



Avanti Energy Inc.

Management Discussion and Analysis

For the period ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

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

INTRODUCTION

Avanti Energy Inc. (the "Company" or "AVN") is a resource company whose common shares trade on the TSX Venture Exchange ("TSX-V") and until April 24, 2019 was in the business of acquiring, developing, exploring and evaluating oil and gas properties. Upon the disposal of its main asset, the Company has no business undertaking at present. 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 reflect the share consolidation unless otherwise noted.

On April 24, 2019, the Company closed a share purchase agreement to sell its operating subsidiary CMI Energia ("CMI") and after that date no longer has ongoing operations. Management is currently evaluating opportunities to negotiate an agreement to acquire an interest in a material asset or business which will constitute the Company's ongoing operations. There is no assurance that management will be able to locate, negotiate, and complete such a transaction.

The Company incurred a net loss of \$376,314 during the period ended September 30, 2019 and, as of that date the Company's had a working capital surplus of \$261,356. Future operations of the Company will be 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 following management discussion and analysis ("MD&A"), prepared as of November 22, 2019, should be read together with the unaudited condensed consolidated interim financial statements for the period ended September 30, 2019. The 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 reader should also refer to the audited financial statements and accompanying notes for the year ended December 31, 2018 and related notes hereto, which are prepared in accordance with IFRS.

Effective November 4, 2019, 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.

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

CMI Energia (“CMI”), formerly was a wholly-owned subsidiary of the Company and is the operator and owner of a 90% working interest in the Colle Santo natural gas project. Effective April 24, 2019, the Company disposed of its interest in CMI. The purchase price payable to the Company consists of deferred compensation up to a maximum of US\$500,000. Deferred compensation will be calculated on the basis of 10% of all proceeds received by the purchaser from CMI or any acquirer of the Colle Santo project, including, but not limited to, royalties, dividends, carried interests, sale proceeds, legal settlements, production payments, management fees, loan payments and equity interests. Deferred payments will be made by the purchaser to the Company as and when received, in perpetuity and without deduction.

As at December 31, 2018, the Company recorded an impairment charge of \$4,765,876 to reflect that the assets have been disposed of for consideration with a fair value below their carrying amount.

The assets were reclassified to assets held for sale at December 31, 2018.

As announced on November 21, 2018, CMI, 90% titleholder and operator of the Colle Santo permit, 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. The primary reason given for the rejection warning by the VIA Commission was the potential risk of induced seismic activity that might result from the normal production of natural gas from Colle Santo in relation to a possible deep fault located within the Region at an estimated depth of 8 – 18 kilometers below surface. The Company believes this may be the first time in the history of the oil and gas industry that a natural gas field has been denied development by a governmental body based on such concerns.

Upon receiving the Notice from MoE, management began evaluating and pursuing many alternatives on how to proceed to preserve some value from the Colle Santo project while not being unduly burdened by an Italian process that seemed to have no end in sight. Part of management’s due diligence had been to seek advice from international law firms regarding the process, costs and likely outcomes of litigation against the Republic of Italy for damages. Together with the other working interest parties in the Colle Santo project, the Company arranged CMI’s affairs to preserve its rights under the European Energy Charter Treaty.

In the midst of this effort, management also investigated finance options for the continued operations of the CMI, and the pursuit of recourse for the Colle Santo stalemate. No viable financing options were surfaced. Additionally, the Company was facing the June 2019 maturity of existing debt obligations, with no likely sources of capital to retire the debt. During the last 18 months the Company has entertained several expressions of interest in the Colle Santo project, however, all of that interest was contingent upon permitting success. The actions of the Italian permitting authorities have sparked a number of vocal industry participants to seek relief; thus far, those efforts have been most ineffective.

Faced with an untenable future, the Company agreed to sell its 33.33%, net, working interest in Colle Santo, representing its entire interest in the project, which interest was held through its ownership in CMI. The disposition occurred on April 24, 2019 by way of the sale of 100% of the Company’s shares in CMI pursuant to an agreement with an arm’s length purchaser, Avanti Eurogas LLC (collectively referred to as AVX), who held a 41.7% working interest in the Colle Santo project (the “AVX Agreement”).

The purchase price paid to the Company by AVX consisted of deferred compensation up to a maximum of US\$500,000 (the “Deferred Compensation”). Deferred Compensation will be calculated on the basis of 10% of all proceeds received by AVX from CMI, or any acquirer of the Colle Santo project, including but not limited to, royalties, dividends, carried interests, sale proceeds, legal settlements, production payments, management fees, loan payments, and equity interests. Deferred Payments will be made by AVX to the Company as and when received, in perpetuity, and without deduction.

In addition, the AVX Agreement provided for full indemnification of the Company by AVX for any losses or damages that may be suffered by the Company as a result of its prior ownership of its interest in CMI.

Management has made a judgement that the consideration to be received in the sale is all contingent and cannot be reasonably expected to be received in the foreseeable future. As such, the fair value of the assets is considered to be Level 3 in the fair value hierarchy and estimated to be equal to the carrying amount of the liabilities which the Company is disposing in the transaction. The carrying amount of these liabilities approximates their fair value due to their short-term nature.

The fair value of the assets held for sale was lower than the carrying amount at December 31, 2018 and resulted in the Company recognizing an impairment of its exploration and evaluation assets of \$4,765,876 to profit and loss. As at September 30, 2019, the recorded amount was \$nil, reflecting the disposition of the assets and liabilities.

OUTLOOK

As the Company's interest in CMI and the Colle Santo project represented substantially all of the Company's business, the AVX Agreement was subject to approval by special resolution of the Company's shareholders pursuant to the provisions of the Business Corporations Act (British Columbia). The Company received such approvals at a shareholders meeting held on April 4, 2019.

Effective April 24, 2019, upon completion of the sale of CMI, the Company has no business operations and is seeking other business opportunities within the natural resource space but may also pursue non-resource opportunities.

RESULTS OF OPERATIONS

Selected Annual Information

	Years ended December 31		
	2018	2017	2016
Revenue	\$ --	\$ --	\$ --
Net loss for the year	\$ (5,471,557)	\$ (850,054)	\$ (890,329)
Net loss per common share, basic and diluted	\$ (0.37)	\$ (0.11)	\$ (0.14)
Weighted average number of common shares	14,644,292	7,835,413	6,483,444
Financial position data			
Working capital (deficit) as at December 31	\$ (810,660)	\$ 431,679	\$ 55,235
Total assets as at December 31	\$ 400,771	\$ 5,502,654	\$ 5,050,607

9-months ended September 30, 2019

During the period, the Company's operations reflect its singular focus on Italy, and the effort to conclude the disposition of CMI. The Company incurred operating expenses totaling \$376,314, a decrease of 16% from the \$446,088 incurred in the 2018 period. Administrative expenses were reduced significantly to \$54,399 from \$421,495 reflecting the effort in the period to reduce costs while shedding assets. Most other expense items were consistent.

Fiscal year ended December 31, 2018

During the year, the Company's operations reflect its singular focus on Italy; and on the ultimate abandonment of the Colle Santo project. The Company incurred operating expenses totaling \$5,471,557, a 544% increase from the \$850,054 incurred in 2017. The profound increase in the loss was primarily the result of the non-cash, one-time expense of \$4,765,876 to write-down the Company's oil and gas assets to \$nil. Most other expenses remained consistent during the year. The recovery from JV partners was increased 2% to \$359,577 from \$353,632 in 2017. The bulk of the expenses in the current period were related to corporate and oil & gas operations, which are represented in administrative expense of \$560,880, reduced by 21% from the \$711,540 incurred in 2017. Overall, the prolonged nature of the Italy permitting process required that the Company reduce expenditures and concentrate development efforts on securing the necessary approvals for the Colle Santo project. Professional fees increased 50% in the year to \$88,441 compared to \$59,049 in 2017, reflecting the added costs of the legal and accounting work surrounding the Italian permitting process, and the resolution of a Canada Revenue Agency audit in 2018.

Selected Financial Data [Quarterly - unaudited]

	Quarter Ended							
	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017
Operating Revenue	\$ -	-	-	-	-	-	-	-
Comprehensive loss	\$ (111,655)	(132,660)	(131,999)	(5,025,469)	(180,026)	(151,207)	(114,855)	(316,445)
Loss per share	\$ (0.03)	(0.04)	(0.09)	(3.43)	(0.12)	(0.10)	(0.08)	(0.31)
Share capital	\$ 12,927,119	12,927,119	11,987,427	11,987,427	11,987,427	11,987,427	11,987,427	11,987,427
Common shares issued	3,464,425	3,464,425	1,464,429	1,464,429	1,464,429	1,464,429	1,464,429	1,464,429
Weighted average shares outstanding	3,464,425	1,838,055	1,464,429	1,464,429	1,464,429	1,464,420	1,464,420	1,014,059
Total Assets	\$ 384,465	491,807	381,114	400,771	5,156,867	5,278,349	5,412,153	5,502,654
Net Assets (liabilities)	\$ (104,430)	7,225	(942,659)	(810,660)	4,214,809	4,394,835	4,546,042	4,660,897
Cash Dividends Declared per Common Shares	\$ 0	0	0	0	0	0	0	0

Fourth quarter

During the fourth quarter of 2018, the Company recorded the non-cash, one-time expense of \$4,765,876 to write-down the Company's oil and gas assets to \$nil. Other than that expense, 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.

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 September 30, 2019, the Company had a working capital surplus of \$261,356 [2018 year-end deficit: \$810,660] and cash of \$365,054 [2018 year-end: \$42,286]. The Company has insufficient working capital to meet its obligations.

Effective April 12, 2018, the Company secured the consent of debenture holders in the aggregate principal amount of \$500,000 to cancel the existing secured debentures and replace with new unsecured, convertible, redeemable debentures. The new debentures were issued May 15, 2019. The new debentures mature on March 31, 2024 and bear interest at the rate of 8% per annum, with interest payable at the end of each calendar quarter. The aggregate principal amount of \$500,000 of the new debentures is convertible, in whole or in part, into units of the Company at the option of the holder at a deemed price of \$0.05 per unit during the first year of the term of the new debentures, then at \$0.10 per unit until maturity. Upon conversion, each unit will comprise one common share and one-half warrant. Each whole warrant will give the holder the right to purchase one additional common share at a price of \$0.05 during the first year of the term of the new debentures, then at \$0.10 until the warrants expire five years from the date of issuance of the new debentures. Interest on the new debentures is payable in cash and is not convertible into units. The Company redeemed the Debentures effective November 11, 2019.

In November 2019, the Company arranged a non-brokered private placement of common shares to raise up to \$650,000. Proceeds of the offering will be used for general working capital purposes. The private placement will be by way of subscription agreements for up to 2,166,667 common shares at \$0.30 per share.

Effective June 13, 2019, the Company completed a private placement by issuing 2,000,000 Units at \$0.50 per Unit for proceeds of \$1,000,000. Each Unit consisted of one share and one transferable common share purchase warrant. Each warrant entitles

the holder to acquire one additional common share for \$1.00 for a period of 36 months. The Company paid finders' fees of \$52,255 in connection with the private placement and incurred share issuance costs of \$60,308.

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	Nine months ended September 30,	
	2019	2018
Salaries and short term benefits ⁽ⁱ⁾	\$ 225,000	\$ 405,206

⁽ⁱ⁾ Salaries and short term benefits include \$225,000 (2018: \$225,000) in Management fees, \$nil (2018: \$180,206) in Administrative fees and expenses recorded on the Statements of Loss and Comprehensive Loss.

During the period ended September 30, 2019, the Company entered into the following transactions with key management personnel and/or related entities:

Related party	Nature of transaction
Mark Frascogna. LLC ("Frascogna")	Consulting fees for the services provided by Mark Frascogna, the former Senior Vice President of the Company
Pacific Equity Management Corp. ("PEMC")	Management fees for services provided by former team of CEO, CFO, VP Corporate Development, VP Finance, Accountant, and Administrator. The Management Services Agreement has been terminated effective September 1, 2019, by mutual consent.
Pacific Equity Management Corp. ("PEMC")	Under a separate agreement rent and shared office expenses commencing July 1, 2017.
Elbert Wong ("Wong")	Consulting fees for the services of Interim CFO and Secretary. Agreement effective September 1, 2019 on a month to month basis.
Hatchette Holdings Ltd. ("Hatchette")	Consulting fees for the services of President and CEO. Agreement effective September 1, 2019 on a month to month basis.

- Paid \$22,500 (2018: \$22,500) for rent and shared office expenses to PEMC, a company controlled by two former 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.
- Paid \$500 (2018: nil) to Wong for management services provided.
- Paid \$1,000 (2018: nil) to Hatchette for management services provided.
- Paid \$225,000 (2018: \$225,000) to PEMC, a company controlled by two former officers for management services as disclosed in key management personnel compensation within salaries and short-term benefits.
- Paid \$nil (2018: \$180,206) to Frascogna, a company controlled by a former officer for consulting fees as disclosed in key management personnel compensation within salaries and short-term benefits.

(f) Included in convertible debentures (Note 9) is \$nil (2018: \$345,000) the amount as subscribed by PEMC.

FINANCIAL INSTRUMENTS AND RISK

Fair value

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, due to related parties and convertible debentures. The carrying value of accounts payable and accrued liabilities, and due to related parties, 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 is measured at fair value, which is the face value of the notes.

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 is held at a large Canadian financial institution. As a result, the Company does not believe it is exposed to significant credit risk, however, the Company's maximum exposure is equal to the carrying value of these balances.

Liquidity risk

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

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. 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, 2019, the Company had working capital of \$261,356 (Year-end 2018: deficit of \$810,660). The Company's current financial liabilities have maturities within the next fiscal year. As at September 30, 2019, 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 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 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 accounts payable and accrued liabilities that are denominated in a foreign currency. As at September 30, 2019, 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 period by less than \$500.

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, 2019, to manage this risk.

NEW ACCOUNTING PRONUCEMENTS

New standards adopted during the period

The Company has adopted the following revised standards, along with any consequential amendments, effective January 1, 2019.

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 adopted the standard effective January 1, 2019 using a modified retrospective approach and applying the transition method that does not require adjustments to comparative periods nor require modified disclosures in the comparative periods. The Company elected the package of practical expedients to not reassess whether a contract is or contains a lease, lease classification and initial direct costs for contracts that expired or existed prior to the effective date. The Company has completed an analysis and the only material lease that has impact is the office lease for which the Company has recognized a right-of-use asset and lease liability.
- **IFRIC 23: Uncertainty over Income Tax Treatments:** The new standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Adoption of the standard has not had a material impact on its consolidated statements.

RISKS AND UNCERTAINTIES

Limited liquidity, additional financing and uncertainty of such financing

Current financial resources are unable 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 2018 and do not expect to be a PFIC in 2019, the Company cannot guarantee its PFIC status in 2018, 2019 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 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.

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 deficiency. 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.

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 pursuant to the terms of the AVX agreement, where AVX will pay deferred compensation up to a maximum of \$500,000 (U.S.) there are no contingent assets or liabilities.

Deferred compensation will be calculated on the basis of 10 per cent of all proceeds received by AVX from CMI or any acquirer of the Colle Santo project, including, but not limited to, royalties, dividends, carried interests, sale proceeds, legal settlements, production payments, management fees, loan payments and equity interests. Deferred payments will be made by AVX to the Company as and when received, in perpetuity and without deduction.

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 Issuer Basic Certificate 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 November 22, 2019:

- a) Authorized: unlimited common shares without par value.
- b) Issued and outstanding: 3,464,425 common shares.
- c) Outstanding stock options:

Number of options	Exercise price	Expiry date
25,000	\$ 1.20	February 4, 2021
25,000		

d) Outstanding warrants:

Number of warrants	Exercise price	Expiry date
540,000	\$ 1.20	November 23, 2022
180,500	\$ 1.20	December 7, 2022
2,000,000	\$ 1.00	June 13, 2022 ⁽¹⁾
<u>2,720,500</u>		

⁽¹⁾In certain circumstances, the expiry of these warrants may be accelerated.

EVENTS SUBSEQUENT TO September 30, 2019

- a) Pursuant to Note 9, the Company redeemed the existing Debentures effective November 11, 2019.
- b) The Company arranged a non-brokered private placement of common shares to raise up to \$650,000. Proceeds of the offering will be used for general working capital purposes. The private placement will be by way of subscription agreements for up to 2,166,667 common shares at \$0.30 per share.

OTHER MD&A REQUIREMENTS

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