

AVARONE METALS INC.

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

For the nine months ended April 30, 2017 and 2016

(Expressed in Canadian Dollars)

AVARONE METALS INC.

April 30, 2017

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

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

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

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

	April 30, 2017	July 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 5,966	\$ 67,908
Accounts receivable	3,229	17,369
Prepaid expenses	1,125	1,300
	10,320	86,577
Deposit	21,242	21,242
Equipment (note 3)	3,183	3,745
	\$ 34,745	\$ 111,564
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 158,117	\$ 91,434
Note payable (note 6 and 9)	170,100	170,100
Loans payable (note 7)	91,500	-
	419,717	261,534
SHAREHOLDERS' DEFICIENCY		
Share capital (note 8)	14,305,067	14,305,067
Reserves (note 8)	804,834	1,175,859
Deficit	(15,494,873)	(15,630,896)
	(384,972)	(149,970)
	\$ 34,745	\$ 111,564

Nature of operations and going concern (note 1)

Commitment (note 10)

Subsequent events (note 15)

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

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	April 30, 2017	April 30, 2016 (Restated - Note 14)	April 30, 2017	April 30, 2016 (Restated - Note 14)
Expenses:				
Exploration and evaluation (note 4)	\$ -	\$ 413,360	\$ 45,511	\$ 535,852
General and administrative				
Depreciation	184	257	562	771
Management fees (note 9)	22,544	22,500	67,544	54,900
Office costs (note 9)	159	40,167	5,198	44,231
Professional fees (note 9)	12,235	(2,529)	33,362	10,871
Consulting fees	-	7,900	-	7,900
Regulatory, transfer agent, and shareholder information	2,771	100,492	11,430	118,511
Share-based payments (note 8)	-	294,030	111,009	294,030
Travel, promotion and shareholder communication	451	9,564	1,141	9,564
Rent, wages and benefits (note 9)	18,163	(4,738)	67,568	41,851
	56,507	881,003	343,325	1,118,481
Loss before other items	(56,507)	(881,003)	(343,325)	(1,118,481)
Other items:				
Foreign exchange loss	-	(70)	-	(70)
Finance and other income	-	-	-	32
Finance and other costs	(2,679)	(258)	(2,686)	(950)
	(2,679)	(328)	(2,686)	(988)
Net loss and comprehensive loss for the period	\$ (59,186)	\$ (881,331)	\$ (346,011)	\$ (1,119,469)
Loss per common share, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)
Weighted average number of common shares outstanding, basic and diluted	82,277,495	75,478,328	82,277,495	70,766,893

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share capital		Reserves	Deficit (Restated - Note 14)	Total shareholders' deficiency (Restated - Note 14)
	Common shares	Amount	Stock options		
	#	\$	\$	\$	\$
Balance as at July 31, 2015	66,244,995	13,479,460	715,302	(14,138,803)	55,959
Shares issue pursuant to option agreements	9,000,000	420,000	-	-	420,000
Shares issue pursuant to exercise of options	50,000	2,500	-	-	2,500
Shares issue pursuant to exercise of warrants	3,800,000	190,000	-	-	190,000
Transfer to share capital on option exercise	-	1,782	(1,782)	-	-
Share-based payments	-	-	368,112	-	368,112
Forfeited options	-	-	(69,704)	69,704	-
Loss for the period	-	-	-	(1,119,469)	(1,119,469)
Balance as at April 30, 2016	79,094,995	14,093,742	1,011,928	(15,188,568)	(82,898)
Private placement	1,750,000	140,000	-	-	140,000
Share issue costs	-	(300)	-	-	(300)
Shares issue pursuant to exercise of warrants	1,432,500	71,625	-	-	71,625
Share-based payments	-	-	163,931	-	163,931
Loss for the period	-	-	-	(442,328)	(442,328)
Balance as at July 31, 2016	82,277,495	14,305,067	1,175,859	(15,630,896)	(149,970)
Share-based payments	-	-	111,009	-	111,009
Forfeited options	-	-	(482,034)	482,034	-
Loss for the period	-	-	-	(346,011)	(346,011)
Balance as at April 30, 2017	82,277,495	14,305,067	804,834	(15,494,873)	(384,972)

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

AVARONE METALS INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

	Nine months ended	
	April 30, 2017	April 30, 2016 (Restated - Note 14)
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Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (346,011)	\$ (1,119,469)
Items not involving cash:		
Shares issued for exploration and evaluation	-	420,000
Depreciation	562	771
Share-based payments	111,009	294,030
	<hr/>	<hr/>
	(234,440)	(404,668)
Changes in working capital:		
Accounts receivable	14,140	(58,517)
Prepaid expenses	175	229
Accounts payable and accrued liabilities	66,683	52,407
	<hr/>	<hr/>
	(153,442)	(410,549)
Financing activities:		
Exercise of warrants	-	190,000
Exercise of options	-	2,500
Proceeds from loans	91,500	-
	<hr/>	<hr/>
	91,500	192,500
Decrease in cash and cash equivalents during the period	(61,942)	(218,049)
Cash and cash equivalents, beginning of the period	67,908	234,029
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Cash and cash equivalents, end of the period	\$ 5,966	\$ 15,980

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

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

1. Nature of Operations and Going Concern

The Company was incorporated under the laws of the Province of British Columbia on November 3, 1993. The Company's shares were listed for trading on the TSX Venture Exchange ("TSX-V") and on February 3, 2014, the Company changed its name to Avarone Metals Inc. and commenced trading on the TSX-V under the symbol "AVM". On January 20, 2016, the Company listed on the Canadian Securities Exchange ("Exchange" or "CSE") while simultaneously delisting from the TSX-V. The Company retained its name and symbol and trades on the CSE as Avarone Metals Inc. (CSE-AVM).

The head office and principal address of the Company are located at Suite 610 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's records office and registered office address is located at Suite 700 – 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5.

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts shown for resource properties are dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of its resource properties, the discovery of economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's resource properties. As a resource company in the exploration stage, the ability of the Company to complete its acquisition, exploration and development will be affected principally by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means.

These condensed consolidated interim financial statements have been prepared using accounting policies applicable to a going concern which contemplate the realization of assets and settlement of liabilities in the normal course of business. At April 30, 2017, the Company had not yet achieved profitable operations, had accumulated losses of \$15,494,873 (2016- \$15,630,896), a working capital deficit of \$409,397 (2016 - \$174,957) and expects to incur further losses in the development of its business. The Company will be required to raise additional capital in order to maintain its option obligations and fund working capital requirements. While the Company has been successful in the past, there is no assurance that it will be able to obtain adequate financing or that such financing will be available on acceptable terms. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities. These material uncertainties may cast significant doubt on the entity's ability to continue as a going concern.

These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

2. Significant Accounting Policies

The condensed consolidated interim financial statements were authorized for issue on June 23, 2017, by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

Basis of Presentation and Consolidation

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

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

3. Equipment

	Office equipment
	\$
Costs:	
Balance, July 31, 2016 and April 30, 2017	42,314
Depreciation:	
Balance, July 31, 2016	30,271
Depreciation	562
Balance, April 30, 2017	30,833
Impairment:	
Balance, July 31, 2016 and April 30, 2017	8,298
Net Book Value:	
April 30, 2017	3,183
July 31, 2016	3,745

4. Exploration and Evaluation Expenditures

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

	Wildnest and Phantom Lake, Saskatchewan (a)	Rushton Lake, Saskatchewan (b)	McWilliams Lake, Saskatchewan (c)	Borys Lake, Saskatchewan (d)	Moab Lake, Nevada (e)	Total
	\$	\$	\$	\$	\$	\$
Balance, July 31, 2016	71,687	160,000	402,633	122,482	344,388	1,101,190
Termination of agreement	-	-	-	(122,482)	-	(122,482)
Assays and claim costs	5,011	-	-	-	40,500	45,511
Balance April 30, 2017	76,698	160,000	402,633	-	384,888	1,024,219

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

AVARONE METALS INC.

(An Exploration Stage Company)
Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)
Nine months ended April 30, 2017 and 2016

4. Exploration and Evaluation Expenditures – (continued)

(a) Wildnest and Phantom Lake Properties

The Company entered into an option agreement with Ray-Dor Resources Ltd. (the "Optionor") dated November 15, 2012, as amended on October 28, 2013 and November 24, 2014, ("Agreement"), pursuant to which it has been granted an option to acquire a 100% interest in seven mineral claims known as the Wildnest and Phantom Lake gold properties located in the Flin Flon area of Manitoba and Saskatchewan (the "Claims"). Under the terms of the Agreement, the Company may earn a 100% interest in the Claims by making cash payments of \$32,500 and issuing 225,000 common shares of the Company in accordance with the schedule below. In addition, the Company is required to complete exploration programs totalling \$850,000 over a five year period.

Date	Cash	Common shares	Exploration Expenditures
	\$	#	\$
Upon Exchange approval	2,500 (paid)	50,000 (issued)	-
On or before November 7, 2013	-	200,000 (issued)	-
On or before June 21, 2014	5,000 (paid)	-	-
On or before December 21, 2014	-	150,000 (issued)	-
On or before December 21, 2015	10,000*	50,000*	16,515
On or before December 21, 2016	15,000**	-	50,000**
On or before December 21, 2017	-	-	150,000
On or before December 21, 2018	-	-	200,000
On or before December 21, 2019	-	-	433,485
Totals	32,500	450,000	850,000

*As at April 30, 2017, the Company had not made the \$10,000 payment or issued the 50,000 common shares due on December 21, 2015, and the option agreement is in default.

** On December 21, 2016 the Company failed to make the cash payment of \$15,000 or incur \$50,000 of exploration expenditures as required under the option agreement for the Wildnest and Phantom Lake Properties.

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.

(b) Rushton Lake Gold Project

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

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

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

**As at April 30, 2017, the Company had not made the \$100,000 payment due on July 8, 2015, or the \$200,000 payment due on July 8, 2016, and the option agreement is in default.

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

4. Exploration and Evaluation Expenditures – (continued)

(b) Rushton Lake Gold Project (continued)

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

(c) McWilliams Lake Gold Project

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

Under the terms of the agreement, the Company may earn a 100% interest in the Property by issuing an aggregate of 4,000,000 common shares (issued) and incurring exploration expenditures of \$1,000,000 within four years of the signing of the agreement. In order to keep the claims in good standing an annual minimum exploration requirement on the claims must be met. As at April 30, 2017, the claim is in good standing.

(d) Borys Lake Project

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

Under the terms of the agreement, the Company can earn a 100% interest in the property by completing the following; the issuance of 6,000,000 common shares (issued for a fair value of \$120,000) upon TSX Venture Exchange approval, the payment of further cash consideration totaling \$200,000 over the next 3 years and the completion of \$1,000,000 in qualified exploration expenditures within 4 years from the date of approval. The Company received TSX Venture Exchange Approval on November 24, 2015. During the period ended April 30, 2017, the agreement was terminated. 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.

(e) Moab Lake Project

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

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

AVARONE METALS INC.

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Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

5. Accounts payable and accrued liabilities

	April 30, 2017	July 31, 2016
	\$	\$
Accounts payable	36,519	46,890
Due to related parties	69,375	7,875
Accrued liabilities	50,323	30,274
Other payables	1,900	6,395
	158,117	91,434

6. Note payable

	April 30, 2017	July 31, 2016
	\$	\$
Amounts due to related parties	170,100	170,100
	170,100	170,100

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

7. Loans payable

	April 30, 2017	July 31, 2016
	\$	\$
Promissory note	76,500	-
Demand loan	15,000	-
	91,500	-

The promissory note is due August 8, 2017 and bears interest at 18%. If the promissory note is not repaid by August 8, 2017, the interest rate will increase to 24% on that date. Total interest accrued on the promissory note at April 30, 2017 is \$2,679 and is included in accrued liabilities.

The demand loan bears no interest and is due on demand.

8. Share Capital and Reserves

- (a) **Authorized**
Unlimited number of voting common shares without par value.
- (b) **Issued**
At April 30, 2017, there were 82,277,495 issued and fully paid common shares (July 31, 2016 – 82,277,495).
- (c) **Share Issuances**
There were no shares issued during the nine months ended April 30, 2017.
- (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

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

8. Share Capital and Reserves – (continued)

(d) Stock Options (continued)

immediately as determined by the Board of Directors or as to 25.0% on the date of the grant and 12.5% every three months thereafter for a total vesting period of 18 months.

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

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

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

On December 13, 2016, 4,525,000 options ranging in price from \$0.08 to \$0.12 were forfeited. The fair value of the options at \$478,335 was reclassified from reserves to deficit.

A summary of the status of the options outstanding is as follows:

	Number of Options #	Weighted Average Exercise Price \$
Balance, July 31, 2016	7,009,166	0.10
Granted	2,730,000	0.05
Forfeited	(4,565,000)	0.11
Balance April 30, 2017	5,174,166	0.05

Stock options outstanding and exercisable at April 30, 2017, are as follows:

Options Outstanding #	Exercise Price \$	Expiry Date	Options Exercisable #
190,000	0.05	May 20, 2018	190,000
100,000	0.05	February 4, 2019	100,000
100,000	0.05	February 18, 2019	100,000
177,500	0.05	October 12, 2020	177,500
162,500	0.05	April 26, 2022	162,500
100,000	0.05	January 27, 2024	100,000
1,064,166	0.05	April 25, 2025	1,064,166
125,000	0.05	February 23, 2016	125,000
425,000	0.08	July 8, 2026	425,000
275,000	0.05	September 19, 2026	275,000
2,455,000	0.05	December 7, 2026	2,455,000
5,174,166			5,174,166

The weighted average remaining contractual life of outstanding options is 8.18 years (July 31, 2016: 8.88 years).

AVARONE METALS INC.

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Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

8. Share Capital and Reserves – (continued)

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

	April 30, 2017	July 31, 2016
Risk free interest rate	0.98% - 1.59%	0.86% - 1.18%
Expected life of options	10 years	5 years
Expected dividend yield	-	-
Expected stock price volatility	144% - 223%	244%

(e) Warrants

There was no change in warrants during the period ended April 30, 2017.

Warrants outstanding at April 30, 2017 are as follows:

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

9. Related Party Transactions

(a) Related Party Transactions

The Company has been reimbursed for expenses from companies having directors and officers in common netted directly against the related expense as represented in the statement of comprehensive loss:

Nine months ended April 30,	2017	2016
	\$	\$
Office, rent, administration and wages	24,607	91,815

(b) Compensation of Key Management Personnel

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

Nine months ended April 30,	2017	2016
	\$	\$
Management fees	67,500	54,900
Office and administrative fees	-	18,000
Benefits	6,943	-
Legal fees	533	2,675
Share-based payments	29,503	79,032
	104,479	154,607

AVARONE METALS INC.

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Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

(c) Related Party Balances

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

	April 30, 2017	July 31, 2016
	\$	\$
<u>A company controlled by a current director and officer</u>	<u>239,475</u>	<u>177,975</u>

10. Commitment

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

<u>Calendar Year</u>	<u>\$</u>
2017	48,480
2018	63,250
2019	66,010
2020	5,520

11. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at April 30, 2017, and July 31, 2016, with its assets located in North America.

12. Financial Instruments and Risk Management

(a) Fair Value of Financial Instruments

As at April 30, 2017, 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 April 30 2017, and July 31, 2016, at fair value and accordingly fair value hierarchy disclosure is not required.

AVARONE METALS INC.

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Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

12. Financial Instruments and Risk Management – (Continued)

(b) Financial Instruments Risk

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

(i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank and amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Management considers that risks related to credit are 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 April 30, 2017, the Company had cash and cash equivalents of \$5,966 to settle current liabilities of \$419,717.

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, and note payable are non-interest bearing. The promissory note payable bears interest at a fixed rate. As at April 30, 2017, 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.

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

During the period ended April 30, 2017, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

AVARONE METALS INC.

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Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

13. Capital Management

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

The Company is not subject to externally imposed capital requirements.

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

There were no changes in the Company's management of capital during the period ended April 30, 2017.

14. Restatement

The comparative figures for the three and nine months ended April 30, 2016 have been restated to reflect the correct application of the Company's accounting policy whereby 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. During the nine months ended April 30, 2016, \$458,370 of exploration and evaluation expenditures were incorrectly capitalized as exploration and evaluation assets.

In addition, costs of \$8,909 were incorrectly charged to share capital as share issue costs, rent, wages and benefits of \$41,851 were incorrectly classified as office costs and exploration and evaluation costs of \$75,000 were incorrectly classified as consulting fees.

The condensed consolidated interim statements of comprehensive loss for the three and nine months ended April 30, 2016 have been restated as follows:

Three Months Ended April 30, 2016

	Original Amount	Adjustment	Restated Amount
Consulting fees	\$ 82,900	\$ (75,000)	\$ 7,900
Exploration and evaluation	-	413,360	413,360
Office costs	35,429	4,738	40,167
Rent, wages and benefits	-	(4,738)	(4,738)
Regulatory, transfer agent, and shareholder information	91,583	8,909	100,492
Loss before other items	(533,734)	(347,269)	(881,003)
Net loss and comprehensive loss for the period	(534,062)	(347,269)	(881,331)
Loss per common share, basic and diluted	(0.01)	-	(0.01)

AVARONE METALS INC.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Nine months ended April 30, 2017 and 2016

14. Restatement – (Continued)

Nine Months Ended April 30, 2016

	Original Amount	Adjustment	Restated Amount
Consulting fees	\$ 82,900	\$ (75,000)	\$ 7,900
Exploration and evaluation	2,482	533,370	535,852
Office costs	86,082	(41,851)	44,231
Rent, wages and benefits	-	41,851	41,851
Regulatory, transfer agent, and shareholder information	109,602	8,909	118,511
Loss before other items	(651,202)	(467,279)	(1,118,481)
Net loss and comprehensive loss for the period	(652,190)	(467,279)	(1,119,469)
Loss per common share, basic and diluted	(0.01)	(0.01)	(0.02)

15. Subsequent Event

Subsequent to April 30, 2017, an aggregate 13,142,500 common share purchase warrants, each exercisable at a price of \$0.05 into a common share in the capital of the Company, expired unexercised on June 16, 2017.

In addition, the Company announced a private placement offering for up to a maximum of 4,000,000 units at a price of \$0.025 per unit for total proceeds of up to \$100,000. Each unit will consist of one common share and one half of one share purchase warrant. Each whole warrant will be exercisable into one common share of the Company at an exercise price of \$0.05 for a period of 12 months from the date of issue.