

AVARONE METALS INC.
(Formerly Remstar Resources Ltd.)
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2014 and 2013

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Avarone Metals Inc.
(formerly Remstar Resources Ltd.)

We have audited the accompanying consolidated financial statements of Avarone Metals Inc. (formerly Remstar Resources Ltd.), which comprise the consolidated statements of financial position as at July 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in shareholder's deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Avarone Metals Inc. (formerly Remstar Resources Ltd.) as at July 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Avarone Metals Inc. (formerly Remstar Resources Ltd.)'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

November 25, 2014

AVARONE METALS INC.

(Formerly Remstar Resources Ltd.)
(An Exploration Stage Company)

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

July 31, 2014 and 2013

	2014	2013
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	29,619	41,776
Amounts receivable	1,050	-
Prepaid expenses	20,751	22,057
	51,420	63,833
Equipment (note 4)	5,903	7,449
	57,323	71,282
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 6 and 11(c))	298,851	108,113
Loans payable (note 7)	100,149	37,220
	399,000	145,333
SHAREHOLDERS' DEFICIENCY		
Share capital (note 8)	13,085,419	12,309,550
Reserves (note 8)	768,927	776,010
Deficit	(14,196,023)	(13,159,611)
	(341,677)	(74,051)
	57,323	71,282

Nature of operations and going concern (note 1)
Commitment (note 12)

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

AVARONE METALS INC.

(Formerly Remstar Resources Ltd.)
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Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

Years ended July 31, 2014 and 2013

	2014	2013
	\$	\$
Expenses:		
Exploration and evaluation (note 5)	567,700	62,112
General and administrative		
Consulting fees	-	48,333
Depreciation (note 4)	1,546	1,964
Management fees (note 11)	64,800	64,800
Office costs (note 11)	8,582	22,921
Professional fees (note 11)	14,683	17,988
Regulatory, transfer agent and shareholder information	27,841	19,406
Share-based payments (notes 8 and 11)	158,042	23,702
Travel, advertising and promotion	61,919	7,132
Rent, wages and benefits (note 11)	122,870	106,629
	1,027,983	374,987
Loss before other items	(1,027,983)	(374,987)
Other items:		
Foreign exchange gain (loss)	(874)	(1,812)
Finance and other income (note 9)	1,000	91,128
Finance and other costs (note 10)	(19,511)	(15,224)
	(19,385)	74,092
Net loss and comprehensive loss for the year	(1,047,368)	(300,895)
Basic and diluted loss per share	(0.02)	(0.01)
Weighted average number of shares	52,798,478	46,788,670

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

AVARONE METALS INC.

(Formerly Remstar Resources Ltd.)
(An Exploration Stage Company)

Consolidated Statement of Changes in Shareholder's Deficiency (Expressed in Canadian Dollars)

Years ended July 31, 2014 and 2013

	Notes	Share capital		Reserves			Deficit	Total shareholders' deficiency
		Common shares	Amount	Stock options	Treasury shares	Total		
		#	\$	\$	\$	\$		
Balance, July 31, 2012		43,999,999	12,086,575	755,668	50,420	806,088	(12,912,496)	(19,833)
Net loss for the year		-	-	-	-	-	(300,895)	(300,895)
Share-based payments	8(d)	-	-	23,702	-	23,702	-	23,702
Forfeited options	8(d)	-	-	(3,360)	-	(3,360)	3,360	-
Reclassification of escrow shares cancelled		-	-	-	(50,420)	(50,420)	50,420	-
Share issued pursuant to loan agreement	7(a)	200,000	10,000	-	-	-	-	10,000
Share issued pursuant to option agreement	5(b)	55,000	2,200	-	-	-	-	2,200
Private placement	8(c)	4,600,000	230,000	-	-	-	-	230,000
Share issue costs	8(c)	-	(19,225)	-	-	-	-	(19,225)
Balance, July 31, 2013		48,854,999	12,309,550	776,010	-	776,010	(13,159,611)	(74,051)
Net loss for the year		-	-	-	-	-	(1,047,368)	(1,047,368)
Share issued pursuant to option agreement	5(b), (c) & (d)	8,220,000	562,200	-	-	-	-	562,200
Bonus shares for loan	7(b)	200,000	10,000	-	-	-	-	10,000
Share-based payments	8(d)	-	-	158,042	-	158,042	-	158,042
Exercise of options	8(d)	990,000	203,669	(154,169)	-	(154,169)	-	49,500
Forfeited options	8(d)	-	-	(10,956)	-	(10,956)	10,956	-
Balance, July 31, 2014		58,264,999	13,085,419	768,927	-	768,927	(14,196,023)	(341,677)

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

AVARONE METALS INC.

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Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended July 31, 2014 and 2013

	2014	2013
	\$	\$
Cash provided by (used in):		
Operating activities:		
Net loss for the year	(1,047,368)	(300,895)
Items not involving cash:		
Accrued interest	7,929	2,220
Depreciation	1,546	1,964
Share-based payments	158,042	23,702
Shares issued for exploration and evaluation	562,200	2,200
Financing fees	10,000	10,000
	(307,651)	(260,809)
Changes in non-cash working capital balances:		
Amounts receivable	(1,050)	28,326
Prepaid expenses	1,306	(1,282)
Accounts payable and accrued liabilities	190,738	12,314
	(116,657)	(221,451)
Financing activities:		
Proceeds from loan, net of repayment	55,000	35,000
Shares issued for cash, net of issue costs	49,500	210,775
	104,500	245,775
(Decrease) increase in cash and cash equivalents during the year	(12,157)	24,324
Cash and cash equivalents, beginning of the year	41,776	17,452
Cash and cash equivalents, end of the year	29,619	41,776
Supplementary information:		
Cash paid for interest	346	2,344
Cash paid for income taxes	-	-

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

AVARONE METALS INC.

(Formerly Remstar Resources Ltd.)
(An Exploration Stage Company)

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended July 31, 2014 and 2013

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 for trading on the TSX Venture Exchange ("Exchange"). On February 3, 2014, the Company changed its name to Avarone Metals Inc. and commenced trading on the Exchange under the symbol "AVM".

The head office and principal address of the Company are located at Suite 507 – 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 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 July 31, 2014, the Company had not yet achieved profitable operations, had accumulated losses of \$14,196,023 (2013 - \$13,159,611), working capital deficit of \$347,580 (2013 - \$81,500) 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 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 consolidated financial statements were authorized for issue on November 25, 2014 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Presentation and Consolidation

The consolidated financial statements of the Company have been prepared on a historical cost basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements include the accounts of the Company and its wholly-owned inactive Mexican subsidiary, Promotora Minera Dialex S.A. de C.V. ("Dialex"). All intercompany balances and transactions have been eliminated on consolidation.

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2. Significant Accounting Policies – (continued)

(b) Use of Estimates and Judgments

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.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Going Concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications use.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

Share-based Payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 8(d) and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project which will impact the financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

Taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

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2. Significant Accounting Policies – (continued)

(c) Functional and Presentation of Foreign Currency

The financial statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiary is the Canadian dollar.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances and highly liquid investments which are readily convertible into cash and that are subject to an insignificant risk of changes in value. The Company's cash and cash equivalents are invested with major financial institutions in business and savings accounts which are readily available on demand by the Company. For the periods presented, the Company is only holding cash.

(e) Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. The annual rates used to compute depreciation are as follows:

Computer hardware	-	30% declining balance
Office equipment	-	10 to 20% declining balance

(f) Exploration and Evaluation Expenditures

Exploration and evaluation activity begins when the Company obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility and the assessment of commercial viability of an identified mineral resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties and the costs of the Company's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

Exploration and evaluation expenditures incurred prior to the determination of commercially viable mineral resources, the feasibility of mining operations and a positive development decision are expensed as incurred. Mineral property acquisition costs and development expenditures incurred subsequent to such a determination are capitalized and amortized over the estimated life of the property following the commencement of commercial production, or are written off if the property is sold, allowed to lapse or abandoned or when an impairment is determined to have occurred.

(g) Provisions

Decommissioning Obligations

A liability for a decommissioning obligation, such as site reclamation costs, is recorded when a legal or constructive obligation exists and is recognized in the period in which it is incurred. The Company records the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for the same amount. Subsequently, these capitalized decommissioning costs will be depreciated over the life of the related assets. The liability is accreted to reflect the passage of time and adjusted to reflect changes in the timing and amount of estimated future cash flows.

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2. Significant Accounting Policies – (continued)

(g) Provisions – (continued)

As at July 31, 2014 and July 31, 2013, the Company has determined that it does not have material decommissioning obligations as the disturbance to date is minimal.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(h) Share-based Payments

The Company has an employee stock option plan. Share-based payments to employees are measured at the fair value of the stock options at the grant date and amortized to expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded in equity as a stock option reserve. The fair value of options is determined using a Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are reversed in the period the forfeiture occurs.

(i) Loss per Share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

All potential dilutive equity instruments are anti-dilutive for the years presented.

(j) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and other financial liabilities.

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Notes to the Consolidated Financial Statements
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Years ended July 31, 2014 and 2013

2. Significant Accounting Policies – (continued)

(j) Financial Instruments – (continued)

Non-derivative Financial Assets

(i) Financial Assets and Liabilities at Fair Value through Profit and Loss

Financial assets and liabilities at fair value through profit and loss are either 'held-for-trading' or classified at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. They are initially and subsequently measured at fair value and changes in fair value are recognized in profit or loss for the period.

The Company does not have any financial assets at fair value through profit and loss.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

The Company has designated its cash and cash equivalents and amounts receivable as loans and receivables.

(iii) Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost, using the effective interest method, less any impairment losses.

The Company does not have any held-to-maturity financial assets.

(iv) Available-for-Sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income (loss) and presented within equity in accumulated other comprehensive income. When the financial assets are sold or an impairment write-down is required, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not have any available-for-sale financial assets.

AVARONE METALS INC.

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Notes to the Consolidated Financial Statements
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2. Significant Accounting Policies – (continued)

(j) Financial Instruments – (continued)

Non-derivative Financial Liabilities

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities, and loans payable which are designated as other liabilities.

Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or in the case of amounts receivable are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(k) Flow-through Shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Canadian tax legislation permits a company to issue flow-through instruments whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Common shares issued on a flow-through basis typically include a premium because of the tax benefits provided to the investor. At the time of issue, the Company estimates the proportion of the proceeds attributable to the premium and the common shares. The premium is estimated as the excess of the subscription price over the value of common shares on the date of the transaction and is recorded as a flow through premium liability. The Company recognizes a pro rata amount of the premium through the statement of comprehensive loss as other income with a corresponding reduction to the flow through premium liability as the flow-through expenditures are incurred and renounced.

When the flow-through expenditures are incurred and renounced, the Company records the tax effect as a change to profit or loss and an increase to deferred income tax liabilities. To the extent that the Company has deferred income tax assets that were not recognized in previous periods, a deferred income tax recovery is recorded to offset the liability resulting from the renunciation.

(l) Income Taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

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Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended July 31, 2014 and 2013

2. Significant Accounting Policies – (continued)

(I) Income Taxes - (continued)

Current Income Tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred Income Tax Liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred Income Tax Assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

3. Recent Accounting Pronouncements

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.

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Notes to the Consolidated Financial Statements
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3. Recent Accounting Pronouncements – (continued)

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.

4. Equipment

	Computer hardware	Office equipment	Total
	\$	\$	\$
Costs:			
Balance, July 31, 2012, 2013 and 2014	24,343	42,314	66,657
Depreciation:			
Balance, July 31, 2012	17,575	25,411	42,986
Depreciation	243	1,721	1,964
Balance, July 31, 2013	17,818	27,132	44,950
Depreciation	169	1,377	1,546
Balance, July 31, 2014	17,987	28,509	46,496
Impairment:			
Balance, July 31, 2012, 2013 and 2014	5,960	8,298	14,258
Net Book Value:			
July 31, 2014	396	5,507	5,903
July 31, 2013	565	6,884	7,449

AVARONE METALS INC.

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Notes to the Consolidated Financial Statements
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5. Exploration and Evaluation Expenditures

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

	Snip and Seebach, British Columbia (a)	Wildnest and Phantom Lake, Saskatchewan (b)	Rushton Lake, Saskatchewan (c)	McWilliams Lake, Saskatchewan (d)	Total
	\$	\$	\$	\$	\$
Balance, July 31, 2012	429,419	-	-	-	429,419
Acquisition and option payments:					
Finder's fee recovery	(1,875)	-	-	-	(1,875)
Cash	-	2,750	-	-	2,750
Common shares issued	-	2,200	-	-	2,200
Staking	-	26,341	-	-	26,341
	(1,875)	31,291	-	-	29,416
Exploration:					
Geophysics	-	12,196	-	-	12,196
Consulting	-	20,500	-	-	20,500
	-	32,696	-	-	32,696
Balance forwarded, July 31, 2013	427,544	63,987	-	-	491,531
Acquisition and option payments:					
Cash	-	5,000	-	-	5,000
Finder's fee	-	500	-	-	500
Common shares issued	-	2,200	160,000	400,000	562,200
	-	7,700	160,000	400,000	567,700
Balance, July 31, 2014	427,544	71,687	160,000	400,000	1,059,231

(a) Snip and Seebach Properties

The Company entered into an option agreement dated January 12, 2011, as amended on June 17, 2011 and July 25, 2012, whereby the Company has been granted an option to acquire a 100% interest in the Snip and Seebach properties (the "Properties") located in British Columbia.

Under the terms of the amended agreement, the Company may earn a 100% interest in the Properties by making cash payments of \$50,000, issuing an aggregate of 4,000,000 common shares over five years and incurring exploration expenditures of \$850,000 over four years as follow:

	Cash	Common shares	Exploration expenditures
	\$	#	\$
On execution of option agreement	50,000 (paid)	-	-
Upon Exchange acceptance	-	2,000,000 (issued)	-
On or before July 25, 2012	-	500,000 (issued)	100,000 (incurred)
On or before July 25, 2013	-	500,000	100,000
On or before July 25, 2014	-	500,000	325,000
On or before July 25, 2015	-	500,000	325,000
	50,000	4,000,000	850,000

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5. Exploration and Evaluation Expenditures – (continued)

(a) Snip and Seebach Properties – (continued)

The property is subject to a 2% net smelter royalty.

Pursuant to a finder's fee agreement dated November 10, 2010, the Company agreed to pay a finder's fee of \$2,500 (paid) and 200,000 common shares (125,000 shares issued) of the Company related to this acquisition.

On July 24, 2013, the Company terminated the option agreement for the Snip and Seebach properties.

(b) 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, ("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 350,000 common shares of the Company over a period of three years. In addition, the Company is required to complete exploration programs totalling \$850,000 over a four 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	10,000	50,000	150,000
On or before December 21, 2015	15,000	50,000	150,000
On or before December 21, 2016	-	-	550,000
Totals	32,500	350,000	850,000

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.

Aggregate finders' fees of \$3,250 (paid: 2014 - \$500; 2013 - \$250) and 35,000 common shares (issued: 2014 - 20,000; 2013 - 5,000 issued) of the Company will be paid in staged yearly payments as property option payments are made.

(c) 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 "Properties") located in central Saskatchewan.

Under the terms of the agreement, the Company may earn a 100% interest in the Properties 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:

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5. Exploration and Evaluation Expenditures – (continued)

(c) Rushton Lake Gold Project - (continued)

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

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

(d) 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.

6. Accounts payable and accrued liabilities

	July 31, 2014	July 31, 2013
	\$	\$
GST payable	6,252	3,247
Accounts payable	1,992	3,337
Due to related parties	247,555	57,855
Accrued liabilities	12,000	12,000
Other payables	31,052	31,674
	298,851	108,113

7. Loans Payable

- (a) The Company entered into a loan agreement dated September 14, 2012, as amended on November 18, 2013, with an arm's length party (the "Lender") in the principal amount of \$50,000. The loan is unsecured, bears interest at 12% per annum and matures on March 15, 2014. In consideration for the loan, the Company issued 200,000 common shares to the Lender at a fair value of \$10,000. During the year ended July 31, 2013, the Company made a partial payment of \$15,000 towards this loan. During the year ended July 31, 2014, the Company paid or accrued \$4,723 (2013 - \$4,564) in interest on this loan.

The Lender signed an amended letter agreement dated March 15, 2014, granting the Company an extension to the term of the loan to March 15, 2015.

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7. Loans Payable - (continued)

- (b) During the year ended July 31, 2014, the Company obtained an additional \$50,000 loan from the Lender under an agreement dated January 28, 2014, in the principal amount of \$50,000. The loan is unsecured, bears interest at 12% per annum and matures on July 28, 2014. In consideration for the loan, the Company issued 200,000 common shares to the Lender at a fair value of \$10,000. During the year ended July 31, 2014, the Company paid or accrued \$3,119 (2013 - \$nil) in interest on this loan.

The Lender signed an amended letter agreement dated July 28, 2014, granting the Company an extension to the term of the loan to July 28, 2015.

- (c) During the year ended July 31, 2014, the Company received an advance of \$25,600 from the CEO of the Company under a promissory note dated March 14, 2014. The advance including interest of \$346 was fully repaid during the year ended July 31, 2014. The advance was unsecured, bore interest at 12% per annum and had a term of six months.
- (d) During the year ended July 31, 2014, the Company received an advance of \$5,000 from the CEO of the Company under a promissory note dated June 24, 2014. The advance is unsecured, bears interest at 12% per annum and is payable on demand. During the year ended July 31, 2014, the Company paid or accrued \$63 (2013 - \$nil) in interest on this loan.

8. Share Capital and Reserves

- (a) Authorized

Unlimited number of voting common shares without par value.

- (b) Issued

At July 31, 2014, there were 58,264,999 issued and fully paid common shares (2013 – 48,854,999).

- (c) Share Issuances

On January 17, 2013, the Company closed a non-brokered private placement of 4,600,000 units at \$0.05 per unit for gross proceeds of \$230,000. Each unit consisted of one common share and one-half of one common share purchase warrant of the Company. Each warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.10 per share expiring January 7, 2015.

Share issue costs with respect to the private placement totaled \$19,225 which included finder's fees of \$17,000 and other cash issue costs of \$2,225.

- (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.

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8. Share Capital and Reserves – (continued)

(d) Stock Options – (continued)

A summary of the status of the options outstanding follows:

	Number of Options #	Weighted Average Exercise Price \$
Balance, July 31, 2012	4,015,000	0.05
Forfeited	(110,000) ⁽¹⁾	0.05
Balance, July 31, 2013	3,905,000	0.05
Granted	795,000	0.05
Exercised	(990,000)	0.05
Forfeited	(125,000) ⁽¹⁾	0.05
Balance, July 31, 2014	3,585,000	0.05

⁽¹⁾ During the year ended July 31, 2014, the fair value of 125,000 (2013 – 110,000) forfeited options of \$10,956 (2013 - \$3,360) was reclassified from reserves to deficit.

Stock options outstanding and exercisable at July 31, 2014 are as follows:

Options Outstanding #	Exercise Price \$	Expiry Date	Options Exercisable #
100,000 ⁽¹⁾	0.05	August 9, 2016	100,000
50,000 ⁽¹⁾	0.05	April 26, 2017	50,000
110,000 ⁽¹⁾	0.05	April 17, 2018	110,000
455,000 ⁽¹⁾	0.05	May 20, 2018	455,000
75,000 ⁽¹⁾	0.05	June 12, 2018	75,000
230,000 ⁽¹⁾	0.05	February 4, 2019	230,000
275,000 ⁽¹⁾	0.05	February 18, 2019	275,000
555,000 ⁽¹⁾	0.05	October 12, 2020	550,000
940,000 ⁽¹⁾⁽²⁾	0.05	April 26, 2022	940,000
245,000	0.05	January 27, 2024	245,000
550,000	0.05	February 6, 2024	550,000
3,585,000			3,585,000

⁽¹⁾ During the year ended July 31, 2014, the exercise price of these options was repriced to \$0.05.

⁽²⁾ During the year ended July 31, 2014, the expiry date of these options was extended to April 26, 2022.

During the year ended July 31, 2014, the Company amended the terms of an aggregate of 3,780,000 stock options previously granted to employees, directors and consultants of the Company. These options had original exercise prices of \$0.10 per share and were re-priced to have an exercise price of \$0.05 per share. In addition, the expiry date of the 1,375,000 options was extended for an additional five years, from April 26, 2017 to April 26, 2022. These modifications resulted in the recognition of additional share-based payments of \$117,565 during the year ended July 31, 2014. The fair values of the modified stock options were estimated using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield – 0%; expected stock price volatility – 146.69%; risk-free interest rate – 1.24%; expected life – 2.63 years; and fair value per option - \$0.03.

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8. Share Capital and Reserves – (continued)

(d) Stock Options – (continued)

During the year ended July 31, 2014, the Company recorded share-based payments of \$40,477 (2013 - \$23,702) for the fair value of stock options granted and vested during the period. The weighted average fair value of options granted during the year ended July 31, 2014 was \$0.05 (2013 - \$nil) per option.

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

	2014	2013
Risk free interest rate	1.84%	-
Expected life of options	6.45 years	-
Expected dividend yield	-	-
Expected stock price volatility	126.65%	-

(e) Warrants

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

	Warrants	Weighted Average Exercise Price
	#	\$
Balance, July 31, 2012	930,000	0.10
Granted	2,300,000	0.10
Balance, July 31, 2013 and 2014	3,230,000	0.10

Warrants outstanding at July 31, 2014 are as follows:

Number of Outstanding	Exercise Price	Expiry Date
930,000	\$0.10	July 28, 2016
2,300,000	\$0.10	January 7, 2015

9. Finance and other income

	2014	2013
	\$	\$
Recovery of asset-backed commercial paper ⁽ⁱ⁾	-	91,128
Small business hiring credit	1,000	-
	1,000	91,128

⁽ⁱ⁾ During the year ended July 31, 2013, the Company received its pro rata share of asset-backed commercial paper ("ABCP") settlement funds. The funds were collected from various investment dealers as a result of ABCP enforcement settlements.

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10. Finance and other costs

	2014	2013
	\$	\$
Financing fee (note 7)	10,000	10,000
Interest expense (note 7)	8,276	4,564
Bank charges	1,235	660
	<u>19,511</u>	<u>15,224</u>

11. Related Party Transactions

(a) Related Party Transactions

- (i) The Company incurred the following transactions with a company that is controlled by an officer of the Company:

	2014	2013
	\$	\$
Legal fees	<u>1,887</u>	<u>3,758</u>

- (ii) The Company recovered expenses from companies having directors and officers in common netted directly against the related expense:

	2014	2013
	\$	\$
Office, rent, administration and wages	<u>414,175</u>	<u>381,794</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, Chief Executive Officer and Chief Financial Officer.

	2014	2013
	\$	\$
Short-term benefits - management fees	64,800	64,800
Short-term benefits - wages and salaries	26,000	24,600
Share-based payments ⁽¹⁾	38,392	10,396
	<u>129,192</u>	<u>99,796</u>

⁽¹⁾ Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (note 8(d)).

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11. Related Party Transactions – (continued)

(c) Related Party Balances

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

	2014	2013
	\$	\$
Companies having directors and officers in common		
	162,505	40,845
Company controlled by a director and officer of the Company	85,050	17,010

Amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

12. Commitment

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2015, as follows:

	\$
2015	79,474

13. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at July 31, 2014 and 2013 with all assets located in Canada.

14. Financial Instruments and Risk Management

(a) Fair Value of Financial Instruments

As at July 31, 2014, the Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and loan 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.

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14. Financial Instruments and Risk Management – (continued)

(a) Fair Value of Financial Instruments – (continued)

The Company has no financial instrument assets or liabilities recorded in the statements of financial position at July 31, 2014 and 2013 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:

(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 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 July 31, 2014, the Company had cash and cash equivalents of \$29,619 to settle current liabilities of \$399,000.

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 are non-interest bearing. As at July 31, 2014, 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 5 of these financial statements of which production is not expected in the near future.

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14. Financial Instruments and Risk Management – (continued)

(b) Financial Instruments Risk – (continued)

(iii) Market Risk - (continued)

During the year ended July 31, 2014 and 2013, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

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' 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 year ended July 31, 2014.

16. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2014	2013
	\$	\$
Earnings (loss) for the year	(1,047,368)	(300,895)
Statutory tax rate	26%	25.33%
Expected income tax (recovery)	(272,000)	(76,000)
Change in statutory and future tax rates	(4,000)	(60,000)
Permanent differences	41,000	6,000
Share issue cost	(3,000)	(5,000)
Adjustment to prior year provision versus statutory tax return	(23,000)	-
Change in unrecognized deductible temporary differences and expiry of tax assets	261,000	135,000
Total income taxes expense (recovery)	-	-

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16. Income Taxes – (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of the financial position are as follows:

	2014	Expiry Date Range	2013
	\$		\$
Temporary Differences:			
Exploration and evaluation assets	1,026,000	No expiry date	425,000
Property and equipment	38,000	No expiry date	42,000
Share issue costs	26,000	2034 to 2038	24,000
Allowable capital losses	797,000	No expiry date	797,000
Non-capital losses available for future period	4,911,000	2014 to 2034	4,506,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.