



## **Avanti Energy Inc.**

### **Condensed Consolidated Interim Financial Statements**

For the nine months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

**NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

# Avanti Energy Inc.

(in Canadian Dollars)

## Condensed Consolidated Interim Statements of Financial Position

As at	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 365,054	\$ 42,286
Sales taxes receivable (Note 10)	10,036	9,675
Prepaid expenses	9,375	15,000
	<b>384,465</b>	<b>66,961</b>
<b>Non-current assets</b>		
Assets held for sale (Note 5)	-	333,810
	<b>\$ 384,465</b>	<b>\$ 400,771</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 112,984	\$ 184,815
Convertible debentures (Note 9)	-	489,663
Due to related parties (Note 13)	10,125	196,011
Advances received (Note 6)	-	7,132
	<b>123,109</b>	<b>877,621</b>
Convertible debentures (Note 9)	<b>365,786</b>	-
Liabilities held for sale (Note 5)	-	333,810
	<b>488,895</b>	<b>1,211,431</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 8)	12,927,119	11,987,427
Equity reserves (Notes 8, 9)	1,088,162	945,310
Deficit	(14,119,711)	(13,743,397)
	<b>(104,430)</b>	<b>(810,660)</b>
	<b>\$ 384,465</b>	<b>\$ 400,771</b>

Nature and continuance of operations (Note 1)

Exploration and evaluation assets (Note 6)

Equipment (Note 7)

Events after the reporting period (Note 16)

Approved by the board as of November 22, 2019:

*(signed) Robin Gamley*

*(signed) Cory Cleveland*

Director

Director

# Avanti Energy Inc.

(in Canadian Dollars)

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Expenses</b>				
Administrative (Note 4)	8,087	162,449	54,399	421,495
Depreciation (Note 7)	-	34	-	102
Loss (gain) on foreign exchange	(635)	(7,789)	(31,537)	331
Interest and finance costs	16,425	22,597	61,596	64,029
Management fees (Note 13)	76,500	75,000	226,500	225,000
Professional fees	9,928	11,422	53,662	65,815
Transfer agent and filing fees	1,350	1,160	11,694	12,323
Recovery of operating expenses Colle Santo (Note 5)	-	(84,847)	-	(343,007)
	111,655	180,026	376,314	446,088
<b>Loss and comprehensive loss</b>	<b>\$ (111,655)</b>	<b>\$ (180,026)</b>	<b>\$ (376,314)</b>	<b>\$ (446,088)</b>
<b>Basic and diluted loss per share</b>	<b>(0.03)</b>	<b>(0.10)</b>	<b>(0.17)</b>	<b>(0.30)</b>
<b>Weighted average number of shares outstanding- basic and diluted</b>	<b>3,464,429</b>	<b>1,464,429</b>	<b>2,262,964</b>	<b>1,464,429</b>

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# Avanti Energy Inc.

(in Canadian Dollars)

## Condensed Consolidated Interim Statements of Cash Flows

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For the nine months ended September 30,	2019	2018
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (376,314)	(446,088)
Items not affecting cash:		
Accretion	31,677	46,451
Depletion and depreciation	-	102
Unrealized foreign exchange loss	(3,660)	(10,200)
Changes in non-cash working capital items:		
Sales tax and other receivables, prepaid and deposits	5,264	(68,386)
Accounts payable and accrued liabilities	(264,849)	86,757
<b>Cash used in operating activities</b>	<b>(607,882)</b>	<b>(391,364)</b>
<b>INVESTING ACTIVITIES</b>		
Exploration and evaluation assets expenditures	-	(132,141)
<b>Cash used in investing activities</b>	<b>-</b>	<b>(132,141)</b>
<b>FINANCING ACTIVITIES</b>		
Debt issue costs	(9,042)	-
Common shares for cash	1,000,000	-
Share issue costs	(60,308)	(4,244)
<b>Cash provided by financing activities</b>	<b>930,650</b>	<b>(4,244)</b>
<b>Change in cash during the period</b>	<b>322,768</b>	<b>(527,749)</b>
<b>Cash, beginning of period</b>	<b>42,286</b>	<b>585,575</b>
<b>Cash, end of period</b>	<b>\$ 365,054</b>	<b>57,826</b>
<b>Cash paid for:</b>		
Interest (Note 9)	\$ 29,918	29,918
Income taxes	\$ -	-

Supplemental disclosure with respect to cash flows (Note 14)

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## Avanti Energy Inc.

(in Canadian Dollars)

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

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	Number of shares	Share capital	Equity reserves	Deficit	Total
Balance, December 31, 2017	1,464,429	\$ 11,987,427	\$ 945,310	\$ (8,271,840)	\$ 4,660,897
Loss for the period	-	-	-	(446,088)	(446,088)
Balance, September 30, 2018	1,464,429	\$ 11,987,427	\$ 945,310	\$ (8,717,928)	\$ 4,214,809
<b>Balance, December 31, 2018</b>	<b>1,464,429</b>	<b>\$ 11,987,427</b>	<b>\$ 945,310</b>	<b>\$ (13,743,397)</b>	<b>\$ (810,660)</b>
Private placement	2,000,000	1,000,000	-	-	1,000,000
Share issue costs	-	(60,308)	-	-	(60,308)
Convertible Debt	-	-	142,852	-	142,852
Loss for the period	-	-	-	(376,314)	(376,314)
<b>Balance, September 30, 2019</b>	<b>3,464,429</b>	<b>\$ 12,927,119</b>	<b>\$ 1,088,162</b>	<b>\$ (14,119,711)</b>	<b>\$ (104,430)</b>

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019 and 2018  
(in Canadian dollars)

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### 1. NATURE AND CONTINUANCE OF OPERATIONS

Avanti Energy Inc. (the "Company" or "AVN") is a resource company whose common shares trade on the TSX Venture Exchange ("TSX-V") and until April 24, 2019 was in the business of acquiring, developing, exploring and evaluating oil and gas properties (see Note 5). The Company was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the *British Columbia Business Corporations Act* on March 7, 2011.

The Company's head office is located at Suite 810, 609 Granville Street, Vancouver, British Columbia V7Y 1G5 and its registered and records office address is Suite 3200, 650 West Georgia Street, Vancouver, British Columbia, V6B 4P7.

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

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. These condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

On April 24, 2019 the Company closed a share purchase agreement to sell its operating subsidiary CMI Energia ("CMI") and after that date will no longer have ongoing operations (Note 5). 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.

### 2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements and do not include all of the information required for full annual financial statements. Accordingly, they should be read in conjunction with our IFRS financial statements for the fiscal year ended December 31, 2018. The accounting policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of November 22, 2019, the date the Board of Directors approved these unaudited condensed consolidated interim financial statements and they are consistent with those disclosed in the annual financial statements.

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019 and 2018

(in Canadian dollars)

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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.

### Principles of consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and the following subsidiaries:

Avanti SA	100%	Inactive company
Avanti Oil	100%	Inactive company

All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

### Significant accounting judgments, estimates and assumptions

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

#### Critical judgments in applying accounting policies

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1. In addition, management has made judgments regarding the functional currency of the Company, and has determined that the functional currency of the Company and its subsidiaries is the Canadian dollar.

Management also used judgment in determining that the subsequent disposition of CMI constituted a disposal group as defined by IFRS 5 and that the measurement, presentation, and disclosure criteria of that standard would be applied. See Note 5 for additional details regarding the judgement involved.

#### Key sources of estimation uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our financial statements include, but are not limited to, the following:

##### *Reserve estimates*

Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters

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## **Avanti Energy Inc.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

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and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; and (iii) the determination of the realizable value of oil and gas properties for impairment tests, all of which could have a material impact on earnings.

#### *Impairment of Non-Financial Assets*

The Company assesses property and equipment, and exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least annually. The assessment of any impairment is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

#### *Decommissioning provisions*

Provisions for decommissioning obligations associated with the Company's oil and gas operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology.

#### *Deferred Tax Assets and Liabilities*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Share-based payments

The fair value of stock options granted is recognized as share-based payment expense with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. In situations where equity instruments are issued to consultants and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

#### Exploration and evaluation assets

##### *Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

##### *Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to exploration and evaluation assets are capitalized by property. Off-site consulting, management and lease operating costs are expensed to profit or loss. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a resource interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the exploration and evaluation asset interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

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Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development. Exploration and evaluation assets are also tested for impairment before the assets are transferred to property and equipment.

### Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company, in addition to the proportionate amount of equity reserves originally created at the issuance of the stock options or warrants. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the issuance date of the unit offering and any residual remaining is allocated to common share purchase warrants. All professional fees and commissions incurred directly with the issue of the Company's shares are charged directly to share capital as share issue costs. Warrants issued to agents in connection with a financing are recorded at fair value and charged to share capital as a share issue cost an offsetting entry to equity reserves within shareholders' equity.

### Financial instruments

#### Financial assets

Financial assets are classified at initial recognition as either: amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

*Fair value through profit or loss* – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit or loss in the period in which they arise.

*Fair value through other comprehensive income ("FVTOCI")* - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

*Financial assets at amortized cost* - A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

#### Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted

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## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* – This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*: This category consists of liabilities carried at amortized cost using the effective interest rate method.

The Company has classified its cash and cash equivalents as fair value through profit and loss. Accounts receivable is classified as amortized cost. The Company's accounts payable and accrued liabilities, due to related parties and convertible debt are classified as other financial liabilities.

See Note 11 for relevant disclosures.

#### **New Accounting Standards**

##### *New Accounting Policies adopted*

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. The terms of the lease are disclosed in Note 13.

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## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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(in Canadian dollars)

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- 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.

#### 4. ADMINISTRATIVE

	Nine months ended September 30,	
	2019	2018
Advertising, promotion & investor relations	\$ 1,226	\$ -
Office and other	27,113	63,310
Travel and meals	22	1,126
Salaries and benefits	26,038	135,814
General exploration	-	221,245
	<b>\$ 54,399</b>	<b>\$ 421,495</b>

#### 5. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale at September 30, 2019 was a disposal group as defined by IFRS 5 which consists of the Company's former wholly-owned CMI subsidiary. The disposal group was part of the Company's only segment, which is the acquisition, development, exploration and evaluation of oil and gas properties (Note 15).

##### Accounting Policy

Non-current assets held for sale and disposal groups are presented separately in the current section of the statement of financial position when management is committed to immediately sell the asset or disposal group in its present condition, and this distribution is highly probable and expected to be completed within one year. Immediately before the initial classification of the asset and disposal groups as held for sale, the carrying amounts of the assets, or all the assets and liabilities in the disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell.

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 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.

In the prior year, 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.

Reflecting the disposal of the assets, as at September 30, 2019 the recorded amount was \$nil (2018 year-end: \$333,810).

## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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<b>Assets and liabilities held for sale:</b>	Note	<b>September 30, 2019</b>	December 31, 2018
Current assets		\$ -	\$ 37,023
Equipment	7	-	80,465
Exploration and evaluation	6	-	216,322
<b>Total assets held for sale</b>		<b>\$ -</b>	<b>\$ 333,810</b>
Current liabilities		\$ -	\$ 131,810
Decommissioning liability	6	-	202,000
<b>Total liabilities held for sale</b>		<b>\$ -</b>	<b>\$ 333,810</b>

On April 24, 2019, the Company completed its disposal of its “assets and liabilities held for sale” and after that date, no longer had ongoing operations (Note 1).

#### 6. EXPLORATION AND EVALUATION ASSETS

	<b>Colle Santo, Italy</b>
<b>Balance, December 31, 2017</b>	\$ 4,784,614
Additions	197,584
Impairment	(4,765,876)
Assets held for sale	(242,592)
Foreign exchange translation	26,270
<b>Balance, December 31, 2018 and September 30, 2019</b>	<b>\$ -</b>

##### *Colle Santo, Italy*

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 (Note 5).

# Avanti Energy Inc.

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(in Canadian dollars)

### Reclamation Obligation

Balance, December 31, 2017	\$ 169,000
Accretion expense	29,830
Foreign exchange	170
Liabilities held for sale	(199,000)
<b>Balance, December 31, 2018 and September 30, 2019</b>	<b>\$ -</b>

The Company's former reclamation obligation consisted 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 \$199,000 (€132,693) (2018 year end: \$202,000 (€129,035)). 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 \$743,683 (€495,987) (2018 year end: \$773,172 (€494,767)). The Company estimates that the timing of incurring the expenditures is 12 years to 2031, an inflation rate of 1% (2018: 1%) and discounted using a credit adjusted rate of 12% (2018: 12%).

The reclamation obligation is part of the disposal group classified as liabilities held for sale as at December 31, 2018 (Note 5).

### 7. EQUIPMENT

	Well Equipment
<b>Cost</b>	
Balance – December 31, 2017 and 2016 <sup>(1)</sup>	\$ 81,041
Reclassified to assets held for sale	(81,041)
	<u>\$ -</u>
<b>Accumulated depletion and depreciation</b>	
Balance – December 31, 2016	\$ 307
Depreciation	134
Balance – December 31, 2017	<u>\$ 441</u>
Depreciation	135
Reclassified to assets held for sale	(576)
	<u>\$ -</u>
<b>Carrying amounts</b>	
Balance as at December 31, 2017	\$ 80,600
<b>Balance as at December 31, 2018 and September 30, 2019</b>	<b>\$ -</b>

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

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 8. SHARE CAPITAL

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.

#### Authorized

Unlimited common shares with no par value.

During the period ended September 30, 2019, the Company issued shares as follows:

- 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.

During the year ended December 31, 2018, the Company did not issue any shares.

#### Escrow shares

##### *Private placement shares*

Certain shares issued in the private placement of March 2016 were the subject of an Escrow Agreement dated March 11, 2016. As at September 30, 2019, nil (2018: 13,770) common shares remained held in escrow, after the original 10% release. The escrow shares are released from escrow as follows:

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

#### Stock options

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

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## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019 and 2018

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As at September 30, 2019, the following options were outstanding and exercisable:

Number of options	Exercise price	Remaining life (years)	Expiry date
25,000	\$ 1.20	1.35	February 4, 2021
<b>25,000</b>			

A summary of stock option activity is as follows:

	Options	Weighted average exercise price
Balance outstanding and exercisable, December 31, 2017	48,000	\$ 1.58
Expired	(20,750)	2.00
Balance outstanding and exercisable, December 31, 2018	27,250	\$ 1.28
Expired	(22,500)	1.20
<b>Balance outstanding and exercisable, September 30, 2019</b>	<b>25,000</b>	<b>\$ 1.20</b>

These options entitle the holder thereof the right to acquire one common share for each option held. The weighted average remaining life of outstanding options is 1.35 (2018: 1.32) years.

### Warrants

As at September 30, 2019, the following warrants were issued and outstanding:

Number of warrants	Exercise price	Remaining life (years)	Expiry date
2,000,000	\$ 1.00	2.70	June 13, 2022 <sup>(1)</sup>
540,000	\$ 1.20	3.15	November 23, 2022
180,500	\$ 1.20	3.19	December 7, 2022
<b>2,720,500</b>			

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

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## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

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A summary of warrant activity is as follows:

	Warrants	Weighted average exercise price
Balance, December 31, 2018 and 2017	720,500	\$ 1.20
Issued with private placement	2,000,000	1.00
<b>Balance, September 30, 2019</b>	<b>2,720,500</b>	<b>\$ 1.05</b>

## 9. CONVERTIBLE DEBENTURES

On September 15, 2016, the Company issued secured, redeemable, convertible debentures in the principal amount of \$500,000. Pursuant to the AVX agreement, the Company was required to procure a release of the security granted by it over the shares of CMI.

Effective April 12, 2019, 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 \$0.50 per unit during the first year of the term of the new debentures, then at \$1.00 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 \$0.50 during the first year of the term of the new debentures, then at \$1.00 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 new debentures are redeemable by the Company at any time.

The new debentures also contain a provision whereby the Company may force the conversion of the principal amount of the new debentures at the conversion price on not less than 30 days of notice should the daily volume weighted average trading price of the common shares in the capital of the Company on the TSX-V be equal to or greater than \$1.50 for any 10 consecutive trading days.

In addition, the warrants, when issued upon conversion of the new debentures, will be subject to an acceleration provision, whereby if the daily volume weighted average trading price of the common shares of the Company on the TSX-V be equal to or greater than \$1.50 for any 10 consecutive trading days, then the Company may deliver a notice to the holders of warrants notifying the holders that the warrants must be exercised within 30 calendar days from the date of the acceleration notice, failing which the warrants will expire.

The new debentures mature on March 31, 2024. The debentures may be redeemed by the Company at any time after June 30, 2017, upon advance seven-day written notice to the holder by the Company. Certain related parties subscribed to this offering (Note 13).

The net proceeds were allocated first to the fair value of the convertible debenture, with the remaining \$143,669 allocated to the equity component included within equity reserves. The fair value was determined by using an interest rate approximating the Company's market rate of interest for a similar debt instrument (15%). The liability component of the debt is accreted to its face value over the term of the convertible debentures.

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## Avanti Energy Inc.

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During the period ended September 30, 2019, the Company incurred interest expense of \$29,918 (2018 - \$29,918).

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2017	\$ 500,000	\$ 466,996	\$ 44,773
Accretion	-	22,667	-
Balance as at December 31, 2018	\$ 500,000	\$ 489,663	\$ 44,773
Accretion	-	10,337	-
Cancelled	(500,000)	(500,000)	-
<b>Balance as at May 15, 2019</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$ 44,773</b>

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at May 15, 2019	\$ 500,000	\$ 356,301	\$ 143,669
Accretion	-	9,485	-
<b>Balance as at September 30, 2019</b>	<b>\$ 500,000</b>	<b>\$ 365,786</b>	<b>\$ 143,669</b>

#### 10. SALES TAXES RECEIVABLE

	As at:	
	September 30, 2019	December 31, 2018
Sales taxes	\$ 10,036	\$ 9,675

#### 11. FINANCIAL INSTRUMENTS

##### 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.

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

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

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### *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 sufficient 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.

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# Avanti Energy Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 12. CAPITAL MANAGEMENT

The Company's capital structure consists of the components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, issuances of convertible debentures and amounts due to related parties. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the future to meet its obligations.

### 13. RELATED PARTY TRANSACTIONS

#### Key management personnel

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

Key Management Personnel	Nine months ended September 30,	
	2019	2018
Salaries and short term benefits <sup>(i)</sup>	\$ 225,000	\$ 405,206

<sup>(i)</sup>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.

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## Avanti Energy Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019 and 2018

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Hatchette Holdings Ltd. ("Hatchette")	Consulting fees for the services of President and CEO. Agreement effective September 1, 2019 on a month to month basis.
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- a) 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.
- b) Paid \$500 (2018: nil) to Wong for management services provided.
- c) Paid \$1,000 (2018: nil) to Hatchette for management services provided.
- d) 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.
- e) 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.

#### 14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had no significant non-cash transactions during the period ended September 30, 2019.

The Company's significant non-cash investing and financing transactions during the year ended December 31, 2018 were as follows:

- a) \$333,810 in each of assets and liabilities were reclassified to held for sale (Note 5)

#### 15. SEGMENT INFORMATION

The Company operates in the acquisition, development, exploration and evaluation of oil and gas properties.

#### 16. EVENTS AFTER THE REPORTING PERIOD

- 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.