Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Avanti Energy Inc.

We have audited the accompanying consolidated financial statements of Avanti Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion



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*Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Avanti Energy Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Avanti Energy Inc.'s ability to continue as a going concern.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada | Chartered Accountants

April 17, 2014

**AVANTI ENERGY INC.**
**(formerly Overlord Capital Ltd.)**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

**AS AT DECEMBER 31**

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | 275,700 | 567,145 |
| Accounts receivable | | 10,530 | 5,016 |
| Prepaids and deposits | 10 | 120,712 | 12,667 |
| **Total current assets** | | 406,942 | 584,828 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 6 | 147,658 | 170,294 |
| Intangible assets | 4 | 1,903,043 | - |
| Long term deposits | 5 | 65,363 | - |
| **Total non-current assets** | | 2,116,064 | 170,924 |
| **Total assets** | | 2,523,006 | 755,122 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 35,078 | 38,311 |
| Due to related parties | 10 | 88,335 | 308 |
| **Total current liabilities** | | 123,413 | 38,619 |
| Reclamation obligation | 6 | 15,000 | - |
| **Total liabilities** | | 138,413 | 38,619 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 7 | 4,244,331 | 921,246 |
| Equity reserves | | 533,871 | 119,600 |
| Deficit | | (2,393,609) | (324,343) |
| **Total shareholders' equity** | | 2,384,593 | 716,503 |
| **Total liabilities and equity** | | 2,523,006 | 755,122 |
| **Nature and continuance of operations** | 1 | | |
| **Events after the reporting period** | 14 | | |

**APPROVED AND AUTHORIZED FOR ISSUE ON BEHALF OF THE BOARD ON APRIL 17, 2014:**

Signed: ***"John McIntyre"***
Director

Signed: ***"Douglas Ford"***
Director

*The accompanying notes form an integral part of these consolidated financial statements*

**AVANTI ENERGY INC.**
**(formerly Overlord Capital Ltd.)**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**(Expressed in Canadian Dollars)**

**YEARS ENDED DECEMBER 31**

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **General and Administrative Expenses** | | | |
| Administrative | *10* | 78,330 | 5,456 |
| Consulting fees | *10* | 692,035 | 97,333 |
| Gain on foreign exchange | | (3,429) | - |
| Lease operating expense | | 421,682 | - |
| Management fees | *10* | 131,250 | - |
| Professional fees | | 58,043 | 35,953 |
| Share-based payments | *10* | 472,171 | 74,500 |
| Transfer agent and filing fees | | 27,839 | 25,534 |
| Impairment of exploration and evaluation assets | *6* | 191,345 | - |
| **Loss and comprehensive loss for the year** | | (2,069,266) | (238,776) |
| **Loss per common share -** basic and diluted | | (0.09) | (0.02) |
| **Weighted average number of common shares outstanding** - basic and diluted | | 22,607,867 | 10,347,397 |

*The accompanying notes form an integral part of these consolidated financial statements*

**AVANTI ENERY INC.**
**(formerly Overlord Capital Ltd.)**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Expressed in Canadian Dollars)**

**YEARS ENDED DECEMBER 31**

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **OPERATING ACTIVITIES** | | | |
| Net loss for the year | | (2,069,266) | (238,776) |
| Items not affecting cash | | | |
| Impairment of exploration and evaluation assets | *6* | 191,345 | - |
| Share-based payments | | 472,171 | 74,500 |
| Changes in non-cash working capital items: | | | |
| Accounts receivable and prepaids | | 68,544 | (6,117) |
| Accounts payable and accrued liabilities | | (15,761) | (7,590) |
| **Cash used in operating activities** | | (1,352,967) | (177,983) |
| **INVESTING ACTIVITIES** | | | |
| Cash acquired upon acquisition of Avanti SA and Avanti Oil | *4* | 5,151 | - |
| Cash advances paid to Avanti SA | *4* | (430,448) | - |
| Exploration and evaluation assets expenditures | | (45,866) | (144,483) |
| **Cash used in investing activities** | | (471,163) | (144,483) |
| **FINANCING ACTIVITIES** | | | |
| Common shares issued for cash | *7* | 1,538,913 | 900,000 |
| Share issue costs | *7* | (6,228) | (178,720) |
| **Cash provided by financing activities** | | 1,532,685 | 721,280 |
| **Total increase (decrease) in cash during the year** | | (291,445) | 398,814 |
| **Cash, beginning of year** | | 567,145 | 168,331 |
| **Cash, end of year** | | 275,700 | 567,145 |
| **Cash paid for:** | | | |
| Interest | | - | - |
| Income taxes | | - | - |

Significant non-cash transactions ***11***

*The accompanying notes form an integral part of these consolidated financial statements*

**AVANTI ENERGY INC.**
**(formerly Overlord Capital Ltd.)**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Expressed in Canadian Dollars)**

| | Number of Shares | Share Capital | Equity Reserves | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| **Balance - December 31, 2011** | **4,000,000** | **$ 200,000** | **$ 45,100** | **$ (85,567)** | **$ 159,533** |
| Common shares issued – prospectus offering | 6,050,000 | 605,000 | - | - | 605,000 |
| Common shares issued – private placement | 2,950,000 | 295,000 | - | - | 295,000 |
| Cash share issue costs | - | (183,754) | - | - | (183,754) |
| Shares issued for an exploration and evaluation asset | 50,000 | 5,000 | - | - | 5,000 |
| Share-based payments | - | - | 74,500 | - | 74,500 |
| Comprehensive loss for the year | - | - | - | (238,776) | (238,776) |
| **Balance – December 31, 2012** | **13,050,000** | **$ 921,246** | **$ 119,600** | **$ (324,343)** | **$ 716,503** |
| Common shares issued – acquisition of Avanti SA (Note 4) | 7,500,000 | 1,237,500 | - | - | 1,237,500 |
| Common shares issued – acquisition of Avanti Oil (Note 4) | 3,000,000 | 495,000 | - | - | 495,000 |
| Warrants exercised | 4,220,000 | 502,400 | - | - | 502,400 |
| Options exercised | 800,000 | 80,000 | - | - | 80,000 |
| Private placement | 6,331,665 | 956,513 | - | - | 956,513 |
| Share issue costs (private placement) | - | (28,822) | 22,594 | - | (6,228) |
| Equity reserves reclassified due to option/warrant exercise | - | 80,494 | (80,494) | - | - |
| Share-based payments | - | - | 472,171 | - | 472,171 |
| Comprehensive loss for the year | - | - | - | (2,069,266) | (2,069,266) |
| **Balance – December 31, 2013** | **34,901,665** | **$4,244,331** | **$533,871** | **$(2,393,609)** | **$2,384,593** |

*The accompanying notes form an integral part of these consolidated financial statements*

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Avanti Energy Inc. (the "Company" or “AVN”, formerly Overlord Capital Ltd.) is an exploration stage company whose common shares trade on the TSX Venture Exchange (“TSX-V”) and is in the business of acquiring, exploring and evaluating mineral resource properties. The Company was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the *British Columbia Business Corporations Act* on March 7, 2011. In April 2012, the Company received TSX-V approval for its Qualifying Transaction and commenced trading on April 30, 2012 under the symbol “AVN” (formerly under “OVD”). The Company is listed as a Tier 2 issuer on the TSX-V and is engaged in the mineral resources exploration and evaluation business.

On May 31, 2013 the Company announced the successful completion of the acquisitions of Avanti Exploration SA LLC (“Avanti SA”) and Avanti Oil, LLC (“Avanti Oil”). The acquisition of Avanti SA and Avanti Oil were deemed to be acquisitions of a group of assets that do not constitute a business. As a result, the Company has acquired all of the issued and outstanding interests in Avanti SA and Avanti Oil.

The Company’s head office is Suite 1450-701 West Georgia Street, Vancouver, British Columbia V6C 2T4 and its registered and records office address is Suite 1750, 1185 West Georgia Street, Vancouver, British Columbia, V6E 4B6**.**

These financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. These financial statements are authorized for issue by the Board of Directors on April 17, 2014.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company has not generated revenue from operations and will require additional financing or outside participation to undertake further exploration and subsequent development of its exploration and evaluation assets. Future operations of the Company are dependent on its ability to raise additional equity financing and the attainment of profitable operations. These uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. The Company has sufficient cash reserves to meet its obligations for at least 12 months from the end of the reporting year.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future production or proceeds from the disposition thereof.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2013.

### Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries of Avanti SA and Avanti Oil. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

### Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

<u>Critical judgments in applying accounting policies</u>

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1. In addition, management has made judgments regarding the functional currency of the Company, and has determined that the functional currency of the Company and its subsidiaries is the Canadian dollar.

<u>Key sources of estimation uncertainty</u>

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our financial statements include, but are not limited to, the following:

## 2. BASIS OF PREPARATION (cont'd)

### Significant accounting judgments, estimates and assumptions (cont'd)

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the exploration and evaluation assets themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

*Share-based payments*

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based compensation payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 7.

*Deferred tax Assets and Liabilities*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Cash and cash equivalents

The Company considers cash and cash equivalents to include cash on deposit, cash held in trust, highly liquid short term interest bearing variable rate Guaranteed Investment Certificates, and Bankers' Acceptance Papers**.** As at December 31, 2013 and 2012, the Company had no cash equivalents on hand.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Intangible assets

Intangible assets include the proprietary data of Avanti SA and Avanti Oil on the date of acquisition (Note 4).

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

### Exploration and evaluation assets

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to capital assets are capitalized by property. Consulting, management and lease operating costs are expensed to the consolidated statements of comprehensive loss. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Exploration and evaluation assets** (cont'd)

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written- off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

**Share-based payments**

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of share-based payments on its fair value over the period of vesting. Any consideration paid by the option holders to purchase shares is credited to share capital.

**Foreign exchange**

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar. Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at the statement of financial position date to reflect exchange rates prevailing at that date. Non-monetary assets and liabilities are translated at historical exchange rates. Gains and losses on translation are included in determining net loss for the year.

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Income taxes** (cont'd)

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**Comprehensive loss**

Comprehensive loss consists of net loss and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the years presented, net loss was the same as comprehensive loss.

**Financial instruments**

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial Instruments** (cont'd)

Financial assets (cont'd)

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss.

*Other financial liabilities:* This category consists of liabilities carried at amortized cost using the effective interest rate method.

The Company has classified its cash as fair value through profit and loss, and accounts receivable are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of three levels in a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market date (unobservable inputs).

See Note 8 for relevant disclosures.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Future reclamation costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement or reclamation of mineral interests (exploration and evaluation assets). The net present value of future rehabilitation cost estimates is capitalized to the related assets along with a corresponding increase in the reclamation provision in the year incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the reclamation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

### Impairment of long-lived assets

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Comparative figures

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### New Accounting Standards

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 applied starting January 1, 2013. The Company also applied the revisions to IAS 27 and IAS 28 and the application did not have a significant impact on the consolidated financial statements.

IFRS 11 – *Joint Arrangements* ("IFRS 11")

IFRS 11 applied starting January 1, 2013. It does not have any impact on the consolidated financial statements.

IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12")

IFRS 12 applied starting January 1, 2013. The requirement of IFRS 12 relates to disclosures only and is applicable for the first annual period after adoption. It does not have any impact on the consolidated financial statements.

IFRS 13 - *Fair Value Measurement* ("IFRS 13")

The Company adopted IFRS 13 with prospective application from January 1, 2013.

The adoption of IFRS 13 had an immaterial effect on the Company's Annual Financial Statements for the year ended December 31, 2013.

### Standards issued but not yet effective

The standards and interpretations that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2013, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9
Financial Instruments (iii)

IFRS 9, IFRS 7 and IAS 39 Amendments
Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39(iii)

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments
Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities (i)

IAS 19 Amendment:
Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (ii)

IAS 32 Amendments
Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (i)

**(Expressed in Canadian Dollars)**

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Standards issued but not yet effective** (cont'd)

IAS 39 Amendments
Amendments to IAS 39 Financial Instruments: Recognition and Measurement

(i) Effective for annual periods beginning on or after January 1, 2014.
(ii) Effective for annual periods beginning on or after July 1, 2014.
(iii) Mandatory effective date not yet determined.

The Company anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company.

## 4. ASSET ACQUISITIONS

On May 15, 2013 the Company completed (i) a share purchase agreement with Avanti SA pursuant to which the Company acquired all of the issued and outstanding common shares in Avanti SA; and (ii) a share purchase agreement with Avanti Oil pursuant to which the Company acquired all of the issued and outstanding common shares in Avanti Oil.

The acquisition of Avanti SA was treated as an asset acquisition. The fair value of the assets acquired and liabilities assumed as at the date of acquisition were as follows:

| | | |
|---|---|---|
| Cash | $ | 5,151 |
| Prepaid assets | | 182,103 |
| Exploration and evaluation assets | | 113,288 |
| Intangible assets | | 1,473,406 |
| Accounts payable | | (106,000) |
| Net assets acquired | $ | 1,667,948 |

Consideration paid:

| | | |
|---|---|---|
| Value of 7,500,000 common shares of the Company | $ | 1,237,500 |
| Advances from Avanti Energy Inc. | | 430,448 |
| | | $1,667,948 |

The acquisition of Avanti Oil was treated as an asset acquisition. The fair value of the assets acquired and liabilities assumed as at the date of acquisition were as follows:

| | | |
|---|---|---|
| Deposit | $ | 65,363 |
| Intangible assets | | 429,637 |
| Net assets acquired | $ | 495,000 |

Consideration paid:

| | | |
|---|---|---|
| Value of 3,000,000 common shares of the Company | $ | 495,000 |

**(Expressed in Canadian Dollars)**

## 4. ASSET ACQUISITIONS (cont'd)

Summary of intangible assets:

| | |
|---|---|
| Acquisition of Avanti SA | $1,473,406 |
| Acquisition Avanti Oil | 429,637 |
| | $ 1,903,043 |

Intangible assets include the proprietary data of Avanti SA and Avanti Oil on the date of acquisition and have indefinite useful lives that are tested for impairment annually.

The following contingent consideration from the Company is applicable to the Avanti Oil share purchase Agreement:

a. issuance of 2,000,000 common shares to the members of Avanti Oil, or their assignees, upon Avanti Oil entering into an agreement for the re-development of an onshore oil and gas field in Brazil;

b. issuance of 500,000 common shares to the members of Avanti Oil, or their assignees, upon Avanti Oil acquiring an oil and gas asset in South or Latin America;

c. issuance of 500,000 common shares to the members of Avanti Oil, or their assignees, upon Avanti Oil entering into a joint venture agreement for the participation in a bid to acquire oil and gas assets being auctioned by the Government of Brazil;

d. issuance of 1,000,000 common shares to the member of Avanti Oil, or their assignees, upon Avanti Oil commencing a submission of a work program to re-develop the Italy Project (as defined in the Avanti Oil share purchase agreement); and

e. issuance of 500,000 common shares to the members of Avanti Oil, or their assignees, upon Avanti Oil acquiring a minimum of an 87.5% interest in the Italy Project.

In addition to the share consideration set forth above, upon Avanti Oil acquiring a minimum of an 87.5% interest in the Italy Project, the Company will pay $300,000 to certain members of Avanti Oil, and will also pay to certain members of Avanti Oil, 30% of the net sale proceeds in connection with the sale of the Italy Project to a third party, or, in the event the Avanti Oil commences production of the Italy Project, 12.5% of the net proceeds of monies earned from production of the Italy Project.

## 5. LONG TERM DEPOSIT

On June 10, 2010, the Company's subsidiary, Avanti Oil, entered into an agreement with an Italian company, whereby Avanti Oil paid 50,000 Euros ($65,363) as consideration for the deposit to purchase 75% of the shares of the Italian company. At Avanti Oil's option, the Company may alternatively receive a like amount of the gas development activities of the Italian company in the Cugno le Macine concession, an oil and gas concession in the Region of Bascilicata, Italy.

**(Expressed in Canadian Dollars)**

## 6. EXPLORATION AND EVALUATION ASSETS

| | Orofino Project, Mexico | PWK Wells, USA | Forestar, USA | Total |
|---|---|---|---|---|
| **Balance - December 31, 2011** | **$ -** | **$ -** | **$ -** | **$ -** |
| Acquisition costs | 55,000 | - | - | 55,000 |
| Exploration costs | 115,294 | - | - | 115,294 |
| **Balance - December 31, 2012** | **$170,294** | **$ -** | **-** | **$ 170,294** |
| Assets acquired from Avanti SA (Note 4) | - | 85,424 | 27,864 | 113,288 |
| Exploration costs | 21,051 | 7,035 | 12,335 | 40,421 |
| Additions from reclamation obligations | - | 7,500 | 7,500 | 15,000 |
| | 191,345 | 99,959 | 47,699 | 339,003 |
| Impairment of exploration and evaluation asset | (191,345) | - | - | (191,345) |
| **Balance – December 31, 2013** | **$ -** | **$ 99,959** | **$ 47,699** | **$ 147,658** |

*VUA Miller Well, Louisiana, USA*

The Company entered an agreement and began clearing location for the well during December 2013. Under the agreement with Avanti Exploration, LLC ("Avanti Exploration") AVN pays 1/3 of the costs of the well to casing point, which is estimated to be US$1.025 million and capped at $1.10 million to the 100% interest. After reaching casing point, the Company begins to pay 25% of the costs of the well (prorated interest) for the balance of the work and production of the well.

*Forestar 8 Well, Louisiana, USA*

The Company entered an agreement with Avanti Exploration and began work on the re-entry of the Forestar 8 well during 2013. Under this agreement AVN paid 50% of the re-entry costs to earn a 25% interest in this well, as well as two other nearby wells known as the Dubose and Turnkey Temple Inland. The results of this well were negative and the Company plans to move on to the Dubose and Turnkey Temple Inland in 2014.

*PWK Wells, Louisiana, USA*

During the year ended December 31, 2013, the Company entered into a participation agreement (the “Participation Agreement”) with Avanti Exploration dated January 24, 2013 under which the Company acquired a 25% interest in two oil and/or gas wells, known as the PWK 10-1 well and the Powell Lumber #1 well located in the Cowpen Creek Field area in Beauregard Parish, Louisiana.

Under the terms of the Participation Agreement, the Company received an undivided 25% working interest in the PWK 10-1 well and the Powell Lumber #1 well in consideration for the Company contributing 50%, of the cost of the work-over/re-entering of these wells. The Participation Agreement also provides that Avanti Exploration will be the operator of the wells.

**(Expressed in Canadian Dollars)**

## 6. EXPLORATION AND EVALUATION ASSETS (cont'd)

*Orofino Project, Mexico*

During the period ended December 31, 2011, the Company entered into an arm's length option agreement with Yale Resources Ltd. ("Yale") pursuant to which the Company has been granted an option to earn up to a 70% interest in the Orofino project (the "Project") located in Sonora State, Mexico (the "Transaction"). The Transaction is the Company's Qualifying Transaction. Under the terms of the Transaction, the Company can acquire up to a 70% interest in the Project by making option payments totalling $100,000, issuing 1,300,000 common shares of the Company to Yale and by meeting certain exploration and evaluation expenditure commitments. The Transaction closed on April 19, 2012.

During the year ended December 31, 2013, the Company relinquished the Orofino project and recorded an impairment of $191,345, effectively reducing the carrying value of the property to $nil.

**Reclamation Obligation**

| | | |
|---|---|---|
| Balance, December 31, 2012 | $ | - |
| Additions (reductions) | | 15,000 |
| Accretion | | - |
| Balance, December 31, 2013 | $ | 15,000 |

The Company's reclamation obligation consists of costs accrued based on the current best estimate of the plug and abandonment liability expense to be incurred upon the cessation of economic use of well locations. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

Management used a risk-adjusted interest rate of 10% in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the net undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $35,000 over the next 9 years.

## 7. CAPITAL STOCK

**Authorized**

Unlimited common shares with no par value.

During the year ended December 31, 2013, the Company:

(i) issued 7,500,000 common shares to the members, or their assignees, of Avanti SA with a value of $1,237,500 pursuant to which the Company has acquired all of the issued and outstanding common shares in Avanti SA (see Note 4).

(ii) issued 3,000,000 common shares to the members, or their assignees, of Avanti Oil with a value of $495,000 pursuant to which the Company has acquired all of the issued and outstanding common shares in Avanti Oil (see Note 4).

**(Expressed in Canadian Dollars)**

**7. CAPITAL STOCK** (cont'd)

**Authorized** (cont'd)

(iii) issued 4,220,000 common shares upon exercise of warrants for gross proceeds of $502,400.

(iv) issued 800,000 common shares upon exercise of options for gross proceeds of $80,000.

(v) completed a non-brokered private placement of 6,331,665 common shares for gross proceeds of $956,513. In connection with the private placement, the Company incurred cash share issuance costs of $6,228; and issued 170,000 agents warrants valued at $22,594. The warrants were valued using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.12% |
| Expected life | 2 years |
| Expected volatility | 149.46% |
| Expected dividend yield | Nil |
| Share price | $0.18 |

During the year ended December 31, 2012, the Company:

(i) completed a financing of 9,000,000 units at $0.10 per unit for gross proceeds of $900,000, with each unit consisting of one common share and one share purchase warrant, with each warrant entitling the holder to acquire one additional common share at $0.12 per share for a period of two years. The financing consisted of 6,050,000 units issued pursuant to a prospectus offering and 2,950,000 units issued pursuant to a non-brokered, private placement. In connection with this financing, the Company incurred share issue costs of $183,754.

(ii) issued 50,000 common shares valued at $5,000 in connection with its Orofino project option agreement (Note 6).

**Escrow shares**

(i) *Pre-public shares*
As at December 31, 2013, 899,997 (2012: 1,500,000) common shares were held in escrow.

The escrow shares are released from escrow as follows:

- 10% released on April 27, 2012 (the date of TSX-V acceptance of the qualifying transaction)
- an additional 15% released on each of the six, twelve, eighteen, twenty-four, thirty and thirty-six months following the initial release on April 27, 2012.

(ii) *Avanti acquisition shares (Note 4)*
All shares issued for the acquisition of Avanti SA and Avanti Oil were the subject of an Escrow agreement dated May 15, 2013. As at December 31, 2013, 7,875,000 (2012: nil) common shares were held in escrow.

The escrow shares are released from escrow as follows:

- 10% released as of June 4, 2013 (the date of TSX-V acceptance of the Avanti transactions)
- an additional 15% released on each of the six, twelve, eighteen, twenty-four, thirty and thirty-six months following the initial release on June 4, 2013.

**(Expressed in Canadian Dollars)**

## 7. CAPITAL STOCK (cont'd)

### Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less an applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the board of directors.

As at December 31, 2013, the following options were outstanding and exercisable:

| Number of options | Exercise price | Remaining life (years) | Expiry date |
|---|---|---|---|
| 50,000 | $ 0.10 | 3.30 | April 19, 2017 |
| 2,900,000 | 0.20 | 4.90 | November 25, 2018 |
| 2,950,000 | | | |

A summary of changes of stock options outstanding is as follows:

| | Options | Weighted average exercise price |
|---|---|---|
| Balance outstanding and exercisable as at December 31, 2011 | 400,000 | $ 0.10 |
| Granted | 900,000 | 0.10 |
| Balance outstanding and exercisable as at December 31, 2012 | 1,300,000 | $ 0.10 |
| Granted | 2,900,000 | 0.20 |
| Cancelled | (450,000) | (0.10) |
| Exercised | (800,000) | (0.10) |
| Balance outstanding and exercisable as at December 31, 2013 | 2,950,000 | $ 0.20 |

These options entitle the holder thereof the right to acquire one common share for each option held. The weighted average remaining life of outstanding options is 4.88 years.

During the year ended December 31, 2013, the Company granted 2,900,000 (2012 – 900,000) stock options with a fair value of $472,171 (2012 – $74,500) or $0.16 (2012 - $0.08) per option.

The options granted to directors and officers during the period vested on the grant date. The fair value of each option was estimated on the grant date using the Black-Scholes option valuation model with the following assumptions:

**(Expressed in Canadian Dollars)**

## 7. CAPITAL STOCK (cont'd)

**Stock options** (cont'd)

| | 2013 | 2012 |
|---|---|---|
| Risk-free interest rate | 1.80% | 1.62% |
| Expected life | 5 years | 5 years |
| Expected volatility | 149.46% | 120.0% |
| Expected dividend yield | Nil | Nil |
| Share price | $0.18 | $0.10 |

Expected volatility is determined using the historical share price volatility of the Company.

**Warrants**

As at December 31, 2013, the following warrants were issued and outstanding:

| Number of warrants | Exercise price | Remaining life (years) | Expiry date |
|---|---|---|---|
| 170,000 | $ 0.15 | 1.90 | November 25, 2015 |
| 4,980,000 | $ 0.12 | 0.30 | April 18, 2014 |
| 5,150,000 | | | |

A summary of changes of warrants outstanding is as follows:

| | Warrants | Weighted average exercise price |
|---|---|---|
| Balance, December 31, 2011 | 200,000[(1)] | $ 0.10 |
| Issued | 9,000,000 | 0.12 |
| Balance, December 31, 2012 | 9,200,000[(1)] | $ 0.12 |
| Exercised | (200,000) | (0.10) |
| Exercised | (4,020,000) | (0.12) |
| Issued | 170,000 | 0.15 |
| Balance, December 31, 2013 | 5,150,000 | $ 0.12 |

[(1)] Includes 200,000 Agent warrants issued in connection with the Company's initial public offering with a value of $12,100 or $0.06 per warrant.

## 8. FINANCIAL INSTRUMENTS

### Fair value

The Company's consolidated financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and due to related parties. As at December 31, 2013, the carrying value of receivables, accounts payable and accrued liabilities and due to related parties approximate their fair value due to their short terms to maturity. Cash is measured at fair value using level 1 inputs.

The Company's risk exposures and the impact on the Company's financial statements are summarized below.

*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's cash is held at large Canadian and US financial institution in interest bearing accounts and in lawyers trust accounts. The Company has no investment in asset-backed commercial paper. The Company's receivables consist mainly of government sales tax ("GST") receivable due from the government of Canada. As a result, the Company does not believe it is exposed to significant credit risk.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

   Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

   The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

b) Foreign currency risk

   The Company is exposed to foreign currency risk on fluctuations related to cash, receivables, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at December 31, 2013, the Company considers foreign currency risk to be insignificant.

**(Expressed in Canadian Dollars)**

## 8. FINANCIAL INSTRUMENTS (cont'd)

c) Price risk

The Company has limited exposure to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

## 9. CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity. As at December 31, 2013, the Company's shareholders' equity was $2,384,593. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital.

The Company is not currently subject to externally imposed capital requirements.

There has been no change to the Company's capital management approach during the year ended December 31, 2013.

## 10. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

| | Year Ended December 31, | |
|---|---|---|
| Key Management Personnel | 2013 | 2012 |
| Salaries and short term benefits | $ 635,467 | $ 66,000 |
| Share-based payments | 374,480 | 66,222 |
| | $ 1,009,947 | $ 132,222 |

During the year ended December 31, 2013, the Company entered into the following transactions with key management personnel:

**(Expressed in Canadian Dollars)**

## 10. RELATED PARTY TRANSACTIONS (cont'd)

| Related party | Nature of transaction |
|---|---|
| BRL Consulting Inc. ("BRL") | Consulting fees for the services provided by Brent Lokash as Director and Secretary. |
| Mark Frascogna.LLC ("Frascogna") | Consulting fees for the services provided by Mark Frascogna as Vice President, Commercial Affairs |
| Tim Berge LLC ("Berge") | Consulting fees for the services provided of Tim Berge as Vice President, Exploration and Development |
| Contact Financial Corp. ("CFC") | Rent and shared office expenses. |
| Pacific Equity Management Corp. ("PEMC") | Management fees for services provided by CFO, VP Corporate Development, VP Finance, Independent Director, Accountant, and Administrator. |
| Avanti Exploration, LLC ("Avanti Exploration") | Participation agreements, and operating arrangements for exploration and evaluation assets in Louisiana |

(a) Paid/accrued $77,083 (2012 - $53,333) in consulting fees to BRL, a company controlled by a director.

(b) Paid/accrued $6,000 (2012 - $4,000) in rent (included in administrative fees) and $33,000 in consulting fees (2012: $44,000) to CF, a company in which a director is a significant shareholder.

(c) Paid/accrued $131,250 (2012: $nil) to PEMC, a company controlled by a director and an officer for management services.

(d) Included in prepaids and deposits is $nil (2012: $6,667) paid to BRL, a company controlled by a former officer and director for consulting fees.

(e) Included in prepaids and deposits is $nil (2012: $5,500) and $nil (2012: $500) paid to CF, a company controlled by an officer and director for consulting fees.

(f) Paid/accrued US$186,000 (2012: $nil) to Frascogna, a company controlled by an officer for consulting fees.

(g) Paid/accrued US$85,250 (2012: $nil) to Berge, a company controlled by an officer for consulting fees.

(h) Included in prepaids and deposits is $105,679 (2012: $nil) paid to Avanti Exploration, a company with two common directors for advances on exploration work to be completed after year-end.

(i) Issued 2,300,000 (2012 – 800,000) stock options to officers and directors with a fair value of $374,480 (2012 - $66,222).

(j) Due to related parties includes the following: $88,335 (2012: $308). Amounts due to related parties are unsecured with no fixed terms for payment.

These transactions were in the normal course of operations.

During the current fiscal year the Company entered into certain agreements with Avanti Exploration, a Company owned by a director and the Chief Executive Officer (see Note 6).

**(Expressed in Canadian Dollars)**

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the year ended December 31, 2013 were as follows:

(a) issued 7,500,000 common shares valued a $1,237,500 for the acquisition of Avanti SA (Note 4).

(b) issued 3,000,000 common shares valued at $495,000 for the acquisition of Avanti Oil (Note 4).

(c) included in accounts payable and accrued liabilities is $15,366 which relates to exploration and evaluation expenditures.

The Company's significant non-cash transactions during the year ended December 31, 2012 were as follows:

(a) issued 50,000 common shares with value of $5,000 for an exploration and evaluation asset.

(b) Transferred $5,034 from deferred charges incurred during the period ended December 31, 2011 to share issue costs on completion of the qualifying transaction

(c) Included in accounts payable and accrued liabilities is $20,811 which relates to exploration and evaluation asset expenditures.

## 12. SEGMENT INFORMATION

The Company has one reportable operating segment, being the acquisition, exploration, and evaluation of exploration and evaluation assets. Geographic segmentation of the Company's non-current assets is as follows:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | **USA** | **Mexico** | **Italy** | **Total** |
| Exploration and evaluation assets | $ 147,658 | $ - | $ - | $ 147,658 |
| Long term deposits | - | - | 65,363 | 65,363 |
| Intangible assets | 1,903,043 | - | - | 1,903,043 |
| | $ 2,050,701 | $ - | $ 65,363 | $ 2,116,064 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | **USA** | **Mexico** | **Canada** | **Total** |
| Exploration and evaluation assets | $ - | $ 170,294 | $ - | $ 170,294 |
| | $ - | $ 170,294 | $ - | $ 170,294 |

**(Expressed in Canadian Dollars)**

## 13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Loss for the year | $ | (2,069,266) | $ | (238,776) |
| Expected income tax (recovery) | $ | (533,000) | $ | (60,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | | (43,000) | | - |
| Permanent Difference | | 122,000 | | 19,000 |
| Share issue cost | | (2,000) | | (46,000) |
| Change in unrecognized deductible temporary differences | | 456,000 | | 87,000 |
| **Total income tax expense (recovery)** | **$** | **-** | **$** | **-** |

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada.

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Deferred Tax Assets (liabilities) | | | | |
| Exploration and evaluation assets | $ | 44,000 | $ | - |
| Share issue costs | | 39,000 | | 50,000 |
| Non-capital losses available for future period | | 495,000 | | 72,000 |
| | | 578,000 | | 122,000 |
| Unrecognized deferred tax assets | | (578,000) | | (122,000) |
| **Net deferred tax assets** | **$** | **-** | **$** | **-** |

**(Expressed in Canadian Dollars)**

## 13. INCOME TAXES (cont'd)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | 2013 | Expiry Date Range | 2012 | Expiry Date Range |
|---|---|---|---|---|
| **Temporary Differences** | | | | |
| Exploration and evaluation assets | $ 170,000 | No expiry date | $ - | |
| Share issue costs | 150,000 | 2034 to 2037 | 200,000 | 2033 to 2036 |
| Non-capital losses available for future period | 1,745,000 | 2031-2033 | 287,000 | 2031-2032 |
| Canada | 712,000 | 2031-2033 | 287,000 | 2031-2032 |
| Mexico | 1,033,000 | 2018 | - | |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

## 14. EVENTS AFTER THE REPORTING PERIOD

On February 5, 2014 the Company granted stock options to certain directors, officers and consultants for the purchase of 200,000 common shares at $0.205 per share until expiry on February 5, 2019.

Effective March 3, 2014 the Company closed a non-brokered private placement for gross proceeds of $1,188,892 via the issuance of 7,430,578 common shares at $0.16 (US$0.145) per share. The Company paid Finder's Fees of $28,639 and US$870 in cash and issued 145,991 warrants each exercisable into one common shares at $0.16 for a term of two years from the date of issuance.

Subsequent to the year-end, 4,792,000 share purchase warrants have been exercised for gross proceeds of $575,040 and resulted in the issuance of 4,792,000 common shares.