

AVARONE METALS INC.

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

AVARONE METALS INC.

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Avarone Metals Inc. (the "Company" or "Avarone"), incorporated under the laws of the Province of British Columbia on November 3, 1993, is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. It presently holds, or has the right to acquire a 100% interest in the Wildnest and Phantom Lake gold properties, Rushton Lake gold properties and McWilliams Lake gold properties located in Saskatchewan in addition to the Moab Lake Lithium Property in Nevada (the "Properties"). In addition to the Company's ongoing work program on the Properties, it continues to actively evaluate new potential projects. On January 20, 2016, the Company listed on the Canadian Securities Exchange ("Exchange") while simultaneously delisting from the TSX Venture Exchange. The Company's shares are listed for trading on the Exchange under the symbol "AVM".

This management's discussion and analysis ("MD&A") reports on the operating results and financial condition of the Company for the three months ended October 31, 2016, and 2015 and is prepared as of December 28, 2016, in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months ended October 31, 2016, and 2015, and audited consolidated financial statements for the years ended July 31, 2016, and 2015, which were prepared in accordance with IFRS.

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

Cautionary Note Regarding Forward-Looking Information

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

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

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and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual consolidated financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Description of Business

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

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

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

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

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

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

Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Mineral property exploration is a speculative business and involves a high degree of risk. There is a probability that the expenditures made by the Company in exploring its properties will not

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result in discoveries of commercial quantities of minerals. A high level of ongoing expenditures is required to locate and estimate ore reserves, which are the basis to further the development of a property. Capital expenditures to support the commercial production stage are also very substantial.

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

Results of Operations

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

Summary of Quarterly Results

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

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

There are no general trends regarding the Company's quarterly results and the Company's business of resource exploration is not seasonal, as it can work on its property on a year-round basis subject to the availability of sufficient funds. Quarterly results can vary significantly depending mainly on the Company's acquisition of mineral rights and exploration activities, whether the Company has granted any stock options or modified the terms of the stock options, or recorded a gain, loss or impairment on its investments and these are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable. The Company currently does not hold any investments and does not anticipate any other major gains, losses, impairments or fair value adjustments in its future quarterly results. A major factor

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

Liquidity and Capital Resources

The Company has no revenue generating operations from which it can internally generate funds. The Company has financed its operations and met its capital requirements primarily through the issuance of capital stock by way of private placements, the exercise of common share purchase warrants, loans from related parties and third party short-term loans. As at October 31, 2016, the Company had a working capital deficiency of \$275,293 compared to \$174,957 at July 31, 2016.

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

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

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

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

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

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

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Transactions with Related Parties

During the period ended October 31, 2016 and 2015, the Company entered into the following transactions with related parties:

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

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

Compensation of Key Management Personnel

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

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

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

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

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Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

Accounting Standard Issued but not yet Adopted:

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

IFRS 9, Financial Instruments

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

Financial Instruments and Other Instruments

(a) Fair Value of Financial Instruments

As at October 31, 2016, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposit, accounts payable and accrued liabilities, note payable and loans payable. The carrying values of these financial instruments approximate their fair values because of their short-term nature and/or the existence of market related interest rates on the instruments.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

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

(b) Financial Instruments Risk

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

(a) Credit Risk

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

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2016, the Company had cash and cash equivalents of \$25,497 to settle current liabilities of \$300,790.

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The Company is dependent on the availability of credit from its suppliers and its ability to generate sufficient funds from equity and debt financing to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company. See Note 1 to the Company's condensed interim consolidated financial statements as at and for the period ended October 31, 2016, for further discussions on liquidity.

(c) Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's accounts payable and accrued liabilities, note payable and loans payable are non-interest bearing. As at October 31, 2016, the Company's interest bearing assets are cash and cash equivalents. The Company maintains a minimum cash balance in its chequing account and transfers funds from its investment account when the need arises. The Company's investments are placed in GICs for which interest rates vary depending on the rates offered by the banks when the instruments mature and are automatically renewed. A change of 100 basis points in the interest rates would not be material to the financial statements.

(ii) Commodity Price Risk

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

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

Capital Management

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

The Company is not subject to externally imposed capital requirements.

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

There were no changes in the Company's management of capital during the period ended October 31, 2016.

Outstanding Share Data

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

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

Warrants

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

Additional Disclosure

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