



Avanti Energy Inc.

Management Discussion and Analysis

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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

INTRODUCTION

Avanti Energy Inc. (the "Company" 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.

Effective November 3, 2017, the Company consolidated its common share capital 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.

On May 31, 2013, the Company announced the successful completion of the acquisitions of Avanti Exploration SA LLC ("Avant SA") and Avanti Oil, LLC ("Avanti Oil"). As a result, the Company has acquired all of the issued and outstanding interests in Avanti SA and Avanti Oil. On April 15, 2015, the Company completed the acquisition of CMI Energia S.p.A. ("CMI Energia"). The acquisition of CMI Energia was deemed an asset acquisition, as a result, the Company has acquired all of the issued and outstanding interests in CMI Energia. The Company's results of operations and cash flows include those of CMI Energia from the date of acquisition to date.

The following management discussion and analysis ("MD&A"), prepared as of April 24, 2018, should be read together with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017 and related notes hereto, which are prepared in accordance with IFRS. The reader should also refer to the audited financial statements and accompanying notes for the year ended December 31, 2016 and related notes hereto, which are prepared in accordance with IFRS.

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

FORWARD LOOKING STATEMENTS

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

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

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

OVERALL PERFORMANCE

ITALY

Colle Santo

In April of 2015, the Company acquired CMI Energia S.p.A. (“CMI”), an Italian oil and gas exploration and development company formerly owned by Forest Oil Corporation and Dove Energy B.V. CMI was acquired from Dove Energy B.V. for a cash payment of US\$1.53 million and 1,297,000 common shares of Company’s stock. CMI is the operator of Colle Santo and owns 90% working interest [net 33.33%] in a 35.72 square kilometers exclusive exploration permit now in the process of being converted into an exploitation concession. The field limits and reserves have been fully delineated by two existing new wells along with other older wells. The two new wells tested combined production in excess of 20 million cubic feet per day (Mcf/d). The permit area holds 85.3 billion cubic feet (Bcf) of total proved and probable marketable natural gas. These figures are based on a detailed independent reserve report commissioned by the Company in March 2017 from Chapman Petroleum Engineering Ltd. In addition, based on mapping and reprocessed seismic data, the Company has identified an extension to the existing field. The Vallecupa extension has been attributed Prospective Resources in a range to 53 to 62 billion cubic feet of natural gas. The Vallecupa extension area covers in excess of 2,200 acres as mapped and would share a common gas water contact with the known accumulation in the permit.

Since closing the CMI transaction, the Company has entered into agreements with Olimar Srl and a team of recognized Italian engineering firms to carry out the new gas development plan. The technical team involved in the design, engineering, and environmental aspects of the Project include: Ediltop Srl, Libra Engineering, TEA Sistemi, TEA Ambiente, DREAM Consulting of Torino, and Prof. Leonardo Tognotti, renowned chemical engineer University of Pisa.

The Company is pleased to report that it has completed its new development plan which was formally submitted to the Ministry of Economic Development on April 18, 2016. The new plan consists of placing the two existing wells on production, drilling two additional development wells at a later date, and construction of a 21 Km pipeline to connect the field with a new gas treatment facility located in an existing industrial park. Management believes moving the gas treatment facility to an existing industrial zone, therefore away from the field and local community, mitigates local concerns and represents a material improvement to the previous development plan. As regards a new environmental impact assessment (EIA) which covers all development components of the new development plan, namely: production, pipeline, and treatment plant, the Company submitted its report to the Ministry of Environment on June 26, 2016. Following the filing of the EIA, the public comment period expired on August 29, 2016, resulting in only 16 comments submitted by the public. However, it should be noted that on September 29, 2016 the period for requests or clarifications coming from the Ministry of Environment expired without comments. In addition, expiration of the mandatory 150-day EIA review period by the Ministry of Environment also expired on November 25, 2016 without comments. In response to the backlog of EIAs at the Ministry of Environment, representing an estimated 21 billion Euros of capital investments, on March 16, 2017 Italy’s Prime Minister and his Council of Ministers approved a new decree introducing measures necessary for the implementation and adaptation of national legislation to EU regulations and directives aimed at streamlining the EIA approval process and speeding up the response time. On March 23, 2017 members of the Company’s technical staff met with the technical representative of the Ministry of Environment responsible for reviewing CMI’s EIA application. The meeting was productive and the Company received confirmation from the Ministry of Environment of the quality and completeness of its EIA, as well as the good intentions of the Ministry of Environment to move the review process along as quickly as possible. In such regard, the Ministry of Environment requested the Company to double check the possible need for a soil management plan. In such regard, the Company has already checked the soil quantities relative to its development plan and based on such results does not believe a plan will be required.

On June 8, 2017, the Company submitted to the Ministry of Environment voluntary responses to all of the public comments, including details regarding its soil management plan.

On July 31, 2017, the Region of Abruzzo issued a statement to the Ministry of Environment and to the Ministry of Economic Development that it will defer to the Ministry of Environment’s decision on the Colle Santo development project. Management believes this statement was fundamentally correct in that decisions regarding EIA approval for projects such as Colle Santo no longer rest with the Regions but rather with the Ministry of Environment.

In August the Company made minor adjustments to its soil management plan in line with new directives which were deemed acceptable by the Ministry of Environment.

During October and November of this year the Company renewed its lease agreements with local landowners covering the well pad area.

On October 4, 2017 the Company received an integrations request from the VIA Commission to which the Company fully responded on November 18, 2017. The integration request was substantially in line with public comments and the Company is confident of the completeness of its responses.

In response to the Company's filing on November 18, 2017, a public comments period was re-opened, to which comments were received until January 24, 2018. During this time comments were received from the Region of Abruzzo, certain local communities, and environmental groups. Public comments were in line with previous comments and generally followed NIMBY policies taken with all energy related projects. As from the beginning, the Company remains steadfast as to the correctness and viability of its development plan.

After receiving all integrations from CMI and comments from the various stakeholder groups, the VIA Commission has called for a meeting on April 19, 2018 to fully discuss any outstanding issues before formalizing its opinion on the Colle Santo gas development plan.

USA

During the fourth quarter of 2015, the Company decided to abandon its USA production efforts due to the marginal nature of the production, the low-price environment for the produced liquids, and the high operating costs resulting from ever-increasing water-cut. Through negotiation with the operator the Company surrendered its interests in the two producing wells, the two shut-in wells, and the associated used production equipment -- in consideration of a release from all abandonment costs and future liabilities as of December 1, 2015.

OUTLOOK

Management remains encouraged by the continued upward movement in oil prices and the resulting positive affect on the E&P sector in general and specifically Italian gas prices. Avanti's business plan anticipates continued Government support for industrial growth, increased employment, and greater fossil-fuel independence in Europe.

Italy will remain a high value gas market for the foreseeable future. In addition, concerns over potential gas supply interruptions from volatile regions such as North Africa and Russia will continue to place upward pressure on gas prices in Italy. The Company believes that its strategy to focus on distressed, reserve-based, natural gas weighted acquisitions in Italy remains valid.

Despite any environmental concerns expressed by local stakeholders, the Company's Colle Santo gas development project remains well within the Region of Abruzzo's strategic plan for greater use of natural gas as a cleaner alternative and bridge fuel to future sustainable technologies.

While there continues to be distress within the oil and gas industry, high quality opportunities in Europe such as Colle Santo remain scarce. In the short-term management will continue to focus its efforts on reaching project sanction at Colle Santo, forming strategic alliances with regional gas consumers, and identifying other synergistic producing property opportunities.

RESULTS OF OPERATIONS

Selected Annual Information

	Years ended December 31		
	2017	2016	2015
Revenue	\$ --	\$ --	\$ 44,616
Net loss for the period	\$ (850,054)	\$ (890,329)	\$ (2,380,018)
Net loss per common share, basic and diluted	\$ (0.11)	\$ (0.14)	\$ (0.41)
Weighted average number of common shares	7,835,413	6,483,444	5,757,536
Financial position data			
Working capital as at December 31	\$ 431,679	\$ 55,235	\$ 108,671
Total assets as at December 31	\$ 5,502,654	\$ 5,050,607	\$ 4,762,853

Revenues

Prior to May 2014, the Company had no commercial production from its properties. Commencing with the quarter ended June 30, 2014, the Company began to record oil and gas revenue from its USA working interests. The Company decided to abandon its USA production efforts in 2015 due to the marginal nature of the production, the low-price environment for the produced liquids, and the high operating costs.

Fiscal year ended December 31, 2017

During the twelve months ended December 31, 2017, the Company's operations reflect its singular focus on Italy. The Company incurred operating expenses totaling \$850,054, a reduction of 4.5% from the \$890,329 incurred in 2016. The 2017 recovery from JV partners of was reduced 46% to \$353,632 from \$658,374 in 2016, reflecting the lower overall expenditures on the Colle Santo Project. The bulk of the expenses in the current period were related to corporate and oil & gas operations, which are represented in administrative expense of \$711,540 [2016: \$586,684] and significantly reduced consulting fees of \$25,387 versus \$161,386 in the corresponding 2016 period. Overall, corporate expenses were reduced in the year, reflecting the reduced burden of the discontinued USA operations and prolonged nature of the Italy permitting process, while the consulting fee reduction is specifically tied to the elimination of USA operations. The reduction of the non-cash charge for share-based compensation to \$nil, [2016: \$304,481] reflects that no stock option grants were recorded in 2017. The non-cash charge for impairment was reduced to \$nil in 2017 [2016: \$65,363] illustrating that the Company's exploration and evaluation assets were not subject to write-down in 2017. Professional fees were consistent at \$59,049 in 2017, compared to \$54,765 in 2016.

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

Fiscal year ended December 31, 2016

During the twelve months ended December 31, 2016, the Company continued to streamline its operations reflecting its singular focus on Italy. The acquisition of CMI did burden management with some additional expenses related to administration. The Company incurred operating expenses totaling \$890,329 [2015: \$2,380,018], which includes a recovery from JV partners of \$658,374 [2015: \$849,600] for certain Colle Santo operating expenses. The bulk of the expenses in the current period were related to corporate and oil & gas operations, which are represented in administrative expense of \$586,684 [2015: \$428,996] and consulting fees of \$161,386 versus \$409,615 in the corresponding 2015 period; and in lease operating expense related to USA operations, which was reduced to \$nil compared with \$75,919 in 2015. Overall, administrative expenses were reduced in the year, reflecting the reduced burden of the discontinued USA operations and prolonged nature of the Italy permitting process, while the consulting fee reduction is specifically tied to the elimination of USA operations. The non-cash charge of \$304,481 [2015: \$nil] for share-based compensation reflects that a grant of stock options occurred in the current year; while the non-cash charge for impairment was reduced to \$65,363 in 2016 versus \$1,903,043 in 2015. Professional fees were consistent at \$54,765 in 2016 and \$54,460 in 2015.

Selected Financial Data [Quarterly - unaudited]

	Quarter Ended							
	12/31/2017	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016	3/31/2016
Operating Revenue	\$ -	-	-	-	-	-	-	-
Comprehensive loss	\$ (316,445)	(163,750)	(203,482)	(166,377)	(130,650)	(118,321)	(48,752)	(592,606)
Loss per share	\$ (0.03)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.01)	(0.09)
Share capital	\$ 11,987,427	11,283,066	11,283,066	10,683,867	10,676,387	10,676,387	10,676,387	10,676,387
Common shares issued	14,644,292	7,439,288	7,439,288	6,548,391	6,543,591	6,543,591	6,543,591	6,543,591
Weighted average shares outstanding	10,140,596	7,439,288	7,179,735	6,546,891	6,543,591	6,543,591	6,543,591	6,302,327
Total Assets	\$ 5,502,654	5,135,520	5,274,935	5,043,373	5,050,607	5,222,984	4,747,759	4,772,074
Net Assets	\$ 4,660,897	4,272,981	4,436,731	4,041,014	4,199,891	4,344,875	4,418,694	4,467,446
Cash Dividends Declared per Common Shares	\$ 0	0	0	0	0	0	0	0

Fourth quarter

Other than the decision to write-off the carrying values of the long term deposit in the fourth quarter of 2016, there were no fourth quarter events or items that affected the Company's financial condition, cash flows or results of operations, including extraordinary items, year-end and other adjustments.

The Company's operations are generally not seasonal.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31, 2017, the Company had working capital of \$431,679 [2016 year-end: \$55,235] and cash of \$585,575 [2016 year-end: \$106,007]. During the year ended December 31, 2017, the Company closed two non-brokered private placement financings - aggregating gross proceeds of \$1,344,130, via the issuance of 8,095,900 shares and 8,095,900 warrants. In connection with the private placements the Company incurred legal and other costs of \$40,570.

RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key Management Personnel	Year ended December 31,	
	2017	2016
Salaries and short term benefits ⁽ⁱ⁾	\$ 541,372	\$ 550,894
Share-based payments	-	276,801
	\$ 541,372	\$ 827,695

⁽ⁱ⁾Salaries and short term benefits include \$300,000 (2016: \$300,000) in Management fees, \$225,800 (2016: \$250,894) in Consulting fees, and \$15,572 (2016: \$89,508) in administrative expense recorded on the Statements of Loss and Comprehensive Loss.

During the year ended December 31, 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 (“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.

- (a) Paid or accrued \$15,000 (2016 - \$30,000) 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 \$15,000 (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 \$300,000 (2016: \$300,000) 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 \$241,372 (2016: \$247,566) 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 \$nil (2016: \$8,796) due from Dove, a company controlled by a former director who resigned during the year ended 2017, for exploration work completed at year end relating to Colle Santo.
- (f) Included in other receivables is \$nil (2016: \$5,863) due from Intergie, a company controlled by a former director who resigned during the year ended 2017, for exploration work completed at year end relating to Colle Santo.
- (g) Granted nil (2016: 275,000) stock options to officers and directors with a fair value of \$nil (2016: \$276,801).
- (h) Included in convertible debentures is \$345,000 (2016: \$345,000) the amount as subscribed by PEMC.
- (i) Due to related parties includes \$3,929 (2016: \$1,318) and is unsecured with no fixed terms for payment.
- (j) During the current and prior year, the Company entered and maintained certain agreements with AVX, a company with a director in common until May 31, 2017, at which time AVX ceased to be a related entity.

FINANCIAL INSTRUMENTS AND RISK

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.

Financial risk factors

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents is held at large Canadian, 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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's current financial liabilities have maturities within the next fiscal year. 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.

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 December 31, 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 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 December 31, 2017 to manage this risk.

NEW ACCOUNTING PRONOUCEMENTS

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 9: New standard that replaced IAS 39 for classification and measurement, tentatively 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 consolidated 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 consolidated financial statements.
- 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.

RISKS AND UNCERTAINTIES

Limited liquidity, additional financing and uncertainty of such financing

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

PFIC Tax Risk

U.S. persons who are potential holders of our common shares, warrants or options to purchase our common shares, should be aware that the Company could constitute a "passive foreign investment company" (or a "PFIC") for U.S. federal income tax purposes. The tests for determining PFIC status for a taxable year depend upon the relative values of certain categories of assets and the relative amounts of certain kinds of income. The application of these factors depends upon our financial results for the year, which is beyond our ability to predict or control, and may be subject to legal and factual uncertainties. While the Company does not believe that we were a PFIC in 2017 and do not expect to be a PFIC in 2018, the Company cannot guarantee its PFIC status in 2016, 2017 or in later years. The Company undertakes no obligation to advise investors as to our PFIC status for any year.

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

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

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

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

Dilution

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

Market condition and liquidity crisis

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

Share price subject to volatility

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

Hydrocarbon prices subject to volatility

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

No history of earnings

To date, the Company has only earned revenue from production at its oil and gas properties, for a brief interval within its history. There is no certainty that the Company will produce revenue, operate profitably or provide a return on investment in the future.

Dependence on management

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

Exploration and development activities are inherently risky

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

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

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

Potential conflicts of interest

Certain of the Company's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest, to the extent that such other companies may participate in ventures in which the Company is also participating. The laws of British Columbia require the directors and officers to act honestly, in good faith, and in the best interests of the Company. In addition,

each director must declare his or her interest and abstain from voting on any contract or transaction in which the director may have a conflict of interest.

Political investment risk; Political instability in developing countries

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

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

Economic uncertainty in developing countries

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

Risks relating to statutory and regulatory compliance

The current and future operations of the Company, from exploration through development activities and commercial production, if any, are and will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there can be no assurance that the Company will be successful in obtaining all required permits. Further, there can be no assurance that all permits which the Company may require for future exploration, construction of mining facilities and conduct of mining operations, if any, will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project which the Company may undertake.

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

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

Title risks

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

Foreign currency fluctuations

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

dollars, its financial position and results will be impacted by exchange rate fluctuations between the Canadian dollar, U.S. dollar and Euro dollar.

Insurance risk

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

Competition

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

Legal proceedings

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

Dividends unlikely

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

CAPITAL MANAGEMENT

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 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, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the future to meet its obligations.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

PROPOSED TRANSACTIONS

The Company has no proposed transactions to report at this time.

CONTINGENCIES

Other than \$169,000 recorded as a reclamation obligation to cover the Company's portion of the anticipated future expense to remove equipment and restore wellsites applicable regulations, there are no contingent liabilities.

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

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 \$169,000 (€115,209) (2016: \$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 \$717,679 (€489,850) (2016: \$685,257 (€485,000)). The Company estimates that the timing of incurring the expenditures is 14 years to 2031, an inflation rate of 1%, and discounted using a credit adjusted rate of 12% (2016 – 12%).

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

OUTSTANDING SHARES, STOCK OPTIONS AND WARRANTS

As at April 24, 2018:

- a) Authorized: unlimited common shares without par value.
- b) Issued and outstanding: 14,644,292 common shares.

c) Outstanding stock options:

Number of options	Exercise price	Expiry date
207,500	\$ 2.00	November 25, 2018
20,000	\$ 2.05	February 5, 2019
252,500	\$ 1.20	February 4, 2021
480,000		

d) Outstanding warrants:

Number of warrants	Exercise price	Expiry date
223,800	\$ 1.50	May 4, 2018
5,400,000	\$ 0.12	November 23, 2022
1,805,000	\$ 0.12	December 7, 2022
7,428,800		

EVENT SUBSEQUENT TO DECEMBER 31, 2017

Effective April 24, 2018, 667,100 warrants expired unexercised.

OTHER MD&A REQUIREMENTS

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