

# **AVARONE METALS INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and six months ended January 31, 2025 and 2024

**AVARONE METALS INC.****Management's Discussion and Analysis**

For the three months ended January 31, 2025

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**Description of Business and nature of operations**

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 precious metals and energy-based resource properties.

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 and six months ended January 31, 2025 and 2024, and is prepared as of March 31, 2025. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended January 31, 2025 and 2024, and the notes related thereto (the "Interim Financial Statements") and the audited consolidated financial statements for the year ended July 31, 2024, which is prepared in accordance to 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 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.sedarplus.ca](http://www.sedarplus.ca). 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.

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**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.

**Future outlook**

The Company is currently searching for a new exploration property and continues to evaluate new mining opportunities. In addition, the Company needs to raise additional capital to fund general working capital requirements and other ongoing commitments.

**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:

<b>Quarters ended</b>	<b>Total Revenues (\$)</b>	<b>Net earnings (loss) (\$)</b>	<b>Earnings (loss) per share (\$)</b>
January 31, 2025	Nil	4,321	0.00
October 31, 2024	Nil	(67,570)	(0.00)
July 31, 2024	Nil	(317,034)	(0.00)
April 30, 2024	Nil	(41,984)	(0.00)
January 31, 2024	Nil	(44,121)	(0.00)
October 31, 2023	Nil	(59,725)	(0.00)
July 31, 2023	Nil	(27,240)	(0.00)
April 30, 2023	Nil	(41,885)	(0.00)
January 31, 2023	Nil	(47,789)	(0.00)

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, however this arrangement has ended on January 31, 2024 at the end of the office lease.

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**Discussion of operations****Three Months Ended January 31, 2025**

During the three months ended January 31, 2025, the Company reported a net income and comprehensive income of \$4,321 compared to a net loss of \$44,121 in the quarter ended January 31, 2024, representing a decrease in loss of \$48,442. The decrease in loss is primarily due to the decrease in depreciation expense and increase in other income due to the end of office lease agreement and related charges to other reporting issuers with common directors and/or officers and derecognition of some accruals due to statute of limitations expiry.

**Six Months Ended January 31, 2025**

During the six months ended January 31, 2025, the Company reported a net loss and comprehensive loss of \$63,249 compared to a net loss of \$103,846 in the quarter ended January 31, 2024, representing an decrease in loss of \$40,597. The decrease in loss is primarily due to the decrease in depreciation expense and increase in other income due to the end of office lease agreement and related charges to other reporting issuers with common directors and/or officers and derecognition of some accruals due to statute of limitations expiry.

**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 January 31, 2025, the Company had a working capital deficiency of \$1,861,995 compared to \$1,798,746 at July 31, 2024. The increase in working capital deficiency was primarily due to additional promissory note issued during the period.

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For the three months ended January 31, 2025

The Company had the following promissory notes payable as at January 31, 2025:

	January 31, 2025	July 31, 2024
	\$	\$
Promissory note dated February 8, 2017 and due on August 8, 2017, bearing interest rate of 24%	60,000	60,000
Promissory note dated March 31, 2017 and due on September 30, 2017, bearing interest rate of 24%	16,500	16,500
Promissory note dated October 10, 2017 and due on April 10, 2018, bearing interest rate of 24%	25,000	25,000
Promissory note dated October 11, 2019 and repayable on demand, interest free	5,000	5,000
Promissory note dated November 27, 2017 and due on May 27, 2018, bearing interest rate of 24%	20,000	20,000
Promissory note dated January 22, 2020 and due on July 22, 2020, bearing interest rate of 12%	5,000	5,000
Promissory note dated November 4, 2020 and repayable on demand, bearing interest rate of 12%	14,300	14,300
Promissory note dated December 2, 2020 and repayable on demand, bearing interest rate of 12%	500	500
Promissory note dated August 12, 2021 and repayable on demand, bearing interest rate of 12%	15,000	15,000
Promissory note dated August 22, 2022 and repayable on demand, bearing interest rate of 12%	10,000	10,000
Promissory note dated September 26, 2023 and repayable on demand, bearing interest rate of 12%	20,000	20,000
Promissory note dated November 7, 2024 and repayable on demand, bearing interest rate of 24%	17,097	-
Promissory note dated November 27, 2024 and repayable on demand, bearing interest rate of 24%	7,875	-
	216,272	191,300

As additional consideration for the promissory notes, the Company must issue to the lenders common shares with an aggregate value of \$24,300. The shares have not been issued as at January 31, 2025 and July 31, 2024 and are included in share subscriptions.

Total interest accrued on the promissory notes as at January 31, 2025 amounted to \$245,275 (July 31, 2024 - \$225,385) and is included in the accrued liabilities. During the three and six months ended January 31, 2025, the Company incurred \$10,656 and \$19,890 (2024 - \$9,234 and \$18,870), respectively, of interest expense pertaining to the promissory notes.

**Lease commitment**

During the year end July 31, 2024, the Company renewed its lease with a start date of February 1, 2024. The Company recognized the renewed lease's right-of-use asset and lease liability of \$254,246 based on base rent in monthly average payments of \$7,130 with an interest rate of 18% per annum and a lease end date of January 2029. The Company accrued interest on the renewed lease of \$10,353 during the year ended July 31, 2024. During the same year, the Company was not able to raise the funds needed to continue on the renewed lease. Upon termination of the lease on January 30, 2024, the Company recognized impairment of the ROU asset of \$254,246, derecognized the lease liability of \$264,599 and recognized an obligation to the landlord of \$251,778 included in accounts payable and accrued liabilities. The net impact of these write-offs of \$241,425 is recognized as a loss on termination of lease.

As at January 31, 2025 and July 31, 2024, the balance of Lease liability and Right-of-use asset amounted to \$nil.

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**Liquidity outlook**

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".

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.

**Transactions with Related Parties**

During the three and six months ended January 31, 2025 and 2024, the Company incurred the following transactions with related parties:

	Three months ended January 31,		Six months ended	January 31,
	2025	2024	2025	2024
			\$	\$
Income from sub-leasing			-	38,746

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

	Three months ended January 31,		Six months ended January 31,	
	2025	2024	2025	2024
Management fees	22,500	22,500	22,500	22,500
Professional fees	-	7,500	-	7,500
Share-based payments	-	-	-	-
	22,500	30,000	22,500	30,000

The following related party amounts were included in liabilities:

	January 31, 2025	July 31, 2024
	\$	\$
Companies controlled by officers of the Company	1,146,658	1,071,655

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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 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.

**Financial Instruments and Risk Management****(a) Fair Value of Financial Instruments**

As at January 31, 2025, 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.

**(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 January 31, 2025, the Company had cash of \$184 to settle to settle current liabilities of \$1,866,454.

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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. Liquidity risk is assessed as high.

(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.

**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.

There were no changes in the Company's management of capital during the period ended January 31, 2025.

**Outstanding Share Data**

As at the date of this MD&A, the Company had the following issued and outstanding securities:

<b>Description of securities</b>	<b>Number of securities</b>
Issued and outstanding common shares	91,414,661
Stock options	6,620,000
	98,034,661

**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.sedarplus.ca](http://www.sedarplus.ca) or on the Company's website at [www.avarone.com](http://www.avarone.com).