, 2020
Stock Options	162,500	\$0.05	April 26, 2022
Stock Options	100,000	\$0.05	January 27, 2024
Stock Options	1,064,166	\$0.05	April 23, 2025
Stock Options	125,000	\$0.05	February 23, 2026
Stock Options	1,775,000	\$0.115	February 25, 2026
Stock Options	1,000,000	\$0.12	March 3, 2026
Stock Options	750,000	\$0.11	April 25, 2026
Stock Options	100,000	\$0.09	May 26, 2026
Stock Options	1,325,000	\$0.08	July 8, 2026
Stock Options	275,000	\$0.05	September 19, 2026
Warrants	14,575,000	\$0.05	June 16, 2017
Warrants	875,000	\$0.12	July 6, 2018
Total:	21,261,666		

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

Description	Number	Number Released During the Period
Common shares issued pursuant to July 2016 Private Placement (hold period applicable)	1,750,000	N/A

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.

Name	Position
Marc Levy	Director, President, Chief Executive Officer
Anita Algie	Director, Chief Financial Officer
Peter Born	Director
Max Pinsky	Corporate Secretary

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

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

Management Discussion and Analysis ("MD&A") for the three month period ended October 31, 2016, attached to this Form 5 as Schedule "B".

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, 2016

Anita Algie
Name of Director or Senior Officer

/s/ "Anita Algie"
Signature
Chief Financial Officer
Official Capacity

Issuer Details	For Quarter Ended	Date of Report
Name of Issuer Avarone Metals Inc.	October 31, 2016	YY/MM/DD 16/12/29
Issuer Address Suite 610, 700 West Pender Street		
City/Province/Postal Code Vancouver, BC V6C 1G8	Issuer Fax No. (604) 669-9768	Issuer Telephone No. (604) 669-9788
Contact Name Anita Algie	Contact Position CFO	Contact Telephone No. (604) 669-9788
Contact Email Address anita@mosamventures.com	Web Site Address www.avarone.com	

SCHEDULE "A"

AVARONE METALS INC.

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

For the three months ended October 31, 2016 and 2015

(Expressed in Canadian Dollars)

AVARONE METALS INC.

October 31, 2016

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. They include appropriate accounting principles, judgment and estimates in accordance with IFRS for interim financial statements

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditors.

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

	October 31, 2016	July 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 8,842	\$ 67,908
Accounts receivable	15,851	17,369
Prepaid expenses	804	1,300
	25,497	86,577
Deposit	21,242	21,242
Equipment (note 3)	3,556	3,745
	\$ 50,295	\$ 111,564
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 99,690	\$ 91,434
Note payable (note 6 and 9)	170,100	170,100
Loans payable (note 7 and 9)	31,000	-
	300,790	261,534
SHAREHOLDERS' DEFICIENCY		
Share capital (note 8)	14,305,067	14,305,067
Reserves (note 8)	1,187,334	1,175,859
Deficit	(15,742,896)	(15,630,896)
	(250,495)	(149,970)
	\$ 50,295	\$ 111,564

Nature of operations and going concern (note 1)

Commitment (note 10)

Subsequent events (note 14)

On behalf of the Board:"Marc Lew" Director"Anita Algie" Director

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended	
	October 31, 2016	October 31, 2015
<hr/>		
Expenses:		
Exploration and evaluation (note 4)	\$ 40,000	\$ -
General and administrative		
Depreciation	189	257
Management fees (note 9)	22,500	16,200
Office costs (note 9)	2,432	12,296
Professional fees (note 9)	6,363	2,675
Regulatory, transfer agent, and shareholder information	4,880	9
Share-based payments (note 8)	15,074	-
Travel, promotion and shareholder communication	146	-
Rent, wages and benefits (note 9)	24,012	18,137
	<hr/> 115,596	<hr/> 49,574
Loss before other items	(115,596)	(49,574)
Other items:		
Finance and other income	-	32
Finance and other costs	(3)	(103)
	<hr/> (3)	<hr/> (71)
Net loss and comprehensive loss for the period	<hr/> \$ (115,599)	<hr/> \$ (49,645)
Loss per common share, basic and diluted	<hr/> \$ 0.00	<hr/> \$ 0.00
Weighted average number of common shares outstanding, basic and diluted	<hr/> 82,277,495	<hr/> 66,244,995

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Share capital		Reserves	Deficit	Total shareholders' equity (deficiency)
	Common shares	Amount	Stock options		
	#	\$	\$	\$	\$
Balance as at July 31, 2015	66,244,995	13,479,460	715,302	(14,138,803)	55,959
Loss for the period	-	-	-	(49,645)	(49,645)
Balance as at October 31, 2015	66,244,995	13,479,460	715,302	(14,188,448)	6,314
Private placement	1,750,000	140,000	-	-	140,000
Share issue costs	-	(300)	-	-	(300)
Shares issue pursuant to option agreement	9,000,000	420,000	-	-	420,000
Shares issue pursuant to exercise of options	50,000	2,500	-	-	2,500
Shares issue pursuant to exercise of warrants	5,232,500	261,625	-	-	261,625
Transfer to share capital on exercise options	-	1,782	(1,782)	-	-
Share-based payments	-	-	532,043	-	532,043
Forfeited options	-	-	(69,704)	69,704	-
Loss for the period	-	-	-	(1,512,152)	(1,512,152)
Balance as at July 31, 2016	82,277,495	14,305,067	1,175,859	(15,630,896)	(149,970)
Share-based payments	-	-	15,074	-	15,074
Forfeited options	-	-	(3,599)	3,599	-
Loss for the period	-	-	-	(115,599)	(115,599)
Balance as at October 31, 2016	82,277,495	14,305,067	1,187,334	(15,742,896)	(250,495)

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

	Three months ended	
	October 31, 2016	October 31, 2015
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (115,599)	\$ (49,645)
Items not involving cash:		
Depreciation	189	257
Share-based payments	15,074	-
	(100,336)	(49,388)
Changes in working capital:		
Accounts receivable	1,518	(44,006)
Prepaid expenses	496	-
Accounts payable and accrued liabilities	8,256	21,820
	(90,066)	(71,574)
Financing activities:		
Proceeds from loans	31,000	-
	31,000	-
Decrease in cash and cash equivalents during the period	(59,066)	(71,574)
Cash and cash equivalents, beginning of the period	67,908	234,029
Cash and cash equivalents, end of the period	\$ 8,842	\$ 162,455

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

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Three months ended October 31, 2016 and 2015

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 were listed for trading on the TSX Venture Exchange ("TSX-V") and on February 3, 2014, the Company changed its name to Avarone Metals Inc. and commenced trading on the TSX-V under the symbol "AVM". On January 20, 2016, the Company listed on the Canadian Securities Exchange ("Exchange" or "CSE") while simultaneously delisting from the TSX-V. The Company retained its name and symbol and trades on the CSE as Avarone Metals Inc. (CSE-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 exploring its resource properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts shown for resource properties are dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of its 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 interim 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, 2016, the Company had not yet achieved profitable operations, had accumulated losses of \$15,742,896 (2016- \$15,630,896), a working capital deficit of \$275,293 (2016 - \$174,957) and expects to incur further losses in the development of its business. The Company will be required to raise additional capital in order to maintain its option obligations and fund 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.

These condensed consolidated interim 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 interim financial statements were authorized for issue on December 28, 2016, by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

Basis of Presentation and Consolidation

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

3. Equipment

	Office equipment
	\$
Costs:	
Balance, July 31, 2016 and October 31, 2016	42,314
Depreciation:	
Balance, July 31, 2016	30,271
Depreciation	189
Balance, October 31, 2016	30,460
Impairment:	
Balance, July 31, 2016 and October 31, 2016	8,298
Net Book Value:	
October 31, 2016	3,556
July 31, 2016	3,745

4. Exploration and Evaluation Expenditures

Expenditures incurred by the Company on the Properties and expensed are summarized as follows:

	Wildnest and Phantom Lake, Saskatchewan (a)	Rushton Lake, Saskatchewan (b)	McWilliams Lake, Saskatchewan (c)	Borys Lake, Saskatchewan (d)	Moab, Nevada (e)	Total
	\$	\$	\$	\$	\$	\$
Balance, July 31, 2016	71,687	160,000	402,633	122,482	344,388	1,101,190
Assays and claim costs	-	-	-	-	40,000	40,000
Balance October 31, 2016	71,687	160,000	402,633	122,482	384,388	1,141,190

Exploration expenditures have been expensed as incurred in accordance with the Company's accounting policy for exploration and evaluation costs.

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

4. Exploration and Evaluation Expenditures – (continued)

(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, (the “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 in the Claims by making cash payments of \$32,500 and issuing 225,000 common shares of the Company in accordance with the schedule below. In addition, the Company is required to complete exploration programs totalling \$850,000 over a five year period.

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
Totals	32,500	450,000	850,000

**As at October 31, 2016, the Company had not made the \$10,000 payment or issued the 25,000 common shares due on December 21, 2015, and is in negotiations with the Optionor to amend the terms of the Agreement..

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. (See subsequent event note 14).

(b) Rushton Lake Gold Project

The Company entered into an option agreement dated January 8, 2014, whereby the Company has been granted an option to acquire a 100% interest in the Rushton Lake Gold Project (the “Project”) located in central Saskatchewan.

Under the terms of the agreement, the Company may earn a 100% interest in the Project by issuing an aggregate of 4,000,000 common shares, making cash payments of \$300,000 over 30 months and incurring exploration expenditures of \$3,500,000 over four years as follows:

Date	Cash	Common shares	Exploration Expenditures
	\$	#	\$
Upon Exchange approval	-	4,000,000 (issued)	-
On or before July 8, 2015**	100,000	-	-
On or before July 8, 2016**	200,000	-	-
On or before January 8, 2018	-	-	3,500,000
Totals	300,000	4,000,000	3,500,000

**As at October 31, 2016, the Company had not made the \$100,000 payment due on July 8, 2015, or the \$200,000 payment due on July 8, 2016, and is in negotiations with the property vendor to amend the terms of the Agreement.

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

4. Exploration and Evaluation Expenditures – (continued)

(b) Rushton Lake Gold Project (continued)

The claims are subject to a 1% net smelter royalty, which can be purchased at any time by the Company for \$1,000,000.

(c) McWilliams Lake Gold Project

The Company entered into an option agreement dated March 25, 2014, whereby the Company has been granted an option to acquire a 100% interest in the McWilliams Lake Gold Project (the "Property") located in central Saskatchewan.

Under the terms of the agreement, the Company may earn a 100% interest in the Property by issuing an aggregate of 4,000,000 common shares (issued) and incurring exploration expenditures of \$1,000,000 within four years of the signing of the agreement. In order to keep the claims in good standing an annual minimum exploration requirement on the claims must be met. As at October 31, 2016, the claim is in good standing.

(d) Borys Lake Project

On November 16, 2015, the Company entered into an agreement with an arm's length party by which the Company can earn a 100% interest in the Borys Lake Lead-Zinc Project, which covers an area of ~2882 hectares in the southwestern edge of the LaRonge Gold Belt, SK.

Under the terms of the agreement, the Company can earn a 100% interest in the property by completing the following; the issuance of 6,000,000 common shares (issued for a fair value of \$120,000) upon TSX Venture Exchange approval, the payment of further cash consideration totaling \$200,000 over the next 3 years and the completion of \$1,000,000 in qualified exploration expenditures within 4 years from the date of approval. The Company received TSX Venture Exchange Approval on November 24, 2015. During the period ended October 31, 2016, the Company lost the rights to the Borys Lake Lead-Zinc Project. The Company has not made any exploration expenditures on the property, has not maintained the property in good standing, and will not be making future cash payments pursuant to the terms of the agreement to acquire the 100% interest in the property. The property vendor has provided a settlement agreement to the Company for consideration.

(e) Moab Lithium Project

On March 8, 2016, the Company entered into an agreement with an arm's length party to acquire a 100% interest in the Moab Lithium Project, which covers an area of 3200 acres of placer claims in the Big Smoky Valley, Nevada, directly adjacent to claims controlled by Ultra Lithium Inc.

Under the terms of the agreement, the Company can earn a 100% interest in the Moab Lithium Project by completing the following; issuing 3,000,000 common shares (issued for a fair value of \$300,000) upon Exchange approval and paying cash considerations totaling \$200,000 over the next 3 years. A 1% gross overriding royalty has also been granted to the vendor, which can be purchased by the Company at any time for \$1million.

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

5. Accounts payable and accrued liabilities

	October 31, 2016	July 31, 2016
	\$	\$
Accounts payable	52,640	46,890
Due to related parties	23,625	7,875
Accrued liabilities	18,325	30,274
Other payables	5,100	6,395
	99,690	91,434

6. Note payable

	October 31, 2016	July 31, 2016
	\$	\$
Amounts due to related parties	170,100	170,100
	170,100	170,100

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

7. Loans payable

	October 31, 2016	July 31, 2016
	\$	\$
Amounts due to related party (Note 9 (c))	16,000	-
Amounts due to arm's length party	15,000	-
	31,000	-

The loans payable are due on demand and bear no interest.

8. Share Capital and Reserves

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued

At October 31, 2016, there were 82,277,495 issued and fully paid common shares (July 31, 2016 – 82,277,495).

(c) Share Issuances

There were no shares issued during the three months ended October 31, 2016.

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

8. Share Capital and Reserves – (continued)

(d) 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 25.0% on the date of the grant and 12.5% every three months thereafter for a total vesting period of 18 months.

On September 19, 2016, the Company issued a total of 275,000 incentive stock options at an exercise price of \$0.05 to consultants of the Company. The options are exercisable for a period of 10 years from the date of grant.

On September 19, 2016, 40,000 stock options at an exercise price of \$0.09 were forfeited. The fair value of the options at \$3,599 was reclassified from reserves to deficit.

A summary of the status of the options outstanding follows:

	Number of Options #	Weighted Average Exercise Price \$
Balance, July 31, 2016	7,009,166	0.10
Granted	275,000	0.05
Forfeited	(40,000)	0.09
Balance October 31, 2016	7,244,166	0.10

Stock options outstanding and exercisable at October 31, 2016, are as follows:

Options Outstanding #	Exercise Price \$	Expiry Date	Options Exercisable #
190,000	0.05	May 20, 2018	190,000
100,000	0.05	February 4, 2019	100,000
100,000	0.05	February 18, 2019	100,000
177,500	0.05	October 12, 2020	177,500
162,500	0.05	April 26, 2022	162,500
100,000	0.05	January 27, 2024	100,000
1,064,166	0.05	April 23, 2025	1,064,166
125,000	0.05	February 23, 2026	125,000
1,775,000	0.115	February 25, 2026	1,775,000
1,000,000	0.12	March 3, 2026	1,000,000
750,000	0.11	April 25, 2026	750,000
100,000	0.09	May 26, 2026	100,000
1,325,000	0.08	July 8, 2026	1,325,000
275,000	0.05	September 19, 2026	275,000
7,244,166			7,244,166

The weighted average remaining contractual life of outstanding options is 8.67 years (July 31, 2016: 8.88 years). (See subsequent event note 14).

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

8. Share Capital and Reserves – (continued)

(d) Stock Options (continued)

The fair values of stock options granted were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	October 31, 2016	July 31, 2016
Risk free interest rate	0.98%	0.86% - 1.18%
Expected life of options	10 years	5 years
Expected dividend yield	-	-
Expected stock price volatility	223%	244%

(e) Warrants

There was no change in warrants during the period ended October 31, 2016.

Warrants outstanding at October 31, 2016, are as follows:

Number Outstanding	Exercise Price	Expiry Date
13,142,500	\$0.05	June 16, 2017
875,000	\$0.12	July 6, 2018
14,017,500	\$0.05	

9. 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 months ended October 31,	2016	2015
	\$	\$
Office, rent, administration and wages	9,750	67,453

(b) Compensation of Key Management Personnel

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.

Three months ended October 31,	2016	2015
	\$	\$
Management fees	22,500	16,200
Office and administrative fees	-	7,750
Benefits	2,314	-
Legal fees	533	2,675
	25,347	26,625

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

9. Related Party Transactions – (continued)

(c) Related Party Balances

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

	October 31, 2016	July 31, 2016
	\$	\$
A company controlled by a current director and officer	193,725	177,975
Directors and officers of the Company	16,000	-

10. Commitment

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2020, as follows:

	\$
2017	57,960
2018	60,720
2019	63,480
2020	66,240

11. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at October 31, 2016, and July 31, 2016, with its assets located primarily in North America.

12. Financial Instruments and Risk Management

(a) Fair Value of Financial Instruments

As at October 31, 2016, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposit, accounts payable and accrued liabilities, 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.

The Company has no financial instrument assets or liabilities recorded in the statements of financial position at October 31, 2016, and July 31, 2016, at fair value and accordingly fair value hierarchy disclosure is not required.

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Three months ended October 31, 2016 and 2015

12. Financial Instruments and Risk Management – (continued)

(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 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. Management considers that risks related to credit are minima

(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, 2016, the Company had cash and cash equivalents of \$25,497 to settle current liabilities of \$300,790.

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) 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 accounts payable and accrued liabilities, note payable and loans payable are non-interest bearing. As at October 31, 2016, the Company's interest bearing assets are cash and cash equivalents. The Company maintains a minimum cash balance in its chequing account and transfers funds from its investment account when the need arises. The Company's investments are placed in GICs which interest rates vary depending on the rates offered by the banks when the instruments mature and are automatically renewed. A change of 100 basis points in the interest rates would not be material to the financial statements.

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 these financial statements of which production is not expected in the near future.

During the period ended October 31, 2016, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Three months ended October 31, 2016 and 2015

13. 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 (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.

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 period ended October 31, 2016.

14. Subsequent Events

On December 7, 2016, the Company issued a total of 2,455,000 incentive stock options at a price of \$0.05 to directors, officers, employees and consultants of the Company. The options are exercisable for a period of 10 years from the date of grant.

On December 13, 2016, 4,525,000 options ranging in price from \$0.08 to \$0.12 were forfeited.

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.

SCHEDULE "B"

AVARONE METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended October 31, 2016 and 2015

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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 holds, or has the right to acquire a 100% interest in the Wildnest and Phantom Lake gold properties, Rushton Lake gold properties and McWilliams Lake gold properties located in Saskatchewan in addition to the Moab Lake Lithium Property in Nevada (the "Properties"). In addition to the Company's ongoing work program on the Properties, it continues to actively evaluate new potential projects. 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, 2016, and 2015 and is prepared as of December 28, 2016, in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months ended October 31, 2016, and 2015, and audited consolidated financial statements for the years ended July 31, 2016, and 2015, 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

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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 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. 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.

On March 8, 2016, the Company entered into an agreement with an arm's length vendor to acquire a 100% interest in the Moab Lithium Project, which covers an area of 3,200 acres of placer claims in the Big Smoky Valley, Nevada, directly adjacent to claims controlled by Ultra Lithium Inc.

The Company can earn a 100% interest in the Moab Lithium Project by completing the following; issuing 3,000,000 common shares upon approval, paying cash considerations totalling \$200,000 over the next 3 years. A 1% gross overriding royalty has also been granted to the vendors, which can be purchased by the company at any time for \$1,000,000.

On November 16, 2015, the Company entered into an agreement with an arm's length party by which the Company can earn a 100% interest in the Borys Lake Lead-Zinc Project (the "Agreement"), which covers an area of ~2882 hectares in the southwestern edge of the LaRonge Gold Belt, SK. Under the terms of the Agreement, the Company can earn a 100% interest in the property by completing the following; the issuance of 6,000,000 common shares (issued for a fair value of \$120,000) upon TSX Venture Exchange approval, the payment of further cash consideration totaling \$200,000 over the next 3 years and the completion of \$1,000,000 in qualified exploration expenditures within 4 years from the date of approval. The Company received TSX Venture Exchange approval on November 24, 2015.

During the period ended October 31, 2016, Company lost the rights to the Borys Lake Lead-Zinc Project. The Company has not made any exploration expenditures on the property, has not maintained the property in good standing, and will not be making future cash payments pursuant to the terms of the Agreement to acquire the 100% interest in the property. The property vendor has provided a settlement agreement to the Company for consideration.

Matters in the prior periods related to the ongoing development of the Wildnest & Phantom Lake Properties, the Rushton Lake Property and the McWilliams Lake Property have been disclosed in previous MD&As filed on SEDAR.

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

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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.

Results of Operations

During the three months ended October 31, 2016, the Company reported a net loss of \$115,599 compared to a net loss of \$49,645 for the three months ended October 31, 2015. The increase in loss is primarily attributable to an increase in activity during the current quarter. Exploration and evaluation costs were \$40,000 for the three months ended October 31, 2016, compared to \$nil for the corresponding quarter in the prior year. The exploration and evaluation costs for 2016 were related to the Moab Lithium Property. Share-based payments were \$15,074 for the three months ended October 31, 2016, compared to \$nil for the three months ended October 31, 2015. The increase is related to stock options issued during the current quarter. In addition, the Company saw an increase in regulatory, transfer agent and shareholder information of \$4,871, an increase in management fees of \$6,300, an increase in rent, wages and benefits of \$5,875, and an increase in professional fees of \$3,688 during the three months ended October 31, 2016. These increases were partially offset by a decrease of \$9,864 in office costs for the three months ended October 31, 2016.

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:

Quarters ended	Total Revenues (\$)	Net earnings (loss) (\$)	Earnings (loss) per share (\$)
October 31, 2016	Nil	(115,599)	-
July 31, 2016	Nil	(912,542)	(0.02)
April 30, 2016	Nil	(534,062)	(0.01)
January 31, 2016	Nil	(65,548)	-
October 31, 2015	Nil	(49,645)	-
July 31, 2015	Nil	(21,298)	-
April 30, 2015	Nil	49,831	-
January 31, 2015	Nil	19,218	-

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 property 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, whether the Company has granted any stock options or modified the terms of the stock options, or recorded a gain, loss or impairment on its investments and these are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable. The Company currently does not hold any investments and does not anticipate any other major gains, losses, impairments or fair value adjustments in its future quarterly results. A major factor

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

which can cause a material variation in net loss on a quarterly basis is the granting of stock options and amendments to the terms of stock options due to the resulting share-based compensation charges which can be significant when they arise. Another major factor which may cause a material variation in net loss on a quarterly basis is the acquisition of interests in mineral rights and related exploration expenditures. This may be seen in the quarters ended October 31, 2016, July 31, 2016, and April 30, 2016, as a result of the acquisition of interests in the Borys Lake property and the Moab Lithium Project.

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, 2016, the Company had a working capital deficiency of \$275,293 compared to \$174,957 at July 31, 2016.

During the period ended October 31, 2016, the Company received loans of \$31,000.

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2020, as follows:

	\$
2017	57,960
2018	60,720
2019	63,480
2020	66,240

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 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*".

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

Transactions with Related Parties

During the period ended October 31, 2016 and 2015, 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:

	2016	2015
	\$	\$
Office, rent, administration and wages recovered from Norsemont Capital Inc.	9,750	67,453

Compensation of Key Management Personnel

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.

Name and Relationship to Company	Transaction	Three months ended October 31, 2016	Three months ended October 31, 2015
		\$	\$
Clarus Management Ltd., a company controlled by a current director and officer	Office and Administrative Fees	Nil	7,750
Mosam Ventures Inc., a company controlled by a current director and officer	Management Fees	22,500	16,200
Marc Levy, Chief Executive Officer	Benefits	2,314	-
Max Pinsky PLC, a company controlled by a current officer	Professional Fees	533	2,675

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

	October 31, 2016	July 31, 2016
	\$	\$
A company controlled by a current director and officer	193,725	177,975
Directors and officers of the Company	16,000	-

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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 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 consolidated financial statements relate to going concern assessments, share-based payments and taxes.

Accounting Standard Issued but not yet Adopted:

The following IFRS standards have been recently issued by the IASB or the IFRIC. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 will replace the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The mandatory effective date has tentatively been set for January 1, 2018, however early adoption of the new standard is permitted. The Company currently does not intend to early adopt IFRS 9. The adoption of IFRS 9 is currently not expected to have a material impact on the financial statements as the classification and measurement of the Company's financial instruments is not expected to change given the nature of the Company's operations and the types of financial instruments that it currently holds.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. Early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

of the new standard. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Financial Instruments and Other Instruments

(a) Fair Value of Financial Instruments

As at October 31, 2016, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposit, accounts payable and accrued liabilities, 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.

The Company has no financial instrument assets or liabilities recorded in the statements of financial position at October 31, 2016, and July 31, 2016, at fair value and accordingly fair value hierarchy disclosure is not required.

(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:

(a) 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 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. Management considers that risks related to credit are minimal.

(b) 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, 2016, the Company had cash and cash equivalents of \$25,497 to settle current liabilities of \$300,790.

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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. See Note 1 to the Company's condensed interim consolidated financial statements as at and for the period ended October 31, 2016, for further discussions on liquidity.

(c) **Market Risk**

(i) **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 accounts payable and accrued liabilities, note payable and loans payable are non-interest bearing. As at October 31, 2016, the Company's interest bearing assets are cash and cash equivalents. The Company maintains a minimum cash balance in its chequing account and transfers funds from its investment account when the need arises. The Company's investments are placed in GICs for which interest rates vary depending on the rates offered by the banks when the instruments mature and are automatically renewed. A change of 100 basis points in the interest rates would not be material to the financial statements.

(ii) **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 these financial statements of which production is not expected in the near future.

During the period ended October 31, 2016, 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.

AVARONE METALS INC.

Management's Discussion and Analysis

For the three months ended October 31, 2016 and 2015

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 period ended October 31, 2016.

Outstanding Share Data

As at December 28, 2016, the Company had 82,277,495, common shares outstanding. As at the same date there were 14,017,500 warrants outstanding at exercise prices from \$0.05 to \$0.12 per share. In addition, 5,174,166 stock options were outstanding at exercise prices from \$0.05 to \$0.08 per share.

	<u>Number of shares</u>	<u>Number of options</u>	<u>Exercise price</u>	<u>Expiry date</u>
Issued and outstanding	82,277,495			
		190,000	\$0.05	May 20, 2018
		100,000	\$0.05	Feb 4, 2019
		100,000	\$0.05	Feb 18, 2019
		177,500	\$0.05	Oct 12, 2020
		162,500	\$0.05	Apr 26, 2022
		100,000	\$0.05	Jan 27, 2024
		1,064,166	\$0.05	Apr 23, 2025
		125,000	\$0.05	Feb 23, 2026
		425,000	\$0.08	Jul 8, 2026
		275,000	\$0.05	Sep 19, 2026
		<u>2,455,000</u>	<u>\$0.05</u>	Dec 7, 2026
		5,174,166	\$0.05	

Warrants

<u>Number Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
13,142,500	\$0.05	June 16, 2017
875,000	\$0.12	July 6, 2018
<u>14,017,500</u>		

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 or on the Company's website at www.avarone.com.