



## **Avanti Energy Inc.**

### **Management Discussion and Analysis**

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian Dollars)

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

## **INTRODUCTION**

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 ("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 May 28, 2015, should be read together with the condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2015 and related notes hereto, which are prepared in accordance with IFRS. The reader should also refer to the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 and related notes thereto, 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#1 Well, Louisiana, USA*

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

The Company drilled, completed and tied-in the well during the year. The well was placed on commercial production in June 2014. Under the agreement with Avanti Exploration, LLC ("Avanti Exploration") the operator, the Company paid 33.33% of the costs of the well to casing point, which totaled US\$1.025 million to the 100% interest. After reaching casing point, Avanti paid 25% of the costs of the well (prorated interest) for the balance of the completion work to earn a 25% working-interest in the well.

The well was directionally drilled and was tested during an eight-hour period. The test produced 108 barrels of 49 degrees gravity oil and 30 mcfgd with 1,200 flowing tubing pressure on a 16/64" choke, from the Cockfield reservoir.

Installation of production facilities was completed in April 2014 and the well was placed on production on May 8, 2014. After a week's production, the well averaged 196 barrels of oil per day (bopd) and 246 mcf of gas per day, on an 11/64" choke, with 1,245 flowing tubing pressure and a 50% water cut.

The well went off production averaging about 100 bopd and 70% water cut due to water loading and paraffin build up on November 5, 2014. Attempts were made to return the well to flowing status, but were unsuccessful.

A workover to isolate water and install artificial lift commenced in mid-December. The work successfully isolated the lower perforations which tested water, and the well was placed on artificial lift. Since going back on production, the well has averaged approximately 10-12 bopd at a water cut of 82%. The well is marginally economic at current prices. There are additional behind pipe reserves above the current producing zone. Pending oil prices and economics of current zone, the operator will evaluate moving uphole later in the year.

#### *PWK Wells, Louisiana, USA*

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

During the year ended December 31, 2013, the Company entered into a participation agreement (the "Participation Agreement") with Avanti Exploration, 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.

During the year ended December 31, 2014, the PWK 10-1 well produced at marginal rates of 4-5 bopd.

During the subsequent period, the well was shut in due to low oil prices and the surface artificial lift equipment was moved to the VUA; Miller #1 well.

#### *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.

The potential production zones were abandoned and the well was left for conversion to saltwater disposal

#### *Temple Inland 1 Well, Louisiana, 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.

The Company and Avanti Exploration started working over the well October 31, 2014 and temporarily abandoned the well December 15, 2014 after cementing a squeeze tool in the hole. Multiple attempts to retrieve tool were unsuccessful. The operator is currently evaluating next steps in light of current oil prices. The well was left in a condition whereby it could be easily re-entered with a coiled tubing unit in an effort to prepare the well for a future attempt at retrieving the squeeze tool. The well did recover oil during the cementing procedures.

## Outlook

The dramatic decline in oil prices has required Avanti to re-evaluate its marginal oil field strategy in Louisiana. However, recent Louisiana oil prices have shown some recovery and are now above \$60 after hitting a low of \$45 in January 2015.

Management believes that attractive opportunities still exist in Latin America and Louisiana, however, it will take some time for the realities of the new oil price environment to sink-in and for those opportunities to become actionable.

In the meantime, with the April 2015 Acquisition of CMI Energia S.p.A. the Company has acquired shut-in natural gas field with proved reserves in Italy. Italy is a high value gas market and recent regulatory changes have re-invigorated the E&P business in Italy. Avanti will be looking to add additional oil and gas properties in Italy as a result of this new initiative.

## 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	<u>(106,000)</u>
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.	<u>430,448</u>
	\$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	<u>429,637</u>
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:

- 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;
- 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.

Summary of intangible assets:

Acquisition of Avanti SA	\$1,473,406
Acquisition Avanti Oil	<u>429,637</u>
	<u>\$ 1,903,043</u>

## RESULTS OF OPERATIONS

### Selected Annual Information

	Years ended December 31		
	2014	2013	2012
Revenue	\$ 481,391	\$ Nil	\$ Nil
Net loss for the period	\$ (1,757,830)	\$ (2,069,266)	\$ (238,776)
Net loss per common share, basic and diluted	\$ (0.04)	\$ (0.09)	\$ (0.02)
Weighted average number of common shares	45,046,505	22,607,867	10,347,397
<b>Financial position data</b>			
Working capital as at December 31	\$ 207,365	\$ 283,529	\$ 546,209
Total assets as at December 31	\$ 2,570,282	\$ 2,523,006	\$ 755,122

### Revenues

Prior to May 2014 the Company had no commercial production from its properties. Commencing with the quarter ended June 30, 2014 the Company began to record oil and gas revenue from its working interests. For the three months ended March 31, 2015, the Company recorded revenue of \$3,560 [2014: \$nil].

### Three months ended March 31, 2015

During the three months ended March 31, 2015, total operating expense showed an overall decrease from \$560,663 in the 2014 period to \$288,679 in the current period. The reduction was primarily due to a reduction in domestic production-related expenditures. An increase in international due diligence efforts and in the costs expended to close the acquisition of CMI (see subsequent events) are reflected as deferred acquisition costs and some of those expenses will be recorded in the next quarter. The bulk of the expenses in the current period were related to oil & gas operations, which are represented in consulting fees of \$100,611 versus \$189,785 in the corresponding 2014 period; and in lease operating expense of \$32,483 compared with \$206,764 in 2014. In the current period the non-cash charge for share-based compensation was \$nil versus the 2014 amount of \$38,183 reflecting the 2014 grants of stock options in that period. Charges for administrative expenses

increased to \$61,065 [2014: \$37,493] and management fees were unchanged at \$75,000 [2014: \$75,000]. Foreign exchange costs fluctuated due to the volatility in the Canadian dollar; in 2015 they reflected an expense of \$5,865 in 2014 a recovery was recorded of \$3,618.

The Company will use its available resources to pursue its operations in Italy and Louisiana and its efforts internationally.

Fiscal year ended December 31, 2014

During the twelve months ended December 31, 2014, most operating categories showed an increase in expense levels due to expanded operations and an increased due diligence effort in international markets. The Company incurred operating expenses of \$2,239,221 [2013: \$2,069,266]. The bulk of the expenses in the current period were related to oil & gas operations, which are represented in consulting fees of \$696,673 versus \$692,035 in the corresponding 2013 period; and in lease operating expense of \$616,663 compared with \$421,682 in 2013. The non-cash charge of \$38,183 for share-based compensation in 2014 reflected grants of stock options in the period and decreased from the \$472,171 figure in 2013 as fewer options were granted in 2014; and the recording of a non-cash impairment expense of \$84,988 (2013: \$191,345) captures the write-off of the book value attributed to the Forestar 8 and Turnkey Temple Wells. Charges for administrative expenses and management fees also increased to \$305,618 [2013: \$78,330], and \$300,000 [2013: \$131,250], respectively. Professional fees also increased commensurately with the increased corporate activity to \$71,306 compared with \$58,043 in the 2013 period.

**Selected Financial Data [Quarterly - unaudited]**

	<b>Quarter Ended</b>							
	<b>3/31/2015</b>	<b>12/31/2014</b>	<b>09/30/2014</b>	<b>06/30/2014</b>	<b>03/31/2014</b>	<b>12/31/2013</b>	<b>9/30/2013</b>	<b>6/30/2013</b>
Operating Revenue	\$ 3,560	132,250	269,981	79,160	0	0	0	0
Comprehensive loss	\$ (285,119)	(122,490)	(161,725)	(912,952)	(560,663)	(1,121,371)	(496,780)	(399,624)
Loss per share	\$ (0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.02)	(0.02)
Share capital	\$ 5,943,821	5,943,821	5,943,821	5,934,751	5,853,614	4,244,331	3,256,040	2,892,546
Common shares issued	47,149,243	47,149,243	47,149,243	47,124,243	46,376,743	34,901,665	28,065,000	25,540,000
Weighted average shares outstanding	47,149,243	47,149,243	47,124,243	47,021,606	38,776,084	31,412,246	26,795,163	18,926,264
Total Assets	\$ 3,000,610	2,570,282	3,139,511	3,341,172	3,649,514	2,523,006	2,276,035	2,350,273
Net Assets	\$ 2,103,319	2,388,438	3,071,591	3,228,316	3,499,514	2,384,593	2,022,908	2,236,688
Cash Dividends Declared per Common Shares	\$ 0	0	0	0	0	0	0	0

**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 March 31, 2015, the Company had a working capital deficit of \$746,153 [December 31, 2014 year-end: surplus of \$207,365] and cash of \$17,776 [December 31, 2014 year-end: \$294,634]

Subsequent to the end of the reporting period, the Company 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.

## 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.

Key Management Personnel	Period ended March 31,	
	2015	2014
Salaries and short term benefits <sup>(i)</sup>	\$ 163,178	\$ 151,858
Share-based payments	-	38,183
	\$ 163,178	\$ 190,041

<sup>(i)</sup>Salaries and short term benefits include \$75,000 (2014: \$75,000) in Management fees and \$88,178 (2014: \$76,858) in Consulting fees; recorded on the Statement of Loss and Comprehensive Loss.

During the period ended March 31, 2015, the Company entered into the following transactions with key management personnel:

<u>Related party</u>	<u>Nature of transaction</u>
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. Loan Agreement related to the acquisition of CMI Energia S.p.A

- (a) Paid/accrued \$1,500 (2014 - \$nil) in rent and \$nil (2014: \$nil) in consulting fees to CF, a company in which a director is a significant shareholder.
- (b) Paid/accrued \$75,000 (2014: \$75,000) to PEMC, a company controlled by a director and an officer for management services.
- (c) Paid/accrued \$58,785 (2014: \$51,238) to Frascogna, a company controlled by an officer for consulting fees.
- (d) Paid/accrued \$29,393 (2014: \$25,620) to Berge, a company controlled by an officer for consulting fees.
- (e) Included in prepaids and deposits is \$18,718 (2014: \$39,558) paid to Avanti Exploration, a company with two common directors for advances on exploration work to be completed after period-end.
- (f) Issued nil (2014: 200,000) stock options to officers and directors with a fair value of \$nil (2014: \$38,183).

Due to related parties of \$655,189 (2014: \$114,204) includes \$633,300 [US\$500,000] (2014: \$nil) borrowed pursuant to a Loan Agreement with Avanti Exploration, a Company owned jointly by a director and the Chief Executive Officer. The Loan Agreement is secured by the amended purchase and sale agreement between the Company and Dove Energy BV for the acquisition by Avanti of 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 (Note 14). The borrowed amount is due upon demand and it is convertible into a beneficial working interest in the CMI Italian asset.

Due to related parties includes \$21,889 (2014: \$114,204) unsecured with no fixed terms for payment. During the current and prior fiscal periods the Company entered into certain agreements with Avanti Exploration, a Company owned jointly by a director and the Chief Executive Officer

## **FINANCIAL INSTRUMENTS AND RISK**

### **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 March 31, 2015, 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 Company's financial statements are summarized below.

### **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 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, receivables, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at March 31, 2015, 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 March 31, 2015 to manage this risk.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **New standards adopted during the period**

Effective January 1, 2015, the following standards were adopted but did not have a material impact on the financial statements.

- 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.

### **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 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.

## **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 only begun earning revenues during fiscal 2014 from production at its oil and gas properties, and there is no certainty that the Company will continue to produce revenue, operate profitably or provide a return on investment in the future.

### **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 business.

### **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.

#### **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 and/or Italy 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 oil and gas assets in each of the jurisdictions in which the Company conducts operations. As a result of this competition, much of which is with large established 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 March 31, 2015, the Company's shareholders' equity was \$2,103,319. 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.

### **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 8 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 NI 52-109.

## **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 May 28, 2015:**

- a) Authorized: unlimited common shares without par value.
- b) Issued and outstanding: 61,785,910 common shares.

c) Outstanding stock options:

Number of options	Exercise price	Expiry date
50,000	\$ 0.10	April 19, 2017
2,875,000	0.20	November 25, 2018
200,000	0.205	February 5, 2019
3,125,000		

d) Outstanding warrants:

Number of warrants	Exercise price	Expiry date
170,000	0.15	November 25, 2015
145,991	0.16	March 3, 2016
315,991		

### EVENTS SUBSEQUENT TO MARCH 31, 2015

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 SpA (“CMI”). CMI owns a 90% working interest in a natural gas permit covering 35.72 square kilometres 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.

### 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](http://www.sedar.com).