AVANTI ENERGY INC.
(formerly Overlord Capital Ltd.)

Management Discussion and Analysis

For the years ended December 31, 2013 and 2012

THE ATTACHED CONSOLIDATED FINANCIAL STATEMENTS FORM AN INTEGRAL PART OF THIS MANAGEMENT DISCUSSION AND ANALYSIS AND ARE HEREBY INCLUDED BY REFERENCE

INTRODUCTION

Avanti Energy Inc. (the "Company", 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 resource properties prospective for hydrocarbons. 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 mining 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 (“Avant SA”) and Avanti Oil, LLC (“Avanti Oil”). As a result, the Company has acquired all of the issued and outstanding interests in Avanti SA and Avanti Oil.

The following management discussion and analysis (“MD&A”), prepared as of April 17, 2014, should be read together with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 and related notes hereto, which are prepared in accordance with IFRS.

The reader should also refer to the audited financial statements and accompanying notes for the year ended December 31, 2012 and related notes hereto, which are prepared in accordance with IFRS.

All statements in this report that do not directly and exclusively relate to historical facts constitute forward-looking statements. These statements represent the Company’s intentions, plans, expectations and beliefs, and are subject to risks, uncertainties, and other factors of which many are beyond the control of the Company. These factors could cause actual results to differ materially from the Company’s expectations. The Company assumes no obligation to update or revise any forward-looking statements, as a result of new information, future events or otherwise.

FORWARD LOOKING STATEMENTS

The information herein contains forward-looking statements and assumptions. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, "expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and other similar expressions. Such statements and assumptions also include those relating to guidance, results of operations and financial condition, capital spending and financing sources. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results.

The financial risks the Company is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in interest rates. The Company is subject to regulatory legislation; compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

OVERALL PERFORMANCE

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.

Subsequent to the year-end the Company participated in the drilling and completion of the VUA Miller No. 1 well in the Cowpen Creek area of Beauregard Parish, Louisiana, with a 25% working interest. The well was directionally drilled and flowed 108 bopd of 49 degrees gravity oil and 30 Mcfgd with 1,200 flowing tubing pressure on a 16/64" choke, from the Cockfield reservoir, during an eight hour test. The well is currently being placed on production and is expected to be flowing in May 2014. Upon producing for two to three weeks, the Company will make an announcement as to what it expects will be sustained production rates.

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.

The Company participated with a 25% working interest in a re-entry of the PWK #1 well also in the Cockfield reservoir in the Cowpen Creek area. The well is currently on long term production test and is flowing 7 bopd and 10 Mcfgd on a 22/64" choke. Further results of such test will be made available at the same time as results of the VUA Miller No. 1 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 Turnkey Temple Inland in 2014.

Orofino Project, Mexico

On April 19, 2012 the Company completed a transaction whereby it entered ino an arm's length option agreement dated October 18, 2011 (the "Option Agreement") with Yale Resources Ltd. ("Yale") pursuant to which the Company was granted an option to earn up to a 70% interest in the Orofino Project (the "Project") located in Sonora State, Mexico (the "Transaction").

Under the terms of the Option Agreement, the Company could acquire up to a 70% interest in the Project by making option payments totaling $100,000, issuing 1,300,000 common shares of the Company to Yale and by meeting certain exploration and evaluation expenditure commitments.

In a prior period the Company paid a $50,000 option payment, issued 50,000 common shares and incurred exploration expenditures in excess of $50,000; all of which were terms of the option agreement. The results of the exploration work performed were not encouraging and consequently management decided to terminate the option agreement and relinquish its interest in Orofino project. Consequently during the period the Company impaired its investment in the Orofino project by $191,345 resulting in the carrying value of the project being reduced to $nil.

Outlook

Avanti remains dedicated to its South America, two pronged strategy of focusing on:

1) onshore oil development and re-development opportunities with significant potential to increase proved undeveloped reserves; and

2) building a material acreage position in high impact emerging shale plays, while avoiding high risk exploration exposure.

Recent farmout and licensing activity focused on onshore shale oil in the La Luna formation, in the Middle Magdalena Valley of Colombia, and in the Gomo formation, in the Reconcavo Basin in Brazil, support the Company's belief in the merits of these areas for unconventional oil potential.

Through its dedicated team of professionals in the US and Latin America, Avanti has and will continue to actively source and evaluate acquisitions that meet its strict investment criteria.

The Company anticipates that stabilized production will be established in May 2014 at the recently completed VUA; Sherry Miller #1 well in Cowpen Creek Field. The Company has a 25% working interest.

ASSET ACQUISITIONS

Effective May 15, 2013, the Company acquired all of the issued and outstanding interests in Avanti SA and Avanti Oil in exchange for 7,500,000 and 3,000,000 common shares respectively.

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

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 interests in Avanti SA; and (ii) a share purchase agreement with Avanti Oil pursuant to which the Company acquired all of the issued and outstanding interests in Avanti Oil.

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.

Summary of intangible assets:

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

RESULTS OF OPERATIONS

Selected Annual Information

	Years ended December 31		Period from Incorporation March 7, 2011 to December 31
	2013	2012	2011
Revenue	**$ Nil**	$ Nil	$ Nil
Net loss for the period	**$ (2,069,266)**	$ (238,776)	$ (85,567)
Net loss per common share, basic and diluted	**$ (0.09)**	$ (0.02)	$ (0.11)
Weighted average number of common shares	**22,607,867**	10,347,397	769,231
Financial position data			
Working capital as at December 31	**$ 283,529**	$ 546,209	$ 124,499
Total assets as at December 31	**$ 2,523,006**	$ 755,122	$ 214,931

Revenues

Due to the lack of commercial production from its properties, the Company currently does not have any revenues from its operations.

Fiscal year ended December 31, 2013
During the year ended December 31, 2013, most operating categories showed an increase in expense levels due to expanded exploration activity and an increased due diligence effort in South America. The Company incurred operating expenses of $2,069,266 [2012: $238,776]. The bulk of the expenses in the current period were related to exploration, which is represented in consulting fees of $692,035 versus $97,333 in the corresponding 2012 period; and in lease operating expense of $421,682 compared with $nil in 2012. The non-cash charge of $472,171 for share-based compensation in 2013 reflected grants of stock options in the period and were a significant increase from the $74,500 figure in 2012; and the recording of a non-cash impairment expense of $191,345 in 2013 captures the write-off of the book value attributed to the Orofino project. Charges for administrative expenses and management fees also increased to $78,330 [2012: $5,456], and $131,250 [2012: $nil], respectively.

The Company will use its available resources to pursue its operations in Louisiana and its efforts in South America.

Fiscal year ended December 31, 2012
During the year ended December 31, 2012, most operating categories showed an increase in expense levels due to expanded exploration activity and corporate activities. The Company incurred operating expenses of $238,776 [2011: $85,567]. The bulk of the expenses in the period were related to consulting fees of $97,333 versus $nil in the corresponding 2011 period; and the non-cash charge of $74,500 for share-based compensation in 2012 to reflect grants of stock options in the year and were a significant increase from the $33,000 recorded in 2011. Charges for professional fees and administrative expenses and management fees also increased to $35,953 [2011: $21,815], and $5,456 [2011: $674], respectively.

Selected Financial Data [Quarterly - unaudited]

		Quarter Ended							
		12/31/2013	**9/30/2013**	**6/30/2013**	**3/31/2013**	**12/31/2012**	**9/30/2012**	**6/30/2012**	**3/31/2012**
Operating Revenue	$	0	0	0	0	0	0	0	0
Comprehensive loss	$	(1,121,371)	(496,780)	(399,624)	(51,491)	(59,350)	(47,626)	(116,097)	(15,703)
Loss per share	$	(0.04)	(0.02)	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Share capital	$	4,244,331	3,256,040	2,892,546	921,246	921,246	921,246	921,246	200,000
Common shares issued		34,901,665	28,065,000	25,540,000	13,050,000	13,050,000	13,050,000	13,050,000	2,000,000
Weighted average shares outstanding		31,412,246	26,795,163	18,926,264	13,050,000	13,050,000	13,050,000	11,160,440	4,000,000
Total Assets	$	2,523,006	2,276,035	2,350,273	709,475	755,122	780,716	829,544	196,645
Net Assets	$	2,384,593	2,022,908	2,236,688	665,012	716,503	775,853	823,479	143,830
Cash Dividends Declared per Common Shares	$	0	0	0	0	0	0	0	0

Fourth quarter 2013
Other than the closing of a private placement with gross proceeds of $956,513, during the Fourth fiscal quarter ended December 31, 2013, there were no fourth quarter events or items that affected the Company's financial condition, cash flows or results of operations, including extraordinary items, year-end and other adjustments. The Company's operations are generally not seasonal. The increased loss in 2013 was due to increased exploration expenditures and a build-up of corporate activity within the quarter.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's activities have been funded to date through the issuance of common shares. Please refer to the financial risk section in this MD&A.

As at December 31, 2013, the Company had working capital of $268,529 [December 31, 2012: $546,209] and cash of $275,700 [December 31, 2012: $567,145].

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).

(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.

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.

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:

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.

FINANCIAL INSTRUMENTS AND RISK

Fair value

The Company’s financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and due to related parties. As at December 31, 2013, the carrying value of accounts receivable, accounts payable and accrued liabilities, and due to related parties approximate their fair value due to their short terms to maturity.

Financial risk factors

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 institutions 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.

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.

NEW ACCOUNTING PRONOUCEMENTS

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)

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.

RISKS AND UNCERTAINTIES

Limited liquidity, additional financing and uncertainty of such financing
Current financial resources are able to fund the Company’s operations. The Company will require additional financing, however, to conduct exploration programs on its properties and fund corporate costs that are beyond the current financial resources. There is no assurance that the Company will be successful in obtaining the required financing either through issuance of common shares, divestment of properties or partnerships. A lack of financing would cause the Company to postpone its exploration and development plans, reduce its technical staff, and could necessitate reducing mineral concessions and/or will cause going concern issues for the Company.

PFIC Tax Risk
U.S. persons who are potential holders of our common shares, warrants or options to purchase our common shares, should be aware that the Company could constitute a “passive foreign investment company” (or a “PFIC”) for U.S. federal income tax purposes. The tests for determining PFIC status for a taxable year depend upon the relative values of certain categories of assets and the relative amounts of certain kinds of income. The application of these factors depends upon our financial results

for the year, which is beyond our ability to predict or control, and may be subject to legal and factual uncertainties. While the Company does not believe that we were a PFIC in 2013 and do not expect to be a PFIC in 2014, the Company cannot guarantee its PFIC status in 2013, 2014 or in later years. The Company undertakes no obligation to advise investors as to our PFIC status for any year.

If the Company is a PFIC for any year, any holder of our equity securities who is a U.S. person for U.S. federal income tax purposes, a "U.S. holder", and whose holding period for the equity securities includes any portion of a year in which the Company is a PFIC generally would be subject to a special adverse tax regime in respect of "excess distributions." Excess distributions would include certain distributions received with respect to our common shares. Gain recognized by a U.S. holder on a sale or other transfer of our equity securities also would be treated as an excess distribution. Under the PFIC rules, excess distributions would be allocated ratably to a U.S. holder's holding period. For this purpose, the holding period of common shares acquired through either an exercise of warrants or options includes the holder's holding period in those warrants or options.

The portion of any excess distributions (including gains treated as excess distributions) allocated to the current year would be includible as ordinary income in the current year. In contrast, the portion of any excess distributions allocated to prior years would be taxed at the highest marginal rate applicable to ordinary income for each year (regardless of the taxpayer's actual marginal rate for that year and without reduction by any losses or loss carryforwards) and would be subject to interest charges to reflect the value of the U.S. federal income tax deferral.

Elections may be available to mitigate the adverse tax rules that apply to PFICs (the so-called "QEF" and "mark-to-market" elections), but these elections may accelerate the recognition of taxable income and may result in the recognition of ordinary income. The QEF and mark-to-market elections are not available to U.S. holders with respect to warrants or options. The Company has not decided whether we will provide the U.S. Holders of our common shares with the annual information required to make a QEF election.

Additional special adverse rules could apply to our equity securities if the Company is a PFIC and has a non-U.S. subsidiary that is also a PFIC. Finally, special adverse rules that impact certain estate planning goals could apply to our equity securities if the Company is a PFIC.

Dilution
Issuances of additional securities at or near the current share price of the Company would result in significant dilution of the equity interests of any persons who are holders of common shares.

Market condition and liquidity crisis
The global liquidity crisis of 2008-2009 resulted in extreme volatility in equity and commodity markets and negatively impacted common share prices of junior exploration companies. Although global economies have improved, equity capital market conditions continue to be troublesome. The valuation of the Company and other junior exploration companies have suffered, and the environment for raising additional financing continues to be difficult.

Share price subject to volatility
The market price of the securities of a publicly traded issuer, in particular a junior resource issuer, is affected by many variables not directly related to exploration success, including the market for junior resource securities, economic performance, market liquidity, commodity prices, availability of alternative investments and the breadth of the public market for the securities.

Hydrocarbon prices subject to volatility
The Company is primarily targeting oil and gas. These commodities are traded on exchanges and their prices have been volatile and are affected by, among other things, forecast global economic conditions, and current supply and demand. While the Company is not currently producing or selling any products, the value of its projects are impacted by current and future expected prices of the commodities that it is seeking.

No history of earnings
To date, the Company has had no revenue from the exploration activities on its properties and there is no certainty that the Company will produce revenue, operate profitably or provide a return on investment in the future.

Exploration and development activities are inherently risky
The business of exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. Unusual or unexpected formations, formation pressures, power outages, labour disruptions, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration programs. These factors can all affect the timing, cost and success of exploration programs and any future development. Although the Company carries liability insurance with respect to its exploration operations, the Company may become subject to liability for damage to life and property, environmental damage, cave-ins or hazards against which it cannot insure or against which it may elect not to insure.

Previous operations may have caused environmental damage at certain of the Company's properties. It may be difficult or impossible to assess the extent to which such damage was caused by the Company or by the activities of previous operators, in which case, any indemnities and exemptions from liability may be ineffective, and the Company may be responsible for the costs of reclamation.

If any of the Company's properties move to a development stage, the Company would be subject to additional risks respecting any development and production activities.

Dependence on management
The Company will be dependent upon the personal efforts and commitment of its management, which is responsible for the development of future business. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Potential conflicts of interest
Certain of the Company’s directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest, to the extent that such other companies may participate in ventures in which the Company is also participating. The laws of British Columbia require the directors and officers to act honestly, in good faith, and in the best interests of the Company. In addition, each director must declare his or her interest and abstain from voting on any contract or transaction in which the director may have a conflict of interest.

Political investment Risk; Political instability in developing countries
Some of the Company's interests are in countries that may be affected by varying degrees of political instability and the policies of other nations in respect of these countries. These risks and uncertainties include military repression, political and labour unrest, fluctuations in currency exchange rates, rates of inflation, terrorism, hostage taking and expropriation.

The Company's exploration and development activities may be affected by changes in government, political instability and the nature of various government regulations relating to the mining industry. The Company cannot predict the government's positions on foreign investment, mining concessions, land tenure, environmental regulation or taxation. A change in government positions on these issues could adversely affect the Company's business and/or its holdings, assets and operations. Any changes in regulations or shifts in political conditions are beyond the control of the Company. The Company's operations entail governmental, economic, social, medical and other risk factors common to all developing countries. See "Economic Uncertainty in Developing Countries". The status of developing countries may make it more difficult for the Company to obtain any required financing because of the associated investment risks.

Economic uncertainty in developing countries
The Company's operations may be adversely affected by economic uncertainty characteristic of developing countries. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and safety factors. Any such changes could have a material adverse effect on the Company's results of operations and financial condition.

Risks relating to statutory and regulatory compliance
The current and future operations of the Company, from exploration through development activities and commercial production, if any, are and will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there can be no assurance that the Company will be successful in obtaining all required permits. Further, there can be no assurance that all permits which the Company may require for future exploration,

construction of mining facilities and conduct of mining operations, if any, will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project which the Company may undertake.

Failure to comply with applicable laws, regulations and permits may result in enforcement actions there under, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits. The Company is not currently covered by any form of environmental liability insurance. See "Insurance Risk", below.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in exploration.

Title risks

The acquisition of title to resource properties or interests therein is a detailed process. Title to the area of resource concessions may be disputed. There is no guarantee of title to any of the Company's properties. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Title may be based upon interpretation of a country's laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change. The Company has not surveyed the boundaries of any of its properties and consequently the boundaries of the properties may be disputed.

Foreign currency fluctuations

The Company's exploration activities in South America will render it subject to foreign currency fluctuations. While the Company expects to minimize the risks associated with foreign currency fluctuations by holding its cash and short-term investments in U.S. and Canadian dollars rather than the local currencies, to the extent that its operations in those countries are carried out using the local currency, any appreciation of such local currency relative to the U.S. and Canadian dollar could have an adverse impact on the financial position of the Company. Since the Company's financial results will be reported in Canadian dollars, its financial position and results will be impacted by exchange rate fluctuations between the Canadian and U.S. dollars.

Insurance risk

No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company maintains insurance within ranges of coverage which it believes to be consistent with industry practice for companies of a similar stage of development. The Company carries liability insurance with respect to its exploration operations, but does not currently intend to carry any form of political risk insurance or any form of environmental liability insurance, since insurance against political risks and environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. The payment of any such liabilities would reduce the funds available to the Company. If the Company is unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Competition

Significant and increasing competition exists for deposits in each of the jurisdictions in which the Company conducts operations. As a result of this competition, much of which is with large established mining companies with substantially greater financial and technical resources than the Company, the Company may be unable to acquire additional attractive properties or financing on terms it considers acceptable. The Company also competes with other companies in the recruitment and retention of qualified employees.

Legal proceedings

Substantially all of the Company's assets are located outside of Canada, which may create difficulties in enforcing in Canadian courts any judgments obtained by the Company in foreign jurisdictions. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company on any judgments obtained in Canadian courts and predicated on the civil liability provisions of securities legislation. The Company may be subject to legal proceedings and judgments in foreign jurisdictions.

Dividends unlikely
The Company has not paid any dividends since the date of its incorporation, and it is not anticipated that dividends will be declared in the short or medium term.

CAPITAL MANAGEMENT

Capital is comprised of the Company's shareholders' equity. As at December 31, 2013, the Company's share capital was $4,244,331. 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 period ended December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual reports could differ from management's estimates.

The Company is required to make certain estimates, judgments and assumptions. Please refer to Note 2 in the annual financial statements for more details.

CONTINGENCIES

Other than $15,000 recorded as a reclamation obligation to cover the Company's portion of the anticipated future expense to remove equipment and restore wellsites according to State Law, there are no contingent liabilities.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Changes in Internal Control over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

OUTSTANDING SHARES, STOCK OPTIONS AND WARRANTS

As at April 17, 2014:

a) Authorized: unlimited common shares without par value.

b) Issued and outstanding: 47,124,243 common shares.

c) Outstanding stock options:

Number of options	Exercise price	Expiry date
50,000	$ 0.10	April 19, 2017
2,900,000	0.20	November 25, 2018
200,000	0.205	February 5, 2019
3,150,000		

d) Outstanding warrants:

Number of warrants	Exercise price	Expiry date
188,000	0.12	April 18, 2014
170,000	0.15	November 25, 2015
145,991	0.16	March 3, 2016
503,991		

EVENTS SUBSEQUENT TO DECEMBER 31, 2013

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 C$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.

OTHER MD&A REQUIREMENTS

Additional disclosure of the Company's technical reports, material change reports, news releases and other information can be obtained on SEDAR at www.sedar.com.