

AVARONE METALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

For the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

AVARONE METALS INC.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - expressed in Canadian dollars)

| | October 31, 2019 | July 31, 2019 |
|---|-------------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 17,922 | \$ 48,040 |
| Accounts receivable | 1,922 | 19,089 |
| Prepaid expenses | 1,908 | 766 |
| Deposit (note 3) | 21,242 | 21,242 |
| | 42,994 | 89,137 |
| Equipment (note 4) | 1,821 | 1,917 |
| | \$ 44,815 | \$ 91,054 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6) | \$ 446,474 | \$ 411,398 |
| Note payable (notes 7 and 11) | 170,100 | 170,100 |
| Loans payable (note 8) | 126,500 | 121,500 |
| | 743,074 | 702,998 |
| SHAREHOLDERS' DEFICIENCY | | |
| Share capital (note 9) | 14,748,856 | 14,739,256 |
| Share subscriptions (notes 8 and 9) | 24,300 | 24,300 |
| Reserve (note 9) | 756,464 | 706,888 |
| Deficit | (16,227,879) | (16,082,388) |
| | (698,259) | (611,944) |
| | \$ 44,815 | \$ 91,054 |

Nature of operations and going concern (note 1)

Commitment (note 12)

Subsequent event (note 16)

On behalf of the Board:

"Marc Levy" Director

"Peter Lee" Director

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

AVARONE METALS INC.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

(Unaudited - expressed in Canadian dollars)

| | Three months ended October 31, | |
|--|---------------------------------------|---------------------|
| | 2019 | 2018 |
| Expenses | | |
| General and administrative | | |
| Depreciation (note 4) | \$ 96 | \$ 121 |
| Management fees (note 11) | 42,500 | 22,500 |
| Office costs | 2,240 | 4,778 |
| Professional fees | 9,500 | 10,185 |
| Regulatory and transfer agent | 2,311 | 4,320 |
| Share-based payments (note 9) | 51,176 | 32,355 |
| Travel, promotion and shareholder communication | 1,024 | 380 |
| Salaries and benefits (note 11) | 21,539 | 12,297 |
| Rent (note 11) | 7,755 | 7,931 |
| | (138,141) | (94,867) |
| Other items: | | |
| Finance and other costs (notes 8 and 10) | (7,350) | (7,350) |
| Net loss and comprehensive loss for the period | \$ (145,491) | \$ (102,217) |
| Loss per common share, basic and diluted | (0.00) | (0.00) |
| Weighted average number of common shares outstanding, basic and diluted | 90,005,574 | 86,336,987 |

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

AVARONE METALS INC.**Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency**

(Unaudited - expressed in Canadian dollars)

Periods ended October 31, 2019 and 2018

| | Notes | Share capital | | Reserve | | Total shareholders' deficiency | |
|---|-------|-------------------|-------------------|---------------------|----------------------------|--------------------------------|------------------|
| | | Common shares | Amount | Share subscriptions | Stock options and warrants | | Deficit |
| | | # | \$ | \$ | \$ | | \$ |
| Balance as at July 31, 2018 | | 86,336,661 | 14,480,367 | 24,300 | 703,697 | (15,727,851) | (519,487) |
| Exercise of stock options | 9 | 10,000 | 500 | - | - | - | 500 |
| Reallocation of fair value of stock options exercised | 9 | - | 500 | - | (500) | - | - |
| Share-based payments | 9 | - | - | - | 32,355 | - | 32,355 |
| Share subscriptions | 9 | - | - | 25,000 | - | - | 25,000 |
| Loss for the period | | - | - | - | - | (102,217) | (102,217) |
| Balance as at October 31, 2018 | | 86,346,661 | 14,481,367 | 49,300 | 735,552 | (15,830,068) | (563,849) |
| Balance as at July 31, 2019 | | 89,871,661 | 14,739,256 | 24,300 | 706,888 | (16,082,388) | (611,944) |
| Reallocation of fair value of warrantss exercised | 9 | - | 1,600 | - | (1,600) | - | - |
| Exercise of warrants | 9 | 160,000 | 8,000 | - | - | - | 8,000 |
| Share-based payments | 9 | - | - | - | 45,172 | - | 45,172 |
| Fair value of options vested | 9 | - | - | - | 6,004 | - | 6,004 |
| Loss for the period | | - | - | - | - | (145,491) | (145,491) |
| Balance as at October 31, 2019 | | 90,031,661 | 14,748,856 | 24,300 | 756,464 | (16,227,879) | (698,259) |

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

AVARONE METALS INC.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - expressed in Canadian dollars)

| | Three months ended October 31, | |
|--|---------------------------------------|-----------------|
| | 2019 | 2018 |
| <hr/> | | |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net loss for the period | \$ (145,491) | \$ (102,217) |
| Items not involving cash: | | |
| Accrued interest | 7,350 | 7,350 |
| Depreciation | 96 | 121 |
| Fair value of vested options | 6,004 | - |
| Share-based payments | 45,172 | 32,355 |
| | <hr/> (86,869) | <hr/> (62,391) |
| Changes in working capital: | | |
| Accounts receivable | 17,167 | (2,112) |
| Prepaid expenses | (1,142) | (943) |
| Accounts payable and accrued liabilities | 27,726 | 27,916 |
| | <hr/> (43,118) | <hr/> (37,530) |
| Financing activities: | | |
| Exercise of warrants | 8,000 | 500 |
| Proceeds from loans | 5,000 | - |
| Deposits on shares | - | 25,000 |
| | <hr/> 13,000 | <hr/> 25,500 |
| Decrease in cash during the period | (30,118) | (12,030) |
| Cash, beginning of the period | 48,040 | 33,067 |
| Cash, end of the period | <hr/> \$ 17,922 | <hr/> \$ 21,037 |

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

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

1. Nature of Operations and Going Concern

The Company was incorporated under the laws of the Province of British Columbia on November 3, 1993. The Company's shares are listed for trading on the Canadian Securities Exchange ("Exchange" or "CSE") under the symbol 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 and evaluating resource properties and has not yet identified any properties that contain established mineral reserves that are economically recoverable. The Company's ability to continue as a going concern is dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of 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 October 31, 2019, the Company had not yet achieved profitable operations, had accumulated losses of \$16,227,879 (July 31, 2019 - \$16,082,388), a working capital deficit of \$700,080 (July 31, 2019 - \$613,861) and expects to incur further losses in the development of its business. The Company will be required to raise additional capital in order to fund future exploration and evaluation activity and meet its 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 Company'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

These condensed consolidated interim financial statements were authorized for issue by the directors of the Company on December 20, 2019.

Statement of compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended July 31, 2019.

The condensed consolidated interim financial statements do not include all of the information and note disclosures required for full annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended July 31, 2019.

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

3. Deposit

Deposit consists of a security deposit on the leased office space.

4. Equipment

| | Office equipment |
|---|------------------|
| | \$ |
| Costs: | |
| Balance, October 31, 2019 and July 31, 2019 | 42,314 |
| Depreciation: | |
| Balance, July 31, 2019 | 32,098 |
| Depreciation | 96 |
| Balance, October 31, 2019 | 32,194 |
| Impairment: | |
| Balance, October 31, 2019 and July 31, 2019 | 8,298 |
| Net Book Value: | |
| October 31, 2019 | 1,821 |
| July 31, 2019 | 1,917 |

5. Exploration and Evaluation Expenditures

Exploration expenditures have been expensed as incurred in accordance with the Company's accounting policy for exploration and evaluation costs. During the period ended October 31, 2019, expenditures incurred by the Company on the properties was \$Nil (2019 - \$Nil).

(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 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 three years, and in accordance with the schedule below. In addition, the Company is required to complete 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.

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

5. Exploration and Evaluation Expenditures – Continued

(a) Wildnest and Phantom Lake Properties - Continued

| 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 October 31, 2019, 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.

*** On December 21, 2017 the Company failed to incur \$150,000 of exploration expenditures as required under the option agreement for the Wildnest and Phantom Lake Properties.

**** On December 21, 2018, the Company failed to incur \$200,000 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.

6. Accounts Payable and Accrued Liabilities

| | October 31, 2019 | July 31, 2019 |
|------------------------------------|------------------|----------------|
| | \$ | \$ |
| Accounts payable | 78,591 | 26,548 |
| Due to related parties (note 11) | 295,203 | 271,875 |
| Accrued interest on loans (note 8) | 67,566 | 109,950 |
| Other payables | 5,114 | 3,025 |
| | 446,474 | 411,398 |

7. Note Payable

| | October 31, 2019 | July 31, 2019 |
|--|------------------|---------------|
| | \$ | \$ |
| Amounts due to related parties (note 11) | 170,100 | 170,100 |

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

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

8. Loans Payable

| | October 31, 2019 | July 31, 2019 |
|------------------|------------------|---------------|
| | \$ | \$ |
| Promissory notes | 126,500 | 121,500 |

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 bears 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 October 31, 2019 is \$37,539 (July 31, 2019 - \$33,909) and is included in accrued liabilities (note 6). During the period ended October 31, 2019, the Company recorded interest of \$3,630 (2018 - \$3,630) on the note. 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 October 31, 2019 and are included in share subscriptions (note 9).

The second promissory note, for \$16,500, was due September 30, 2017, and bears interest at 18%. As the note was not paid by the due date, the interest rate increased to 24% from that date forward. Total accrued interest on the promissory note at October 31, 2019, is \$9,754 (July 31, 2019 - \$8,756) and is included in accrued liabilities (note 6). During the period ended October 31, 2019, the Company recorded interest of \$998 (2018 - \$998) on the note. 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 October 31, 2019 and are included in share subscriptions (note 9).

During the year ended July 31, 2018, a third and fourth promissory note were issued. The third promissory note for \$25,000 was issued on October 10, 2017, bears 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 accrued interest on the promissory note at October 31, 2019, is \$11,613 (July 31, 2019 - \$10,101) and is included in accrued liabilities (note 6). During the period ended October 31, 2019, the Company recorded interest of \$1,512 (2018 - \$1,512) on the note. 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 October 31, 2019 and are included in share subscriptions (note 9).

The fourth promissory note for \$20,000 was issued on November 27, 2017, bears 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 October 31, 2019, is \$8,660 (July 31, 2019 - \$7,450) and is included in accrued liabilities (note 6). During the period ended October 31, 2019, the Company recorded interest of \$1,210 (2018 - \$1,210) on the note. 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 October 31, 2019 and are included in share subscriptions (Note 9).

During the period ended October 31, 2019, the Company issued a non-interest bearing loan for \$5,000. The total interest expense incurred was \$7,350 (2018 - \$7,350).

9. Share Capital and Reserves

(a) Authorized

The Company has authorized an unlimited number of voting common shares without par value.

(b) Issued

At October 31, 2019, there were 90,031,661 issued and fully paid common shares (July 31, 2019 – 89,871,661).

(c) Share Issuances

During the period ended October 31, 2019, 160,000 share purchase warrants with an exercise price of \$0.05 were exercised for proceeds of \$8,000.

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

9. Share Capital and Reserves - Continued

(d) Stock Options

The Company has a stock option plan under which it is authorized to grant options to directors, officers, employees and consultants for up to a maximum of 10% of the issued and outstanding common stock of the Company. The exercise price (less any discounts permitted by regulatory policies and determined by the directors at the time of grant) under each option shall be the market price of the Company's stock at the date of grant. The options have expiry dates of no later than ten years from the date of grant and vest immediately as determined by the Board of Directors or as to 25% on the date of the grant and 12.5% every three months thereafter for a total vesting period of 18 months.

On August 12, 2019, the Company issued a total of 350,000 incentive stock options at an exercise price of \$0.13 to a consultant of the Company. The options are exercisable for a period of 5 years from the date of grant and have a grant date fair value of \$45,172 determined by the Black-Scholes Option Pricing Model. These options vested upon grant.

On August 16, 2019, 80,000 options vested and share-based payments recognized for \$6,004 accordingly.

Stock option transactions for the period ended October 31, 2019 are as follows:

| | Number of Options | Weighted Average Exercise Price |
|---------------------------|----------------------|------------------------------------|
| Balance, July 31, 2019 | 5,610,000 | 0.06 |
| Granted | 350,000 | 0.13 |
| Balance, October 31, 2019 | 5,960,000 | 0.06 |

Stock options outstanding and exercisable at October 31, 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 |
| 250,000 | 0.085 | April 27, 2023 | 250,000 |
| 250,000 | 0.05 | October 15, 2023 | 250,000 |
| 50,000 | 0.05 | January 27, 2024 | 50,000 |
| 500,000 | 0.05 | January 29, 2024 | 500,000 |
| 570,000 | 0.06 | May 16, 2024 | 330,000 |
| 250,000 | 0.13 | July 8, 2024 | 250,000 |
| 350,000 | 0.13 | August 12, 2024 | 350,000 |
| 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 |
| 5,960,000 | | | 5,720,000 |

The weighted average remaining contractual life of outstanding options is 5.71 years (July 31, 2019: 6.02 years).

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

9. Share Capital and Reserves - Continued

(d) Stock Options - Continued

The fair values of stock options granted were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| Period ending | October 31, 2019 | October 31, 2018 |
|---------------------------------|------------------|------------------|
| Risk free interest rate | 1.17% | 2.35% |
| Expected life of options | 5 years | 5 years |
| Expected stock price volatility | 239.42% | 255.84% |

(e) Warrants

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

During the period ended October 31, 2019, 160,000 warrants were exercised at a price of \$0.05.

As at October 31, 2019 the following warrants were outstanding:

| Warrants Outstanding | Exercise Price | Expiry Date |
|----------------------|----------------|-------------------|
| 1,000,000 | \$0.085 | March 20, 2020 |
| 340,000 | \$0.050 | November 28, 2023 |

The weighted average remaining contractual life of the warrants outstanding is 1.32 years.

(f) Reserve

The stock options and warrants reserve represent the fair value of stock options or warrants until such time that the stock options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

(g) Share subscriptions

Share subscriptions included shares to be issued for loans payable (note 8).

10. Finance and Other Costs

| | Three month period ended | |
|---------------------------|--------------------------|------------------|
| | October 31, 2019 | October 31, 2018 |
| | \$ | \$ |
| Interest expense (note 8) | 7,350 | 7,350 |

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
Three months ended October 31, 2019 and 2018

11. 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:

| | Three month period ended | |
|--|--------------------------|------------------|
| | October 31, 2019 | October 31, 2018 |
| | \$ | \$ |
| Office, rent, administration and wages | 8,750 | 8,072 |

(b) Compensation of Key Management Personnel

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

| | Three months period ended | |
|-----------------------|---------------------------|------------------|
| | October 31, 2019 | October 31, 2018 |
| | \$ | \$ |
| Management fees | 22,500 | 22,500 |
| Salaries and benefits | - | 2,314 |
| Share-based payments | - | 9,952 |
| | 22,500 | 34,766 |

Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (note 9).

(c) Related Party Balances

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

| | October 31, 2019 | July 31, 2019 |
|--|------------------|---------------|
| | \$ | \$ |
| A company controlled by an officer of the Company (notes 6 and 7) | 465,303 | 441,975 |

12. Commitment

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

| | \$ |
|------|--------|
| 2019 | 11,002 |
| 2020 | 5,520 |
| | 16,522 |

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
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13. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at October 31, 2019 and July 31, 2019, with its assets located in North America.

14. Financial Instruments and Risk Management

a) Fair Value of Financial Instruments

As at October 31, 2019, the Company's financial instruments consist of cash, accounts receivable, deposit, accounts payable, 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.

Cash is measured using level 1.

(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 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. Accounts receivable consists mostly of rent due from sub-lease tenants. Management considers that credit risks related to cash are minimal and credit risks related to accounts receivable are moderate due to the potential of non-payments.

(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 October 31, 2019, the Company had cash of \$17,922 to settle current liabilities of \$743,074.

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).

AVARONE METALS INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - expressed in Canadian Dollars)
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14. Financial Instruments Risk - Continued

(iii) 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 loans payable bear a fixed interest rate. Management considers interest rate risk to be minimal.

During the period ended October 31, 2019, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

15. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' 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.

There were no changes in the Company's management of capital during the period ended October 31, 2019.

16. Subsequent Event

On December 2, 2019, the Company issued 500,000 shares pursuant to options exercised at \$0.05 per share for proceeds of \$25,000.

On December 12, 2019, the Company issued a total of 833,000 incentive stock options at an exercise price of \$0.06 to a consultant of the Company. The options are exercisable for a period of 5 years from the date of grant.

On December 13, 2019, the Company issued 833,000 shares pursuant to options exercised at \$0.06 per share for proceeds of \$49,980.