



Avanti Energy Inc.

Condensed Consolidated Interim Financial Statements

For the six months ended September 30, 2018 and 2017

(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, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 57,826	\$ 585,575
Sales taxes and other receivables (Note 9)	76,838	35,430
Prepaid expenses	24,950	16,435
	159,614	637,440
Non-current assets		
Exploration and evaluation assets (Note 5)	4,916,755	4,784,614
Property and equipment (Note 6)	80,498	80,600
	\$ 5,156,867	\$ 5,502,654
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 252,007	\$ 183,369
Due to related parties (Note 12)	17,804	3,929
Advances received	-	18,463
Convertible debentures (Note 8)	484,247	-
	754,058	205,761
Reclamation obligation (Note 5)	188,000	169,000
Convertible debentures (Note 8)	-	466,996
	942,058	841,757
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	11,987,427	11,987,427
Equity reserves (Notes 7,8)	945,310	945,310
Deficit	(8,717,928)	(8,271,840)
	4,214,809	4,660,897
	\$ 5,156,867	\$ 5,502,654

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,	
	2018	2017	2018	2017
Expenses				
Administrative (Note 4)	162,449	96,135	421,495	453,637
Consulting fees	-	2,321	-	15,171
Depreciation (Note 6)	34	34	102	101
Loss (gain) on foreign exchange	(7,789)	49,434	331	10,994
Interest and finance costs	22,597	19,546	64,029	58,499
Management fees (Note 12)	75,000	75,000	225,000	225,000
Professional fees	11,422	12,700	65,815	49,377
Transfer agent and filing fees	1,160	2,198	12,323	12,900
Recovery of operating expenses Colle Santo (Note 5)	(84,847)	(93,618)	(343,007)	(292,070)
	180,026	163,750	446,088	533,609
Loss and comprehensive loss	\$ (180,026)	\$ (163,750)	\$ (446,088)	\$ (533,609)
Basic and diluted loss per share	(0.01)	(0.02)	(0.03)	(0.08)
Weighted average number of shares outstanding- basic and diluted	14,644,292	7,439,288	14,644,292	7,058,575

Avanti Energy Inc.

(in Canadian Dollars)

Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30,	2018	2017
OPERATING ACTIVITIES		
Loss for the period	\$ (446,088)	\$ (533,609)
Items not affecting cash:		
Accretion	46,451	28,581
Depletion and depreciation	102	101
Unrealized foreign exchange	(10,200)	5,900
Changes in non-cash working capital items:		
Sales tax and other receivables, prepaids and deposits	(68,386)	12,084
Accounts payable and accrued liabilities	86,757	(22,658)
Cash used in operating activities	(391,364)	(509,601)
INVESTING ACTIVITIES		
Capitalized exploration and evaluation assets expenditures	(132,141)	(100,506)
Cash used in investing activities	(132,141)	(100,506)
FINANCING ACTIVITIES		
Common shares issued for cash	-	629,660
Share issue costs	(4,244)	(22,961)
Cash provided by financing activities	(4,244)	606,699
Change in cash and cash equivalents during the period	(527,749)	(3,408)
Cash and cash equivalents, beginning of period	585,575	106,007
Cash and cash equivalents, end of period	\$ 57,826	\$ 102,599
Cash paid for:		
Interest (Note 8)	\$ 29,918	\$ 29,918
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, 2016	6,543,391	\$ 10,676,367	\$ 945,310	\$ (7,421,786)	\$ 4,199,891
Shares issued for cash – warrants	5,000	7,500	-	-	7,500
Private placement	890,897	623,630	-	-	623,630
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
Balance, December 31, 2017	14,644,292	\$ 11,987,427	\$ 945,310	\$ (8,271,840)	\$ 4,660,897
Comprehensive loss for the period	-	-	-	(446,088)	(446,088)
Balance, September 30, 2018	14,644,292	\$ 11,987,427	\$ 945,310	\$ (8,717,928)	\$ 4,214,809

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2018 and 2017

(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.

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

For the nine months ended September 30, 2018 and 2017

(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, 2017. 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 27, 2018, 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 27, 2018.

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 condensed consolidated interim 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 condensed consolidated interim 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, 2018 and 2017

(in Canadian dollars)

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

For the nine months ended September 30, 2018 and 2017

(in Canadian dollars)

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 Papers. As at September 30, 2018, the Company had cash on hand of \$57,826 (2017 year-end: \$585,575).

Avanti Energy Inc.

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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.

Notes to the Condensed Consolidated Interim Financial Statements

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(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and 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 considered a single cash-generating unit.

Property and equipment may also include 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 and equipment. 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.

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.

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New Accounting Standards

New standards adopted during the period

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to significantly affect these condensed consolidated interim financial statements.
- 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. The Company does not expect the adoption of this standard to significantly affect these condensed consolidated interim financial statements.

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.

- 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. The Company is currently evaluating the impact of this standard.

4. ADMINISTRATIVE

	Nine months ended September 30,	
	2018	2017
Advertising, promotion & investor relations	\$ -	\$ 77,126
Office and other	63,310	96,389
Travel and meals	1,126	10,354
Salaries and benefits	135,814	127,388
General exploration and development	221,245	142,380
	\$ 421,495	\$ 453,637

Avanti Energy Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS

	Colle Santo, Italy
Balance – December 31, 2016	\$ 4,653,314
Additions	131,300
Balance – December 31, 2017	\$ 4,784,614
Additions	132,141
Balance – September 30, 2018	4,916,755

Colle Santo, Italy

The Company's wholly-owned subsidiary CMI Energia ("CMI"), is the operator of the project under a Joint Operating Agreement dated January 16, 2006 (the "JOA"), and owner of a 90% working interest in the Colle Santo natural gas project. The natural gas field has established reserves, but is not yet permitted to produce. The 90% interest in the project is beneficially owned as follows:

- 33.3% - the Company (operator, through CMI)
- 41.7% - Syndicate of investors including Avanti Exploration, LLC (Note 12)
- 15% - Dove Energy BV ("Dove") in default

The Company receives funding from these parties for work performed by CMI on the project, which is recorded as a recovery of operating expenses - Colle Santo. As of June 15, 2018, two parties to the JOA, representing an aggregate of a 25% interest in the project are in default of their obligations under the JOA.

During the period ended September 30, 2018, \$343,007 was recorded as a recovery of operating expenses (2017: \$292,070).

As at September 30, 2018, expenditures incurred and due from project partners amounted to \$43,351 (2017: \$47,343).

Reclamation Obligation

Balance, December 31, 2016	\$ 148,000
Accretion expense	12,340
Foreign exchange	8,660
Balance, December 31, 2017	\$ 169,000
Accretion expense	29,200
Foreign exchange	(10,200)
Balance, September 30, 2018	188,000

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Notes to the Condensed Consolidated Interim Financial Statements

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5. EXPLORATION AND EVALUATION ASSETS (cont'd)

Reclamation Obligation (cont'd)

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 \$188,000 (€125,402) (2017 year end: \$169,000 (€115,209)). 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 \$740,877 (€493,523) (2017 year end: \$717,679 (€489,850)). The Company estimates that the timing of incurring the expenditures is 13 years to 2031, an inflation rate of 1% (2017: 1%) and discounted using a credit adjusted rate of 12% (2017: 12%).

6. PROPERTY AND EQUIPMENT

	Well Equipment
Cost	
Balance – December 31, 2017, and 2016 ⁽¹⁾	\$ 81,041
Accumulated depletion and depreciation	
Balance – December 31, 2016	\$ 307
Depreciation	134
Balance – December 31, 2017	\$ 441
Depreciation	102
Balance – September 30, 2018	\$ 543
Carrying amounts	
Balance as at December 31, 2017	\$ 80,600
Balance as at September 30, 2018	\$ 80,498

⁽¹⁾ The Company's subsidiary, CMI owns equipment that is not yet subject to depreciation as these items are not yet in the location and condition necessary to be capable of operating in the manner intended by the Company.

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7. SHARE CAPITAL

Effective November 3, 2017, the Company consolidated its common shares on a 10-old for 1-new basis, whereby each ten old common shares are equal to one new common 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.

Authorized

Unlimited common shares with no par value.

During the period ended September 30, 2018, the Company did not issue any shares.

During the year ended December 31, 2017, the Company:

- (i) issued 5,000 shares upon the exercise of existing warrants for proceeds of \$7,500.
- (ii) closed two tranches of a non-brokered private placement unit financing - aggregating the issuance of 888,800 units at a price of \$0.70 per unit, with each unit comprising one common share and one warrant for gross proceeds of \$622,160. 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.
- (iii) closed two tranches of a non-brokered private placement unit financing - aggregating the issuance of 7,205,000 units at a price of \$0.10 per unit, with each unit comprising one common share and one warrant for gross proceeds of \$720,500. Each warrant is exercisable into one common share at a price of \$0.12 per share until either November 21, 2022 or December 7, 2022.
- (iv) The Company incurred \$39,100 in cash share issue costs and \$1,470 in non-cash share issue costs through the issuance of 2,100 finders' units; resulting in an aggregate \$40,570 in share issue costs pursuant to its private placements during the year.

Escrow shares

- (i) *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, 2018, 13,770 (2017: 41,310) 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.

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7. SHARE CAPITAL (cont'd)

Stock options

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

As at September 30, 2018, the following options were outstanding and exercisable:

Number of options	Exercise price	Remaining life (years)	Expiry date
207,500	\$ 2.00	0.15	November 25, 2018
20,000	\$ 2.05	0.35	February 5, 2019
<u>252,500</u>	\$ 1.20	2.35	February 4, 2021
480,000			

A summary of stock option activity is as follows:

	Options	Weighted average exercise price
Balance outstanding and exercisable, December 31, 2016	585,000	\$ 1.60
Expired	(5,000)	1.00
Forfeited	<u>(100,000)</u>	1.60
Balance outstanding and exercisable, December 31, 2017 and September 30, 2018	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 1.32 (2017: 2.32) years.

Warrants

As at September 30, 2018, the following warrants were issued and outstanding:

Number of warrants	Exercise price	Remaining life (years)	Expiry date
5,400,000	\$ 0.12	4.15	November 23, 2022
<u>1,805,000</u>	\$ 0.12	4.19	<u>December 7, 2022</u>
7,205,000			

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7. SHARE CAPITAL (cont'd)

Warrants (cont'd)

A summary of warrant activity is as follows:

	Warrants	Weighted average exercise price
Balance, December 31, 2016	182,400	\$ 1.50
Issued	890,900	1.50
Issued	7,205,000	0.12
Exercised	(5,000)	(1.50)
Expired (unexercised)	(177,400)	(1.50)
Balance, December 31, 2017	8,095,900	\$ 0.27
Expired (unexercised)	(667,100)	(1.50)
Expired (unexercised)	(223,800)	(1.50)
Balance, September 30, 2018	7,205,000	\$ 0.12

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 September 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 September 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 September 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 September 30, 2019. The warrant exercise price is \$1.50 up to September 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.

Avanti Energy Inc.

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8. CONVERTIBLE DEBENTURES (cont'd)

During the period ended September 30, 2018, the Company incurred interest expense of \$29,918 (2017 - \$29,918).

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2016	\$ 500,000	\$ 441,392	\$ 44,773
Accretion	-	25,604	-
Balance as at December 31, 2017	\$ 500,000	\$ 466,996	\$ 44,773
Accretion	-	17,251	-
Balance as at September 30, 2018	\$ 500,000	\$ 484,247	\$ 44,773

9. SALES TAXES AND OTHER RECEIVABLES

	September 30, 2018	2017
Sales taxes (Note 10)	\$ 33,487	\$ 149,140
Receivables/advances – Colle Santo Project	43,351	47,343
	\$ 76,838	\$ 196,483

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 debenture 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. 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. 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.

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10. FINANCIAL INSTRUMENTS (cont'd)

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's approach to managing liquidity risk is to ensure that it will have sufficient financial resources to meet liabilities when due. As at September 30, 2018, the Company had a working capital deficit of \$594,444 (Year-end 2017: surplus of \$431,679). The Company's current financial liabilities have maturities within the next fiscal year. As at September 30, 2018, the Company has insufficient working capital to discharge its existing financial obligations.

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.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, sales taxes and other receivables, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at September 30, 2018, 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 and comprehensive loss for the year by less than \$1,000.

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, 2018 to manage this risk.

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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, issuances of convertible debentures and amounts due 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, highly 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.

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,	
	2018	2017
Salaries and short term benefits ⁽ⁱ⁾	\$ 405,206	\$ 411,135
Share-based payments	-	-
	\$ 405,206	\$ 411,135

⁽ⁱ⁾Salaries and short term benefits include \$225,000 (2017: \$225,000) in Management fees and \$180,206 (2017: \$186,135) in Consulting fees recorded on the Statements of Loss and Comprehensive Loss.

During the period ended September 30, 2018, the Company entered into the following transactions with key management personnel and/or related entities:

<u>Related party</u>	<u>Nature of transaction</u>
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 ("AVX")	Joint Interest Agreement regarding the Colle Santo project with a former common director.
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.

Avanti Energy Inc.

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(in Canadian dollars)

12. RELATED PARTY TRANSACTIONS (cont'd)

- (a) Paid or accrued \$nil (2017 - \$15,000) in rent to CFC, a company in which a director is a significant shareholder. Effective June 30, 2017 the rent agreement was terminated.
- (b) Paid \$22,500 (2017: \$7,500) 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 (2017: \$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.
- (d) Paid \$180,206 (2017: \$186,135) 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 \$43,351 (2017: \$29,590) due from AVX, a company controlled by a former director who resigned during the year ended 2017, for exploration work completed at period end relating to Colle Santo.
- (f) Included in other receivables is \$nil (2017: \$10,652) due from Dove, a company controlled by a former director who resigned during the year ended 2017, for exploration work completed at period end relating to Colle Santo.
- (g) Included in other receivables is \$nil (2017: \$7,101) due from Intergie, a company controlled by a former director who resigned during the year ended 2017, for exploration work completed at period end relating to Colle Santo.
- (h) Included in convertible debentures (Note 8) is \$345,000 (2017: \$345,000) the amount as subscribed by PEMC.
- (i) Due to related parties includes \$17,804 (2017: \$1,318) and is unsecured with no fixed terms for payment.
- (j) During the current and prior period, the Company entered and maintained certain agreements with AVX (Note 5), a company with a director in common until May 31, 2017, at which time AVX ceased to be a related entity.

13. SEGMENT INFORMATION

The Company operates in the acquisition, development, exploration and evaluation of oil and gas properties. The Company's non-current assets are located in Italy.

Avanti Energy Inc.

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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, 2018.

The Company's significant non-cash investing and financing transactions during the year ended December 31, 2017 were as follows:

- a) Share issue costs of \$10,246 included within accounts payable and accrued liabilities.

15. EVENTS AFTER THE REPORTING PERIOD

- a) Effective November 25, 2018, 207,500 share purchase options expired, unexercised.
- b) The Company's wholly owned subsidiary, CMI Energia srl, titleholder and operator of the Colle Santo permit in the Abruzzo Region of Italy, was formally notified by the Ministry of Environment (the "MoE") of a "rejection warning" under law 241/90 being issued by the VIA Commission (the evaluation arm of the MoE) regarding CMI's application to develop its natural gas reserves at Colle Santo. CMI has the right to respond to the MoE within a prescribed period, which it is currently doing.