

# **AVARONE METALS INC.**

(Formerly Remstar Resources Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended July 31, 2015 and 2014

**AVARONE METALS INC.**  
(Formerly Remstar Resources Ltd.)  
Management's Discussion and Analysis  
Years ended July 31, 2015 and 2014

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Avarone Metals Inc. (formerly Remstar Resources Ltd.) (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 (the "Properties"). In addition to the Company's ongoing work program on the Properties, it continues to actively evaluate new potential projects. The Company's shares are listed for trading on the TSX Venture Exchange ("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 years ended July 31, 2015 and 2014 and is prepared as of November 30, 2015. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended July 31, 2015 and 2014.

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

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

**Description of Business**

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

The Company currently has a right to acquire an interest in resource properties located in Canada as follows:

Wildnest and Phantom Lake gold properties:

The Company entered into an option agreement with Ray-Dor Resources Ltd. ("Ray-Dor") dated November 15, 2012, as amended on October 28, 2013, 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.

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

During the year ended July 31, 2013, the Company staked four additional claims which are contiguous to the Wildnest Lake property. The property has been expanded from 11 square kilometres to over 50 square kilometres. These staked claims are also subject to the terms of the above option agreement.

On November 26, 2014, the Company entered into a second amendment agreement with Ray-Dor to extend the cash payment by one year and the exploration work over a seven year period. Consideration for the extension will be 100,000 common shares and additional 10,000 common shares will be issued as a finder's fee.

Aggregate finders' fees of \$3,250 (\$750 paid) and 7,500 common shares (2014: 10,000 issued) were issued during fiscal 2015.

*Geology:*

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The Wildnest Lake property ("Wildnest property") is located within the Amisk collage, Flin Flon domain, Reindeer zone, of the Trans-Hudson orogenic belt. Rocks in the area are dated at approximately 1.9 billion years before the present. The volcanics are described as Juvenile Arc volcanics. Volcanogenic-massive-sulphide deposits in the Flin Flon domain are typically hosted within these type and age of rocks. The volcanic, sedimentary and minor intrusive rocks within the Wildnest property have undergone regional metamorphism to Upper Amphibolite facies.

### *Mineralization:*

The Wildnest property hosts several known gold-/silver-plus/minus-copper/zinc occurrences. The Wildnest property was acquired for both its gold and volcanogenic-massive-sulphide potential. The best known occurrence is the Manson Bay gold zone. As reported in the Company's November 19, 2012 news release, assessment report 63M 01-SW-0031 describes a 1987 to 1988 drill program of 44 holes for a total of 15,115 feet (4,607 metres) on the Manson Bay gold zone. Highlights include a reported interval of 0.679 ounce per ton gold (23.28 grams per tonne) uncut over 21 feet (6.4 metres) true thickness in drill hole MBO-15. Geologically, the zone is located on the west side of a major north-south-trending shear zone and is on the west side of the Schotts Lake anticline.

The expanded property now covers both sides of the fold and approximately 10 kilometres along strike of the fault. Further details regarding the geology and mineralization of the Wildnest property and area can be found on the Company's website, [www.remstarresources.com](http://www.remstarresources.com).

The Company intends to conduct an exploration campaign consisting of ground-based geophysics and drilling on the Wildnest property. Exploration will commence subject to the Company raising funds to finance the work program of approximately \$300,000. While the Company has been previously successful in raising funds, there is no assurance that the Company will be able to obtain adequate financing or that such financing will be available on acceptable terms to the Company.

The technical information above has been prepared in accordance with the Canadian regulatory requirements set out in National Instrument 43-101 and reviewed and approved on behalf of the company by Shahab Tavakoli, PGeo, a qualified person.

### Rushton Lake gold property:

The Company entered into an option agreement with Anstag Mining Inc. dated January 8, 2014, whereby the Company has been granted an option to acquire a 100% interest in the Rushton Lake gold property (the "Property"). Under the terms of the agreement, the Company may earn a 100% interest in the Property by issuing 2,000,000 common shares (issued), paying an aggregate of \$300,000 over 30 months and incurring \$3,500,000 in exploration expenditures over a period of four years. The claim is subject to a 1% NSR, which can be purchased at any time by the Company for \$1,000,000. As at July 31, 2015, the Company had not made the \$100,000 payment due on July 8, 2015 and the option agreement is in default.

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### *Geology:*

The Property covers an area of ~1889 hectares and is situated ~6.7km SW of the Company's Wildnest Gold Project in central Saskatchewan.

### *Mineralization:*

In 2008, Murgor Resources Inc. completed VTEM survey of the Property (as part of the Flin-D Project) and 30 Hz EM data was subsequently interpreted by Condor Consulting Inc. (Daniel Sattel PhD. Geophysics and Ken Witherly AIPG.) The 2063 line survey was performed with 200m line spacing and with an average EM bird height of 40m. The magnetometer was mounted in a separate bird flown at an average height of 62m above ground. The Rushton Lake block warranted particular scrutiny and was surveyed with a perpendicular grid. The principal task of the survey was to identify targets which could be zones of polymetallic VMS-style mineralization analogous to the Flin Flon or Triple 7 deposits. The expected geophysical target based on knowledge of the local deposits in the Flin Flon District (the Fon and Abbott Lake Deposits) would be features of moderate to strong conductance with possible magnetic association. Based on local examples, zones of economic mineralization may also be found as discrete zones or as part of longer, formational style trends. The Condor interpretation identified no less than 8 discrete anomalies, seven high and one medium priority.

### McWilliams Lake gold property:

The Company entered into an option agreement with Garmin Metals and Mining Corp. dated March 25, 2014, whereby the Company has been granted an option to acquire a 100% interest in the McWilliams Lake gold Property (the "McWilliams Property"). Under the terms of the agreement, the Company may earn a 100% interest in the McWilliams Property by issuing 2,000,000 common shares (issued) and incurring \$1,000,000 in exploration expenditures over a period of four years.

### *Geology:*

The McWilliams Property which covers an area of ~1009 hectares, ~6.4km NW of Avarone's Wildnest Gold Project in central Saskatchewan, near the Manitoba border.

### *Mineralization:*

In 2008, Murgor Resources Inc. completed VTEM survey of the McWilliams Lake project (as part of the Flin-D Project) and 30 Hz EM data was subsequently interpreted by Condor Consulting Inc. (Daniel Sattel PhD. Geophysics and Ken Witherly AIPG.) The 2063 line survey was performed with 200m line spacing and with an average EM bird height of 40m. The magnetometer was mounted in a separate bird flown at an average height of 62m above ground. The principal task of the survey was to identify targets which could be zones of polymetallic VMS-style mineralization analogous to the Flin Flon or Triple 7 deposits. The expected geophysical target based on knowledge of the local deposits in the Flin Flon District (the Fon and Abbott Lake Deposits) would be features of moderate to strong conductance with possible magnetic association. Based on local examples, zones of economic mineralization may also be found as discrete zones or as part of longer, formational style trends.

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The Condor interpretation identified 2 broad anomalies, both of which were potentially formational in nature and of "high priority." The largest anomaly is northeast trending and covers an area of over 3km. These anomalies are significant as gold bearing mineralization in this area are closely associated with graphite and as such are conductive.

### **Risk Factors**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Due to the nature of the Company's business and the present stage of exploration of its mineral properties (which are primarily early stage exploration properties with no known resources or reserves that have not been explored by modern methods), the following risk factors, among others, will apply:

***Mining Industry is Intensely Competitive:*** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. The great majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any mineral deposit will be such that any of its mineral properties could be mined at a profit.

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**Permits and Licenses:** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

**No Assurance of Profitability:** The Company has no history of earnings and, due to the nature of its proposed business, there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

**Consolidated financial statements have been prepared assuming the Company will continue on a going concern basis:** Avarone's consolidated financial statements have been prepared on the basis that it will continue as a going concern. At July 31, 2015, Avarone had not yet achieved profitable operations, had accumulated losses of \$14,125,103, working capital of \$29,729 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 cast significant doubt on the entity's ability to continue as a going concern. Furthermore, failure to continue as a going concern would require that Avarone's assets and liabilities be restated on a liquidation basis which would likely differ significantly from their going concern assumption carrying values.

During the year ended July 31, 2014, Avarone received \$55,000 through a third party loan. During the year ended July 31, 2015, Avarone raised \$392,500 through a private placement financing and received \$15,000 as a third party loan.

**Uninsured or Uninsurable Risks:** Exploration, development and mining operations involve various hazards, including environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, flooding, fires, metal losses and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to or destruction of mineral properties, facilities or other property, personal injury, environmental damage, delays in operations, increased cost of operations, monetary losses and possible legal liability. The

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Company may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. The Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

**Government Regulation:** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

**Environmental Restrictions:** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

**Share Price Volatility:** In recent years, worldwide securities markets, particularly those in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds (including those holding the Company's securities) to sell such securities at any price. As a consequence, despite the Company's past success in securing significant equity financing, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

**Financing Risks:** The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfil its obligations under any applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance



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that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

***Insufficient Financial Resources:*** The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its planned exploration and development programs. Future property acquisitions and the development of the Company's properties will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing, short or long-term borrowings or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to raise the required funds could result in the Company losing, or being required to dispose of, its interest in its properties. In particular, failure by the Company to raise the funding necessary to maintain in good standing its various option agreements could result in the loss of its rights to such properties.

***Dilution to the Company's Existing Shareholders:*** The Company will require additional equity financing be raised in the future. The Company may issue securities on less than favourable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

***Dependence upon Others and Key Personnel:*** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

***Surface Rights and Access:*** Although the Company acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access

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is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdictions.

**Title:** Although the Company has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

**Acquisition of Mineral Concessions under Agreements:** The agreement pursuant to which the Company has the right to acquire a number of its properties provide that the Company must make a series of cash payments and/or share issuances over certain time periods, expend certain minimum amounts on the exploration of the properties or contribute its share of ongoing expenditures. The Company does not presently have the financial resources required to complete all expenditure obligations under its property acquisition agreement over their full term. Failure by the Company to make such payments, issue such shares or make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations thereunder, with the result that the Company could forfeit its interest in one or more of its mineral properties.

**Selected Annual Information**

The following selected financial data with respect to the Company's financial condition and results of operations has been derived from the audited financial statements of the Company for the years ended July 31, 2015, 2014 and 2013 prepared in accordance with IFRS. The selected financial data should be read in conjunction with those financial statements and the notes thereto.

	2015	2014	2013
Interest income	\$Nil	\$Nil	\$Nil
Net gain/(loss)	\$(4,739)	(\$1,047,368)	(\$300,895)
Loss per share	\$(0.01)	(\$0.02)	(\$0.01)
Total assets	\$268,156	\$57,323	\$71,282
Total long term liabilities	\$Nil	\$Nil	\$Nil
Cash dividends declared per share for each class of share	\$Nil	\$Nil	\$Nil

**Results of Operations**

During the year ended July 31, 2015, the Company reported a net comprehensive loss of \$4,739 compared

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to a net loss of \$1,047,368 during the year ended July 31, 2014, and change in loss of \$1,042,629. The gain was primarily attributable to significant decreases in exploration and evaluation expenditures from \$567,700 (2014) to \$2,633 (2015), share-based payments from \$158,042 (2014) to \$8,335 (2015), travel from \$61,919 (2014) to \$330 (2015) and increases in finance and other income from \$1,000 (2014) to \$136,500 (2015).

Exploration and evaluation expenditures remained essentially static apart from the amendment to the Wildnest and Phantom Lake properties. On November 26, 2014, the Company entered into a second amendment agreement with Ray-Dor to extend the cash payment by one year and the exploration work over a seven year period. Consideration for the extension was 100,000 common shares and additional 10,000 common shares were issued as a finder's fee.

Travel, advertising and promotion decreased by \$61,589 during the year ended July 31, 2015 as a result of decreased activity during the year. During the prior year, the Company paid for the distribution of investment materials.

During the year ended July 31, 2015, the Company granted an aggregate of 1,670,000 stock options to employees, directors and consultants of the Company and recognized additional share-based payments of \$8,335.

Finance and other income during the year ended July 31, 2015 were \$136,500 compared to \$1,000 for the year ended July 31, 2014. The significant increase in finance and other income was attributable to the Company's write off of amounts owing from related parties for rent.

### **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:

<u>Quarters ended</u>	<u>Total Revenues</u> <u>(\$)</u>	<u>Net earnings (loss)</u> <u>(\$)</u>	<u>Earnings (loss)</u> <u>per share (\$)</u>
July 31, 2015	Nil	(21,298)	(0.01)
April 30, 2015	Nil	49,831	-
January 31, 2015	Nil	19,218	-
October 31, 2014	Nil	(52,490)	-
July 31, 2014	Nil	(74,552)	(0.01)
April 30, 2014	Nil	(668,691)	(0.01)
January 31, 2014	Nil	(293,927)	-
October 31, 2013	Nil	(10,198)	-

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 (funding permitting). Quarterly results can vary significantly depending mainly on the Company's acquisition of

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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 which can cause a material variation in net loss on a quarterly basis is the grant of stock options and amendments to the terms of the stock options due to the resulting share-based compensation charges which can be significant when they arise. This may be seen in the quarter ended April 30, 2014. 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 January 31, 2014 and April 30, 2014 as a result of the acquisition of interests in the Rushton Lake gold property and McWilliams Lake gold properties.

The Company leases its office space and charges accounting, administration and other office costs to other reporting issuers with common directors and/or officers. The other major factor which can cause a material variation in net loss on a quarterly basis is the change in this arrangement with related companies. This accounted for the variation in rent, wages and benefits during the quarters ended October 31, 2014, July 31, 2014 and April 30, 2014. General and administrative costs other than the specific items noted above tend to be quite similar from period to period. The variation in income is related to the interest earned on funds held by the Company, which is dependent upon the success of the Company in raising the required financing for its activities which will vary with overall market conditions, and is therefore difficult to predict. Additional significant variations occurred as a result of expenses related to the acquisition of mineral properties in the quarters ended April 30, 2014 and January 31, 2014.

### **Fourth Quarter**

During the fourth quarter, the Company reported a net loss of \$21,298 as compared to a net loss of \$74,552 during the fourth quarter in the prior fiscal year, representing a decrease in loss by \$53,254. The decrease in loss was attributable to a decrease in general and administrative expenses and a decrease in exploration and evaluation expenditures of \$567,700.

The decrease in general and administrative expenses was primarily attributable to the decrease in professional fees of \$4,125, share based payments of \$149,707 and rents, wages and benefits of \$143,567.

During the fourth quarter of 2015, the Company paid \$23,500 to a consultant of the Company. No such expense was incurred in the prior year.

Wages and benefits decreased by \$143,567 due to the decrease in recovery of wages from related companies.

### **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, loans from related parties and third party short-term loans. As at

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July 31, 2015, the Company had working capital of \$29,729 compared to working capital deficit of \$253,303 at July 31, 2014.

As at July 31, 2015, the Company had cash and cash equivalents of \$234,029 compared to cash and cash equivalents of \$29,619 at July 31, 2014. Cash and cash equivalents increased by \$204,410 as a result of financing activities completed during the year offset by a reduction in accounts payable and the repayment of loans.

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. 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 in interest on this loan. During the year ended July 31, 2014, the Lender agreed to extend the term of the loan to July 28, 2015.

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 in April 2014. The advance was unsecured, bore interest at 12% per annum and had a term of six months.

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 was unsecured, bore interest at 12% per annum and is payable on demand. During the year ended July 31, 2014, the Company paid or accrued \$63 in interest on this loan.

On December 1, 2014, the Company received an advance of \$15,000 from an arms' length party of the Company under a promissory note. The advance is unsecured, bears interest at 24% per annum and matures on November 27, 2015. In consideration for the loan, the Company issued 60,000 common shares at a deemed price of \$0.05 per share to the lender.

During the year ended July 31, 2015, the Company repaid all outstanding loan amounts and accrued interest outstanding.

During the year ended July 31, 2014, the Company received total proceeds of \$49,500 from the exercise of 990,000 stock options.

The office had an office lease agreement for approximately \$6,500 per month which expired on January 31, 2015:

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	Total	1-3 years	After 3 years
Contractual Obligation			
Lease commitment	\$79,474	\$79,474	-

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The Company is committed to future minimum annual lease payments with respect to office leases expiring

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January 31, 2020, as follows:

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	\$
2016	55,200
2017	57,960
2018	60,720
2019	63,480
2020	66,240

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During the year ended July 31, 2014, the Company entered into an option agreement dated January 8, 2014, pursuant to which it has been granted an option to acquire a 100% interest in the Rushton Lake gold property (the "Property") located in the central Saskatchewan. Under the terms of the agreement, the Company may earn a 100% interest in the Property by issuing 4,000,000 common shares of the Company, making cash payments of \$300,000 over a period of 30 months. In addition, the Company is required to complete exploration programs totalling \$3,500,000 over a four year period. During the year ended July 31, 2014, the Company issued an aggregate of 4,000,000 common shares at a value of \$160,000 under this agreement. As at July 31, 2015, the Company had not made the \$100,000 payment due on July 8, 2015 and the option agreement is in default.

During the year ended July 31, 2014, the Company entered into an option agreement dated March 25, 2014, pursuant to which it has been granted an option to acquire a 100% interest in the McWilliams Lake gold property (the "Property") located in the central Saskatchewan. Under the terms of the agreement, the Company may earn a 100% interest in the Property by issuing 4,000,000 common shares of the Company and incurring exploration expenditure of \$1,000,000 over a four year period. During the year ended July 31, 2014, the Company issued an aggregate of 4,000,000 common shares at a value of \$400,000 under this agreement.

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

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economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, and upon future profitable production or proceeds from disposition of the resource properties. See "Risk Factors".

**Transactions with Related Parties**

During the years ended July 31, 2015 and 2014, the Company entered into the following transactions with related parties:

a) Related Party Transactions

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

	2015	2014
	\$	\$
Legal fees	318	1,887

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

	2015	2014
	\$	\$
Office, rent, administration and wages	410,066	414,175

**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:**

IFRS 9, Financial Instruments

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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.

**Financial Instruments and Other Instruments**

(a) Fair Value of Financial 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 July 31, 2015 and 2014 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.



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(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 July 31, 2015, the Company had cash and cash equivalents of \$234,029 to settle current liabilities of \$212,197.

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 consolidated financial statements as at and for the year ended July 31, 2015, 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 are non-interest bearing. As at July 31, 2015, 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.

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

During the years ended July 31, 2015 and 2014, 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

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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, 2015.

**Summary of Outstanding Share Data**

(a) Authorized and Issued Capital Stock

- a) Authorized - Unlimited common shares without par value.
- b) Issued

As at November 25, 2015, there were 66,244,995 common shares issued and outstanding.

(b) Options outstanding at November 30, 2015 are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
50,000 <sup>(1)</sup>	0.05	August 9, 2016	50,000
25,000 <sup>(1)</sup>	0.05	April 26, 2017	25,000
55,000 <sup>(1)</sup>	0.05	April 17, 2018	55,000
227,500 <sup>(1)</sup>	0.05	May 20, 2018	227,500
115,000 <sup>(1)</sup>	0.05	February 4, 2019	115,000
137,500 <sup>(1)</sup>	0.05	February 18, 2019	137,500
277,500 <sup>(1)</sup>	0.05	October 12, 2020	277,500
272,500 <sup>(1)(2)</sup>	0.05	April 26, 2022	272,500
112,500	0.05	January 27, 2024	112,500
1,670,000	0.05	April 23, 2025	626,250
<b>2,942,500</b>			<b>1,898,750</b>

<sup>(1)</sup> During the year ended July 31, 2015, the exercise price of these options was repriced to \$0.05.

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

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(c) Warrants outstanding at November 30, 2015 are as follows:

Number of Outstanding	Exercise Price	Expiry Date
465,000	\$0.10	July 28, 2016

**Additional Disclosure**

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