Avanti Energy Inc.

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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, 2014 and 2013 and the consolidated statements of loss and 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.

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, 2014 and 2013 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 28, 2015

Avanti Energy Inc.
(in Canadian Dollars)

Consolidated Statements of Financial Position

As at December 31,	**2014**	2013
ASSETS		
Current		
Cash and cash equivalents	**$ 294,634**	$ 275,700
Accounts receivable	**23,950**	10,530
Prepaids and deposits (Note 11)	**55,625**	120,712
	374,209	406,942
Non-current assets		
Exploration and evaluation assets (Note 6)	**-**	147,658
Intangible assets (Note 4)	**1,903,043**	1,903,043
Long term deposits (Note 5)	**65,363**	65,363
Deferred acquisition costs (Note 15)	**134,767**	-
Property (Note 7)	**92,900**	-
	$ 2,570,282	$ 2,523,006
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 78,891**	$ 35,078
Due to related parties (Note 11)	**87,953**	88,335
	166,844	123,413
Reclamation obligation (Note 6)	**15,000**	15,000
	181,844	138,413
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**5,943,821**	4,244,331
Equity reserves	**596,056**	533,871
Deficit	**(4,151,439)**	(2,393,609)
	2,388,438	2,384,593
	$ 2,570,282	$ 2,523,006

Nature and continuance of operations (Note 1)
Events after the reporting period (Note 15)

Approved by the board:

"John McIntyre" — Director

"Douglas Ford" — Director

Avanti Energy Inc.
(in Canadian Dollars)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31,	2014	2013
Revenue		
Oil and gas sales	**$ 481,391**	**$ -**
	481,391	**-**
Expenses		
Administrative	**305,618**	78,330
Consulting fees	**696,673**	692,035
Depletion (Note 7)	**93,100**	-
Loss (gain) on foreign exchange	**4,899**	(3,429)
Lease operating expense	**616,663**	421,682
Management fees (Note 11)	**300,000**	131,250
Professional fees	**71,306**	58,043
Share-based payments (Note 8)	**38,183**	472,171
Transfer agent and filing fees	**27,791**	27,839
Impairment of exploration and evaluation assets (Note 6)	**84,988**	191,345
	(2,239,221)	(2,069,266)
Loss and comprehensive loss	**$ (1,757,830)**	$ (2,069,266)
Basic and diluted loss per share	**(0.04)**	(0.09)
Weighted average number of shares outstanding- basic and diluted	**45,046,505**	22,607,867

Avanti Energy Inc.
(in Canadian Dollars)

Consolidated Statements of Cash Flows

For the years ended December 31,	2014	2013
OPERATING ACTIVITIES		
Net loss for the year	**$ (1,757,830)**	$ (2,069,266)
Items not affecting cash		
Impairment of exploration and evaluation assets	**84,988**	191,345
Depletion	**93,100**	-
Share-based payments	**38,183**	472,171
Unrealized foreign exchange	**(382)**	-
Changes in non-cash working capital items:		
Accounts receivable, prepaids and deposits	**51,667**	68,544
Accounts payable and accrued liabilities	**59,179**	(15,761)
Cash used in operating activities	**(1,431,095)**	(1,352,967)
INVESTING ACTIVITIES		
Cash acquired upon acquisition of Avanti SA and Avanti Oil	**-**	5,151
Cash advances paid to Avanti SA	**-**	(430,448)
Property	**(86,041)**	-
Deferred acquisition costs	**(134,767)**	-
Exploration and evaluation asset expenditures	**(52,655)**	(45,866)
Cash used in investing activities	**(273,463)**	(471,163)
FINANCING ACTIVITIES		
Common shares issued for cash	**1,770,787**	1,538,913
Share issue costs	**(47,295)**	(6,228)
Cash provided by financing activities	**1,723,492**	1,532,685
Change in cash and cash equivalents during the year	**18,934**	(291,445)
Cash and cash equivalents, beginning of year	**275,700**	567,145
Cash and cash equivalents, end of year	**$ 294,634**	$ 275,700
Cash paid for:		
Interest	**$ -**	**$ -**
Income taxes	**$ -**	**$ -**

Supplemental disclosure with respect to cash flows (Note 12)

Avanti Energy Inc.
(in Canadian Dollars)

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31,

	Number of shares	Share capital	Equity reserves	Deficit	Total
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
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**
Warrants exercised	4,792,000	575,040	-	-	575,040
Options exercised	25,000	5,000	-	-	5,000
Private placement	7,430,578	1,190,747	-	-	1,190,747
Share issue costs (private placement)	-	(47,295)	-	-	(47,295)
Fair value of agent warrants	-	(28,072)	28,072	-	-
Share-based payments	-	-	38,183	-	38,183
Equity reserves reclassified due to option exercise	-	4,070	(4,070)	-	-
Loss for the year	-	-	-	(1,757,830)	(1,757,830)
Balance, December 31, 2014	**47,149,243**	**$ 5,943,821**	**$ 596,056**	**$ (4,151,439)**	**$ 2,388,438**

1. NATURE AND CONTINUANCE OF OPERATIONS

Avanti Energy Inc. (the "Company" or "AVN", formerly Overlord Capital Ltd.) is a resource company whose common shares trade on the TSX Venture Exchange ("TSX-V") and is in the business of acquiring, developing, exploring and evaluating oil and gas 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.

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 (Note 4).

The Company's head office is located at 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 consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

These consolidated 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 consolidated 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 only recently commenced generating revenue from operations and will require additional financing or outside participation to undertake further exploration and subsequent development of its oil and gas interests. 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 is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those 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.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned 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:

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 8.

2. BASIS OF PREPARATION (cont'd)

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

Reserve estimates

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the determination of the realizable value of oil and gas properties for impairment tests, all of which could have a material impact on earnings.

Impairment of Non-Financial Assets

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least annually. The assessment of any impairment of property and equipment and exploration and evaluation assets is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

Depreciation and depletion

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated reserves as determined using estimates as described above. Changes in forward price estimates, production levels or results of future drilling may change the economic status of reserves and may result in reserves being revised.

Decommissioning provisions

Provisions for decommissioning provisions associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology.

2. BASIS OF PREPARATION (cont'd)

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

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, 2014, the Company had cash and cash equivalents on hand of $ 294,634, consisting of cash of $94,634 (2013: $275,700) and short term interest bearing notes of $200,000 (2013: $nil).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets (cont'd)

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 profit or 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 resource 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.

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.

Share-based payments

The Company's stock option plan allows Company employees, directors, officers and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based payment expense with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

Share-based payments (cont'd)

Fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. In situations where equity instruments are issued to consultants and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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 by 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Financial instruments

Financial assets

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 profit or 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 profit or loss.

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 profit or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments (cont'd)

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 profit or 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 and cash equivalents 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 9 for relevant disclosures.

Reclamation obligations

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Property – Oil and Gas interests

Property, which includes oil and gas interests, represents costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized to property. Property is carried at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses. Gains and losses on disposal of property are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and is recognized in earnings.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed to earnings as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are expensed as incurred.

Exchanges of development and production assets (swaps, farm-outs or farm-ins) are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Any gain or loss on derecognition of the asset given up is recognized in earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Depletion

The net carrying value of the oil and gas assets is depleted using the unit of production method based on estimated proven, and probable reserves, taking into account the future development costs required to produce the reserves.

Revenue recognition

Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership are transferred to the buyer, which is based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, and, are recognized during the same period in which the related revenue is earned.

New Accounting Standards

New standards adopted during the year

Effective January 1, 2014, the following standards were adopted but did not have a material impact on the financial statements.

- IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.

(in Canadian dollars)

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

Summary of intangible assets:

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

4. ASSET ACQUISITIONS (cont'd)

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 members 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.

(in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS

	Orofino Project, Mexico	PWK Wells, USA	Forestar, USA	Turnkey Temple Inland, USA	Total
Balance - December 31, 2012	$170,294	$ -	$ -	$ -	$ 170,294
Additions	21,051	7,035	12,335	-	40,421
Reclamation provision	-	7,500	7,500	-	15,000
From Avanti SA asset acquisition	-	85,424	27,864	-	113,288
Impairment	(191,345)	-	-	-	(191,345)
Balance – December 31, 2013	$ -	$ 99,959	$ 47,699	-	$ 147,658
Additions	-	-	-	37,289	37,289
Reallocation (Note 8) (equipment	-	(99,959)	-	-	(99,959)
Impairment	-	-	(47,699)	(37,289)	(84,988)
Balance – December 31, 2014	$ -	$ -	$ -	$ -	$ -

Forestar 8 Well, Louisiana, USA
The Company entered into an agreement with Avanti Exploration and began work on the re-entry of the Forestar 8 well during the year ended December 31, 2013. Under this agreement, the Company 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 obtained during the year ended December 31, 2014 were negative and as a result the Company no longer plans to develop the well. As a result, costs totaling $47,699 were written off to the statement of loss and comprehensive loss during the year ended December 31, 2014.

Turnkey Temple Island, USA
The Company earned a 25% interest in this well as a result of work completed on the Forestar 8 Well as described above. During the year, as a result of difficulties with the well, the well was shut in. As a result, during the year ended December 31, 2014 the Company has written off costs incurred of $37,289 to the statement of loss and comprehensive loss.

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 was 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.

(in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd)

Reclamation Obligation

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 8 years.

Balance, December 31, 2012	$ -
Additions	15,000
Balance, December 31, 2014 and 2013	$ 15,000

7. PROPERTY

	Total
Balance – December 31, 2013, and 2012	$ -
Additions	86,041
Reallocation (Note 6)	99,959
Depletion	(93,100)
Balance – December 31, 2014	$ 92,900

VUA Miller #1 Well, Louisiana, USA

The Company currently holds a 25% working interest in the VUA Miller #1 Well

PWK Wells, Louisiana, USA

The Company currently holds a 25% interest in the PWK Wells, which consist of two wells.

(in Canadian dollars)

8. SHARE CAPITAL

Authorized

Unlimited common shares with no par value.

During the year ended December 31, 2014, the Company:

(i) closed a non-brokered private placement for gross proceeds of $1,190,747 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 in cash; incurred legal and other costs of $18,656; and issued 145,991 warrants with a value of $28,072, each exercisable into one common shares at $0.16 for a term of two years from the date of issuance. The warrants were valued using the Black-Scholes model with the following assumptions:

Risk-free interest rate	1.00%
Expected life	2 years
Expected volatility	147.99%
Expected dividend yield	Nil
Fair value per warrant	$0.19

(ii) issued 4,792,000 common shares upon the exercise of warrants for gross proceeds of $575,040.

(iii) issued 25,000 common shares upon the exercise of options for gross proceeds of $5,000.

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 (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 (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. 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
Fair value per warrant	$0.18

(in Canadian dollars)

8. SHARE CAPITAL (cont'd)

Escrow shares

(i) *Pre-public shares*

As at December 31, 2014, 300,000 (2013: 900,000) 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, 2014, 4,725,000 (2013: 7,875,000) 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.

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, 2014, the following options were outstanding and exercisable:

Number of options	Exercise price	Remaining life (years)	Expiry date
50,000	$ 0.10	2.30	April 19, 2017
2,875,000	$ 0.20	3.90	November 25, 2018
200,000	$ 0.205	4.10	February 5, 2019
3,125,000			

(in Canadian dollars)

8. SHARE CAPITAL (cont'd)

Stock options (cont'd)

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

	Options	Weighted average exercise price
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
Granted	200,000	0.21
Exercised	(25,000)	0.20
Balance outstanding and exercisable as at December 31, 2014	**3,125,000**	**$ 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 3.89 years.

During the year ended December 31, 2014, the Company granted 200,000 (2013: 2,900,000) stock options with a fair value of $38,183 (2013: $472,171) or $0.19 (2013: $0.18) 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:

	2014	2013
Risk-free interest rate	1.58%	1.80%
Expected life	5 years	5 years
Expected volatility	149.01%	149.46%
Expected dividend yield	Nil	Nil
Weighted average fair value per share	$0.19	$0.18

Expected volatility is determined using the historical share price volatility of the Company for a term equal to the expected life of the options.

(in Canadian dollars)

8. SHARE CAPITAL (cont'd)

Warrants

As at December 31, 2014, the following warrants were issued and outstanding:

Number of warrants	Exercise price	Remaining life (years)	Expiry date
170,000	$ 0.15	0.90	November 25, 2015
145,991	$ 0.16	1.17	March 3, 2016
315,991			

A summary of changes of warrants outstanding is as follows:

	Warrants	Weighted average exercise price
Balance, December 31, 2012	9,200,000	$ 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
Exercised	(4,792,000)	0.12
Expired (unexercised)	(188,000)	0.12
Issued	145,991	0.16
Balance, December 31, 2014	**315,991**	**$ 0.15**

9. FINANCIAL INSTRUMENTS

Fair value

The Company's consolidated financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties. As at December 31, 2014, 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. Cash and cash equivalents is measured at fair value using level 1 inputs.

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

9. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

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 and cash equivalents 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 accounts receivable 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 and cash equivalents, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at December 31, 2014, the Company considers foreign currency risk to be insignificant.

c) Price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and gas are impacted not only by the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand. The Company does not have any financial risk management contracts in place as at December 31, 2014 to manage this risk.

(in Canadian dollars)

10. CAPITAL MANAGEMENT

The Company's capital structure consists of the components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and amounts payable to related parties. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the future to meet its obligations.

11. RELATED PARTY TRANSACTIONS

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	2014	2013
Salaries and short term benefits[(i)]	$ 608,183	$ 635,467
Share-based payments	38,183	374,480
	$ 646,366	$ 1,009,947

[(i)]Salaries and short term benefits include $300,000 (2013: $131,250) in Management fees and $308,183 (2013: $504,217) in Consulting fees; recorded on the Statement of Loss and Comprehensive Loss.

(in Canadian dollars)

11. RELATED PARTY TRANSACTIONS (cont'd)

During the year ended December 31, 2014, 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 a former 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 $nil (2013 - $77,083) in consulting fees to BRL, a company controlled by a director.

(b) Paid/accrued $6,000 (2013 - $6,000) in rent and $nil (2013: $33,000) in consulting fees to CF, a company in which a director is a significant shareholder.

(c) Paid/accrued $300,000 (2013: $131,250) to PEMC, a company controlled by a director and an officer for management services.

(d) Paid/accrued $205,362 (2013: $193,681) to Frascogna, a company controlled by an officer for consulting fees.

(e) Paid/accrued $102,681 (2013: $88,771) to Berge, a company controlled by an officer for consulting fees.

(f) Included in prepaids and deposits is $36,099 (2013: $105,679) paid to Avanti Exploration, a company with two common directors for advances on exploration work to be completed after year-end.

(g) Issued 200,000 (2013: 2,300,000) stock options to officers and directors with a fair value of $38,183 (2013: $374,480).

(h) Due to related parties includes the following: $87,953 (2013: $88,335). Amounts due to related parties are unsecured with no fixed terms for payment.

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

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the year ended December 31, 2014 were as follows:

(a) issued 145,991 warrants with a fair value of $28,072 for Finders' fees in connection with a private placement (Note 8).

(b) granted 200,000 options with a value of $38,183 to a director of the company (Note 8).

(c) The Company reallocated $4,070 in equity reserves to share capital upon the exercise of stock options.

(d) The Company transferred $99,959 in exploration and evaluation expenditures to property upon determining that the property was technically feasible and commercially viable.

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 at $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.

(in Canadian dollars)

13. SEGMENT INFORMATION

The Company operates in the acquisition, exploration, and evaluation of exploration and evaluation assets and production of oil and gas properties. Geographic segmentation of the Company's non-current assets is as follows:

	December 31, 2014		
	USA	**Italy**	**Total**
Property	$ 92,900	$ -	$ 92,900
Long term deposits	-	65,363	65,363
Intangible assets	1,903,043	-	1,903,043
Deferred acquisition costs	-	134,767	134,767
	$ 1,995,943	$ 200,130	$ 2,196,073

	December 31, 2013		
	USA	**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

All revenues earned are derived from operations in the United States.

(in Canadian dollars)

14. INCOME TAXES

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

		2014		2013
Loss for the year	$	(1,757,830)	$	(2,069,266)
Expected income tax (recovery)	$	(457,000)	$	(533,000)
Change in statutory, foreign tax, foreign exchange rates and other		(181,000)		(43,000)
Permanent Difference		10,000		122,000
Share issue cost		(12,000)		(2,000)
Adjustment to prior years provision versus statutory tax returns		(74,000)		-
Change in unrecognized deductible temporary differences		714,000		456,000
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:

		2014		2013
Deferred Tax Assets (liabilities)				
Exploration and evaluation assets	$	64,000	$	44,000
Share issue costs		34,000		39,000
Property and equipment		419,000		-
Asset retirement obligation		4,000		-
Non-capital losses available for future period		771,000		495,000
		1,292,000		578,000
Unrecognized deferred tax assets		(1,292,000)		(578,000)
Net deferred tax assets	**$**	**-**	**$**	**-**

(in Canadian dollars)

14. 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:

	2014	Expiry Date Range	2013	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	$ 229,000	No expiry date	$ 170,000	No expiry date
Share issue costs	133,000	2034 to 2038	150,000	2034 to 2037
Property and equipment	1,132,000	No expiry date	-	N/A
Asset retirement obligation	15,000	No expiry date	-	N/A
Non-capital losses available for future period	2,505,000	2030-2034	1,745,000	2030-2033
Canada	1,429,000	2030-2034	712,000	2030-2033
USA	1,076,000	2033- 2034	1,033,000	2033

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

15. EVENTS AFTER THE REPORTING PERIOD

(a) Effective April 15, 2015, pursuant to an amended purchase and sale agreement between the Company and Dove Energy BV, Avanti acquired all of the issued and outstanding shares of CMI Energia S.p.A ("CMI"). CMI owns a 90% working interest in a natural gas permit in Italy, including an application for the conversion of the natural gas discovery in the permit into an exploitation concession.

As consideration under for the purchase, Avanti paid to Dove a cash payment of US$1,530,000 and issued 12,970,000 million common shares of Avanti. Dove will retain a 15% working interest in the project. Concurrent with closing of the acquisition, Avanti arranged for a syndicate of investors to acquire a 41.66% working interest in the project for US$1,430,000, plus the commitment of US$1,300,000 to finance the 2015 operating budget for the project.

CMI now a wholly-owned subsidiary of Avanti, will remain the operator of the project and CMI will retain a 33.33% working interest in the project.

(b) Effective April 15, 2015 Avanti closed Tranche #1 of a non-brokered private placement for gross proceeds of $500,001 via the issuance of 1,666,667 common shares at $0.30 (US$0.24) per share.