



Avanti Energy Inc.

Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Avanti Energy Inc.

(in Canadian Dollars)

Condensed Consolidated Interim Statements of Financial Position

As at	September 30, 2017	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 102,599	\$ 106,007
Sales taxes and other receivables (Note 9)	196,483	207,725
Prepays and deposits	1,985	2,827
	301,067	316,559
Non-current assets		
Exploration and evaluation assets (Note 5)	4,753,820	4,653,314
Property and equipment (Note 6)	80,633	80,734
	\$ 5,135,520	\$ 5,050,607
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 237,348	\$ 260,006
Due to related parties (Note 12)	1,318	1,318
	238,666	261,324
Reclamation obligation (Note 5)	163,000	148,000
Convertible debenture (Note 8)	460,873	441,392
	862,539	850,716
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	11,283,066	10,676,367
Equity reserves (Notes 7)	945,310	945,310
Deficit	(7,955,395)	(7,421,786)
	4,272,981	4,199,891
	\$ 5,135,520	\$ 5,050,607

Nature and continuance of operations (Note 1)

Events after the reporting period (Note 15)

Approved by the board:

"Karl Kottmeier"

Director

"Douglas Ford"

Director

Avanti Energy Inc.

(in Canadian Dollars)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue				
Oil and gas sales	\$ -	\$ -	\$ -	\$ -
Expenses				
Administrative	96,135	110,547	453,637	414,350
Consulting fees (Note 12)	2,321	61,694	15,171	161,386
Depletion and depreciation (Note 6)	34	34	101	102
Loss (gain) on foreign exchange	49,434	6,489	10,994	7,351
Interest and finance costs	19,546	2,796	58,499	2,796
Lease operating expense	-	-	-	-
Management fees (Note 12)	75,000	75,000	225,000	225,000
Professional fees	12,700	28,021	49,377	59,254
Share-based payments	-	-	-	304,481
Transfer agent and filing fees	2,198	1,596	12,900	26,423
Recovery of operating expenses Colle Santo (Note 4)	(93,618)	(167,585)	(292,070)	(441,193)
	163,750	118,321	533,609	759,950
Loss and comprehensive loss	\$ (163,750)	\$ (118,321)	\$ (533,609)	\$ (759,950)
Basic and diluted loss per share	(0.02)	(0.02)	(0.08)	(0.12)
Weighted average number of shares outstanding- basic and diluted	7,439,288	6,543,591	7,058,575	6,463,463

Avanti Energy Inc.

(in Canadian Dollars)

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30,	
	2017	2016
OPERATING ACTIVITIES		
Net loss for the period	\$ (533,609)	\$ (759,950)
Items not affecting cash:		
Depletion and depreciation	101	102
Accretion	28,581	1,152
Share-based payments	-	304,481
Unrealized foreign exchange loss	5,900	(4,000)
Changes in non-cash working capital items:		
Sales tax and other receivables, prepaids and deposits	12,084	14,608
Accounts payable and accrued liabilities	(22,658)	79,682
Cash used in operating activities	(509,601)	(363,925)
INVESTING ACTIVITIES		
Capitalized exploration and evaluation assets expenditures	(100,506)	(268,380)
Cash used in investing activities	(100,506)	(268,380)
FINANCING ACTIVITIES		
Common shares issued for cash	629,660	365,000
Share issue costs	(22,961)	(4,325)
Convertible debt issued for cash	-	500,000
Debt issue costs	-	(21,909)
Cash provided by financing activities	606,699	838,766
Change in cash and cash equivalents during the period	(3,408)	206,461
Cash and cash equivalents, beginning of period	106,007	109,913
Cash and cash equivalents, end of period	102,599	316,374
Cash paid for:		
Interest	29,918	2,796
Income taxes	-	-

Supplemental disclosure with respect to cash flows (Note 14)

Avanti Energy Inc.

(in Canadian Dollars)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity For the nine months ended September 30,

	Number of shares	Share capital	Equity reserves	Deficit	Total
Balance, December 31, 2015	6,178,591	\$ 10,330,297	\$ 596,056	\$ (6,531,457)	\$ 4,394,896
Private placement	365,000	365,000	-	-	365,000
Share issue costs	-	(4,325)	-	-	(4,325)
Equity component of debenture	-	-	44,773	-	44,773
Share-based payments	-	-	304,481	-	304,481
Comprehensive loss for the period	-	-	-	(759,950)	(759,950)
Balance, September 30, 2016	6,543,591	\$ 10,690,972	\$ 945,310	\$ (7,291,407)	\$ 4,344,875
Balance, December 31, 2016	6,543,391	\$ 10,676,367	\$ 945,310	\$ (7,421,786)	\$ 4,199,891
Private placement	890,897	623,630	-	-	623,630
Shares issued for cash – warrants	5,000	7,500	-	-	7,500
Share issue costs	-	(24,431)	-	-	(24,431)
Comprehensive loss for the period	-	-	-	(533,609)	(533,609)
Balance, September 30, 2017	7,439,288	\$ 11,283,066	\$ 945,310	\$ (7,955,395)	\$ 4,272,981

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

(in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Avanti Energy Inc. (the "Company" or "AVN") 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 April 15, 2015, the Company completed the acquisition of CMI Energia Srl. ("CMI Energia"). The acquisition of CMI Energia was deemed an asset acquisition. The Company has acquired all of the issued and outstanding interests in CMI Energia (Note 4).

The Company's head office is located at Suite 810, 609 Granville Street, Vancouver, British Columbia V7Y 1G5 and its registered and records office address is Suite 1750, 1185 West Georgia Street, Vancouver, British Columbia, V6E 4B6.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

These condensed consolidated interim 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 condensed consolidated interim 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 will require additional financing or outside participation to undertake further exploration and subsequent development of its exploration and evaluation assets. Future operations of the Company are dependent on its ability to raise additional equity or debt financing, and the attainment of profitable operations. These uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The Company has determined that its exploration and evaluation assets which comprise the Colle Santo project in Italy, contains established reserves that are economically recoverable (Note 5). The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the Company's ability to obtain the required permitting, and the necessary financing, to complete the development of those reserves, and upon future production or proceeds from the disposition thereof.

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(in Canadian dollars)

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements and do not include all of the information required for full annual financial statements. Accordingly, they should be read in conjunction with our IFRS financial statements for the fiscal year ended December 31, 2016. The accounting policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as of November 28, 2017, the date the Board of Directors approved these unaudited condensed consolidated interim financial statements and they are consistent with those disclosed in the annual financial statements.

Effective November 3, 2017, the Company consolidated its common share capital on a 10-old for 1-new basis, whereby each ten old shares are equal to one new share without par value. All references to common shares, stock options, warrants and weighted average number of shares outstanding in these consolidated financial statements reflect the share consolidation unless otherwise noted.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 28, 2017.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and the following subsidiaries:

CMI Energia	100%	Development/exploration company
Avanti SA	100%	Inactive company
Avanti Oil	100%	Inactive company
Lucana Idrocarburi S.R.L.	80%	Inactive company

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.

Critical judgments in applying accounting policies

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.

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2017 and 2016

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2. BASIS OF PREPARATION (cont'd)

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

Key sources of estimation uncertainty

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.

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 within property and equipment, and its 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.

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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2. BASIS OF PREPARATION (cont'd)

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

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.

Share consideration in asset acquisition

The Company estimates the fair value of common shares issued in an asset acquisition. The subscription price of concurrent private placements as well as quoted market prices and trading volumes can result in differing estimates.

Decommissioning provisions

Provisions for decommissioning obligations associated with the Company's oil and gas 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.

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. As at September 30, 2017, the Company had cash and cash equivalents on hand of \$102,599 (2016 year-end: \$106,007).

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

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.

Avanti Energy Inc.

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(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and Equipment – Well equipment

Well equipment included within property and equipment comprises parts and supplies available for use in future development and production of natural gas assets. The initial cost comprises costs directly attributable to the acquisition of these assets. Items of well equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation of the well equipment begins when the items are in the location and condition necessary to be capable of operating in the manner intended by the Company. For impairment testing, these items are grouped into cash-generating units.

Property and Equipment – Oil and Gas interests

Property and equipment 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 and equipment are carried at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses. Gains and losses on disposal of property and equipment are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and is recognized in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as oil and gas interests (within property and equipment) only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed to profit or loss 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.

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 profit or loss.

Reclamation obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement or reclamation (decommissioning) of property 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.

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Notes to the Condensed Consolidated Interim Financial Statements

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(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Reclamation obligations (cont'd)

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.

New Accounting Standards

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.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.
- IFRS 16: Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

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4. ASSET ACQUISITIONS

CMI Energia

Effective April 15, 2015, pursuant to the terms of an amended purchase and sale agreement (“PSA”) with Dove Energy BV, the Company completed the 100% acquisition of CMI Energia. The Company acquired CMI Energia for a cash payment of \$1.53-million (U.S.) of which \$1.43-million (U.S.) was financed as described below, and 1,297,000 common shares of AVN with a fair value of \$3.00 per share.

As additional consideration, Dove retained a 15% working interest in the Colle Santo project – a key asset of CMI Energia. Concurrent with closing of the acquisition, AVN arranged for a syndicate of investors to acquire a 41.66% working interest in the Colle Santo project for:

- \$1.43-million (U.S.); plus
- The commitment of \$1.3-million (U.S.) to finance the 2015 operating budget for the Colle Santo project commencing as at January 1, 2015.

CMI reflects the receipt of funds under the work commitment as a recovery of expenses. During the period ended September 30, 2017, \$292,070 (2016: \$441,193) was recorded as recovery of expenses.

Upon completion of the PSA, CMI remained operator of Colle Santo and the 90% working interest held by CMI is owned as follows:

- 33.34% - AVN (Note 5)
- 41.66% - Syndicate of investors including Avanti Exploration (Note 12)
- 15% - Dove (Note 12)

The acquisition of CMI Energia and the concurrent syndicate financing and contribution has been treated as a single transaction and recorded as an asset acquisition. The fair value of the assets acquired and liabilities assumed as at the date of acquisition were as follows:

Cash	\$	195
Other current assets		157,947
Equipment		81,041
Other assets		1,924
Exploration and evaluation assets		4,239,534
Accounts payable		(160,720)
Reclamation obligation		(139,000)
Net assets acquired	\$	<u>4,180,921</u>

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Notes to the Condensed Consolidated Interim Financial Statements

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4. ASSET ACQUISITIONS (cont'd)

CMI Energia (cont'd)

Consideration paid:

Fair value of 1,297,000 common shares of the Company	\$ 3,891,000
Transaction related expenses	176,161
Cash (net of syndicate investors) – \$100,000 (U.S.)	113,760
	<u>\$4,180,921</u>

Deferred acquisition costs of \$134,767 which were capitalized as at December 31, 2014, were applied in connection with the consideration paid.

The Company's results of operations and cash flows include those of CMI Energia from the date of acquisition being April 15, 2015, to date.

5. EXPLORATION AND EVALUATION ASSETS

	Colle Santo, Italy
Balance – December 31, 2015	\$ 4,297,992
Acquired in CMI asset	372,388
Additions	(17,066)
Balance – December 31, 2016	\$ 4,653,314
Additions	100,506
Balance – September 30, 2017	\$ 4,753,820

Colle Santo, Italy

Further to the acquisition of CMI effective April 15, 2015, the Company has retained a 33.3% interest in the gas field and is the operator (Note 4). The field has established reserves, but is not yet permitted to produce.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd)

Reclamation Obligation

Balance, December 31, 2015	\$ 158,000
Change in estimates	(17,066)
Accretion expense	10,450
Foreign exchange	(3,384)
Balance, December 31, 2016	\$ 148,000
Accretion expense	9,100
Foreign Exchange resulting from translation	5,900
Balance, September 30, 2017	\$ 163,000

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

The present value of the estimated costs for the decommissioning of the Colle Santo wells at the end of their useful lives is estimated to be \$163,000 (€111,965) (2016 year end: \$148,000 (€102,864)). As operator, the Company has recorded the obligation at 100%. The obligation is subject to a pro-rata allocation to the working interest holders who are expected to incur their proportionate expenditure for the 66.7% working interest held by joint venture partners.

The estimated gross costs of the obligation is estimated at \$708,417 (€486,383) (2016 year end - \$685,257 (€485,000)). The Company estimates that the timing of incurring the expenditures is 15 years to 2031, an inflation rate of 1%, and discounted using a credit adjusted rate of 11.5% (2016 year end - 12%).

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6. PROPERTY AND EQUIPMENT

	Well Equipment
Cost	
Balance – December 31, 2016, and 2015	\$ 81,041
Additions	-
Disposal	-
Balance – September 30, 2017	\$ 81,041
Accumulated depletion and depreciation	
Balance – December 31, 2015	\$ 171
Depreciation	136
Balance – December 31, 2016	\$ 307
Depreciation	101
Balance – September 30, 2017	\$ 408
Carrying amounts	
Balance as at December 31, 2016	\$ 80,734
Balance as at September 30, 2017	\$ 80,633

7. SHARE CAPITAL

Authorized

Unlimited common shares with no par value.

During the period ended September 30, 2017, the Company:

- (i) issued 5,000 shares upon the exercise of existing warrants in consideration of \$7,500.
- (ii) closed two tranches of a non-brokered private placement unit financing - aggregating the issuance of 890,900 units at a price of \$0.70 per unit, with each unit comprising one common share and one warrant for gross proceeds of \$623,630. Each warrant is exercisable into one common share at a price of \$1.50 per share until either April 24, 2018 or May 4, 2018. The Company incurred \$24,431 in share issue costs.

During the year ended December 31, 2016, the Company:

- (i) closed two tranches of a non-brokered private placement unit financing - aggregating the issuance of 364,800 units at a price of \$1.00 per unit, with each unit comprising one common share and one-half warrant (182,400 warrants) for gross proceeds of \$364,800. Each whole warrant is exercisable into one common share at a price of \$1.50 per share until either February 4, 2017, or March 11, 2017. The Company incurred \$18,730 in share issue costs.

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7. SHARE CAPITAL (cont'd)

Escrow shares

Private placement shares

Certain shares issued in the private placement of March 2016 were the subject of an Escrow Agreement dated March 11, 2016. As at September 30, 2017, 41,310 (2016: 68,850) common shares remained held in escrow, after the original 10% release. The escrow shares are released from escrow as follows:

- 10% released as of March 14, 2016 (the date of TSX-V acceptance).
- an additional 15% released on each of the six, twelve, eighteen, twenty-four, thirty and thirty-six months following the initial release on March 14, 2016.

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 September 30, 2017, the following options were outstanding and exercisable:

Number of options	Exercise price	Remaining life (years)	Expiry date
207,500	\$ 2.00	1.15	November 25, 2018
20,000	\$ 2.05	1.35	February 5, 2019
<u>252,500</u>	<u>\$ 1.20</u>	<u>3.35</u>	<u>February 4, 2021</u>
480,000			

Avanti Energy Inc.

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For the nine months ended September 30, 2017 and 2016

(in Canadian dollars)

7. 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, 2015	302,500	\$ 2.00
Granted	302,500	1.20
Terminated	(20,000)	2.00
Balance outstanding and exercisable as at December 31, 2016	585,000	\$ 1.60
Expired	(5,000)	1.00
Terminated	(50,000)	2.00
Terminated	(50,000)	1.20
Balance outstanding and exercisable as at September 30, 2017	480,000	\$ 1.58

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 2.32 years.

Warrants

As at September 30, 2017, a summary of changes of warrants outstanding is as follows:

	Warrants	Weighted average exercise price
Balance, December 31, 2015	14,599	\$ 1.60
Expired (unexercised)	(14,599)	1.50
Issued	182,400	1.50
Balance, December 31, 2016	182,400	\$ 1.50
Issued	890,900	1.50
Expired (unexercised)	(182,400)	(1.50)
Balance, September 30, 2017	890,900	\$ 1.50

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8. CONVERTIBLE DEBENTURES

On September 15, 2016, the Company issued secured, redeemable, convertible debentures in the principal amount of \$500,000. The Company recorded issuance costs of \$21,909 associated with the professional fees and financing costs incurred. The debentures mature on June 30, 2019 and bear interest at 8% per annum, with interest payable at the end of each calendar quarter. Interest is payable in cash, and not convertible into Units. The principal is convertible, in whole or in part, into Units of the Company at the option of the holder. The debentures may be redeemed by the Company at any time after June 30, 2017, upon advance seven-day written notice to the holder by the Company. Certain related parties subscribed to this offering (Note 12).

Should holders elect to convert the debentures in whole or in part, the principal amount will convert to Units at \$1.00 per Unit up to June 30, 2017; effective July 1, 2017, the conversion price is \$1.50 per Unit until maturity. Each Unit will comprise one common share and one-half warrant. Each whole warrant gives the holder the right to purchase one common share of the Company until June 30, 2019. The warrant exercise price is \$1.50 up to June 30, 2019; effective July 1, 2019, the exercise price is \$2.00 until expiry.

The net proceeds were allocated first to the fair value of the convertible debenture, with the remaining \$44,773 allocated to the equity component. The fair value was determined by using an interest rate approximating the Company's market rate of interest for a similar debt instrument (12%). The liability component of the debt is accreted to its face value over the term of the convertible debenture.

During the period ended September 30, 2017, the Company incurred interest expense of \$29,918 (2016 - \$1,644).

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2015	-	-	-
Issued	500,000	453,175	46,825
Issue costs	-	(19,857)	(2,052)
Accretion	-	8,074	-
Balance as at December 31, 2016	\$ 500,000	\$ 441,392	\$ 44,773
Accretion	-	19,481	-
Balance as at September 30, 2017	\$ 500,000	\$ 460,873	\$ 44,773

9. SALES TAXES AND OTHER RECEIVABLES

	Period ended September 30,	
	2017	2016
Sales taxes (Note 10)	\$ 149,140	\$ 166,716
Receivables/advances – Colle Santo Project	47,343	22,152
	\$ 196,483	\$ 188,868

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10. FINANCIAL INSTRUMENTS

Fair value

The Company's consolidated financial instruments consist of cash and cash equivalents, sales taxes and other receivables, accounts payable and accrued liabilities, due to related parties, advances received, and convertible debentures. The carrying value of sales taxes and other receivables, accounts payable and accrued liabilities, due to related parties, and advances received, approximate fair value due to their short terms to maturity. The fair value of the convertible debt is \$500,000 which is the face value of the debentures. 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.

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, Italian and US financial institutions in interest bearing accounts and in lawyers trust accounts. The Company's sales taxes and other receivables consists mainly of government sales tax ("GST") receivable due from the Government of Canada, and IVA sales tax receivable from the Government of Italy. The balance also comprises receivables and advances due from project partners on exploration and evaluation assets. As a result, the Company does not believe it is exposed to significant credit risk, however, the Company's maximum exposure is equal to the carrying value of these balances.

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 due to changes in market interest rates.

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions is subject to a floating rate of interest. The Company's convertible debentures bear interest at fixed rates. The interest rate risk on cash and equivalents is not considered significant. The Company has no exposure to interest rate risk on its convertible debentures.

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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10. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

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 September 30, 2017, a 10% fluctuation in the foreign exchange rate of the Euro or United States dollar against the Canadian dollar would affect the Company's loss for the period by approximately \$2,100.

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 dollar, European dollar 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 September 30, 2017 to manage this risk.

11. 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 period. 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.

Avanti Energy Inc.

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12. 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.

Key Management Personnel	Period ended September 30,	
	2017	2016
Salaries and short term benefits ⁽ⁱ⁾	\$ 411,135	\$ 410,675
Share-based payments	-	276,801
	\$ 411,135	\$ 687,476

⁽ⁱ⁾ Salaries and short term benefits include \$225,000 (2016: \$225,000) in Management fees and \$186,135 (2016: \$185,675) in Consulting fees recorded on the Statements of Loss and Comprehensive Loss.

During the period ended September 30, 2017, the Company entered into the following transactions with key management personnel:

Related party	Nature of transaction
Mark Frascogna. LLC ("Frascogna")	Consulting fees for the services provided by Mark Frascogna as Senior Vice President
Contact Financial Corp. ("CFC")	Rent and shared office expenses up to June 30, 2017
Pacific Equity Management Corp. ("PEMC")	Management fees for services provided by CEO, CFO, VP Corporate Development, VP Finance, Accountant, and Administrator. Under a separate agreement rent and shared office expenses commencing July 1, 2017.
Avanti Exploration, LLC ("Avanti Exploration")	Joint Interest Agreement regarding the Colle Santo project with two former common directors.
Dove Energy Srl ("Dove")	Joint Interest Agreement regarding the Colle Santo project with a former common director.
Intergie Srl ("Intergie")	Joint Interest Agreement regarding the Colle Santo project with a former common director.

- (a) Paid or accrued \$15,000 (2016 - \$22,500) in rent to CFC, a company in which a director is a significant shareholder. Effective June 30, 2017 the rent agreement was terminated.
- (b) For the period ended September 30, 2017, the Company paid \$7,500 (2016: \$nil) for rent and shared office expenses to PEMC, a company controlled by two officers of the Company. Under an Offices Services Agreement dated as of July 1, 2017, the Company is required to pay \$30,000 per annum, for three years for rent and office services.
- (c) Paid \$225,000 (2016: \$225,000) to PEMC, a company controlled by two officers for management services as disclosed in key management personnel compensation within salaries and short term benefits.

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Notes to the Condensed Consolidated Interim Financial Statements

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12. RELATED PARTY TRANSACTIONS (cont'd)

- (d) Paid \$186,135 (2016: \$185,675) to Frascogna, a company controlled by an officer for consulting fees as disclosed in key management personnel compensation within salaries and short term benefits.
- (e) Included in other receivables is \$29,590 (2016: \$27,261) due from Avanti Exploration, a company with controlled by two former directors, for exploration work completed at period end relating to Colle Santo.
- (f) Included in other receivables is \$10,652 (2016: \$9,813) due from Dove, a company controlled by a former director, for exploration work completed at period end relating to Colle Santo.
- (g) Included in other receivables is \$7,101 (2016: \$6,542) due from Intergie, a company controlled by a former director, for exploration work completed at period end relating to Colle Santo.
- (h) Granted nil (2016: 275,000) stock options to officers and directors with a fair value of \$nil (2016: \$276,801).
- (i) Included in the Convertible Debenture financing, as disclosed in Note 8, is \$345,000 (2016: \$345,000) the amount as subscribed by PEMC.
- (j) Due to related parties includes \$1,318 (2016: \$4,179) and is unsecured with no fixed terms for payment.

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:

	September 30, 2017
	Italy
Exploration and evaluation assets	\$ 4,753,820
Property and equipment	80,633
Long term deposits	-
	\$ 4,834,453

	December 31, 2016
	Italy
Exploration and evaluation assets	\$ 4,653,314
Property and equipment	80,734
Long term deposits	-
	\$ 4,734,048

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14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had no significant non-cash transactions during the period ended September 30, 2017.

The Company's significant non-cash transaction during the period ended September 30, 2016 was as follows:

- a) Granted 302,500 options with a value of \$304,481 to various directors and officers of the company.

15. EVENTS AFTER THE REPORTING PERIOD

- a) Effective November 3, 2017, the Company consolidated its common share capital on a 10-old for 1-new basis, whereby each ten old shares are equal to one new share without par value. All references to common shares, stock options, warrants and weighted average number of shares outstanding in these consolidated financial statements reflect the share consolidation unless otherwise noted.
- b) On November 8, 2017, the Company announced that it had arranged a non-brokered private placement financing to raise up to \$1,000,000 for general corporate working capital purposes. The offering will consist of up to 10,000,000 Units for \$0.10 per Unit. Each Unit shall consist of one common share and one common share purchase warrant. Each warrant shall be exercisable into one common share of the Company at a price of \$0.12 cents for a period of 60 months from closing. On November 23, 2017, the Company closed the first tranche of the financing; it issued 5,400,000 Units, for gross proceeds of \$540,000. A second closing is expected prior to December 8, 2017.