

AVARONE METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended July 31, 2019 and 2018

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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 has the right to acquire a 100% interest in the Wildnest and Phantom Lake gold properties located in Manitoba and Saskatchewan, however the option agreement on these properties has been in default since December 2015 as required payments have not been made by the Company. The Company is currently searching for a new exploration property.

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 years ended July 31, 2019, and 2018, and is prepared as of November 27, 2019. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended July 31, 2019, and 2018.

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

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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.

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"). As of July 31, 2019, the two Wildnest claims have lapsed.

Under the terms of the Agreement, the Company may earn a 100% interest by completing the following: making cash payments of \$32,500 (\$7,500 made) over the next four years, issuing 450,000 common shares (400,000 shares issued) of the Company over the next three years. In addition, the Company is required to completing exploration programs totalling \$850,000 over a five-year period. The option agreement is in default since December 2015, as required payments were not made. As at July 31, 2019, the Company has made payments of \$7,500, issued 400,000 common shares, and incurred exploration expenditures of \$16,515.

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.

Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties. Mineral property exploration is a speculative business and involves a high degree of risk. There is a probability that the expenditures made by the Company in exploring its properties will not result in discoveries of commercial quantities of minerals. A high level of ongoing expenditures is required to locate and estimate ore reserves, which are the basis to further the development of a property. Capital expenditures to support the commercial production stage are also very substantial.

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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.

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, 2019, 2018, and 2017 prepared in accordance with IFRS. The selected financial data should be read in conjunction with those financial statements and the notes thereto.

	2019	2018	2017
Interest income	\$Nil	\$Nil	\$Nil
Net loss	\$(411,529)	\$(340,387)	\$(333,602)
Loss per share	\$(0.00)	\$(0.00)	\$(0.00)
Total assets	\$91,054	\$58,276	\$64,603
Total long-term liabilities	\$Nil	\$Nil	\$Nil
Cash dividends declared per share for each class of share	\$Nil	\$Nil	\$Nil

Results of Operations

Three Months Ended July 31, 2019

During the quarter ended July 31, 2019, the Company reported a net loss of \$127,068 compared to a net loss of \$41,241 during the quarter ended July 31, 2018, representing an increase in loss of \$85,827. The increase in loss is primarily attributable to the following:

- An increase of \$55,404 in share-based payments. Share-based payments are \$55,404 for the quarter ended July 31, 2019, compared to a \$Nil of share-based payments for the quarter ended July 31, 2018.
- An increase of \$30,188 in loss of cost recovery. Cost recovery is \$Nil for the quarter ended July 31, 2019, compared to \$30,188 for the quarter ended July 31, 2018.

Year Ended July 31, 2019

During the year ended July 31, 2019, the Company reported a net loss of \$411,529 compared to a net loss of \$340,387 during the year ended July 31, 2018, representing an increase in loss of \$71,142. The increase in loss is primarily attributable to the following:

- An increase of \$53,813 in share-based payments. Share-based payments are \$142,497 for the year ended July 31, 2019, compared to \$88,684 for the prior year. The increase is related to 2,570,000 stock options granted in the year ended July 31, 2019, compared to 1,450,000 options granted in the

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year ended July 31, 2018.

- An increase of \$30,188 in loss of cost recovery. Cost recovery for the year ended July 31, 2019 was nil, compared to \$30,188 for the year ended July 31, 2018 which was related to a recovery of prior year expenses.

This increase was partially offset by the following:

- A decrease of \$6,504 in management fees, is a result of a reduction in consulting fees due to less advisory work.
- A decrease of \$5,357 in professional fees, is related to lower legal fees in the current year.

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, 2019	Nil	(127,068)	(0.00)
April 30, 2019	Nil	(53,263)	(0.00)
January 31, 2019	Nil	(128,981)	(0.00)
October 31, 2018	Nil	(102,217)	(0.00)
July 31, 2018	Nil	(41,241)	(0.00)
April 30, 2018	Nil	(115,408)	(0.00)
January 31, 2018	Nil	(115,679)	(0.00)
October 31, 2017	Nil	(68,059)	(0.00)

There are no general trends regarding the Company's quarterly results and the Company's business of resource exploration is not seasonal, as it can work on its properties on a year-round basis subject to the availability of sufficient funds. Quarterly results can vary significantly depending mainly on the Company's acquisition of mineral rights and exploration activities and whether the Company has granted any stock options or modified the terms of stock options. These are the factors that account for material variations in the Company's quarterly net losses, none of which are predictable.

The Company leases its office space and charges accounting, administration and other office costs to other reporting issuers with common directors and/or officers. 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.

Liquidity and Capital Resources

The Company has no revenue generating operations from which it can internally generate funds. The

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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 July 31, 2019, the Company had a working capital deficiency of \$613,861 compared to \$543,126 at July 31, 2018.

On November 28, 2018, the Company completed a private placement financing, issuing 1,000,000 units at a price of \$0.05 per unit for proceeds of \$50,000. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase an additional common share at a price of \$0.05 for a period of 5 years from the date of issue.

During the year ended July 31, 2019, 2,035,000 stock options were exercised for cash proceeds of \$101,750 and 500,000 warrants were exercised for cash proceeds of \$25,000 less costs of \$175.

On March 20, 2018, the Company completed a private placement financing, issuing 1,000,000 units at a price of \$0.065 per unit for proceeds of \$65,000. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase an additional common share at a price of \$0.085 for a period of 24 months from the date of issue.

During the year ended July 31, 2018, 409,166 stock options were exercised for cash proceeds of \$20,458 and 550,000 warrants were exercised for cash proceeds of \$27,500.

During the year ended July 31, 2018, the Company issued two promissory notes. The first promissory note for \$25,000 was issued on October 10, 2017, bore interest at 18% and was due April 10, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at July 31, 2019, is \$10,101 (July 31, 2018 - \$4,101) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$5,000 in common shares of the Company. The shares have not been issued as at July 31, 2019. This amount was recorded as loan fees in the consolidated statement of comprehensive loss for the year ended July 31, 2018.

The second promissory note for \$20,000 was issued on November 27, 2017, bore interest at 18% and was due May 27, 2018. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at July 31, 2019, is \$7,450 (July 31, 2018 - \$2,650) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$4,000 in common shares of the Company. The shares have not been issued as at July 31, 2019. This amount was recorded as loan fees in the consolidated statement of comprehensive loss for the year ended July 31, 2018.

During the year ended July 31, 2017, the Company issued two promissory notes. The first promissory note, for \$60,000, was due August 8, 2017, and bore interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at July 31, 2018, is \$33,909 (July 31, 2018 - \$19,509) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$12,000 in common shares of the Company. The shares have not been issued as at July 31, 2019. This amount has been recorded as loan fees in the consolidated statement of operations for the year ended July 31, 2017.

The second promissory note, for \$16,500, was due September 30, 2017, and bore interest at 18%. As the

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note was not paid by the due date, the interest rate increased to 24% from that date forward. Total interest accrued on the promissory note at July 31, 2019, is \$8,756 (July 31, 2018 - \$4,796) and is included in accrued liabilities. As additional consideration for the loan, the Company must issue to the lender \$3,300 in common shares of the Company. The shares have not been issued as at July 31, 2019. This amount has been recorded as loan fees in the consolidated statement of operations for the year ended July 31, 2017.

Total interest expense incurred during the year ended July 31, 2019 was \$29,160 and \$25,142 for the year ended July 31, 2018.

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

	\$
2019	27,504
2020	5,520
	<u>33,024</u>

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".

Transactions with Related Parties

During the years ended July 31, 2019, and 2018, the Company entered into the following transactions with related parties:

The Company was reimbursed expenses from companies having officers in common netted directly against

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the related expense:

	2019	2018
	\$	\$
Office, rent, administration and wages recovered from Norsemont Capital Inc.	29,160	10,847

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	Year ended July 31, 2019	Year ended July 31, 2018
		\$	\$
Mosam Ventures Inc., a company controlled by a current director and officer	Management Fees	90,000	90,000
Marc Levy, Chief Executive Officer	Benefits	2,314	9,256
Janet Francis, Director	Share-based payments	Nil	5,000
Peter Born, Director	Share-based payments	Nil	5,000
Marc Levy, Chief Executive Officer	Share-based payments	Nil	15,000
Peter Lee, Director	Share-based payments	9,952	Nil
Kulwant Sandher, Chief Financial Officer	Share-based payments	Nil	21,185
Rana Vig, Director	Share-based payments	32,282	Nil
John Bean, Director	Share-based payments	14,907	Nil
Max Pinsky, Corporate Secretary	Share-based payments	Nil	5,000

The following related party amounts were included in liabilities:

	July 31, 2019	July 31, 2018
	\$	\$
A company controlled by the Chief Executive Officer of the Company	441,975	353,149

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

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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.

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, 2019, and 2018, 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 on amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. 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 July 31, 2019, the Company had cash and cash equivalents of \$48,040 to settle current liabilities of \$702,998.

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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 consolidated financial statements as at and for the year ended July 31, 2019, for further discussions on liquidity.

(c) 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, 2019, 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 interest rates would not be material to the financial statements.

During the years ended July 31, 2019, and 2018, 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.

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, 2019.

Outstanding Share Data

As at November 27, 2019, the Company had 90,031,661 common shares outstanding. As at the same date

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there were 1,340,000 warrants outstanding an exercise prices of \$0.05 - \$0.085 per share. In addition, 5,960,000 stock options were outstanding at exercise prices from \$0.05 to \$0.13 per share.

Stock options outstanding and exercisable at November 27, 2019, are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
177,500	0.05	October 12, 2020	177,500
162,500	0.05	April 26, 2022	162,500
50,000	0.05	January 27, 2024	50,000
780,000	0.05	April 23, 2025	780,000
15,000	0.05	February 23, 2026	15,000
425,000	0.08	July 8, 2026	425,000
50,000	0.05	September 19, 2026	50,000
1,080,000	0.05	December 7, 2026	1,080,000
800,000	0.05	December 3, 2027	800,000
250,000	0.08	March 6, 2028	250,000
250,000	0.085	April 27, 2023	250,000
250,000	0.05	October 15, 2023	250,000
500,000	0.05	January 29, 2024	500,000
570,000	0.06	May 16, 2024	250,000
250,000	0.13	July 8, 2024	250,000
350,000	0.13	August 12, 2024	350,000
5,960,000			5,290,000

Warrants outstanding at November 27, 2019, are as follows:

Warrants Outstanding	Exercise Price	Expiry Date
1,000,000	\$0.085	March 20, 2020
340,000	\$0.05	November 28, 2023

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.