

AVARONE METALS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and six months period ended

January 31, 2022 and 2021

(Unaudited and expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

AVARONE METALS INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at January 31, 2022 and July 31, 2021

	Note	January 31, 2022	July 31, 2021
ASSETS			
Current			
Cash		\$ 26,139	\$ 15,586
Accounts receivable		1,492	953
		27,631	16,539
Non-current			
Property and Equipment	3	144,483	180,604
		144,483	180,604
		\$ 172,114	\$ 197,143
LIABILITIES			
Current			
Accounts payable and accrued liabilities	4	\$ 770,004	\$ 689,204
Note payable	5, 10	170,100	170,100
Loans payable	6	184,800	169,800
Lease obligation - short-term	11	81,420	81,420
		1,206,324	1,110,524
Non-current			
Loans payable	6	34,378	31,626
Lease obligation - long-term	11	12,513	46,828
		46,891	78,454
SHAREHOLDERS' DEFICIENCY			
Share capital	7	14,888,929	14,888,929
Share subscriptions	6, 7	24,300	24,300
Reserve	7	945,238	931,438
Deficit		(16,939,568)	(16,836,502)
		(1,081,101)	(991,835)
		\$ 172,114	\$ 197,143

On behalf of the Board:

"Marc Lew" Director

"John Bean" Director

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

AVARONE METALS INC.

Condensed Interim Consolidated Statement of Comprehensive Loss

(Expressed in Canadian dollars)

For the three and six months period ended January 31, 2022 and 2021

	Note	Three months ending January 31,		Six months ending January 31,	
		2022	2021	2022	2021
Expenses					
General and administrative					
Depreciation	3	\$ 18,061	\$ 18,137	\$ 36,121	\$ 36,274
Management fees	10	22,500	22,500	45,000	45,000
Office costs		189	1,103	859	1,785
Professional fees	10	9,683	7,500	17,183	15,000
Regulatory and transfer agent		5,113	5,007	10,042	7,257
Share-based payments	7, 10	13,800	213,887	13,800	213,887
Travel, promotion and shareholder communication		300	1,891	300	1,891
		(69,646)	(270,025)	(123,305)	(321,094)
Other items:					
Government assistance	6	-	12,851	-	12,851
Other income	8, 11	23,610	28,891	47,396	42,019
Other expense		(224)	-	(475)	-
Finance costs	9	(13,156)	(13,790)	(26,682)	(27,648)
Net loss and comprehensive loss for the period		\$ (59,416)	\$ (242,073)	\$ (103,066)	\$ (293,872)
Loss per common share, basic and diluted		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding, basic and diluted		91,414,661	91,414,661	91,414,661	91,414,661

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

AVARONE METALS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

For the three and six months period ended January 31, 2022 and 2021

	Notes	Share capital		Reserve			Total shareholders' deficiency
		Common shares	Amount	Share subscriptions	Stock options and warrants	Deficit	
		#	\$	\$	\$	\$	\$
Balance as at July 31, 2020		91,414,661	14,888,929	24,300	756,595	(16,472,373)	(802,549)
Share-based payments		-	-	-	213,887	-	213,887
Loss for the period		-	-	-	-	(293,872)	(293,872)
Balance as at January 31, 2021		91,414,661	14,888,929	24,300	970,482	(16,766,245)	(882,534)
Fair value of options forfeited		-	-	-	(39,044)	39,044	-
Loss for the period		-	-	-	-	(109,301)	(109,301)
Balance as at July 31, 2021		91,414,661	14,888,929	24,300	931,438	(16,836,502)	(991,835)
Share-based payments	7	-	-	-	13,800	-	13,800
Loss for the period		-	-	-	-	(103,066)	(103,066)
Balance as at January 31, 2022		91,414,661	14,888,929	24,300	945,238	(16,939,568)	(1,081,101)

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

AVARONE METALS INC.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the three and six months period ended January 31, 2022 and 2021

	Six months ending January 31,	
	2022	2021
Operating activities:		
Net loss for the period	\$ (103,066)	\$ (293,872)
Items not involving cash:		
Finance costs	26,682	29,532
Depreciation	36,121	36,275
Government assistance	-	(12,851)
Share-based payments	13,800	213,887
	(26,463)	(27,029)
Changes in working capital:		
Accounts receivable	(539)	(11,475)
Prepaid expenses	-	(1,036)
Accounts payable and accrued liabilities	62,574	59,539
	35,572	19,999
Financing activities:		
Proceeds from loans	15,000	34,800
Repayment of lease liabilities	(40,019)	(29,722)
	(25,019)	5,078
Change in cash	10,553	25,077
Cash, beginning	15,586	2,780
Cash, ending	\$ 26,139	\$ 27,857

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

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

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 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 searching for resource properties to explore 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 interim consolidated 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 January 31, 2022, the Company had not yet achieved profitable operations, had accumulated losses of \$16,939,568 (July 31, 2021 - \$16,836,502), a working capital deficit of \$1,178,693 (July 31, 2021 - \$1,093,985) 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 entity's ability to continue as a going concern.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company is not currently determinable, but management continues to monitor the situation.

These condensed interim consolidated 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 condensed interim consolidated financial statements. These adjustments could be material.

2. Significant Accounting Policies

The condensed interim consolidated financial statements were authorized for issue on March 24, 2022 by the Directors of the Company.

Statement of compliance with International Financial Reporting Standards

These condensed interim consolidated 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 interim consolidated financial statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended July 31, 2021.

The condensed interim consolidated financial statements do not include all the information and note disclosures required for full annual consolidated financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended July 31, 2021.

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the three and six months period ended January 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

Use of Estimates and Judgments

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.

Significant assumptions about the future and other sources of estimation uncertainty and judgments that management has made at the date of the statement of financial position which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to the following:

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

If the going concern assumptions were not appropriate for these condensed interim consolidated financial statements, adjustments would be necessary in the carrying value of assets and liabilities, expenses and the statement of financial position classifications use.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed interim consolidated financial statements are as follows:

Share-based Payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant. The fair value of share options is estimated by using the Black-Scholes Option Pricing Model on the date of the grant based on certain assumptions. Those assumptions are described in Note 7 and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project which will impact the financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

Taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

3. Property and Equipment

	Right-of-use asset	Office equipment	Total
Cost:	\$	\$	\$
Balance, July 31, 2021 and January 31, 2022	288,964	42,314	331,278
Accumulated depreciation and impairment:			
Balance, July 31, 2021	108,360	42,314	150,674
Depreciation	36,121	-	36,121
Balance, January 31, 2022	144,481	42,314	186,795
Net book value:			
July 31, 2021	180,604	-	180,604
January 31, 2022	144,483	-	144,483

4. Accounts payable and accrued liabilities

	January 31, 2022	July 31, 2021
	\$	\$
Due to related parties (Note 10)	562,171	486,962
Accrued interest on loans (Note 6)	143,551	125,325
Accounts payable	23,526	22,160
Other accruals	37,237	51,237
Other payables	3,520	3,520
	770,004	689,204

5. Note payable

	January 31, 2022	July 31, 2021
	\$	\$
Amounts due to related parties (Note 10)	170,100	170,100

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

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

6. Loans payable

	January 31, 2022	July 31, 2021
	\$	\$
Promissory note dated February 8, 2017 and due on August 8, 2017, bearing interest rate of 24%	60,000	60,000
Promissory note dated March 31, 2017 and due on September 30, 2017, bearing interest rate of 24%	16,500	16,500
Promissory note dated October 10, 2017 and due on April 10, 2018, bearing interest rate of 24%	25,000	25,000
Promissory note dated October 11, 2019 and repayable on demand, interest free	5,000	5,000
Promissory note dated November 27, 2017 and due on May 27, 2018, bearing interest rate of 24%	20,000	20,000
Promissory note dated January 21, 2020 and repayable on demand, bearing interest rate of 12%	23,500	23,500
Promissory note dated January 22, 2020 and due on July 22, 2020, bearing interest rate of 12%	5,000	5,000
Promissory note dated November 4, 2020 and repayable on demand, bearing interest rate of 12%	14,300	14,300
Promissory note dated December 2, 2020 and repayable on demand, bearing interest rate of 12%	500	500
Promissory note dated August 12, 2021 and repayable on demand, bearing interest rate of 12%	15,000	-
	184,800	169,800

As additional consideration for the promissory notes, the Company must issue to the lender's common shares for \$24,300. The shares have not been issued as at January 31, 2022 and July 31, 2020 and are included in share subscriptions (Note 7).

Total interest accrued on the promissory notes as at January 31, 2022 amounted to \$143,551 (July 31, 2021: \$125,325) and is included in the accrued liabilities (Note 4). During the three and six months period ended January 31, 2022, the Company incurred \$9,113 and \$18,225, respectively (2021 - \$8,636 and \$16,847, respectively), of interest expense pertaining to the promissory notes (Note 9).

Promissory notes of \$23,500 as at January 31, 2022 and July 31, 2021 are due to related parties (Note 10). Such promissory notes are unsecured, due on demand and bear interest of 12% annually.

CEBA term loans

During the year ending July 31, 2021 and 2020, as part of the Canadian government funded COVID-19 financial assistance programs, the Company received loans in the amount of \$60,000 from the Bank of Montreal ("CEBA term loans"). The CEBA term loans are due on December 25, 2025. The loans are interest free until December 31, 2022 and bear interest at 5% per annum thereafter. If at least 50% of the loan principal is paid on or before December 31, 2022, the balance of the loans will be forgiven. On January 12, 2022, the Government of Canada extended the maturity date from December 31, 2022 to December 31, 2023.

The benefit of the government loan received at below market rate of interest is treated as government grant. As at January 31, 2022, the loan of \$34,378 (July 31, 2021: \$31,626) was recognized and measured at fair value using the Company's incremental borrowing rate. During the three and six months ended January 31, 2022, the Company recorded the value of the grant of \$Nil (2021 - \$12,851), which was the difference between the carrying amount of the loan and proceeds received.

During the three and six months period ended January 31, 2022, the Company recorded interest and accretion expenses of \$1,405 and \$2,752, respectively, on the loans (2021 - \$881 and \$1,884, respectively) (Note 9).

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

7. Share Capital and Reserves

(a) Authorized

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

(b) Issued

At January 31, 2022 and July 31, 2021, there were 91,414,661 issued and fully paid common shares.

(c) 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.

Six months Ended January 31, 2022

On November 8, 2021, the Company issued 1,675,000 incentive stock options at an exercise price of \$0.05. These options are exercisable for a period of 5 years from the date of grant and their fair value was determined by the Black-Scholes Option Pricing Model. These options vest quarterly over a period of 2 years. The weighted average fair value of stock options granted during the three and six months ended January 31, 2022 was \$0.03 (three and six months ended January 31, 2021 - \$0.08), per option.

A summary of the status of the options outstanding follows:

	Number of Options	Weighted Average Exercise Price
	#	\$
Balance, July 31, 2020	5,410,000	0.06
Granted	2,675,000	0.08
Expired	(502,500)	0.05
Balance, July 31, 2021	7,582,500	0.07
Granted	1,675,000	0.05
Cancelled	(1,000,000)	0.11
Balance, January 31, 2022	8,257,500	0.06

As at January 31, 2022, the weighted average contractual life of the stock options was 3.77 years and the weighted average exercise price was \$0.06.

During the three and six months ended January 31, 2022, the Company recorded share-based compensation of \$13,800 (three and six months ended January 31, 2021 – \$213,887), for all stock options granted and vested during the period.

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

7. Share Capital and Reserves (continued)

(c) Stock Options (continued)

Stock options outstanding and exercisable at January 31, 2022 are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
137,500	0.05	April 26, 2022	137,500
50,000	0.05	January 27, 2024	50,000
755,000	0.05	April 23, 2025	755,000
15,000	0.05	February 23, 2026	15,000
50,000	0.05	September 19, 2026	50,000
580,000	0.05	December 7, 2026	580,000
750,000	0.05	December 3, 2027	750,000
250,000	0.09	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	570,000
2,675,000	0.08	November 3, 2025	2,675,000
1,675,000	0.05	November 8, 2026	-
8,257,500			6,582,500

The fair value of stock options granted during the period was determined using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of grant:

	Three months ended January 31,		Six months ended January 31,	
	2022	2021	2022	2021
Risk-free annual interest rate (1)	1.40%	0.45%	1.40%	0.45%
Expected annual dividend yield	-	-	-	-
Expected stock price volatility (2)	198%	261%	198%	261%
Expected life of options (years) (3)	5	5	5	5
Forfeiture rate	10%	-	10%	-

(1) The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(2) Volatility was estimated by using the average historical volatility of the Company.

(3) The expected life in years represents the period of time that options granted are expected to be outstanding.

(d) Warrants

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

There were no share purchase warrant transactions for the three and six months period ended January 31, 2022 and year ended July 31, 2021. There were 340,000 warrants outstanding at January 31, 2022 with an average exercise price of \$0.05 and expiry on November 28, 2023. The weighted average remaining contractual life of the warrants outstanding is 1.82 years (July 31, 2021: 2.33 years).

(e) Reserves

Stock options and warrants reserves 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.

(f) Share subscriptions

Share subscriptions consist of shares to be issued for loans payable (Note 6).

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

8. Other income

Other income for the three and six months period ending January 31, 2022 of \$23,610 and \$47,396, respectively (2021: \$28,891 and \$42,019, respectively), mostly consists of net income generated from office sub-lease (Note 11).

9. Finance costs

	Three months ended January 31,		Six months ended January 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest expense on promissory notes (Note 6)	9,113	8,636	18,225	16,847
Accretion expense on CEBA loans (Note 6)	1,405	881	2,752	1,884
Interest expense on lease liabilities (Note 11)	2,638	4,274	5,704	8,917
	13,156	13,790	26,682	27,648

10. Related Party Transactions

(a) Related Party Transactions

The Company incurred the following transactions with companies having directors or officers in common:

	Three months ending January 31,		Six months ending January 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Income from sub-leasing	36,331	44,163	72,628	72,534

(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.

	Three months ending January 31,		Six months ending January 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Management fees	22,500	22,500	45,000	45,000
Professional fees	7,500	7,500	15,000	15,000
Share-based payments	11,946	179,905	11,946	179,905
	41,946	209,905	71,946	239,905

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the three and six months period ended January 31, 2022 and 2021

10. Related Party Transactions (continued)

(c) Related Party Balances

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

	January 31, 2022	July 31, 2021
	\$	\$
A company controlled by officers of the Company (notes 4, 5 and 6)	755,772	616,225

11. Lease Commitment

The Company entered into a new office lease on February 1, 2020. The terms and outstanding balances as at January 31, 2022 are as follows:

	January 31, 2022	July 31, 2021
	\$	\$
Right-of use asset from base rent of office lease repayable in monthly average payments of \$6,785 with an interest rate of 10% per annum and a lease end date of January 2024	93,933	128,248
Less: Current portion	(81,420)	(81,420)
Non-current portion	12,513	46,828

Amounts recognized in statement of comprehensive income are as follows:

	Three months ending January 31,		Six months ending January 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Depreciation expense on right-of-use assets	18,061	18,060	36,121	36,120
Interest expense on lease liabilities (Note 9)	2,638	4,274	5,704	8,917
Expense relating to variable lease payments not included in the measurement of the lease liability	16,321	16,287	32,609	35,326
Income from sub-leasing right-of-use assets	(3,600)	-	(7,200)	-
Income from sub-leasing right-of-use assets - related party (Note 10)	(36,331)	(44,163)	(72,628)	(72,534)
	(2,911)	(5,542)	(5,394)	7,829

The lease contains variable lease payments, such as operating costs and tax payments. The breakdown of lease payment is as follows:

	Three months ending January 31,		Six months ending January 31,	
	2022	2021	2022	2021
	\$	\$		
Fixed payments	20,010	19,320	40,020	38,640
Variable payments	16,321	16,287	32,609	35,326
	36,331	35,607	72,629	73,966

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2024, as follows:

Year	\$
2022	81,420
2023	12,513
Total	93,933

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

11. Lease Commitment

As at January 31, 2022, the Company has a lease deposit of \$68,242, which will be applied against the final lease payments due for the lease. The lease deposit is being amortized over the lease term with the ROU asset.

12. Segmented Information

The Company has one operating segment, being the exploration of resource properties and operated in one geographic segment at January 31, 2022 and July 31, 2021, with its assets located in North America.

13. Financial Instruments and Risk Management

a) Fair Value of Financial Instruments

As at January 31, 2022, the Company's financial instruments consist of cash, accounts receivable, 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 classified as Level 1. Accounts receivable and payable, notes and loans payable to third parties are classified as Level 2 instruments. Balances due to related parties are classified as Level 3 financial instruments.

(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 majority of the Company's 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 of GST input tax credits receivable from the Government of Canada. Management considers that credit risks related to cash and accounts receivable are therefore 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 January 31, 2022, the Company had cash of \$26,139 to settle current liabilities of \$1,206,324.

The Company is dependent on the availability of credit from its creditors 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). Liquidity risk is assessed as high.

AVARONE METALS INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the three and six months period ended January 31, 2022 and 2021

13. Financial Instruments and Risk Management (continued)

(b) 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. As the Company's loans payable bear a fixed interest rate, management considers interest rate risk to be minimal.

14. 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 three and six months period ended January 31, 2022.