

AVARONE METALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Avarone Metals Inc.

Opinion

We have audited the consolidated financial statements of Avarone Metals Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2022 and 2021, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

DML

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

November 21, 2022



An independent firm
associated with Moore
Global Network Limited

AVARONE METALS INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at July 31, 2022 and 2021

	Notes	July 31, 2022	July 31, 2021
		\$	\$
Assets			
Current			
Cash		24,889	15,586
Accounts receivable		68	953
		24,957	16,539
Non-current			
Property and equipment	3	116,260	180,604
		141,217	197,143
Liabilities			
Current			
Accounts payable and accrued liabilities	4	862,625	689,204
Notes payable	5,10	170,100	170,100
Loans payable	6	184,800	169,800
Lease obligation – short term	11	79,394	81,420
		1,296,919	1,110,524
Non-current			
Loan payable	6	31,626	31,626
Lease obligation – long term	11	3,850	46,828
		35,476	78,454
Shareholders' equity			
Share capital	7	14,888,929	14,888,929
Share subscription	6,7	24,300	24,300
Reserve	7	848,085	931,438
Deficit		(16,952,492)	(16,836,502)
		(1,191,178)	(991,835)
		141,217	197,143
Subsequent event	16		

On behalf of the Board:

"Marc Levy" _____ Director

"John Bean" _____ Director

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

AVARONE METALS INC.**Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian dollars)

Years ended July 31, 2022 and 2021

	Note	2022	Years ended July 31, 2021
		\$	\$
Expenses			
Depreciation	3	64,344	73,771
Management fees	10	90,000	90,000
Office costs		858	3,786
Professional fees	10	48,183	47,408
Regulatory and transfer agent		14,685	14,519
Share-based payments	7,10	32,502	213,887
Travel, promotion, and shareholder communication		3,478	1,888
Loss before other items		(254,050)	(445,259)
Other items			
Finance costs	9	(77,832)	(54,549)
Government assistance	6	5,260	12,851
Other income	8	95,694	85,835
Other expense		(917)	(2,051)
		22,205	42,086
Net loss and comprehensive loss for the year		(231,845)	(403,173)
Basic and diluted loss per share		(0.00)	(0.00)
Weighted average number of shares outstanding, basic and diluted		91,414,661	91,414,661

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

AVARONE METALS INC.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

Years ended July 31, 2022 and 2021

	Note	Share capital		Reserve		Deficit	Total
		Number	Amount	Stock options and warrants	Share subscriptions		
		#	\$	\$	\$	\$	\$
Balance, July 31, 2020		91,414,661	14,888,929	756,595	24,300	(16,472,373)	(802,549)
Share-based compensation	7	-	-	213,887	-	-	213,887
Fair value of options forfeited		-	-	(39,044)	-	39,044	-
Net loss for the year		-	-	-	-	(403,173)	(403,173)
Balance, July 31, 2021		91,414,661	14,888,929	931,438	24,300	(16,836,502)	(991,835)
Share-based compensation	7	-	-	32,502	-	-	32,502
Fair value of options forfeited		-	-	(115,855)	-	115,855	-
Net loss for the year		-	-	-	-	(231,845)	(231,845)
Balance, July 31, 2022		91,414,661	14,888,929	848,085	24,300	(16,952,492)	(1,191,178)

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

AVARONE METALS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended July 31, 2022 and 2021

	Years ended July 31,	
	2022	2021
	\$	\$
Operating activities:		
Net loss for the year	(231,845)	(403,173)
Items not affecting cash		
Finance costs	77,832	54,549
Depreciation	64,344	73,771
Other income and expense, net	-	(14,831)
Government assistance	(5,260)	(12,851)
Share-based payments	32,502	213,887
Changes in non-cash working capital items:		
Accounts receivable	885	(79)
Prepaid expenses	-	838
Accounts payable and accrued liabilities	149,432	160,844
Interest paid	(12,167)	(16,289)
	75,723	56,666
Financing activities		
Proceeds from loans	15,000	34,800
Repayment of lease liabilities	(81,420)	(78,660)
	(66,420)	(43,860)
Increase in cash	9,303	12,806
Cash, beginning	15,586	2,780
Cash, ending	24,889	15,586

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

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 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 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 July 31, 2022, the Company had not yet achieved profitable operations, had accumulated losses of \$16,952,492 (2021 - \$16,836,502), a working capital deficit of \$1,271,962 (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.

These 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 consolidated financial statements. These adjustments could be material.

2. Significant Accounting Policies

The consolidated financial statements were authorized for issue on November 21, 2022 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Presentation and Consolidation

These consolidated financial statements, including comparatives, have been prepared on a historical cost basis in accordance 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 consolidated financial statements include the accounts of the Company and its wholly owned inactive Mexican subsidiary, Promotora Minera Dialex S.A. de C.V. ("Dialex"). All intercompany balances and transactions have been eliminated on consolidation.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(b) 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 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 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 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.

(c) Functional and Presentation of Foreign Currency

The financial statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiary is the Canadian dollar.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances and highly liquid investments which are readily convertible into cash and that are subject to an insignificant risk of changes in value. The Company's cash and cash equivalents are invested with major financial institutions in business and savings accounts which are readily available on demand by the Company. For the years presented, the Company is only holding cash.

(e) Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment. Depreciation is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. The annual rates used to compute depreciation are as follows:

Office equipment	10% to 20% declining balance
Right-of-use asset	Term of the lease

(f) Exploration and Evaluation Expenditures

Exploration and evaluation activity begins when the Company obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility and the assessment of commercial viability of an identified mineral resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties and the costs of the Company's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

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. Mineral property acquisition costs and development expenditures incurred subsequent to such a determination are capitalized and amortized over the estimated life of the property following the commencement of commercial production, or are written off if the property is sold, allowed to lapse or abandoned or when an impairment is determined to have occurred.

(g) Share-based Payments

Share-based payments to employees are measured at the fair value of the stock options at the grant date and amortized to expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded in equity as a stock option and warrant reserve. The fair value of options is determined using a Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are reversed in the period the forfeiture occurs.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(h) Loss per Share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

All potential dilutive equity instruments are anti-dilutive for the years presented.

(i) Financial Instruments

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial instruments under IFRS 9:

	Classification
Financial assets	
Cash	FVTPL
Accounts receivable	Amortized cost
Financial liabilities	
Accounts payable	Amortized cost
Note payable	Amortized cost
Loans payable	Amortized cost

(ii) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and are subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(i) Financial instruments (continued)

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

The Company recognizes in the consolidated statements of comprehensive income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

(j) Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more reliably measurable component based on fair value and then the residual value, if any, to the less reliably measurable component.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(j) Valuation of Equity Units Issued in Private Placements (continued)

The fair value of the common shares issued in the private placements was determined to be the more reliably measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

(k) Leases

On August 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases ("IAS 17") using the modified retrospective approach, under which the cumulative effect of initial application was recognized on the statement of financial position as at August 1, 2019 without restating the financial statements on a retrospective basis. The most significant effect of the new standard will be the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would currently be accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities, the valuation of the lease receivables and the valuation of ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

The ROU assets are recognized initially at the value of lease liabilities at recognition with any prepaid payments, initial direct costs and dismantling costs less any lease incentives received. Re-measurements will not be applied by the Company subsequently, except for assessment for impairment, where appropriate.

The lease term determined by the Company comprises the non-cancellable period of lease contracts; the period covered by an option to extend the leases, if the Company is reasonably certain to exercise that option; and the periods covered by an option to terminate the lease, if the Company is reasonably certain not to exercise that option. The amortization rate of ROU assets is based on the lease term determined. The present value of the lease payment is determined using the discount rate representing the weighted average incremental borrowing rate the Company could secure. There are no restrictions or covenants imposed by the Company's leases.

(l) Income Taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for temporary differences that arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

2. Significant Accounting Policies – (continued)

(m) Government Grant

A government grant is recognized when there is reasonable assurance it will be received, and all related conditions will be complied with. The Company recognizes government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. The Company carefully determines whether the grant compensates expenses already incurred or future costs.

(n) Issued but not yet effective accounting standards

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. Property and Equipment

	Right-of-use asset	Office equipment	Total
	\$	\$	\$
Cost:			
Balance, July 31, 2020	322,085	42,314	364,399
Write off of fully depreciated assets	(33,121)	-	(33,121)
Balance, July 31, 2021 and 2022	288,964	42,314	331,278
Accumulated depreciation and impairment:			
Balance, July 31, 2020	69,240	40,784	110,024
Depreciation (Note 11)	72,241	1,530	73,771
Write off of fully depreciated assets	(33,121)	-	(33,121)
Balance, July 31, 2021	108,360	42,314	150,674
Depreciation (Note 11)	64,344	-	64,344
Balance, July 31, 2022	172,704	42,314	215,018
Net book value:			
July 31, 2021	180,604	-	180,604
July 31, 2022	116,260	-	116,260

4. Accounts payable and accrued liabilities

	July 31, 2022	July 31, 2021
	\$	\$
Due to related parties (Note 10)	622,171	486,962
Accrued interest on loans (Note 6)	161,482	125,325
Accounts payable	24,735	22,160
Other accruals	53,237	51,237
Other payables	1,000	3,520
	862,625	689,204

AVARONE METALS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
Years ended July 31, 2022 and 2021

5. Note payable

	July 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.

6. Loans payable

	July 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 lenders common shares with an aggregate value of \$24,300. The shares have not been issued as at July 31, 2022 and 2021 and are included in share subscriptions (Note 7).

Total interest accrued on the promissory notes as at July 31, 2022 amounted to \$161,482 (2021: \$125,325) and is included in the accrued liabilities (Note 4). During the year ended July 31, 2022, the Company incurred \$36,156 (2021: \$33,884) of interest expense pertaining to the promissory notes (Note 9).

Promissory notes of \$43,300 (2021: \$43,300) and interest accrued of \$10,231 (2021: \$5,636) as at July 31, 2022 are due to related parties (Note 10). Such promissory notes are unsecured, due on demand and bear interest of 12% annually.

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6. Loans payable – (continued)

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 loans”). The loans were interest free until December 31, 2022 and bear interest at 5% starting on January 1, 2024. On January 12, 2022, the government of Canada extended the interest free period of the loan to December 31, 2023. If the loan remains outstanding after December 31, 2023, only interest payments are required until full principal is due on December 31, 2024. If the Company repays \$40,000 of the loan on or before December 31, 2023, the remaining amount of \$20,000 will be forgiven.

The benefit of the government loan received at below market rate of interest is treated as government grant. In addition, the extension of the interest free period to December 31, 2023 resulted in a substantial modification of the terms of the existing financial liability and, therefore, the Company recognized the difference as a new government grant in 2022. During the year ended July 31, 2022, the Company recorded a government grant of \$5,260 (2021 - \$12,851).

As at July 31, 2022, the loan balance of \$31,626 (2021: \$31,626) was recognized and re-measured at fair value using the Company’s incremental borrowing rate and the new extended interest free period. During the year ended July 31, 2022, the Company recorded interest and accretion expenses of \$5,260 (2021: \$4,376) on the loans (Note 9).

7. Share Capital and Reserves

(a) Authorized

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

(b) Issued

At July 31, 2022 and 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.

Year ended July 31, 2022

On March 24, 2022, the Company issued 200,000 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.

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 year ended July 31, 2022 was \$0.03 (2021: \$0.08), per option.

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7. Share Capital and Reserves (continued)

(c) Stock Options (continued)

Year Ended July 31, 2021

On November 3, 2020, the Company issued 2,675,000 incentive stock options at an exercise price of \$0.08. These options are exercisable for a period of 5 years from the date of grant and have a grant date fair value of \$213,887 determined by the Black-Scholes Option Pricing Model. These options vested upon grant.

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	1,875,000	0.05
Cancelled and expired	(1,137,500)	0.11
Balance, July 31, 2022	8,320,000	0.06

As at July 31, 2022, the weighted average contractual life of the stock options was 3.26 years (2021: 3.99 years) and the weighted average exercise price was \$0.06 (2021: \$0.07).

During the year ended July 31, 2022, the Company recorded share-based compensation of \$32,502 (2021 – \$213,887), for all stock options granted and vested during the period.

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

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
#	\$		#
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	418,750
200,000	0.05	March 24, 2027	25,000
8,320,000			6,888,750

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7. Share Capital and Reserves (continued)

(c) Stock Options (continued)

The fair value of stock options granted during the year ended July 31, 2022 and 2021 was determined using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of grant:

	July 31, 2022	July 31, 2021
Risk-free annual interest rate (1)	1.49%	0.45%
Expected annual dividend yield	-	-
Expected stock price volatility (2)	198%	261%
Expected life of options (years) (3)	5	5
Forfeiture rate	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 year ended July 31, 2022 and 2021. There were 340,000 warrants outstanding at July 31, 2022 and 2021 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 1.33 years (July 31, 2021: 2.33 years).

(e) Reserve

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, forfeited or expired, 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).

8. Other income

Other income for the year ended July 31, 2022 is \$95,694 (2021: \$85,835) which primarily consists of net income generated from an office sub-lease (Note 11).

	July 31, 2022	July 31, 2021
	\$	\$
Expenses relating to variable lease payments (Note 11)	(65,250)	(48,553)
Income from sub-leasing right-of-use assets (Note 11)	14,274	4,800
Income from sub-leasing right-of-use assets – related party (Notes 10, 11)	146,670	129,588
	95,694	85,835

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9. Finance costs

	July 31, 2022	July 31, 2021
	\$	\$
Interest expense on promissory notes (Note 6)	36,156	33,884
Accretion expense on CEBA loans (Note 6)	5,260	4,376
Interest expense on lease liabilities (Note 11)	36,416	16,289
	77,832	54,549

10. Related Party Transactions

(a) Related Party Transactions

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

	July 31, 2022	July 31, 2021
	\$	\$
Income from sub-leasing (Note 11)	146,670	129,588

(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. Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (Note 7).

	July 31, 2022	July 31, 2021
Management fees	90,000	90,000
Professional fees	30,000	30,000
Share-based payments	27,603	179,905
	147,603	299,905

(c) Related Party Balances

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

	July 31, 2022	July 31, 2021
	\$	\$
Companies controlled by officers of the Company (Notes 4,5, and 6)	845,802	705,998

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11. Lease Commitment

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

	July 31, 2022	July 31, 2021
	\$	\$
Right-of use asset from base rent of office lease repayable in monthly average payments of \$6,958 with an interest rate of 10% per annum and a lease end date of January 2024	83,244	128,248
Less: Current portion	(79,394)	(81,420)
Non-current portion	3,850	46,828

Amounts recognized in statement of comprehensive income are as follows:

	July 31, 2022	July 31, 2021
	\$	\$
Depreciation expense on right-of-use assets (Note 3)	64,344	72,241
Interest expense on lease liabilities (Note 9)	36,416	16,289
Expense relating to variable lease payments not included in the measurement of the lease liability	65,250	48,553
Income from sub-leasing right-of-use assets	(14,274)	(4,800)
Income from sub-leasing right-of-use assets - related party (Note 10)	(146,670)	(129,588)

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

	July 31, 2022	July 31, 2021
	\$	\$
Fixed payments	81,420	78,660
Variable payments	65,250	48,553
	146,670	127,213

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2024. As at July 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.

In 2021, the Company has benefited from a rent relief on lease payments for two months, for the total of \$17,391. The company implemented practical impediment as allowed by IASB with regards to COVID-related relieves and did not adjust its lease liability. Such income is presented as other income in the consolidated statement of comprehensive loss (Note 8).

12. Segmented Information

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

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13. Financial Instruments and Risk Management

a) Fair Value of Financial Instruments

As at July 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:

(b) Financial Instruments Risk

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.

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 July 31, 2022, the Company had cash of \$24,889 to settle to settle current liabilities of \$1,296,919.

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.

(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.

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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 year ended July 31, 2022 and 2021.

15. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations for the years ended July 31, 2022 and 2021.

	July 31, 2022	July 31, 2021
	\$	\$
Net loss for the year	(231,845)	(403,173)
Statutory Canadian corporate tax rate	27%	27%
Expected income tax recovery	(62,598)	(108,857)
Non-deductible items	34,081	57,284
Change in deferred tax asset not recognized	28,517	51,573
Total income tax recovery	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deductible temporary differences at July 31, 2022 and 2021 are comprised of the following:

	July 31, 2022	July 31, 2021
	\$	\$
Non-capital loss carry forwards	6,867,650	6,762,033
Mineral property	1,540,670	1,540,670
Capital loss carryforwards	796,675	796,675
Property and equipment	44,308	44,308
Unrecognized deductible temporary differences	9,249,303	9,143,686

The Company has non-capital losses available to carry forward to future years of \$6,867,650 which expire between 2026 and 2042 and capital losses available of \$796,675, which do not expire.

16. Subsequent Event

On August 22, 2022, the Company received a loan of \$10,000, which bears interest at 12% and is due on demand.