

COURT / ESTATE FILE NUMBERS 25-3131451

COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY



C100521

COM
Oct 18, 2024

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*, RSC 1985, c B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF AVILA ENERGY CORPORATION

DOCUMENT **AFFIDAVIT OF DONALD BENSON**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT MILLER THOMSON LLP
Barristers and Solicitors
525-8th Avenue SW, 43rd Floor
Calgary, AB, Canada T2P 1G1

Attention: Dustin L. Gillanders/James W. Reid
Phone: 306.667.5616 / 403-298-2418
Email: dgillanders@millerthomson.com /
jwreid@millerthomson.com

File No.: 0287592.0001

**AFFIDAVIT OF DONALD BENSON
SWORN OCTOBER 7, 2024**

I, Donald Benson, of the City of Winnipeg, in the Province of Manitoba, MAKE OATH AND SAY THAT:

1. I am the President and Chief Executive Officer of the Applicant, Avila Energy Corporation ("**Avila**") and as such, I have personal knowledge of the facts and matters deposed to herein, unless stated to be based upon information and belief, in which case I believe same to be true.
2. This Affidavit is sworn in support of the application (the "**Application**") by Avila returnable October 18, 2024, before the Court of King's Bench of Alberta (the "**Court**").
3. Unless otherwise stated, monetary figures in this Affidavit are expressed in Canadian dollars.

NATURE OF THE APPLICATION AND OVERVIEW OF RELIEF SOUGHT

4. On September 20, 2024, Avila filed a notice of intention to make a proposal (the “**NOI Proceedings**”) pursuant to section 50.4(1) of *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 (the “**BIA**”).
5. The NOI Proceedings are part of a planned restructuring process that Avila determined, in consultation with their professional advisors, had to be undertaken in the best interests of Avila and their stakeholders, and after identifying no viable alternative processes due to Avila’s insolvency.
6. FTI Consulting has consented to act as proposal trustee under the BIA (in such capacity, the “**Proposal Trustee**”).
7. The Application before the Court seeks the following relief, among other things:
 - (a) abridging the time for service of this Application and the supporting materials, as necessary, and deeming service thereof to be good and sufficient;
 - (b) pursuant to section 50.4(9) of the BIA, extending the time by which Avila may file a proposal to their creditors for a 45-day period from the date following the current deadline to do so such that Avila may file a proposal up to and including 11:59 p.m. (local Calgary time) on December 4, 2024, or such other date as this Honourable Court may order;
 - (c) granting an Administration Charge (as defined below) over the assets and property of Avila, in the amount of \$350,000, as security for the payment of professional fees and disbursements incurred and to be incurred by counsel for Avila, the Proposal Trustee, and the Proposal Trustee’s counsel; and
 - (d) granting such further and other relief as counsel may request and this Honourable Court may deem appropriate.

BACKGROUND

Operations and Organization

8. Avila is an established producer, explorer and developer of energy in Canada with its head office being located in Calgary, Alberta. Attached hereto as **Exhibit “A”** is the Alberta Corporate search for Avila dated September 30, 2024.

9. Avila is the owner of roughly 125,875 acres (net) of developed and undeveloped mineral rights in Canada within a network of over 250kms of associated pipelines and natural gas processing facilities.
10. Avila is publicly listed on the Canadian Stock Exchange (CSE:VIK.CN).
11. Avila along with its predecessor company, Petro Viking Energy Inc., has been in the energy production business since 2010 acquiring the bulk of its current operational assets in 2021 from 611890 Alberta and which included, amongst other things, the operational licenses for oil and gas production (the "Licenses"). Issues surrounding the transfer of the Licenses are central to Avila's current financial difficulties and will be explained more thoroughly below.

Directors

12. The directors of Avila are the following:
 - (a) Jeff Decter;
 - (b) Daniel Lucero;
 - (c) Chris Valentine; and
 - (d) Leonard Van Betuw.

Employees

13. Avila currently has two full time employees. There are currently no outstanding balances owed to them.
14. In addition to the Avila employees, Avila has one field contractor operating as an independent contractor. This field contractor is currently owed \$12,285 for services rendered.
15. Avila has not laid off or terminated any employees leading up to the NOI Proceedings or as a result of the NOI Proceedings. There are no outstanding salary, benefits, or vacation pay owing to any employees beyond that owed to the field contractor.

Financial Circumstances

16. The Licenses were originally held in a wholly owned subsidiary of 611890 Alberta Ltd. named Avila Exploration and Development Ltd. and were intended to be transferred to Avila in 2021.
17. Despite assurances from the Alberta Energy Regulator (“**AER**”) that the Licenses could be transferred, during the time between when Avila purchased the Licenses and when the Licenses were being transferred (in 2024), the AER introduced Directive 067 which outlines the eligibility requirements for acquiring and holding energy licenses and approvals in Alberta. A copy of Directive 067 is attached as hereto as **Exhibit “B”**.
18. At this time the AER has denied the transfer of the Licenses. Although time consuming, Avila is in the process of complying with the additional requirements implemented by the AER in order to facilitate the transfer. It is expected that the transfer of the Licenses to Avila will be completed.
19. Further, as of the date of the NOI Proceedings, certain producing assets of Avila had been contaminated by a third-party (by introducing H₂S to its system) which caused a shut down of Avila’s production facility. Avila expects that the contamination will be resolved and production will recommence on or about October 15, 2024.
20. Once the above noted issues have been dealt with, Avila will be in a position to raise capital in order to complete remedial work on non-producing assets owned by Avila to bring those assets back into production.

ASSETS AND LIABILITIES

Financial Statements

21. The most recent financial statements of Avila are for year end December 31, 2023 (the “**2023 Financial Statements**”).
22. A copy of the 2023 Financial Statements is attached hereto as **Exhibit “C”**.

Assets

23. According to the 2023 Financial Statements attached previously as Exhibit “C,” as at December 31, 2023, Avila has a total consolidated assets value of which consist of \$35,834,251 which is mostly made up of property, plants, equipment, and investments.

24. The assets of Avila can generally be described as 125,875 acres (net) of developed and undeveloped mineral rights within a network of over 250kms of associated pipelines and natural gas processing facilities.

Liabilities

25. As at September 18, 2024, Avila has collective liabilities of approximately \$19,900,303.84 including, but not limited to:
- (a) secured obligations in an aggregate principal amount of approximately \$500,000 owing to AVED Capital Corporation;
 - (b) secured obligations in an aggregate principal amount of approximately \$3,390,000 owing to Mark Girouard;
 - (c) approximately \$387,000 for judgments registered at the Alberta Personal Property Registry (\$40,000 of which have been paid but not discharged); and
 - (d) approximately \$12,285 due to the field operator.

Overview of Key Creditors

26. Avila's key creditors are:
- (a) QVB Energy from whom it has an outstanding loan in the amount of \$5,994,333.61;
 - (b) Marc Girouard who has agreed to forego enforcement or require any payment until the restructuring process has been completed;
 - (c) The remainder is comprised of smaller unsecured creditors.
27. A copy of the PPR searches for Avila is attached hereto as **Exhibit "D."**

Judgments

28. On April 15, 2015 a judgment was entered against Avila in the amount of \$19,089.56 by Gregory Q. Marr. A writ was issued on August 23, 2023. This has been paid in full.
29. On April 29, 2015 a judgment was entered against Avila in the amount of \$19,211.92 by Gregory Q. Marr. A writ was issued on September 21, 2023. This has been paid in full.
30. On February 23, 2024 a judgment was entered against Avila in the amount of \$37,978.53 by Royal Well Servicing. A writ was issued on March 1, 2024.

31. On March 14, 2024 a judgment was entered against Avila in the amount of \$104,019.06 by 2344963 Alberta Ltd. A writ was issued on April 25, 2024.
32. On March 13, 2024 a judgment was entered against Avila in the amount of \$118,203.65 by Terroco Industries Ltd. A writ was issued on August 19, 2024.

RELIEF REQUESTED

Extension of Time to File a Proposal

33. Since filing these NOI Proceedings, Avila has been diligently complying with the various requirements under the BIA, including:
 - (a) preparing and analyzing the list of creditors;
 - (b) providing the Proposal Trustee with access to Avila's employees, directors and books and records;
 - (c) completing cash-flow statements to the week ending December 8, 2024; and
 - (d) diligently creating the framework for a successful proposal.
34. Avila has worked diligently since the filing date to prepare and file their respective cash-flow statements with the Office of the Superintendent of Bankruptcy. The cash-flow statements were prepared under the guidance and supervision of the Proposal Trustee.
35. Avila is working in good faith with the Proposal Trustee to prepare a proposal that will maximize value for Avila's creditors and other stakeholders.
36. The NOI Proceedings and their continuation are in the best interests of all stakeholders, and is the most economical process to maximize value for all stakeholders and continue Avila as a going concern.

Administration Charge


37. Avila requests that this Honourable Court grant a charge in favour of the Proposal Trustee, counsel to the Proposal Trustee, and counsel to Avila (collectively, the "**Administrative Professionals**") to secure payment of their reasonable fees and disbursements, in each case, incurred by Avila prior to and after filing the NOI Proceedings, at their standard rates and charges as part of the costs of these proceedings.

- 38. I understand that given the insolvency of Avila, providing such professionals with security for payment of their services will be necessary to effect the completion of the restructuring of Avila as a going concern.
- 39. Accordingly, Avila seeks to ensure that the Administrative Professionals are entitled to the benefit of and granted a charge (the "**Administrative Charge**") on all of the Avila's present and future assets, undertakings, and property of every nature and kind whatsoever and whatever situate, including all proceeds thereof (collectively, the "**Property**"), which charge shall not exceed an aggregate amount of \$350,000, as security for payment of their respective professional fees and disbursements incurred in respect of these NOI Proceedings.
- 40. Avila requests that the Administration Charge form a first priority charge on the Property in priority to all security interests, trusts, deemed trusts, liens, charges and encumbrances, claims of secured creditors statutory or otherwise (collectively, the "**Encumbrances**").
- 41. Avila has sought and obtained guidance from the Proposal Trustee on the proposed amount of the Administration Charge and the Proposal Trustee is supportive.

CONCLUSION

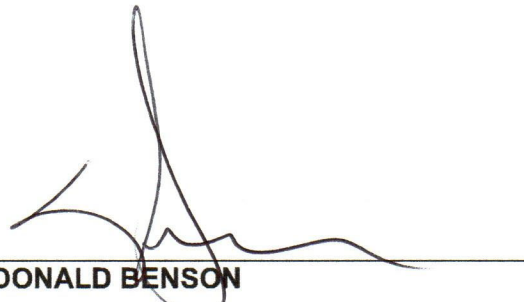
- 42. I swear this Affidavit in support of the Application and any other proper purpose in connection with these NOI proceedings.

SWORN BEFORE ME at the City of)
Winnipeg in the Province of Manitoba, this)
7th day of October, 2024.)
)
)
)
)
)
)



A NOTARY PUBLIC IN AND FOR
MANITOBA/ BARRISTER AND
SOLICITOR





DONALD BENSON

This is Exhibit "A" referred to in the Affidavit of Donald Benson sworn before me this 7th day of October 2024

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

A NOTARY PUBLIC IN AND FOR MANITOBA/
BARRISTER AND SOLICITOR

Government Corporation/Non-Profit Search of Alberta ■ Corporate Registration System

Date of Search: 2024/09/30
 Time of Search: 09:39 AM
 Search provided by: MILLER THOMSON LLP - CALGARY
 Service Request Number: 43030005
 Customer Reference Number: 0287592.0001

Corporate Access Number: 2015117605
Business Number: 818976268
Legal Entity Name: AVILA ENERGY CORPORATION

Name History:

Previous Legal Entity Name	Date of Name Change (YYYY/MM/DD)
NEW WEST ENERGY INC.	2010/01/25
PETRO VIKING ENERGY INC.	2021/12/03

Legal Entity Status: Active
Alberta Corporation Type: Named Alberta Corporation
Registration Date: 2010/01/13 YYYY/MM/DD
Date of Last Status Change: 2018/02/14 YYYY/MM/DD

Revival/Restoration Date: 2018/02/14 YYYY/MM/DD

Registered Office:

Street: 201-1439 17 AVE SE
City: CALGARY
Province: ALBERTA
Postal Code: T2G1J9

Records Address:

Street: 201-1439 17 AVE SE
City: CALGARY
Province: ALBERTA
Postal Code: T2G1J9

Email Address: INFO@AVILAEXPL.COM

Primary Agent for Service:

Last Name	First Name	Middle Name	Firm Name	Street	City	Province	Postal Code	Email
VAN BETUW	LEONARD			83 DISCOVERY RIDGE MOUNT	CALGARY	ALBERTA	T3H5G2	LEONARD@AVILAEXPL.COM

Directors:

Last Name: DECTER
First Name: JEFF
Street/Box Number: 779 RANCHVIEW CIRCLE NW
City: CALGARY
Province: ALBERTA
Postal Code: T3G1B1

Last Name: LUCERO
First Name: DANIEL
Street/Box Number: 093 TACASALUMA
City: MONTELIBANO
Country: COLOMBIA

Last Name: VALENTINE
First Name: CHRIS
Street/Box Number: 2305 CALLE LAUREL APT PH1001
City: SAN JUAN
Postal Code: 00912
Country: PUERTO RICO

Last Name: VAN BETUW
First Name: LEONARD
Middle Name: B.
Street/Box Number: 83 DISCOVERY RIDGE MOUNT
City: CALGARY
Province: ALBERTA
Postal Code: T3H5G2

Transfer Agents:

Legal Entity Name: COMPUTERSHARE TRUST COMPANY OF CANADA
Corporate Access Number: 309229359
Street: 800-324 8 AVE SW
City: CALGARY
Province: ALBERTA
Postal Code: T2P2Z2

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: SEE ATTACHED SCHEDULE "A"
Share Transfers Restrictions: NONE
Min Number Of Directors: 3
Max Number Of Directors: 15

Business Restricted To: NONE
Business Restricted From: NONE
Other Provisions: SEE ATTACHED SCHEDULE "B"

Holding Shares In:

Legal Entity Name
PETRO VIKING MANAGEMENT CORP.

Other Information:

Last Annual Return Filed:

File Year	Date Filed (YYYY/MM/DD)
2023	2023/09/15

Outstanding Returns:

Annual returns are outstanding for the 2024 file year(s).

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2010/01/13	Incorporate Alberta Corporation
2010/04/07	Name/Structure Change Alberta Corporation
2017/03/02	Status Changed to Start for Failure to File Annual Returns
2017/07/02	Status Changed to Struck for Failure to File Annual Returns
2018/02/14	Initiate Revival of Alberta Corporation
2018/02/14	Complete Revival of Alberta Corporation
2020/02/20	Update BN
2021/12/03	Name Change Alberta Corporation
2022/10/07	Update Plan of Arrangement - No Amendment
2023/02/06	Change Agent for Service
2023/02/06	Change Address
2023/09/15	Change Director / Shareholder
2023/09/15	Enter Annual Returns for Alberta and Extra-Provincial Corp.

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Share Structure	ELECTRONIC	2010/01/13
Other Rules or Provisions	ELECTRONIC	2010/01/13
Other Rules or Provisions	ELECTRONIC	2010/04/07

Articles/Plan of Arrangement/Court Order	10000407142523593	2022/10/07
Letter - Spelling Error	10000507138681915	2023/01/17

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



This is Exhibit "B" referred to in the Affidavit of Donald Benson sworn before me this 7th day of October 2024



A NOTARY PUBLIC IN AND FOR MANITOBA/
BARRISTER AND SOLICITOR

Directive 067

Release date: March 15, 2024

Effective date: March 15, 2024

Replaces previous edition issued April 13, 2023

Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals

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1 Introduction

Acquiring and holding a licence or approval for energy development in Alberta is a privilege, not a right. The *Oil and Gas Conservation Act*, *Pipeline Act*, *Geothermal Resource Development Act*, *Mineral Resource Development Act*, *Oil and Gas Conservation Rules*, *Pipeline Rules*, *Geothermal Resource Development Rules*, *Brine-Hosted Mineral Resource Development Rules*, and *Rock-Hosted Mineral Resource Development Rules* contain requirements related to eligibility for acquiring and holding licences and approvals. This directive expands on those requirements.

This edition complements new functionality for submitting the required financial information (Schedule 3) in OneStop and requirements to clarify the process and timing for licensees and parent companies for information submission.

This directive has been amended to support the AER's expanded mandate to regulate geothermal and mineral resources and includes references to the various acts and rules.

2 Business Associate Codes

The *Oil and Gas Conservation Act*, *Pipeline Act*, *Geothermal Resource Development Act*, and *Mineral Resource Development Act* require that a person (which includes a corporation) hold a subsisting identification code in order to apply to the AER for a licence or approval under those acts. The AER has referred to these as business associate (BA) codes. The AER no longer issues BA codes. These are issued through Petrinex.

- 1) Any party that seeks to apply for and hold AER licences or approvals must first apply for and obtain a BA code through Petrinex (www.petrinex.ca). Parties who hold a BA code are not permitted to hold AER licences or approvals unless the AER has determined they are eligible to do so.

3 Licence Eligibility Types

The AER may grant licence eligibility with or without restrictions, terms, and conditions, or it may refuse to grant licence eligibility. There are three licence eligibility types:

- **No Eligibility:** Not eligible to acquire or hold licences or approvals for wells, facilities, or pipelines.
- **General Eligibility:** Eligible to acquire or hold licences and approvals for all types of wells, facilities, or pipelines.
- **Limited Eligibility:** Eligible to acquire or hold only certain types of licences and approvals, or eligibility is subject to certain terms and conditions.

Restrictions, terms, and conditions may include

- the types of licences or approvals that may be held,
- the number of licences or approvals that may be held,
- additional scrutiny required at the time of application for or transfer of a licence or approval,
- requirement to provide security,
- requirements regarding the minimum or maximum working interest percentage permitted,
- a requirement to address outstanding noncompliances of current or former AER licensees that are directly or indirectly associated with the applicant or its directors, officers, or shareholders, and
- anything else the AER considers appropriate in the circumstances.

4 Obtaining General Licence Eligibility

Once a person has a BA code, they may apply to the AER for licence eligibility by submitting schedules 1 and 3 (and 2, if applicable) through the designated information submission system. Upon review of the information provided, the AER may request additional information, including reserves information. The AER may audit the information provided for accuracy and completeness at any time before or after granting eligibility.

Requests for licence eligibility that do not contain all the information required will be summarily closed.

The AER will assess the information provided in the application, along with any other relevant information, and will determine whether the applicant meets the eligibility requirements for acquiring and holding AER licences or approvals.

- 2) An applicant must be an individual or a corporation that meets the requirements of section 20 of the *Oil and Gas Conservation Act*, section 21 of the *Pipeline Act*, section 7(2) of the *Geothermal Resource Development Act*, section 9(2) of the *Mineral Resource Development Act*, or section 7 of the *Rock-Hosted Mineral Resource Development Rules*.
- 3) An applicant must sign a declaration attesting to the truth and completeness of the application, consenting to the release and collection of compliance information regarding the applicant from other jurisdictions and regulators as applicable, and attorning to the jurisdiction of Alberta (Schedule 1).

4.1 Residency Requirements

- 4) An applicant must
 - a) be resident in Alberta, as defined in section 1.020(2.1) of the *Oil and Gas Conservation Rules*, section 1(6) of the *Pipeline Rules*, section 2 of the *Geothermal Resource Development Rules*, section 2 of the *Brine-Hosted Mineral Resource Development Rules*, and section 2 of the *Rock-Hosted Mineral Resource Development Rules*; or
 - b) appoint an agent that is resident in Alberta (schedule 2) and have that appointment approved by the AER, as required by section 91 of the *Oil and Gas Conservation Act*, section 19 of the *Pipeline Act*, section 20 of the *Geothermal Resource Development Act*, and section 49 of the *Mineral Resource Development Act*; or
 - c) be exempt from the resident/agent requirement (granted under specific circumstances set out in section 1.030 of the *Oil and Gas Conservation Rules*, section 1.1 of the *Pipeline Rules*, section 5 of the *Geothermal Resource Development Rules*, section 6 of the *Brine-Hosted Mineral Resource Development Rules*, and section 6 of the *Rock-Hosted Mineral Resource Development Rules*).

For these purposes, “resident” means,

- in the case of an individual, having their home in and being ordinarily present in Alberta or,
 - in the case of a corporation, having a director, officer, or employee that has their home in and is ordinarily present in Alberta and is authorized to make decisions about the licensing and the operating of the well, facility, or pipeline and about implementing the directions of the AER regarding the well, facility, or pipeline.
- 5) Both the applicant and the agent (if appointed) must meet all the licence eligibility requirements set out in this directive.

4.2 Insurance

- 6) At the time of applying for licence eligibility, applicants must have and maintain comprehensive general liability insurance with minimum coverage of \$1 000 000.
- 7) Applicants must submit a certificate of proof of insurance or a statement of the insurer describing the coverage, effective date, and termination date of the insurance.
- 8) Should eligibility be granted, the licensee or approval holder must maintain reasonable and appropriate insurance coverage for the operations of the company, including
 - a) pollution coverage sufficient to cover the cost of removal and cleanup operations required as a result of an incident, and

- b) sufficient coverage for loss or damage to property or bodily injury caused during operations.
- 9) Unless otherwise authorized, an applicant, licensee, or approval holder must have insurance issued from a company registered in Alberta to provide insurance in Alberta.
- 10) Upon request, information regarding coverage and content of the insurance must be provided.

The AER may require the licensee, or approval holder to obtain additional insurance; at all times, the licensee is solely responsible for maintaining appropriate levels of insurance given the nature and scope of operations.

4.3 Fee

For most licence eligibility types, a fee is required. The amount of the fee is prescribed in section 17.010 of the *Oil and Gas Conservation Rules*, Schedule 1 of the *Geothermal Resource Development Rules*, Schedule 1 of the *Brine-Hosted Mineral Resource Development Rules*, and the schedule to the *Rock-Hosted Mineral Resource Development Rules* and may be waived or varied by the AER if circumstances warrant.

Applications that do not include the required fee will be summarily closed.

4.4 Financial Information

Financial statements and financial summary (Schedule 3) will be used by the AER to

- assess licensee eligibility,
 - assess the capabilities of licensees and approval holders to meet their regulatory and liability obligations throughout the energy development life cycle,
 - administer our liability management programs, and
 - ensure the safe, orderly, and environmentally responsible development of energy resources in Alberta throughout their life cycle.
- 11) An applicant must submit a complete financial summary (Schedule 3) through the designated information submission system.
 - a) Full audited financial statements must be submitted when available, matching the totals in Schedule 3. If audited statements are not available, those prepared by management may be acceptable.
 - b) In the case of an applicant that is a new company with no financial history, details of financing must be provided (Schedule 3).

- c) If the financial records of the applicant are consolidated into another corporation's consolidated financial statements (the "parent corporation"), then a financial summary (Schedule 3) for the parent corporation and its consolidated financial statements must also be submitted.

Upon review of the information provided, the AER may request additional information. Financial information provided to the AER under this requirement will be kept confidential for the period outlined in section 12.152(2) of the *Oil and Gas Conservation Rules*, section 94 of the *Geothermal Resource Development Rules*, section 102 of the *Brine-Hosted Mineral Resource Development Rules*, and section 41 of the *Rock-Hosted Mineral Resource Development Rules*.

4.5 Unreasonable Risk

12) An applicant must not, in the AER's opinion, pose an unreasonable risk.

In assessing whether the applicant, licensee, or approval holder poses an unreasonable risk, the AER may consider any of the following factors:

- failure to maintain in Alberta persons who are authorized to make decisions and take actions on behalf of the licensee or approval holder to address any matters or issues that arise in respect of the wells, well sites, facilities, facility sites, or pipelines of the licensee or approval holder
- the compliance history of the applicant, licensee, or approval holder, including its directors, officers, and shareholders in Alberta and elsewhere
- the compliance history of entities currently or previously associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, and shareholders
- outstanding noncompliances of current or former AER licensees or approval holders that are directly or indirectly associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, or shareholders
- the experience of the applicant, licensee, or approval holder and its directors, officers, and shareholders
- corporate and ownership structure
- working interest participant arrangements, including participant information and proportionate shares
- the financial health of the applicant, licensee, or approval holder and entities currently associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, and shareholders

- the assessed capability of the applicant, licensee, or approval holder to meet its regulatory and liability obligations throughout the energy development life cycle, including financial capability
- the assessed ability of the applicant, licensee, or approval holder to provide reasonable care and measures to prevent impairment or damage in respect of a well, well site, facility, facility site, or pipeline
- outstanding debts owed to AER or the Orphan Fund by the applicant, licensee, or approval holder or by current or former AER licensees or approval holders that are directly or indirectly associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, or shareholders
- outstanding debts owed for municipal taxes, surface lease payments, or public land disposition fees or rental payments by the applicant, licensee, or approval holder or by current or former AER licensees, or approval holders that are directly or indirectly associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, or shareholders
- being or having been subject to or initiating insolvency proceedings (which includes bankruptcy proceedings, receivership, notice of intention to make a proposal under the *Bankruptcy and Insolvency Act*, proceedings under the *Companies Creditors Arrangement Act*)
- involvement of the applicant, licensee, or approval holder's directors, officers, or shareholders in entities that have initiated or are or have been subject to insolvency proceedings
- cancellation of or significant reduction to insurance coverage
- naming of directors, officers, or shareholders of the applicant, licensee, or approval holder in a declaration made under section 106 of the *Oil and Gas Conservation Act*, section 51 of the *Pipeline Act*, section 25 of the *Geothermal Resource Development Act*, and section 24 of the *Mineral Resource Development Act*
- any other factor the AER considers appropriate in the circumstances.

5 Maintaining Licence Eligibility

- 13) All existing licensees or approval holders must meet licence eligibility requirements (section 4) on an ongoing basis and ensure that the information the AER has on file is kept accurate.
- 14) Licensees and approval holders must submit financial statements (audited or management-prepared) for the licensee and any parent corporation (if applicable) and a financial summary (Schedule 3) annually through the designated information submission system. These are due on the earliest of the following dates:
 - a) once finalized,

- b) within 180 days of fiscal year-end, or
- c) as directed by the AER.

Licensees are responsible for ensuring that submissions are received before the deadlines.

Licensees should verify that the data has been received by checking OneStop before the deadlines.

- 15) Licensees and approvals holders must have and maintain at all times an official regulatory email address that is frequently monitored for regulatory communication with the AER.
- 16) Licensees and approval holders must notify the AER immediately in any of the following cases:
 - a) General or emergency contact information has changed (submit updated Schedule 1, sections A and B).
 - b) Insurance coverage is cancelled or significantly reduced.
 - c) They are ceasing their operations.
 - d) They initiate or are subject to insolvency proceedings, liquidation, or dissolution.

The AER encourages any licensee considering ceasing its operations, initiating insolvency proceedings, liquidation, or dissolution to contact the AER and to engage their working interest participants in their plans.

- 17) Licensees and approval holders must notify the AER within 30 days of defaulting on debt or violating debt covenants.
- 18) An updated Schedule 1 and any associated documents must be provided within 30 days of any material change, which includes the following:
 - a) changes to legal status and corporate structure
 - b) addition or removal of a related corporate entity
 - c) amalgamation, merger, or acquisition
 - d) changes to directors, officers, or shareholders directly or indirectly holding 20% or more of the outstanding voting securities of the licensee or approval holder
 - e) plan of arrangement or any other transaction that results in a significant change to the operations of the licensee
 - f) the sale of all or substantially all of the licensee's assets
 - g) a significant change to working interest participant arrangements, including participant information and proportionate shares

- h) the licensee or approval holder has initiated or is subject to liquidation, dissolution, or insolvency proceedings or has ceased their operations
- i) cancellation of or significant reduction to insurance coverage

Before effecting a material change, a licensee or approval holder may request an advance determination on whether the AER would consider the proposed change to result in the licensee or approval holder posing an unreasonable risk (see section 4.5).

The AER may request additional information following a material change to assess whether a licensee or approval holder poses an unreasonable risk (see section 4.5).

6 Restriction of Licence Eligibility

There are three main circumstances in which the AER may revoke or restrict licence eligibility:

- Failure to provide complete and accurate information or to update that information as required and within the prescribed timelines.
- A finding by the AER that the licensee or approval holder poses an unreasonable risk.
- The licensee fails to acquire or hold licences or approvals within one year following granting of licence eligibility.

If a party already holds licences or approvals, licence eligibility will be restricted. If the party had general eligibility, it will be changed to limited eligibility, and additional terms or conditions may be imposed. If the licensee or approval holder has limited eligibility, licensee eligibility may be further restricted to impose additional terms or conditions.

If a party does not hold licences or approvals, licence eligibility will be revoked. The party will have to reapply under this directive for licence eligibility.

7 Application to Amend Licence Eligibility

Application to amend licence eligibility will require reapplication under this directive, which may include payment of an additional fee and may result in the imposition of restrictions, terms, or conditions.

This is Exhibit "C" referred to in the Affidavit of Donald Benson sworn before me this 7th day of October 2024



A NOTARY PUBLIC IN AND FOR MANITOBA/
BARRISTER AND SOLICITOR



Financial Statements

For the Years Ended December 31, 2023, and 2022

Independent Auditors' Report

To: The Shareholders of **Avila Energy Corporation**

Opinion

We have audited the financial statements of Avila Energy Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2023 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to the Nature of Operations in the notes to the financial statements which indicates that the Company incurred a net loss of \$20,093,893 for the year ended December 31, 2023 and, as of that date, the Company's current liabilities exceeded its current assets by \$5,056,818. These conditions, along with other matters as set forth in the Nature of Operations, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of value of property, plant and equipment for impairment

Description of the matter:

As reported in the statement of financial position, on December 31, 2023 the Company had property, plant and equipment at a net book value of \$26,600,261 and during the year then ended recorded an impairment of \$12,239,831. As indicated in Notes 2 and 3 the Company assesses its property, plant and equipment for impairment using market information. When necessary, the Company will record a provision for impairment in order to reflect any decreases in value.

Why the matter is a key audit matter:

We determined that auditing the evaluation of property, plant and equipment for impairment is a key audit matter due to the relative significance and requirement to use judgements and estimates.

How the matter was addressed in the audit:

We reviewed management's impairment calculations and the related reserve report, prepared by an independent reserves engineer, to assess the reasonableness of the carrying value of property plant and equipment and the corresponding impairment.

Independent Auditors' Report (continued)

Other Matter

The financial statements of the Company for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on August 8, 2023.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditors' Report (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Roland A. Bishop, CPA, CA.



Chartered Professional Accountants

April 29, 2024
Calgary, Alberta

AVILA ENERGY CORPORATION
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at	December 31, 2023	December 31, 2022 (restated)
Assets		
Current assets		
Cash	\$ 66,572	\$ 6,564,110
Advances (note 5)	-	2,340,000
Accounts receivable	914,993	897,902
Prepaid expenses (note 6)	351,031	762,647
Total current assets	1,332,596	10,564,659
Property, plant and equipment (notes 7 & 8)	26,600,261	34,068,787
Right-of-use asset (note 9)	109,755	119,732
Investment (note 10)	3,564,711	-
Intangible assets (note 11)	2,155,208	9,382
Assets under development (note 12)	2,071,720	-
Deferred tax asset (note 18)	-	1,962,353
Total non-current assets	34,501,655	36,160,254
Total assets	\$ 35,834,251	\$ 46,724,913
Liabilities and Shareholders' Equity		
Current liabilities		
Account payable and accrued liabilities	\$ 5,097,402	\$ 1,716,512
Lease liabilities (note 9)	16,186	32,897
Promissory note (note 14)	600,000	1,800,000
Derivative liability (note 17)	-	631,983
Loan payable (note 17)	284,999	-
Convertible debenture (note 17)	-	267,329
Dividend payable (note 19)	103,101	-
Flow-through share premium liability (note 21)	-	2,006,889
Interest payable on convertible debentures	287,726	126,499
Total current liabilities	6,389,414	6,582,109
Interest payable on debentures	101,497	76,497
Lease liabilities (note 9)	80,941	90,643
Decommissioning liability (note 13)	2,790,224	3,334,487
Term loan (note 15)	3,000,000	-
Trade payable (note 16)	5,994,313	-
Convertible debentures (note 17)	4,035,969	3,785,673
Convertible preferred share dividend liability (note 19)	-	542,202
Total liabilities	22,392,358	14,411,611
Shareholders' Equity		
Share capital (note 19)	57,900,721	56,883,006
Contributed surplus	4,710,167	4,454,073
Convertible debentures – equity portion (note 17)	1,242,158	1,293,483
Deficit	(50,411,153)	(30,317,260)
Total equity	13,441,893	32,313,302
Total liabilities and shareholders' equity	\$ 35,834,251	\$ 46,724,913

See accompanying notes which are an integral part of these financial statements.

Nature of Operations and Going Concern (note 1)
Subsequent events (note 28)

AVILA ENERGY CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)
(Expressed in Canadian dollars)

Year ended December 31,	2023	2022 (restated)
Revenue		
Oil and natural gas (Note 22)	\$ 2,235,788	\$ 3,081,531
Gain on acquisition of assets (note 7)	-	13,942,757
Change in derivative liability (note 17)	631,983	49,144
Gain on convertible preferred share (note 19)	553,048	-
Flow-through premium liability (note 21)	2,006,889	-
Interest income (note 24)	31,729	-
Processing income	27,111	-
Gain on settlement of debt	-	1,432
Other income	22,143	7,696
	5,508,691	17,082,560
Expenses		
Production and operating	2,807,977	1,779,082
General and administrative	2,289,891	1,066,062
Write off advance (note 5)	3,000,000	2,400,000
Acquisition expense (note 7)	-	1,345,000
Impairment on goodwill (note 7)	-	11,516,303
Impairment on property and equipment (note 8)	12,239,831	18,444,338
Depletion and depreciation (note 8)	1,726,661	232,408
	22,064,360	36,783,193
Results from operating activities	(16,555,669)	(19,700,633)
Finance expense (note 24)	(1,575,870)	(677,184)
Net loss before taxes	(18,131,539)	(20,377,817)
Deferred tax expense (note 18)	(1,962,354)	-
Loss and comprehensive loss	\$ (20,093,893)	\$ (20,377,817)
Net loss per share (note 19(e))		
Basic	\$ (0.14)	\$ (0.39)
Diluted	\$ (0.14)	\$ (0.39)

See accompanying notes which are an integral part of these financial statements.

AVILA ENERGY CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

(restated)

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2023	30,000,000	111,437,322	\$ 56,883,006	\$ 1,293,483	\$ 4,454,073	\$ (30,317,260)	\$ 32,313,302
Conversion of debentures (<i>note 17</i>)	-	452,632	232,092	(51,325)	-	-	180,704
Conversion of preferred shares (<i>note 19</i>)	(30,000,000)	30,000,000	-	-	-	-	-
Issued shares for cash (<i>note 19</i>)	-	21,160,000	801,906	-	256,094	-	1,058,000
Subscription receipts (<i>note 19</i>)	-	-	45,180	-	-	-	45,180
Share issue costs (<i>note 19</i>)	-	-	(61,400)	-	-	-	(61,400)
Loss and comprehensive loss	-	-	-	-	-	(20,093,893)	(20,093,893)
Balance at December 31, 2023	-	163,049,954	\$ 57,900,721	\$ 1,242,158	\$ 4,710,167	\$ (50,411,153)	\$ 13,441,893

(restated)

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2022	-	35,651,341	\$ 9,023,278	\$ 235,500	\$ 3,358,412	\$ (9,939,443)	\$ 2,677,747
Issued shares for cash (<i>note 19</i>)	-	22,196,708	8,000,000	-	-	-	8,000,000
Warrants issued (<i>note 19</i>)	-	-	(1,212,126)	-	1,212,126	-	-
Warrants issued as finder's fee	-	-	-	-	58,912	-	58,912
Shares issued for acquisition (<i>note 7</i>)	30,000,000	44,440,000	41,174,122	-	-	-	41,174,122
Shares issued for services (<i>note 7</i>)	-	4,222,222	1,345,000	-	-	-	1,345,000
Share issuance costs (<i>note 19</i>)	-	-	(821,247)	-	-	-	(821,247)
Compensation options issued	-	-	(197,348)	-	197,348	-	-
Warrants exercised (<i>note 19</i>)	-	3,790,623	1,173,155	-	(372,725)	-	800,430
Conversion of debentures (<i>note 17</i>)	-	1,136,428	405,061	-	-	-	405,061
Equity portion of debenture (<i>note 17</i>)	-	-	-	1,057,983	-	-	1,057,983
Flow-through share premium (<i>note 21</i>)	-	-	(2,006,889)	-	-	-	(2,006,889)
Loss and comprehensive loss	-	-	-	-	-	(20,377,817)	(20,377,817)
Balance at December 31, 2022	30,000,000	111,437,322	\$ 56,883,006	\$ 1,293,483	\$ 4,454,073	\$ (30,317,260)	\$ 32,313,302

See accompanying notes which are an integral part of these financial statements.

AVILA ENERGY CORPORATION
STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

Year ended December 31,	2023	2022
Operating activities		
Income (loss) for the period	\$ (20,093,893)	\$ (20,377,817)
Adjustments for:		
Impairment on goodwill (note 7)	-	11,516,303
Gain on acquisition of assets (note 7)	-	(13,942,757)
Acquisition expense (note 7)	-	1,345,000
Impairment on property & equipment (note 8)	12,239,831	18,444,338
Depletion and depreciation (note 8)	1,726,661	232,408
Change in derivative liability (note 17)	(631,983)	(49,144)
Deferred tax expense (note 18)	1,962,354	-
Convertible preferred share (note 19)	(553,048)	-
Flow-through premium liability (note 21)	(2,006,889)	-
Finance expense (note 24)	1,575,870	677,184
Gain on settlement of debt	-	(1,432)
Interest paid	(472,490)	-
Changes in non-cash working capital (note 20)	5,518,256	(602,611)
Net cash used in operating activities	(735,331)	(2,758,528)
Financing activities		
Shares issued for cash (note 19)	801,906	8,000,000
Warrants issued for cash (note 19)	256,094	-
Subscription receipts (note 19)	45,180	-
Warrants exercised (note 19)	-	800,430
Share issuance costs (note 19)	(61,400)	(821,245)
Surface lease payments (note 9)	(37,919)	(4,000)
Promissory note repayment (note 14)	(1,200,000)	(67,429)
Proceeds from term loan (note 15)	3,000,000	-
Proceeds from debenture issuance (note 17)	-	4,697,017
Net cash provided by financing activities	2,803,861	12,604,773
Investing activities		
Oil and natural gas properties (notes 7 & 8)	(6,556,962)	(3,688,472)
Property acquisitions (note 7)	(522,969)	-
Investments (note 10)	(3,564,711)	-
Expenditures on intangible assets (note 11)	(2,145,826)	(7,000)
Assets under development (note 12)	(1,474,494)	-
Changes in non-cash working capital (note 16)	5,698,894	-
Net cash used in investing activities	\$ (8,566,068)	\$ (3,695,472)
Change in cash	\$ (6,497,538)	\$ 6,150,773
Cash, beginning of period	6,564,110	413,337
Cash, end of period	\$ 66,572	\$ 6,564,110

See accompanying notes which are an integral part of these interim financial statements.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (*audited*)

NATURE OF OPERATIONS

Avila Energy Corporation (“Avila” or the “Company”) was incorporated on January 13, 2010 by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta). Avila is a company that is engaged in the business of acquiring, exploring and developing crude oil, natural gas, and natural gas liquids (“NGLs”) in Western Canada. The Company’s assets consist of the West Central Alberta assets (“WCA”) located 50 kilometres southwest of Edmonton, Alberta and the East Central Alberta assets (“ECA”) located 90 kilometres east of Red Deer, Alberta. The Company is in the initial phases of development of a Carbon Capture and Sequestration Plan in WCA. On November 14, 2022, the Company announced the launch of its Vertically Integrated Energy Business with the Micro Turbine Technology.

The head office is located at Suite 201, 1439 – 17th Avenue S.E., in Calgary, Alberta.

Going Concern

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the twelve-month period ended December 31, 2023, the Company incurred a net loss of \$ 20,093,893 and had net cash used in operating activities of \$ 735,331. In addition, the Company has a deficit of \$ 50,411,153.

The above factors indicate that a material uncertainty exists that may cast significant doubt about the Company’s ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for several reasons including the Company’s own resources and external market conditions.

The Company’s ability to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative obligations and continue its exploration activities in the 2024 fiscal year, is dependent upon management’s ability to obtain additional financing, through various means including, but not limited, to equity financing. No assurance can be given that any such additional financing will be available, or that it can be obtained on terms favourable to the Company.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the carrying amounts of assets and liabilities, the reported expenses and the classifications used in the statements of financial position.

1. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

These financial statements as at and for the year ended December 31, 2023 and 2022 comprise the Company.

The financial statements were authorized for distribution by the Company’s Board of Directors on April 29, 2024.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (*audited*)

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in note two.

Expenses in the statement of operations and comprehensive loss are presented as a combination of function and nature in conformity with industry practice. Share-based compensation and depreciation are presented on separate lines by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Amendments to IAS 1 – Disclosure of Accounting Policies

The Company adopted Amendments to IAS 1 *Disclosure of Accounting Policies* effective January 1, 2023. The amendments replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies and establish guidance on how to apply the concept of materiality in determining material accounting policy disclosures. The amendments have been reflected by emphasizing the most relevant aspect of Avila's accounting policies below.

Voluntary change in accounting policy

Avila re-assessed its policy for the measurement of its right-of-use of assets and lease liability.

Prior to the exploration and development of oil and natural gas, an entity must enter into both a mineral rights agreement (commonly referred to as a "mineral lease") with the mineral rights owner as well into a surface-land-use agreement (commonly referred to as a "surface lease") with the landowner, who may be a government body or private owner. IFRS 16 contains a specific scope exemption for "leases to explore for or use minerals, oil, natural gas and similar non-generative resources."

Previously, Avila's right-of-use assets was measured using all of the Company's surface leases. The Company has elected to only calculate the right-of-use asset and lease liability for the surface leases in which the Company has no corresponding mineral lease.

The Company has accounted for the change in accounting policy using retroactive restatement of prior periods.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

Impact on the Statement of Financial Position

	June 30, 2023	March 31, 2023	December 31, 2022
Right-of-use asset - previously reported	\$ 1,291,343	\$ 1,338,815	\$ 1,386,287
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Right-of use asset restated	114,743	117,238	119,732
Total assets - previously reported	\$ 45,400,687	\$ 45,473,756	\$ 47,991,468
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Total assets restated	44,224,087	44,252,179	46,724,913
Lease liabilities - previously reported	\$ 1,325,123	\$ 1,420,030	\$ 1,415,354
Restatement adjustment	(1,219,195)	(1,299,875)	(1,291,814)
Lease liabilities restated	105,928	120,155	123,540
Deficit - previously reported	\$ (33,782,151)	\$ (33,893,964)	\$ (30,342,519)
Restatement adjustment	42,595	78,297	25,259
Deficit restated	(33,739,556)	(33,815,667)	(30,317,260)
Total liabilities and shareholders' equity	\$ 45,400,687	\$ 45,473,756	\$ 47,991,468
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Total liabilities and shareholders' equity	44,224,087	44,252,179	46,724,913

Reconciliation of the Statement of Loss and Comprehensive Loss

	Q2 2023	Q1 2023	2022 YTD
Production and operating - previously reported	\$ 667,453	\$ 527,046	\$ 1,699,945
Restatement adjustment	118,778	31,460	79,137
Production and operating restated	786,231	558,506	1,779,082
Finance expense - previously reported	\$ 110,933	\$ 356,847	\$ 722,698
Restatement adjustment	(38,099)	(39,521)	(45,514)
Finance expense restated	72,834	317,326	677,184
Depreciation - previously reported	\$ 333,973	\$ 397,194	\$ 291,290
Restatement adjustment	(44,978)	(44,978)	(58,882)
Depreciation restated	288,995	352,216	\$ 232,408
Income (loss) - previously reported	\$ 111,813	\$ (3,551,445)	\$ (20,403,076)
Restatement adjustment	(35,702)	53,039	25,259
Income (loss) restated	76,111	(3,498,406)	(20,377,817)

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

Reconciliation of the Statement of Cash Flow			
	Q2 2023	Q1 2023	2022
Income (loss) – previously reported	\$ 111,813	\$ (3,551,445)	\$ (20,403,076)
Restatement adjustment	(35,702)	53,039	25,259
Income (loss) restated	76,111	(3,498,406)	(20,377,817)
Finance expense - previously reported	\$ 110,933	\$ 356,847	\$ 722,698
Restatement adjustment	(38,099)	(39,521)	(45,514)
Finance expense restated	72,834	317,326	677,184
Depreciation - previously reported	\$ 333,973	\$ 397,194	\$ 291,290
Restatement adjustment	(44,978)	(44,978)	(58,882)
Depreciation restated	288,995	352,216	232,408
Cash flow (used) in operations	\$ (451,529)	\$ (3,350,452)	\$ (2,679,391)
Restatement adjustment	(118,778)	(31,460)	(79,137)
Cash flow from (used) restated	(570,307)	(3,381,912)	(2,758,528)
Lease payments - previously reported	\$ 136,023	\$ 38,110	\$ 17,828
Restatement adjustment	(118,778)	(31,460)	(13,828)
Lease payments restated	17,245	6,650	4,000

2. MATERIAL ACCOUNTING POLICIES

Cash and cash equivalents

Cash and Cash equivalents are comprised of cash in banks or held in trust.

Property, plant and equipment and exploration and evaluation assets

Exploration and evaluation (“E&E”) assets: E&E expenditures, including the costs of acquiring licenses and directly attributable general and administrative costs, are initially capitalized pending determination of technical feasibility and commercial viability. Pre-license costs are recorded in profit and loss when incurred.

E&E assets are not depreciated and are carried forward until technical feasibility and commercial viability of the oil and natural gas property is determined, which is generally when proven or probable reserves are determined to exist. A review of each exploration project is carried out, at least annually, to ascertain whether proven or probable reserves have been discovered. Upon determination of technical and commercial viability, E&E assets are first tested for impairment and then reclassified from exploration assets to oil and natural gas properties and equipment.

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units (“CGUs”) or groups of CGUs.

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Oil and natural gas properties and equipment: Items of oil and natural gas properties and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, net of reversals. Each significant part of an item of oil and natural gas properties and equipment which have different useful lives have been accounted for and depleted or depreciated as separate items (major components). Oil and natural gas assets are grouped into cash-generating units for impairment testing.

Gains and losses on the disposal of an item of oil and natural gas properties and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of oil and natural gas properties and equipment and are recognized net within other income.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of oil and natural gas properties and equipment are recognized as oil and natural gas properties and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas properties and equipment generally represent costs incurred in developing proved and / or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of oil and natural gas properties and equipment are recognized in profit or loss as incurred.

The net carrying value of developed oil and natural gas properties and equipment is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, including estimated future development costs. Future development costs are estimated taking into account the level of development required to bring reserves into production. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated at least annually by the Company's independent reservoir engineering consultants, and estimates are updated internally each quarter. Proven and probable reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all of the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or conclusive formation tests. The area of reservoir considered proven includes a) that portion delineated by drilling and defined by gas-oil and / or oil-water contacts, if any, or both, and b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

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Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

For corporate assets, depreciation is recognized in profit or loss on a 20 to 33 percent declining balance basis. Where facilities and equipment, including major components, having differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful lives:

Corporate assets	20 percent
Facilities and equipment	25 years
Pipelines	25 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A lease liability is initially measured at the present value of the unpaid lease payments, discounted using the lessee's incremental borrowing rate applied to the lease liabilities. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation or any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

Non-monetary transactions

Gains and losses on the disposal of an item of oil and natural gas properties and equipment in development assets, including oil and gas interests and non-monetary transactions such as farm-outs and asset swaps, are determined by comparing the proceeds from disposal with the carrying amount of petroleum and natural gas properties and equipment and are recognized net in profit or loss.

Gains and losses on the disposal of an item of E&E assets, including oil and gas interests and non-monetary transactions such as farm-outs and asset swaps, are not recognized in profit or loss.

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Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. The estimated decommissioning provision is recorded as a liability in the period in which it is incurred, with a corresponding increase in the carrying amount of the related asset. Decommissioning provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position using the risk free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost and increases / decreases in the provision due to changes in estimated future cash flow are recorded as adjustments to the carrying amount of the related asset. The capitalized amount is depreciated along with the related asset using the unit-of-production method based on proved and probable reserves. Actual costs incurred upon the settlement of the decommissioning provision are charged against the decommissioning provision to the extent the provision was established.

Financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). Financial assets are categorized based on the Company's objective for the asset and the contractual cash flows. A financial asset is classified as amortized cost if the asset is held with the objective to collect contractual cash flows that are solely payments of principal and interest on principal amounts outstanding. A financial asset is classified as FVOCI if the asset is held with the objective to both collect contractual cash flows and sell the financial asset. All other financial assets are measured at FVTPL. Financial assets are assessed for impairment using an expected credit loss model. Trade and other receivables are classified and measured at amortized cost. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability classified as FVTPL are expensed at inception of the contract. For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to, or deducted from, the fair value on initial recognition and amortized through net income or loss over the term of the financial instrument.

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The measurement categories for each class of financial asset and financial liability are summarized in the following table:

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Convertible preferred shares dividend liability	Amortized cost
Loan payable	Amortized cost
Lease liability	Amortized cost
Trade payable	Amortized cost
Term loan	Amortized cost
Derivative liability	FVTPL
Promissory notes payable	Amortized cost

Financial instruments may be utilized by the Company to manage its exposure to commodity price fluctuations and foreign currency exposures. The Company's practice is not to utilize financial instruments for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all financial derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified at fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

Impairment of financial assets is determined by calculating the expected credit loss ("ECL"). The Company measures an ECL allowance for trade and other receivables. The Company determines the ECL which is the probability of default events related to the financial asset by using historical realized bad debts and forward-looking information. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized with general and administrative expense in the statement of income or loss.

Convertible debentures

The Company has issued convertible debentures which, on conversion, must be satisfied entirely in common shares of the Company for an amount equal to the greater of the conversion value and the redemption value of the instrument.

The Company reviews the terms of its convertible debentures to determine whether there are embedded derivatives, including the embedded conversion option that is required to be separated and accounted for as individual derivative financial instruments or equity components.

The debenture host contracts are subsequently recorded at amortized cost at each reporting date using the effective interest method. The embedded derivatives are subsequently recorded at fair value at each reporting date, with changes in fair value recognized in profit (loss).

The Company presents its embedded derivative liability and related debenture host contracts as separate instruments on the statement of financial position.

Intangible assets

Intangible Assets IAS 38 Intangible Assets was amended in March 2021 to revise how to recognize costs in relation to the configuration or customization of application software. The Company adopted the amendment in 2022 and the adoption did have an impact on the Company's financial statements by way of the Company recording to costs associated to the internally generated website as an intangible asset.

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Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the statement of income/loss.

Goodwill is subsequently measured at cost less accumulated impairment losses. Impairment losses recorded on goodwill do not reverse.

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income/loss.

Share capital

Share capital represents the amount received on the issue of shares, less issuance costs. Proceeds from unit placements are allocated between shares and warrants issued by estimating the value of the warrants using the Black-Scholes options pricing model; the fair value is allocated to warrants from the net proceeds and the balance is allocated to the shares. Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised. Deficit includes all current and prior year profits or losses. Convertible Preferred Shares are classified as an equity instrument under IAS 32 due to the redemption being satisfied by way of the Company exchanging one preferred share for one common share. The fair value of the Convertible Preferred Shares is recorded by an independent valuation due to the variability in the conversion features. The dividend payments are recorded as a Convertible Preferred Share Dividend Liability and the fair value is the discounted present value of the future dividend payments. Changes to these estimates could result in the fair value of the Convertible Preferred Share Dividend Liability being less than or greater than the amount recorded.

Flow-through shares

The Company, from time to time, issues flow-through common shares to finance significant portions of its property development programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flowthrough share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The premium is recognized as other income and the related deferred tax is recognized as a tax provision which is reduced when qualifying flow-through expenditures are incurred. Proceeds received from the issuance of flow-through shares are restricted to be used only for qualifying Canadian Development and Canadian Renewable Conservation Expenses within a two-year period in accordance with Government of Canada flow-through share regulations. The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through share regulations. When applicable, this tax is accrued as a financial expense until paid.

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Revenue recognition

The Company principally generates revenue from the sale of commodities, which primarily consist of natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer.
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue. Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the statement of income/loss.

Revenue from processing and other miscellaneous sources is recognized in accordance with service agreements upon completion of the relevant service.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Share-based compensation

Compensation expense associated with share-based compensation plans is recognized in profit or loss, over the vesting period of the plan, with a corresponding increase in contributed surplus.

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Compensation expense is based on the fair value of the equity based compensation at the date of the grant determined in part based on the Black-Scholes option pricing model. The amount recognized as an expense is adjusted to reflect the actual number of stock options for which the related service conditions are met. The amount of non-cash compensation expense for equity based plans is recognized in contributed surplus and is recorded as an increase in shareholders' equity when equity based compensation plans are exercised.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is also recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities when the Company intends to settle current tax liabilities and assets on a net basis, or when the tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Impairment of financial assets is determined by calculating the expected credit loss ("ECL"). The Company measures an ECL allowance for trade and other receivables. The Company determines the ECL which is the probability of default events related to the financial asset by using historical realized bad debts and forward-looking information. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized with general and administrative expense in the statement of income or loss.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

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Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time. E&E assets are assessed for impairment when they are reclassified to oil and natural gas properties and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When testing producing assets or oil and natural gas interests, the CGU is generally the field except where several field interests are grouped because cash inflows are interdependent. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering event and circumstances as well as on reclassification to oil and natural gas properties.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured. Thereafter, generally, the assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on assets held for sale is allocated first to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as assets held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss. An impairment loss in respect of goodwill is not reversed.

Finance income and expenses

Finance income consists of interest income on funds invested. Interest income is recognized as it accrues in profit and loss, using the effective interest method.

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Finance expense consists of interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets, except E&E assets, are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the year.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

Net income (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period. Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common shares, which comprise options granted to employees and warrants. Under this method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. The basic and diluted loss per share are the same because the exercise of options and warrants would have an anti-dilutive effect.

3. MATERIAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the period then ended. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 1 – nature of operations and going concern
- Note 8 – valuation of oil and natural gas properties
- Note 18 – deferred income taxes
- Note 19 – measurement of share-based payments

Note 2 refers to reserves estimates which impact a number of the areas referred to above, in particular the valuation of oil and natural gas properties, exploration assets and the calculation of depletion and depreciation.

Material judgments in applying accounting policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

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Taxes

The Company recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available to utilize the Company's deductible temporary differences which are based on management's judgement on the degree of future taxable profits. To the extent that future taxable profits differ significantly from the estimates impacts the amount of deferred tax assets management judges is probable.

Financial instruments

The Company is required to classify its various financial instruments into certain categories for the financial instruments' initial and subsequent measurement. This classification is based on management's judgement as to the purpose of the financial instrument and to which category is most applicable.

Convertible debentures

Convertible debentures are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, using estimated interest rates based upon non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method.

Derivative liability

The Company measures the fair value of the derivative by reference to the fair value on the convertible debenture issuance date with an estimated life ending on the convertible debenture maturity date and revalues them at each reporting date. In determining the fair value for the derivative liability, the Company used the Black-Scholes option pricing model with the following assumptions: average volatility rate; market price at the reporting date; risk-free interest rate; the remaining expected life of the embedded derivatives and an exchange rate at the reporting date. The inputs used in the Black-Scholes model are taken from observable markets. Changes to these estimates could result in the fair value of the derivative liability being less than or greater than the amount recorded.

Going concern

Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended December 31, 2023. Management prepares the financial instruments on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to current and expected profitability, debt repayment schedules and potentials source of financing.

Establishing CGU

For the purpose of assessing impairment of its long-term assets, the Company determines the CGU, as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The determination of the CGU and the classification of the Company's assets to the determined CGU require significant judgment having a potentially significant influence on the result of the subsequent impairment analysis. The Company periodically reviews the determination of the CGU and the corresponding grouping of the Company's assets, including its assets classified as common assets. Management has determined that the Company has one CGU.

Warrants

Estimating fair value for warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, and dividend yield of the warrants. The fair value of warrants is evaluated using the Black-Scholes valuation model at the date of grant. The Company has made estimates as to the

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expected volatility, share price and expected life of warrants. The expected volatility is based on the historical volatility of the Company, over the period of the expected life of the warrants. The expected life of the warrants is based on historical data. These estimates may not necessarily be indicative of future actual patterns. Share price is based on the price of shares issued in recent raises.

Common shares

As the Company's shares are trading on a listed exchange, the Company is required to estimate the fair value of the common shares issued on debt, promissory notes, and accounts payable and accrued liabilities settlements, issued in exchange for services, and used in the valuation of the conversion feature of the derivative liability. The Company estimated the fair value of common shares based on expected capital raises, history of debt conversions with third parties, and internal company information.

Business Combination

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgments on whether the assets acquired, and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

Key sources of estimation uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires estimates as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the options, the Company's share price and its expected volatility, the risk-free interest rate and the expected dividends.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Property and equipment

Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future oil, natural gas and natural gas liquids prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (*audited*)

work with information provided by the Company to establish reserve determinations in accordance with National Instrument 41-101.

Decommissioning liability

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Oil and natural gas assets and equipment and exploration assets

The fair value of oil and natural gas assets and equipment recognized as a result of a business combination, or for use in an impairment test, is based on market values. The market value is the estimated amount for which oil and natural gas assets and equipment could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas properties is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserves reports. Intangible exploration assets are compared to current land sales proceeds. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. These estimates are subject to change and could result in a material change to the carrying amounts of the assets.

Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2023, the fair value of these balances approximated their carrying value due to their short term to maturity. The bank debt, when outstanding, bears a floating rate of interest and therefore carrying value approximates fair value.

Investments and debt

When the fair values of investments, long-term investments, and debt recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions relating to these judgements could affect the reported fair value of financial instruments.

Derivatives

The fair value of forward financial contracts when outstanding, is based on their listed market price, if available. If a listed market price is not available, then fair value is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

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NOTES TO FINANCIAL STATEMENTS

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Share-based payment transactions

The fair value of employee stock options and performance warrants is measured in part on the Black-Scholes option pricing models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate.

5. ADVANCES

A reconciliation of the advances is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
Opening balance	\$ 2,340,000	\$ -
Advance – MTT	1,743,720	2,340,000
Transfer to License Fee (MTT)	(1,665,381)	-
Transfer to Non-Voting Shares (MTT)	(2,418,339)	-
Advance to 611890 Alberta Inc – NE BC	3,000,000	2,400,000
Write off NE BC Advance	(3,000,000)	(2,400,000)
Balance, end of period	\$ -	\$ 2,340,000

At December 31, 2022, the \$2,340,000 advanced to 611890 Alberta Inc. (“611890” see note 28 ‘related party transactions’) was for the assumption of the contract with Micro Turbine Technology (“MTT”).

During 2022, the Company advanced \$2,400,000 to 611890 for the purchase of the Northeast British Columbia (“NEBC”) assets (see note 28 ‘related party transactions’). This advance was written off by the Company during the year ended December 31, 2022. During 2023, The Company advanced an additional \$3,000,000 to 611890 for an additional non-refundable security deposit to the vendor of the property (see note 28 ‘related party transactions’). On March 15, 2023, the Company withdrew from the NEBC acquisition and wrote off the \$3,000,000 advance. The \$2,400,000 advance was written off as of Dec 31, 2022.

6. PREPAID EXPENSES

Prepaid expenses consist of various payments that will be amortized over the monthly period to which they relate:

	Year ended December 31, 2023	Year ended December 31, 2022
Data analysis	\$ -	\$ 737,247
MTT annual license fee	266,238	-
Investor relation fees	30,000	-
Land service retainer fees	3,009	25,400
Prepaid financing fees on term loan	15,750	-
AER decommissioning and crown royalty deposit	36,034	-
Balance, end of period	\$ 351,301	\$ 762,647

In December 2022, the Company prepaid \$737,247 to Terra Land Development Ltd. and an additional \$737,247 in 2023 for data analysis to collect the information from 1,050 potential customers, site preparation and their current power, heating, and cooling needs. This expense qualifies as a Canadian Renewable Conservation Expense (“CRCE”) for flow-through share purposes.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

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7. BUSINESS COMBINATION

West Central Alberta

On September 1, 2022, the Company purchased 100 percent of oil and gas properties in the West Central Alberta ("WCA") area. The transaction was accounted for as a business combination under IFRS – 3 "Business Combinations" as the assets met the definition of a business.

The aggregate consideration paid of \$41,703,300 is comprised of 30,000,000 convertible preferred shares valued at \$0.55 per share for the total value of \$16,372,500 and 44,440,000 common shares at the September 14, 2022 closing share price of \$0.57 on which the shares were transferred for a total value of \$25,330,800.

The following purchase price allocation was based on management's best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be \$16,516,645; which was based on the NPV of 10% discounted cash flows created by an Independent Qualified Reserves Evaluator ("QRE"). Management determined the fair value of the facilities to be \$5,416,566 and pipeline to be \$5,883,660. The Company assumed decommissioning liabilities and asset retirement obligation of \$2,182,077 in discounted decommissioning liabilities was based on future value of \$5,685,194, an inflation rate of 2.0 percent, credit adjusted risk free rate of 5.39 percent and life of the asset of one to 50 years.

Net assets acquired	Total
Petroleum and natural gas properties and equipment	\$16,516,645
Facilities	5,416,566
Pipelines	5,883,660
Goodwill	11,516,303
Deferred tax asset	5,640,021
Joint venture receivable from 611890	(1,087,818)
Decommissioning liabilities	(2,182,077)
Fair value of net assets acquired	\$ 41,703,300
Consideration	
Common shares	\$ 25,330,800
Preferred shares	15,843,321
Convertible preferred share dividend liability	529,179

The business combination resulted in a goodwill value of \$11,516,303 which Management impaired to nil for the year ended December 31, 2022. Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the closing date.

The purchase of the WCA assets meets the definition of a related party transaction as the purchase was between 611890 and the Company (see note 28 'related party transactions'). The CEO of 611890 Alberta Ltd. is the CEO of the Company.

During 2023, the Company recorded an additional \$154,021 purchase price adjustment for additional costs incurred between the effective and closing date of the business combination.

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NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

Acquisition Cost

The Company incurred acquisition costs fair valued at \$1,345,000 for services related to arranging the acquisition between the buyer and seller settled with 4,222,222 common shares issued (note 19 (a)).

Revenue and operating income

The acquisition contributed \$1,501,797 in revenues, royalty expenses of \$126,394 and \$1,032,051 in direct operating expenses for the year ended December 31, 2022 resulting in \$324,902 of net operating income.

Donalda

On November 1, 2022, the Company purchased 100 percent of oil and gas properties in the Donalda area. The transaction was accounted for as a business combination under IFRS – 3 “Business Combinations” as the assets met the definition of a business.

The total purchase is comprised of \$1,800,000 in the form of a promissory note (see note 14).

The following purchase price allocation was based on management’s best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be \$11,007,129; which was based on the NPV of 10% discounted cash flows created by an Independent Qualified Reserves Evaluator (“QRE”). The Company assumed decommissioning liabilities and asset retirement obligation of \$981,744 in discounted decommissioning liabilities was based on future value of \$3,772,618, an inflation rate of 2.0 percent, credit adjusted risk free rate of 5.39 percent and life of the asset of nine to 50 years.

Net assets acquired	Total
Petroleum and natural gas properties and equipment	\$11,007,129
Facilities	1,920,600
Pipelines	7,474,440
Deferred tax liabilities	(3,677,668)
Decommissioning liabilities	(981,744)
Fair value of net assets acquired	\$ 15,742,757
Less: promissory note issued	(1,800,000)
Gain on acquisition	13,942,757

Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the closing date.

During 2023, the Company recorded an additional \$368,948 purchase price adjustment for costs incurred between the effective and closing date of the business combination.

Acquisition Cost

The Company did not incur any acquisition cost.

Revenue and operating income

The acquisition contributed \$874,852 in revenues, royalty expenses of \$84,916 and \$560,070 in direct operating expenses for the year ended December 31, 2022 resulting in \$229,866 of net operating income.

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NOTES TO FINANCIAL STATEMENTS

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8. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT (“PP&E”)

	Total
Cost	
Balance at December 31, 2021	\$ 2,419,423
Additions – property acquisitions	48,219,040
Additions - regular	747,997
Additions – cash call	1,399,999
Balance at December 31, 2022	\$ 52,786,459
Additions – regular oil and natural gas properties	848,091
Additions – property acquisitions	522,969
Additions – power generating assets	5,708,869
Change in decommissioning provisions	(591,940)
Balance at December 31, 2023	\$ 59,274,448
Accumulated depletion and depreciation	
Balance at December 31, 2021	\$ (44,252)
Depletion and depreciation for the period	(229,082)
Impairment	(18,444,338)
Balance at December 31, 2022	\$ (18,717,672)
Depletion and depreciation for the period	(1,716,684)
Impairment	(12,239,831)
Balance at December 31, 2023	\$ (32,674,187)
Net carrying value:	
Balance December 31, 2022	\$ 34,068,787
Balance December 31, 2023	\$ 26,600,261

At December 31, 2023, the Company evaluated its developed and producing assets for indicators of any potential impairment or related reversal. As a result of this assessment, indicators were identified and Avila recognized \$12,239,831 of impairment expense. The Company used value in use, discounted at pre-tax rates of 10 percent.

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2023. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

	WCS Oil Price (Cdn\$/bbl)	AECO Gas Price (Cdn\$/Mcf)
December 31	2023	2023
2024	73.92	2.01
2025	78.15	3.42
2026	81.03	4.30
2027	83.05	4.39
2028	86.21	4.47
2029	87.93	4.56
2030	89.70	4.65
2031	91.48	4.75
Thereafter	+2.0%	+2.0%

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At December 31, 2022, the Company evaluated its developed and producing assets for indicators of any potential impairment or related reversal. As a result of this assessment, indicators were identified and Avila recognized \$18,444,338 of impairment expense. The Company used value in use, discounted at pre-tax rates between 10 percent.

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2022. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

	WCS Oil Price (Cdn\$/bbl)	AECO Gas Price (Cdn\$/Mcf)
December 31	2022	2022
2023	74.30	5.05
2024	75.55	4.80
2025	73.55	4.60
2026	75.00	4.60
2027	76.50	4.60
2028	78.05	4.60
2029	79.60	4.60
2030	81.20	4.60
Thereafter	+2.0%	+1.5%

9. RIGHT-OF-USE ASSETS AND LEASES

Voluntary change in accounting policy

Avila re-assessed its policy for the measurement of its right-of-use of assets and lease liability.

Prior to the exploration and development of oil and natural gas, an entity must enter into both a mineral rights agreement (commonly referred to as a "mineral lease") with the mineral rights owner as well into a surface-land-use agreement (commonly referred to as a "surface lease") with the land owner, who may be a government body or private owner. IFRS 16 contains a specific scope exemption for "leases to explore for or use minerals, oil, natural gas and similar non-generative resources."

Previously, Avila's right-of-use assets was measured using all of the Company's surface leases. The Company has elected to only calculate the right-of-use asset and lease liability for the surface leases in which the Company has no corresponding mineral lease.

The Company has accounted for the change in accounting policy using retroactive restatement of prior periods.

The lease payments are discounted using the Company's incremental borrowing rate of 12.26 percent at the inception of the lease to calculate the lease liability. The discounted cash flows relating to the lease liabilities included in the statement of financial position are \$17,971 for 2024, \$24,521 for 2025-2026 and \$38,196 for years beyond 2026.

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Right-of-use Assets

<i>(restated)</i>	Total
Cost	
Balance at December 31, 2021	\$ -
Initial recognition	123,058
Depreciation	(3,326)
Balance at December 31, 2022	\$ 119,732
Depreciation	(9,977)
Balance at December 31, 2023	\$ 109,755

Lease Liability

	Total
Balance at December 31, 2021	\$ -
Initial recognition	123,058
Surface lease payments	(4,000)
Interest expense	4,482
Balance at December 31, 2022	\$ 123,540
Surface lease payments	(37,919)
Interest expense	11,506
Balance at December 31, 2023	\$ 97,127

10. INVESTMENTS

	Year ended December 31, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	\$ -	\$ -
Additions – MTT non-voting shares	3,564,711	-
Balance, end of period	\$ 3,564,711	\$ -

The investment in MTT non-voting shares represents a 15% equity stake in MTT so the investment is being recorded at cost as estimate of fair value.

11. GOODWILL AND INTANGIBLE ASSET

	Total
Cost	
Balance at December 31, 2021	\$ -
Additions – goodwill property acquisitions	11,516,303
Additions – intangible assets	9,382
Balance at December 31, 2022	\$ 11,525,685
Additions – intangible assets	7,000
Additions – MTT license	2,138,826
Balance at December 31, 2023	\$ 13,671,511

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Balance at December 31, 2021	\$	-
Goodwill Impairment for the period		(11,516,303)
Balance at December 31, 2022	\$	(11,516,303)
Depletion and depreciation for the period		-
Balance at December 31, 2023	\$	(11,516,303)
Net carrying value:		
Balance December 31, 2022	\$	9,382
Balance December 31, 2023	\$	2,155,208

The Company will depreciate the costs of the MTT license over the expected units to be sold under the vertically integrated business unit which is expected to commence in 2024.

12. ASSETS UNDER DEVELOPMENT

	Total
Cost	
Balance at December 31, 2021 & 2022	\$ -
Additions – Terra Land Development Costs	1,474,494
Additions – MTT Phase I CSA Certification	198,788
Additions – MTT Phase II CSA Certification	398,438
Balance at December 31, 2023	\$ 2,071,720
Net carrying value:	
Balance December 31, 2022	\$ -
Balance December 31, 2023	\$ 2,071,720

The Company will depreciate the start-up costs of the vertically integrated business unit over the expected units to be sold under the vertically integrated business unit which is expected to commence in 2024.

13. DECOMMISSIONING LIABILITY

The Company's decommissioning provision results from ownership interests in oil and natural gas assets including well site, gathering systems and processing facilities. The total provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimated the total undiscounted amount required to settle its decommissioning provision at December 31, 2023 to be approximately \$7,347,230 (December 31, 2022 - \$7,620,706). These payments are expected to be incurred over a period of one to 50 years with the majority of costs to be incurred in 2038. A discount rate of 6.30 percent (December 31, 2022 – 5.39 percent) and an inflation rate of 2.0 percent (December 31, 2022 – 2.0 percent) was used to calculate the decommissioning provision.

AVILA ENERGY CORPORATION

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As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ 3,334,487	\$ 282,594
Provisions made during the period - acquisitions	-	3,163,821
Changes in decommissioning provision	(591,940)	(282,553)
Accretion adjustment from prior period	(127,988)	-
Accretion	175,665	170,625
Balance, end of period	\$ 2,790,224	\$ 3,334,487

14. PROMISSORY NOTES

A reconciliation of the promissory note is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ 1,800,000	\$ 67,429
Interest (i)	-	9,495
Repayment of promissory note (i)	-	(76,924)
Promissory note (ii)	-	1,800,000
Repayment of promissory note (ii)	(1,200,000)	-
Balance, end of period	\$ 600,000	\$ 1,800,000

- (i) On September 15, 2020, the Company converted related party liabilities to unsecured promissory notes in the amount of \$217,195. The promissory notes bear simple interest at 5% per annum with principal and interest payable on maturity being two years from the date of issuance. During the year ended December 2022, a total of \$76,924 (2021 - \$142,780) was applied against the balance of the promissory notes.
- (ii) On November 1, 2022, the Company entered into a promissory note in the amount of \$1,800,000 for the Donalda property acquisition. The unsecured promissory note is non-interest bearing, with \$1,000,000 due on or before January 31, 2023, and \$800,000 due on or before September 1, 2023 (see note 28 'related party transaction' for \$1,200,000 repayment).

15. TERM LOAN

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ -	\$ -
Amount drawn	3,000,000	-
Balance, end of period	\$ 3,000,000	\$ -

On July 5, 2023, The Company signed a term sheet with a private Canadian investment company for a secured two year term loan of \$3,000,000. The terms of the financing are interest only paid monthly, at an annualized rate of 12% plus the accrual of an additional administration fee of 10% payable at the time of the repayment of the term loan. The President and CEO of the Company has agreed to provide a personal guarantee for the \$3,000,000 for which he will be compensated for providing this guarantee by the Company an amount of 0.25 percent per month calculated on the amount outstanding at the end of each month.

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16. LONG TERM TRADE PAYABLE

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ -	\$ -
Power generating costs	5,698,894	-
GST payable on power assets	295,419	-
Balance, end of period	\$ 5,994,313	\$ -

On December 28, 2023, The Company incurred \$5,994,313 of costs relating to a power generation facility. Payments terms are interest only half percent per month for two years prior to receiving a request to commence construction and commissioning of the power generation facility. This expense qualifies as a Canadian Renewable Conservation Expense ("CRCE") for flow-through share purposes. This purchase meets the definition of a related party transaction as the purchase was between QVB Energy and the Company. The CEO of QVB Energy is the CEO of the Company (see note 28 'related party transactions').

17. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

	Convertible debenture - liability component	Derivative liability	Equity Component	Total
Balance at January 1, 2022	\$ 521,039	\$ 729,318	\$ 235,500	\$1,485,857
Proceeds, net of transaction costs	3,580,045	-	1,057,983	4,638,028
Conversions	(356,870)	(48,191)	-	(405,061)
Fair value change	-	(49,144)	-	(49,144)
Accretion expense	308,788	-	-	308,788
Balance at December 31, 2022	4,053,002	631,983	1,293,483	5,978,468
Conversions	(179,137)	-	(51,325)	(230,462)
Maturity	(284,999)	(631,983)	-	(916,982)
Accretion expense	447,103	-	-	447,103
Balance at December 31, 2023	\$4,035,969	-	\$1,242,158	\$5,278,127

	Year ended December 31, 2023	Year ended December 31, 2022
Convertible debenture (i)	\$ 338,174	\$ 308,041
Convertible debenture (ii)	-	267,329
Convertible debenture (iii)	3,697,795	3,477,632
Balance, end of period	\$ 4,035,969	\$ 4,053,002
Short term	-	267,329
Long term	4,035,969	3,785,673
Derivative liability (ii)	-	631,983
Short term	-	631,983

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As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

- (i) On December 9, 2019, the Company issued a debenture for \$500,000 as payment for the business combination in which the Company acquired a 50% interest in non-operating assets. The debenture is unsecured and bears a compound interest of 5% per annum. The debenture matures on July 31, 2027, at which time the debenture and any accrued interest is payable. The convertible debenture can be converted at the lower of \$0.25 or 80% of the major event price. The major event price means the price per common share that (i) a common share is being issued by the Company before the maturity date pursuant to an initial public offering of the common shares for listing on a recognized stock exchange; or (ii) a common share is being issued by the Company pursuant to a financing of no less than \$500,000 net of fees and commissions; or (iii) results from a purchase by a third party of substantially all the assets of the Company by dividing the said purchase price by the number of issued common shares on a fully diluted basis.

The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability. As a result of the conversion price of the debenture not being fixed at the time of the issuance, the conversion feature is considered a derivative liability and is revalued each month.

During the year ended December 31, 2021, the Company obtained a waiver for the convertible debenture conversion clause of conversion at the lower of \$0.25 or 80% of the major event price to be fixed at \$0.25 effective March 1, 2021. As a result of the conversion price of the debenture being fixed at the time of change, the convertible debentures have been separated into a liability and equity components using the effective interest rate method. The fair value of the liability component of the convertible debentures at the time of change was calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 20%. The effective interest rate was based on the estimated rate for a debenture without a conversion feature.

The fair value of the equity component (conversion feature) was determined at the time of change as the difference between the face value of the convertible debenture and the fair value of the liability component. The value of the equity component was determined to be \$235,500 and the value of the liability component was determined to be \$265,000.

- (ii) On June 28, 2020, the Company offered a non-brokered private placement of \$400,000 debenture units, each unit being comprised of an aggregate \$1,000 principal amount of a 10% convertible unsecured subordinated debenture due on April 30, 2023, and one detachable common share purchase warrant entitling the holder to purchase 10,000 common shares at a price of \$0.10 for a period of 36 months following the closing. The debenture bears an interest rate of 10% per annum payable semi-annually, payable either in cash or common shares in the capital of the issuer at the option of the subscriber. The offering closed on July 7, 2020, for gross proceeds of \$400,000. The fair value of the liability component of the convertible debentures at the time of issue was initially calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 20%. The effective interest rate was based on the estimated rate for a debenture without a conversion feature. As the fair value of the derivative liability component and the fair value of the liability component were determined to have a greater combined fair value than the face value of the debentures, the difference between the face value of the debentures and the fair value of the derivative liability was attributed to the debt component. The fair value of the derivative was determined to be \$151,800 and the fair value of the debt component was determined to be \$248,200 on the date of issuance.

The value of the warrants is determined by allocating the residual of the debenture units transaction price after all financial liabilities in the debenture units are recognized. As the

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financial liabilities make up the full amount of the debenture unit transaction price, no value has been assigned to the warrants.

On February 15, 2022, convertible debentures with a stated value of \$64,166 was converted into 224,580 common shares of the Company at the holder's option.

On April 30, 2023 \$284,999 of the unconverted debt portion of the \$400,000 convertible debenture matured and is reclassified to current loan payable. The debenture holders have not indicated to the Company whether they are going to request repayment or convert the convertible debentures into Common Shares. Since no more conversion feature exists the Company has removed the \$631,983 derivative liability.

During the year ended December 31, 2022, the derivative liability was determined to be \$631,983 using the Black-Scholes option pricing model fair value estimation method with the following inputs:

	Year ended December 31, 2023	Year ended December 31, 2022
Expected stock price	-	0.32
Risk-free interest rate (%)	-	4.30
Expected life (months)	-	4
Expected volatility (%)	-	90.48
Expected forfeiture rate (%)	-	-
Expected dividend yield (%)	-	-

- (iii) From April 12, 2022 to June 28, 2022, the Company offered a partially brokered private placement of 4,975 debenture units for gross proceeds of \$4,975,230. Each unit is comprised of an aggregate \$1,000 principal amount of a 4% convertible unsecured subordinated debenture maturing April 1, 2025. Each debenture unit, convertible at the option of the holder, includes the right of full conversion of the entire principal and accrued interest into Class A Common Shares of the Company at \$0.50 per share and the subsequent to conversion one common share purchase warrants received on the conversion exercisable at a price of \$0.75 for a period of two years following the conversion date.

The convertible debenture was determined to be a compound financial instrument composed of liability and equity components, meeting the fixed-for-fixed criteria. The fair value of the liability component of the convertible debentures at the time of issue was calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 14.47%. The effective interest rate was based on the estimated interest rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability component.

At the time of issue, the value of the liability component was determined to be \$3,580,045 with the residual value of \$1,057,983 assigned to the equity component.

The value of the conversion warrants was determined by allocating the residual value of the debenture units transaction price after all financial liabilities in the debenture units were recognized. No value has been assigned to the warrants.

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During the year ended December 31, 2022, convertible debentures with a stated value of \$340,895 were converted into 911,847 common shares at the holder's option. There were 911,847 conversion warrants valued at nil issued in connection with conversion, exercisable at \$0.75 for a period of 24 months.

During the year ended December 31, 2023, convertible debentures with a stated value of \$179,137 were converted into 450,000 common shares (452,632 with accrued interest) at the holder's option. There were 450,000 conversion warrants valued at nil issued in connection with conversion, exercisable at \$0.75 for a period of 24 months.

18. DEFERRED INCOME TAXES

The provision for income taxes in the financial statements differs from the result which would have been obtained in applying the combined federal and provincial tax rate to the Company's earnings before income taxes. The difference results from the following items:

	Year ended December 31, 2023	Year ended December 31, 2022
Loss before taxes	\$ (18,131,539)	\$ (20,377,817)
Combined federal and provincial tax rate	23.0%	23.0%
Computed "expected" income tax reduction	(4,170,254)	(4,686,898)
Increase (decrease) in income taxes resulting from:		
Permanent differences	(634,876)	(444,949)
Tax assets not recognized	6,767,483	5,131,847
Deferred income tax reduction	\$ 1,962,353	\$ -

The statutory tax rate was 23.0 percent in 2023 and 2022.

A summary of unrecognized tax assets at December 31, 2023 and 2022 is provided below:

	2023		2022	
	Amount	Expiry Date	Amount	Expiry Date
Share issue costs	\$ 147,214	n/a	187,538	n/a
Decommissioning provision	641,750	n/a	-	n/a
Lease liabilities	22,339	n/a	325,531	n/a
Property, plant and equipment	1,097,898	n/a	3,459,111	n/a
Intangible asset	(3,768)	-	(108)	n/a
Right-of-use-asset	(25,244)	n/a	(318,846)	n/a
Flow-through liability	-	-	461,584	n/a
License	(24,597)	-	-	n/a
Assets under development	(476,495)	-	-	n/a
Non-capital losses	8,564,949	2035	5,372,601	2035
Total	\$ 9,994,046		\$ 9,487,411	
Valuation Allowance	(9,994,046)		(7,525,058)	
Deferred tax asset	-		1,962,353	

For the year ended December 31, 2022, a deferred income tax asset of \$5,640,021 was recognized on the WCA acquisition (see note 7). The deferred income tax asset arises from the difference between the fair value of the net assets acquired and their tax basis. For the year ended December 31, 2022, A deferred income tax liability of \$3,677,668 was recognized on the Donalda acquisition (see note 7). The deferred income tax liability arises from the difference between the fair value of the net assets acquired and their tax basis. The deferred tax asset has been offset against the deferred tax liability.

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In assessing the ability to realize deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those deferred tax assets are deductible. Management foresees sufficient taxable profit to utilize deferred income tax asset up to \$1,962,353. Management did not recognize further deferred tax assets as of December 31, 2023.

A summary of tax pools at December 31, 2023 is provided below:

	Amount	Maximum Annual Deduction
Canadian exploration expense	\$ -	100%
Canadian development expense	257,670	30%
Canadian oil and gas property expense	21,718,815	10%
Undepreciated capital cost	9,397,245	20% to 30%
Cumulative eligible capital	2,031,885	
Share issue costs	640,060	20%
Non-capital losses	37,238,910	100%
Total	\$ 71,284,585	

At December 31, 2023, the Company has non-capital losses of approximately \$37,238,910 available to shelter future taxable income. These losses begin to expire 2035.

19. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. All issued shares are fully paid. No dividends were declared or paid in the period.

(a) Issued and outstanding

	Year ended December 31, 2023			Year ended December 31, 2022		
	Number of Common Shares	Number of Preferred Shares	Amount	Number of Common Shares	Number of Preferred Shares	Amount
Balance, beginning of period	111,437,322	30,000,000	\$ 56,883,006	35,651,341	-	\$ 9,023,278
Issue of Common Shares (i)	-	-	-	22,196,708	-	8,000,000
Flow through premium (i)	-	-	-	-	-	(2,006,889)
Issue of Common Shares (ii)	-	-	-	44,440,000	30,000,000	41,174,122
Issue of Common Shares (iii)	-	-	-	4,222,222	-	1,345,000
Issue of Common Shares (iv)	-	-	-	3,790,623	-	1,173,155
Issue of Common Shares (v)	452,632	-	232,029	1,136,428	-	405,061
Warrants issued (i)	-	-	-	-	-	(1,212,126)
Conversion of preferred shares	30,000,00	(30,000,00)	-	-	-	-
Issue of Common Shares (vi)	21,160,000	-	801,906	-	-	-
Subscription receipts (vi)	-	-	45,180	-	-	-
Share issue costs	-	-	(61,400)	-	-	(1,018,595)
Balance, end of period	163,049,954	-	\$ 57,900,721	111,437,322	30,000,000	\$ 56,883,006

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Issued shares for cash

- (i) On December 23, 2022, the Company issued 11,940,298 flow-through units at \$0.335 and 10,256,410 charity flow-through units at \$0.39 per share for gross proceeds of \$8,000,000. Each Unit being comprised of one (1) Common Share and one-half (1/2) common share purchase warrants, each full warrant entitling the holder thereof to purchase one (1) additional common share at a price of \$0.50 for a period of 24 months from the date of issuance. The flowthrough shares were issued at a premium of \$0.065 and \$0.12 per share and a premium was recognized as a liability of \$2,006,889;
- (v) On September 20, 2023, the Company announced it intends to complete a non-brokered private placement consisting of the issuance of up to 60,000,000 units (the "Units") at a price of \$0.05 per Unit for gross proceeds of up to \$3,000,000. Each Unit is comprised of one common share in the share capital of the Company and one-half (1/2) common share purchase warrant. Each full Warrant entitles its holder to purchase one additional common share at a price of \$0.12 for a period of 24 months following the closing.

On October 31, 2023, the Company announced it closed the first tranche of \$1,058,000 of its non-brokered private placement by issuing 21,160,000 units at a price of \$0.05 per unit and 10,580,000 warrants with an exercise price of \$0.12 per share. The Company received an additional \$45,180 of subscription receipts that will be issued in the closing of the second tranche. The \$1,058,000 of proceeds were allocated using the relative fair method between the value of the common shares \$1,058,000 (10,580,000 common shares multiplied by the share price of \$0.05 per share) and the value of the warrants using Black-Scholes model of \$337,879. The relative fair allocation resulted in \$801,906 being allocated to common shares and \$256,094 to contributed surplus.

Issued shares for the property acquisition

- (ii) On September 14, 2022, the Company purchased 100% of oil and gas properties in WCA. The aggregate consideration paid of \$41,703,300 is comprised of 30,000,000 convertible preferred shares valued at \$16,372,500 (30,000,000 shares at \$0.59 discounted for illiquidity rate 7.5% less the fair value of the convertible preferred share dividend liability of \$529,179 for a residual amount of \$15,843,321) and 44,440,000 common shares at the September 14, 2022, closing share price of \$0.57 on which shares were transferred for a total value of \$25,330,800;

Issued shares for services

- (iii) On September 20, 2022, the Company issued 4,222,222 common shares at a fair value of \$1,345,000 as a share-based payment for services for arranging the acquisition between the buyer and seller for the WCA acquisition;

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Issued shares for warrants exercised

(iv) The following table summarizes the activity under the Company's share purchase warrants:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Warrants	\$	Number of Warrants	\$
July 5, 2022 (\$0.25)	-	-	375,000	\$ 93,750
July 5, 2022 (\$0.20)	-	-	53,500	10,700
July 5, 2022 (\$0.15)	-	-	3,900	585
July 12, 2022 (\$0.20)	-	-	12,000	2,400
July 14, 2022 (\$0.25)	-	-	100,000	25,000
July 29, 2022 (\$0.20)	-	-	16,666	3,333
August 2, 2022 (\$0.25)	-	-	375,000	93,750
August 11, 2022 (\$0.20)	-	-	75,000	15,000
August 15, 2022 (\$0.20)	-	-	41,666	8,333
August 22, 2022 (\$0.20)	-	-	50,000	10,000
August 31, 2022 (\$0.20)	-	-	433,333	86,667
September 7, 2022 (\$0.20)	-	-	150,000	30,000
October 12, 2022 (\$0.20)	-	-	100,000	20,000
October 25, 2022 (\$0.20)	-	-	50,000	10,000
October 26, 2022 (\$0.20)	-	-	79,559	15,912
October 31, 2022 (\$0.20)	-	-	325,000	65,000
November 2, 2022 (\$0.20)	-	-	500,000	100,000
November 3, 2022 (\$0.20)	-	-	83,333	16,667
November 3, 2022 (\$0.20)	-	-	966,666	193,333
Contributed surplus transfer	-	-	-	372,725
	-	\$ -	3,790,623	\$ 1,173,155

Issued shares for convertible debentures

(v) The following table summarizes the activity under the Company's shares issued on conversion of debentures:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Common Shares	\$	Number of Common Shares	\$
July 29, 2022 (iii)	-	-	20,000	\$ 7,400
September 20, 2022 (iii)	-	-	182,100	67,377
September 30, 2022 (iii)	-	-	557,277	206,192
September 30, 2022 (ii)	-	-	224,580	64,166
October 20, 2022 (iii)	-	-	50,625	18,731
November 22, 2022 (iii)	-	-	71,128	26,317
December 9, 2022 (iii)	-	-	30,717	14,878
February 8, 2023 (iii)	401,684	209,493	-	-
February 21, 2023 (iii)	50,948	22,536	-	-
	452,632	\$ 232,029	1,136,428	\$ 405,601

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Convertible debenture (note 17 (ii))

On September 30, 2022, the Company issued 224,580 Common Shares for convertible debenture debt plus interest payable at \$0.10 per share in accordance with the conversion price as determined in each debt instrument. Converted debenture had a stated value of \$64,166.

Convertible debenture (note 17(iii))

On July 29, 2022, the Company issued 20,000 (September 20, 2022 – 182,100; September 30, 2022 - 557,277; October 20, 2022 – 50,625; November 22, 2022 – 71,128; December 9, 2022 - 30,717) common shares in exchange for the conversion of the convertible debenture plus interest payable at a price of \$0.50 in accordance with the conversion price as determined in the debt instrument and interest payable. Each unit is comprised of one common share in the share capital of the Company at a price of \$0.50 per common share and one warrant entitling the holder thereof to purchase one (1) additional Common Share at a price of \$0.75 for a period of 24 months from the date of issuance.

During the year ended December 31, 2022, convertible debentures with a stated value of \$340,895 were converted into 911,847 common shares at the holder's option.

During the year ended December 31, 2023, convertible debentures with a stated value of \$179,137 (\$180,704 stated value of debenture plus accrued debenture interest converted to shares of \$1,566) were converted into 452,632 common shares at the holder's option.

(b) Convertible preferred shares

On September 14, 2022, 30,000,000 convertible preferred shares were issued to Leonard B. Van Betuw as consideration paid for the WCA acquisition. The Convertible shares will have a term of 3.75 years, expiring June 14, 2026, and earn an accruing annual dividend at a rate of two percent based on the value of \$0.32 share, payable upon conversion. The conversion of the Convertible shares at the election of the holder can only occur after one of three milestones have been achieved: a) the Company exceeds the production rate of 3,000 BOE/d; b) the Common Shares trade at a volume weighted average price (VWAP) of more than \$1.00 per share for 20 consecutive business days or c) the second year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Preferred Shares and any unpaid dividend shall automatically be redeemed on a 1:1 basis by the issuance of Common shares.

Convertible Preferred Shares are classified as an equity instrument under IAS 32 due to the redemption being satisfied by way of the Company exchanging one preferred share for one common share. The dividends are classified as a financial liability under IAS 32 as they may be redeemed on early conversion in cash for a fixed price of \$0.32, or in equity at maturity.

The Convertible Preferred Shares were valued at \$16,372,500 (30,000,000 shares at \$0.59 discounted for illiquidity rate 7.5%) by an independent evaluator.

The fair value of the Convertible preferred shares dividend liability of \$529,179 is the present value of the future dividend payments of \$720,132, at a discount rate of 14.46% with remaining life of 3.75 years. The residual amount of \$15,843,321 of the convertible preferred shares was recorded as equity. The cash obligations associated with the dividend payable for the preferred shares with the assumption of no conversion to maturity.

On March 29, 2023, there was a forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares, as a result of a significant event taking place which was the signing of the Business Combination Agreement announced on April 3, 2023 with Insight

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Acquisition Corp. As a result the Company has written off the Convertible Preferred Shares dividend liability, recording a \$553,048 gain on conversion and \$103,101 in dividend payable.

The following table summarizes the continuity of the Convertible Preferred Shares dividend liability is as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ 542,202	\$ -
Initial recognition	-	529,179
Accretion	10,846	13,023
Gain on write off	(553,048)	-
Balance, end of period	\$ -	\$ 542,202

(c) Share-based compensation plans

Stock Option Plan

The Company grants stock options to employees, directors, officers and consultants as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the market price of the Company's stock on the grant date less applicable discounts. Options have a maximum expiry period of up to five years from the grant date and are subject to the minimum vesting requirements, as determined by the Board of Directors. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Stock options granted to management, employees, and directors vest immediately on the grant date.

Compensation costs attributable to stock options granted are measured at their fair value at the grant date and are expensed over the expected vesting time-frame with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The following table summarizes the activity under the Company's stock option plan:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Options	Weighted Average Exercise Price (\$/share)	Number of Options	Weighted Average Exercise Price (\$/share)
Balance, beginning of period	1,753,770	\$ 0.36	200,000	\$ 0.35
Granted	-	-	717,949	0.39
Granted	-	-	835,821	0.34
Balance, end of period	1,753,770	\$ 0.36	1,753,770	\$ 0.36
Exercisable, December 31, 2023	1,753,770	\$ 0.36	1,753,770	\$ 0.36

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The following table summarizes information regarding stock options outstanding at December 31, 2023:

Options Outstanding at December 31, 2023			Options Exercisable at December 31, 2023		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/share)	Number Exercisable	Weighted Average Exercise Price (\$/share)
\$ 0.35	200,000	0.8	\$ 0.35	200,000	\$ 0.35
\$ 0.39	717,949	1.0	\$ 0.39	717,949	\$ 0.39
\$ 0.34	835,821	1.0	\$ 0.34	835,821	\$ 0.34

The weighted average fair value of each stock option granted and the assumptions used in the Black-Scholes option pricing model are as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Risk-free interest rate (%)	-	3.85
Expected life (years)	-	2
Expected volatility (%)	-	109
Expected forfeiture rate (%)	-	0
Expected dividend yield (%)	-	-
Fair value of stock options granted (\$/share)	-	0.03

Expected volatility is based on management's evaluation of comparable companies in the public markets.

Share-based compensation from options recognized in net loss during the period ended December 31, 2023 was \$nil (December 31, 2022 - \$44,993).

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(d) Share purchase warrants

The following table summarizes the activity under the Company's share purchase warrants:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Warrants	Weighted Average Exercise Price (\$/share)	Number of Warrants	Weighted Average Exercise Price (\$/share)
Balance, beginning of period	21,627,850	\$ 0.44	12,984,694	\$ 0.28
Issued – May 10, 2022	-	-	200,800	0.75
Issued – May 12, 2022	-	-	226,400	0.75
Issued – May 16, 2022	-	-	8,000	0.75
Issued – June 9, 2022	-	-	4,000	0.75
Issued – June 28, 2022	-	-	110,000	0.75
Issued – July 28, 2022	-	-	20,000	0.75
Issued – Sept. 14, 2022	-	-	40,000	0.75
Issued -Sept. 15, 2022	-	-	100,000	0.75
Issued – Sept. 30, 2022	-	-	550,000	0.75
Issued – October 20, 2022	-	-	50,000	0.75
Issued – December 9, 2022	-	-	30,000	0.75
Issued – Dec. 23, 2022	-	-	11,098,354	0.50
Issued – February 8, 2023	400,000	0.75	-	-
Issued – February 21, 2023	50,000	0.75	-	-
Issued – October 17, 2023	4,500,800	0.12	-	-
Issued – October 24, 2023	600,000	0.12	-	-
Issued – October 30, 2023	5,850,000	0.12	-	-
Issued - November 21, 2023	250,000	0.12	-	-
Exercised (note 13 (a)(iv))	-	-	(3,790,623)	(0.21)
Expired - May 6, 2023	(876,666)	(0.35)	-	-
Expired - June 1, 2023	(412,500)	(0.40)	-	-
Expired - July 7, 2023	(1,000,000)	(0.25)	-	-
Expired - August 26, 2023	(168,200)	(0.35)	-	-
Expired	-	-	(3,775)	(0.20)
Balance, end of period	30,821,284	\$ 0.34	21,627,850	\$ 0.44

On September 20, 2023, the Company announced it intends to extend by one year 7,472,130 outstanding Warrants with exercise prices of \$0.35, \$0.15, \$0.20, and \$0.75 and with expiration dates ranging from September 9, 2023, to December 9, 2024. 1,160,000 warrants with an exercise price of \$0.35 were set to expire September 9, 2023, 4,088,680 warrants with an exercise price of \$0.35 were set to expire September 13, 2023, 100,000 warrants with an exercise price of \$0.35 were set to expire September 20, 2023 and 309,200 warrants with an exercise price of \$0.35 were set to expire September 23, 2023.

In addition, 377,000 warrants with an exercise price of \$0.15 were set to expire on November 4, 2023 have been extended by an additional year.

In addition, 98,050 warrants with an exercise price of \$0.20 were set to expire on January 30, 2024 have been extended by an additional year.

In addition, 1,339,200 warrants with an exercise price of \$0.75 were set to expire on May 10, 2024 to December 9, 2024 have been extended by an additional year.

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The following table summarizes information regarding share purchase warrants outstanding at December 31, 2023:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Expiry
\$0.05	600,000	2.1	February 1, 2026
\$0.12	11,200,800	1.8	October 2025 to November 2025
\$0.15	377,000	0.9	November 5, 2024
\$0.20	98,050	1.1	January 31, 2025
\$0.35	5,657,880	0.7	September 9,13,20,23 2024
\$0.50	11,098,354	1.0	December 23, 2024
\$0.75	1,789,200	1.5	February 2025 to December 2025
\$0.34	30,821,284	1.3	

(e) Per share amounts

The Company calculates per share amounts based on the weighted average Common Shares outstanding for the year ended December 31, 2023, and for the year ended December 31, 2022. For both periods ended December 31, all the stock options and warrants were anti-dilutive and were omitted from the weighted average number of diluted Common Shares outstanding calculation.

Years ended December 31,	2023	2022
Weighted average shares outstanding	138,608,578	52,766,406
Weighted average diluted shares outstanding	138,608,578	52,766,406
Net loss per share		
Net income (loss)	\$ (20,093,893)	\$ (20,377,817)
Basic (\$/share)	(0.14)	(0.39)
Diluted (\$/share)	(0.14)	(0.39)

20. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprise:

Years ended December 31,	2023	2022
Change in receivables and advances	\$ 2,618,328	\$ (1,471,230)
Change in prepaid expenses	411,616	(734,001)
Change in accounts payable and accrued liabilities	2,488,312	1,602,620
Total	\$ 5,518,256	\$ (602,611)
Change in operating non-cash working capital	\$ 5,518,256	\$ (602,611)
Change in investing non-cash working capital	-	-

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

21. FLOW-THROUGH SHARE PREMIUM LIABILITY

A reconciliation of the flow-through share premium liability is provided below:

	Years ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ 2,006,889	\$ -
Issuance of flow-through shares (note 19(a)(i))	-	2,006,889
Settlement pursuant to qualified expenditures	(2,006,889)	-
Balance, end of period	\$ -	\$ 2,006,889

22. OIL AND NATURAL GAS REVENUE

The Corporation sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

Years ended December 31,	2023	2022
Oil and natural gas revenue		
Heavy oil	\$ 419,100	\$ 1,270,998
Natural gas	1,980,050	2,059,400
Natural gas liquids	146,100	75,707
Total oil and natural gas revenue, gross	\$ 2,545,250	\$ 3,406,105
Less: Royalty expenses	(309,462)	(324,574)
Oil and natural gas revenue, net	\$ 2,235,788	\$ 3,081,531

23. ECONOMIC DEPENDENCE

Sales from the Company's business are substantially derived from very few customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its account receivable. As at December 31, 2023, accounts receivable of \$103,491 (December 31, 2022 - \$376,988) were due from these customers and were collected subsequently to quarter and year end.

The Company's two significant customers accounted for more than 100% of its sales. For the year ended December 31, 2023, the two customers accounted for 73% and 15% respectively. For the year ended December 31, 2022, the two customers accounted for 69% and 27%, respectively.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

24. FINANCE INCOME (EXPENSE)

Years ended December 31,	2023	2022
Finance income:		
Interest income on bank deposits	\$ 31,729	\$ -
Finance expenses:		
Interest on promissory note	-	(7,814)
Term loan interest and admin fee (note 15)	(295,891)	-
Interest on convertible debentures	(210,924)	(172,452)
Part XII.6 interest on flow-through shares (note 19)	(162,117)	-
Letter of credit interest (NEBC property acquisition)	(136,364)	-
Lates fees and interest on trade payables	(84,769)	-
Late fees and interest on MTT payables	(38,116)	-
Non-deductible interest and penalties on flow-through	(20,331)	-
Term loan origination fee (note 15)	(5,559)	-
Interest on conversion of debentures	(1,566)	-
Interest expense on dividend liability	(103,101)	-
Accretion on convertible debentures	(447,103)	(308,788)
Accretion on decommissioning provision	(47,677)	(170,625)
Accretion on lease liabilities	(11,506)	(4,482)
Accretion on convertible preferred share dividend	(10,846)	(13,023)
	\$ (1,575,870)	\$ (677,184)
Net finance income (expense)	\$ (1,544,141)	\$ (677,184)

25. PERSONNEL EXPENSES

The aggregate payroll expense of employees and executive management is included in general and administrative expenses and comprises:

	Year ended December 31, 2023	Year ended December 31, 2022
Wages and salaries	\$ 264,570	\$ -
Benefits and other personnel costs	17,676	-
Total employee remuneration	\$ 282,246	\$ -

26. FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

(a) Credit risk

The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions and for accounts receivable by performing standard credit checks.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. Virtually all of Avila's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2023, the Company's accounts receivable consisted of \$346,606 (December 31, 2022 - \$ 376,988) from oil and natural gas marketers, \$241,898 (December 31, 2022 - \$372,544) from joint venture partners, and \$326,489 (December 31, 2022 - \$148,370) in taxes receivable from Canada Revenue Agency.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company did not have any allowance for doubtful accounts as at December 31, 2023 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended December 31, 2023.

As at December 31, 2023, 53 percent all the Company's accounts receivable were under 90 days in age and 47 percent were considered past-due.

Aging

Current (less than 90 days)	\$	488,634
Past due (over 90 days)		426,359
Total	\$	914,993

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Avila's financial liabilities on the balance sheet consist of accounts payable and accrued liabilities. The Company expects to satisfy its obligations under accounts payable in less than one year. Avila anticipates that it will have adequate liquidity to fund its financial liabilities as they come due.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will be able to secure additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financing.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in prices which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flow or earnings.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2023:

	Carrying amount	Contractual cash flows total	< 1 year	1 – 2 years	2 – 5 years	More than 5 years
Accounts payable and other liabilities	\$5,097,401	\$5,097,401	\$5,097,401	\$ -	\$ -	\$ -
Promissory note	600,000	600,000	600,000	-	-	-
Loan payable	284,999	284,999	284,999	-	-	-
Term loan	3,000,000	3,000,000	-	3,000,000	-	-
Trade payable	5,994,313	5,994,313	-	5,994,313	-	-
Lease liabilities	97,127	97,127	16,186	11,954	23,657	45,330

(c) Market risk

Market risk is the risk that fluctuations in currency rates, interest rates and commodity prices will affect a Company's income or the value of its financial assets and liabilities.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. In general, while the underlying foreign exchange rate affects oil and natural gas prices, Avila does not sell any of its oil or natural gas denominated in United States dollars. Settlement of fixed price physical sales contracts denominated in United States dollars, if applicable, would have been directly impacted by changes in the foreign exchange rate.

Commodity 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 natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand.

The Company had no contracts that have not been recorded at fair value during the year ended at December 31, 2023 or for the year ended December 31, 2022.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk on debt as they bear a fixed interest rate.

(d) Capital management

Avila actively manages its capital structure which includes shareholders' equity and working capital. In order to maintain or adjust its capital structure, Avila considers the following: incremental investment and acquisition opportunities; the level of bank credit that may be obtainable from the credit facility as a result of reserves growth; the availability of other sources of debt with characteristics different from the existing bank debt; the sale of assets; limiting the size of its investment program; utilizing commodity price forecasts; and new share issuances, if available on favourable terms. The Company's objective is to maintain a flexible capital structure that will allow it to execute its investment program, including exploration and development of its oil and gas properties and acquisition and disposition transactions which all carry varying amounts of risk.

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (*audited*)

Avila will seek to balance the proportion of debt and equity in its capital structure to take into account the risk being incurred in its investment program. Avila may, from time to time, issue shares and / or adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of net debt to the trailing funds flow from operations of the immediately preceding three-month period calculated on an annualized basis. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized cash flow from operations in the previous three-month period before changes in non-cash working capital and decommissioning provision expenditures. Avila's current strategy is to maintain a ratio of no more than 1.0 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2023, Avila had a working capital deficit of \$5,056,817 (\$3,982,550 working capital surplus at December 31, 2022).

The Company has declared a \$103,101 dividend on the convertible preferred shares on March 30, 2023.

There were no changes in the Company's approach to capital management during the period.

(e) Vertically Integrated Energy Business

In addition to the risks mentioned above, the Company faces risks from their Vertically Integrated Energy Business as follows:

Government Approvals and Certifications: the Company has estimated the time associated with the certification process based on estimates provided by third party consultants but these timelines are subject to availability of the Industry partners and Certification personnel, resulting in unanticipated delays;

Manufacturing costs: The Company has based its manufacturing costs on past experience from industry partners but as demand recovers for materials (post COVID-19), costs could increase and are subject to interest rate and foreign exchange rate volatility;

Supply Chain: The Company's supply chains are currently under development and are subject to volatility, which may increase costs or cause interruptions in deliveries;

Customer Demand: Customer demand could be subject to change due to the introduction of competitive technology;

Market Adaptions: Customer adaption does not necessarily follow the Company's assumptions.

At December 31, 2023 the Company has incurred the following expenditures related to the Vertically Integrated Business:

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

<i>Vertically Integrated Business Expenditures (inception to date)</i>	
Investment in MTT Non-Voting Shares (15% equity)	\$ 3,564,711
Intangible assets (MTT license)	2,138,826
Assets under development	2,071,720
MTT interest	38,116
Total	\$ 7,813,373

The license for the EnerTwin product to manufacture and the full commercialize including sales, installation and servicing of the EnerTwin in North America (Canada, the United States of America and Mexico) and the marketing, and the sales and servicing in United Kingdom in accordance with the terms and conditions of the agreement.

The Company expects to receive its first units for installation in the third and fourth quarters of 2024 and continues to advance the negotiation for a manufacturing location in Western Canada. The Company has identified a number of existing synergies in Canada and expect to make a decision on the manufacturing facility location, sign an agreement and commence production in the third quarter of 2025.

Initial sales of the EnerTwin in North America are to be supplied by the manufacturing facility of MTT Solutions BV in Eindhoven the Netherlands.

27. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and initially measured at fair value.

During the year ended December 31, 2023, executive services totalling \$214,280 (December 31, 2022 - \$246,650) were provided by companies that are affiliated with officers of Avila. At December 31, 2023, Avila still owes \$167,780 for the services provided (December 31, 2022 - \$228,657).

During the year ended December 31, 2023, a \$27,480 fee was paid to a company that is affiliated with an officer of Avila for sourcing a potential convertible debenture offering.

During the year ended December 31, 2023, the Company accrued \$2,820 on convertible debentures (December 31, 2022 \$494) that are held by an officer of Avila and a Company whose President is an officer of Avila.

The Company has a \$500,000 convertible secured debenture at December 31, 2023 (December 31, 2022 - \$500,000) bearing 5% interest compounded semi-annually that is held by Avila Exploration & Development Canada Ltd. whose President is also President and Chief Executive Officer of the Company. At December 31, 2023 there is \$101,497 interest owing on the convertible secured debenture due July 31, 2027 (December 31, 2022 - \$76,497).

During September 2022, the Company purchased WCA assets from 611890 Alberta Inc for \$25,909,100. Consideration for the WCA assets consisted of 30,000,000 preferred shares issued to Leonard Van Betuw, 12,180,000 common shares issued directly to Leonard Van Betuw and 3,600,000 common shares issued to Leonard Van Betuw's family members. The Company has a \$103,101 dividend payable to Leonard Van Betuw, who is also President and Chief Executive Officer of the Company relating to the forced conversion of the convertible preferred shares on March 29, 2023 (see note 19 (b)).

During December 2022, the Company advanced \$2,340,000 of funds to 611890 Alberta Inc. for the 15% equity stake and preferred license from Micro Turbine Technology. Leonard Van Betuw, who is President of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. During

AVILA ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 (audited)

the year ended December 31, 2023, the Company advanced an additional \$1,455,720 of funds to 611890 Alberta Inc for the 15% equity stake and preferred license from Micro Turbine Technology. At December 31, 2023, Company owes \$59,461 to 611890 Alberta Inc. At December 31, 2023, the Company has a \$446,440 (December 31, 2022 - \$228,657) joint venture receivable from 611890 Alberta Inc. as per the joint venture agreement.

During December 2022, the Company was intending to purchase NEBC assets from 611890 Alberta Inc. for \$2,400,000. 611890 Alberta Inc. purchased the NEBC assets for \$1,200,000 and incurred the costs associated with the preparation of the bid, post award negotiations, feasibility studies, engineering, budgeting and legal costs and then sold the assets to the Company for \$2,400,000, resulting in a collateral benefit of \$1,200,000 for 611890 Alberta Inc. Leonard Van Betuw, who is President of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. During the year ended December 31, 2023, the Company advanced an additional \$ 3,000,000 for the NEBC assets to 611890 Alberta Inc. This property acquisition was terminated resulting in the \$2,400,000 being written off at December 31, 2022 and the \$3,000,000 advance was written off at March 31, 2023.

During the year ended December 31, 2023, the Company advanced \$1,200,000 of funds to 611890 Alberta Inc. for a partial payment of the promissory note (see note 14).

On December 28, 2023, The Company incurred \$5,994,314 of costs relating to a power generation facility. Payments terms are interest only half percent per month for two years prior to receiving a request to commence construction and commissioning of the power generation facility. This expense qualifies as a Canadian Renewable Conservation Expense ("CRCE") for flow-through share purposes. This purchase meets the definition of a related party transaction as the purchase was between QVB Energy and the Company. The CEO of QVB Energy is the CEO of the Company.

28. SUBSEQUENT EVENTS

On January 29, 2024, convertible debentures with a stated value of \$128,796 (face value of \$150,000) were converted into 600,000 common shares (631,500 with accrued interest of \$7,875) at the holder's option. There were 600,000 conversion warrants valued at nil issued in connection with conversion, exercisable at \$0.75 for a period of 24 months.

On March 20, 2024, the Company received a notice from a third party customer that Avila should expect additional volumes of up to 4,000 Mcf/d to be processed at an Avila facility by the end of March 2024. First volumes were received by Avila on March 27, 2024 and during the initial test period combined rates have been 4,800 Mcf/d . It is expected the volume will increase to 10,000 Mcf/d by October 2024 when the third party completes a tie-in of a proposed pipeline to the Company's gathering system.

This is Exhibit "D" referred to in the Affidavit of Donald Benson sworn before me this 7th day of October 2024



A NOTARY PUBLIC IN AND FOR MANITOBA/
BARRISTER AND SOLICITOR

Search ID #: Z17893479

Transmitting Party

MILLER THOMSON LLP

Eighth Avenue Place
525-8th Avenue SW, East 43rd Floor
CALGARY, AB T2P1G1

Party Code: 50062611
Phone #: 403 206 6351
Reference #: 0287592.0001

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Business Debtor Search For:

AVILA ENERGY CORP.

Exact Result(s) Only Found

NOTE:

A complete Search may result in a Report of Exact and Inexact Matches.
Be sure to read the reports carefully.



Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 23071832014

Registration Type: SECURITY AGREEMENT

Registration Date: 2023-Jul-18

Registration Status: Current

Expiry Date: 2028-Jul-18 23:59:59

Exact Match on:

Debtor

No: 1

Debtor(s)

Block

Status

1 AVILA ENERGY CORPORATION
SUITE 201, 1439 17TH AVENUE SE
CALGARY, AB T2G 1J9

Current

Secured Party / Parties

Block

Status

1 MARC GIROUARD INVESTMENTS INC.
27 WESTSHORE DRIVE
POINTE-DU-CHENE, NB E4P 5J6
Email: marclouisgirouard@hotmail.com

Current

Collateral: General

Block

Description

Status

1 All present and after-acquired personal property.

Current

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 23071832115

Registration Type: LAND CHARGE

Registration Date: 2023-Jul-18

Registration Status: Current

Registration Term: Infinity

Exact Match on:

Debtor

No: 1

Debtor(s)

Block

Status

1 AVILA ENERGY CORPORATION
SUITE 201 - 1439 17TH AVENUE SE
CALGARY, AB T2G 1J9

Current

Secured Party / Parties

Block

Status

1 MARC GIROUARD INVESTMENTS INC.
27 WESTSHORE DRIVE
POINTE-DU-CHENE, NB E4P 5J6
Email: marclouisgirourd@hotmail.com

Current

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 23082529113

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2023-Aug-25

Registration Status: Current

Expiry Date: 2025-Aug-25 23:59:59

Issued in Calgary Judicial Centre

Court File Number is 1501-05064

Judgment Date is 2015-Apr-29

This Writ was issued on 2023-Aug-25

Type of Judgment is Other

Original Judgment Amount: \$17,305.22

Costs Are: \$222.68

Post Judgment Interest: \$1,561.66

Current Amount Owing: \$19,089.56

Exact Match on:

Debtor

No: 1

Solicitor / Agent

MARR. GREGORY Q.
4304 19 AVENUE SW
CALGARY, AB T3E 0G8
Phone #: 403 680 2160
Email: gqmarr@shaw.ca

Debtor(s)

Block

1 AVILA ENERGY CORPORATION
201 1439 17 AVENUE SE
CALGARY, AB T2H 1J9

Status

Current

Block

2 PETRO VIKING ENERGY INC.
201, 1439 17 AVENUE SE
CALGARY, AB T2H 1J9

Status

Current

Search ID #: Z17893479

Creditor(s)

Block

Status

Current

1 MARR, GREGORY, Q.
4304 19 AVENUE SW
CALGARY, AB T3E 0G8
Email: gqmarr@shaw.ca

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 23091413631

Registration Type: SECURITY AGREEMENT

Registration Date: 2023-Sep-14

Registration Status: Current

Expiry Date: 2025-Sep-14 23:59:59

Exact Match on:

Debtor

No: 1

Amendments to Registration

23110327622

Amendment

2023-Nov-03

Debtor(s)

Block

Status

1 AVILA ENERGY CORPORATION
201-1439 17 AVENUE SE
CALGARY, AB T2G 1J9

Current

Secured Party / Parties

Block

Status

1 ENERFLEX LTD.
4700 47 STREET SE
CALGARY, AB T2B 3R1
Phone #: 403 236 6654
Email: SMCKENZIE@ENERFLEX.COM

Deleted by
23110327622

Block

Status

2 BULL MOOSE CAPITAL
500-505 8 AVE SW
CALGARY, AB T2P 1G2
Email: SKOLBER@BULLMOOSECAPITAL.CA

Current by
23110327622

Collateral: General

Block

Description

Status

1 UNIT 31403 - EQUIPMENT # 500002187 - 203HP RECIP COMPRESSOR PKG -
LOCATED AT 07-09-047-27W4M

Current

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 23092129665

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2023-Sep-21

Registration Status: Current

Expiry Date: 2025-Sep-21 23:59:59

Issued in Calgary Judicial Centre

Court File Number is 1501-05064

Judgment Date is 2015-Apr-29

This Writ was issued on 2023-Sep-21

Type of Judgment is Other

Original Judgment Amount: \$17,427.58

Costs Are: \$222.68

Post Judgment Interest: \$1,561.66

Current Amount Owing: \$19,211.92

Exact Match on:

Debtor

No: 1

Solicitor / Agent

GERGORY Q. MARR
4304 - 19 AVENUE SW
CALGARY, AB T3E 0G8
Phone #: 403 680 2160
Email: gqmarr@shaw.ca

Debtor(s)

Block

1 AVILA ENERGY CORPORATION
201 1439 17 AVENUE SE
CALGARY, AB T2H 1J9

Status

Current

Block

2 PETRO VIKING ENERGY INC.
201, 1439 17 AVENUE SE
CALGARY, AB T2H 1J9

Status

Current

Search ID #: Z17893479

Creditor(s)

Block

Status

Current

1 MARR, GREGORY, Q
4304 19 AVENUE SW
CALGARY, AB T3E 0G8
Email: gqmarr@shaw.ca

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 24030124972

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2024-Mar-01

Registration Status: Current

Expiry Date: 2026-Mar-01 23:59:59

Issued in St. Paul Judicial Centre

Court File Number is 2314 00317

Judgment Date is 2024-Feb-23

This Writ was issued on 2024-Mar-01

Type of Judgment is Other

Original Judgment Amount: \$35,224.61

Costs Are: \$756.25

Post Judgment Interest: \$1,997.67

Current Amount Owing: \$37,978.53

Exact Match on:

Debtor

No: 1

Solicitor / Agent

CLEMENTS & SMITH (DONALD RICHARD SMITH)

#103, 5004 18 ST

LLOYDMINSTER, AB T9V 1V4

Phone #: 780 875 7999

Fax #: 780 875 1020

Reference #: 19151 DRS

Email: donssmith@clementsllaw.ca

Debtor(s)

Block

Status

Current

1 AVILA ENERGY CORPORATION
201 - 1439 17 AVE SE
CALGARY, AB T2G 1J9

Creditor(s)

Block

Status

Current

1 ROYAL WELL SERVICING LTD.
5103 - 65 STREET
LLOYDMINSTER, AB T9V 2E8

Search ID #: Z17893479

Email: donsmith@clementsllaw.ca

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 24042914739

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2024-Apr-29

Registration Status: Current

Expiry Date: 2026-Apr-29 23:59:59

Issued in Calgary Judicial Centre

Court File Number is 2301407989

Judgment Date is 2024-Mar-14

This Writ was issued on 2024-Apr-25

Type of Judgment is Other

Original Judgment Amount: \$98,656.97

Costs Are: \$4,850.00

Post Judgment Interest: \$524.32

Current Amount Owing: \$104,019.06

Exact Match on:

Debtor

No: 1

Amendments to Registration

24073141659

Distribution

2024-Jul-31

Solicitor / Agent

CHAPMAN RIEBEEK LLP
4802 ROSS ST
RED DEER, AB T4N 1X4

Phone #: 403 346 6603

Fax #: 403 340 1280

Reference #: RDR041/40715

Email: info@chapmanriebeek.com

Debtor(s)

Block

Status

Current

1 AVILA ENERGY CORPORATION
201-1439 17 AVE SE
CALGARY, AB T2G 1J9

Search ID #: Z17893479

Block

2 AVILA EXPLORATION & DEVELOPMENT CANADA LTD.
20 SILVERSTONE PLACE NW
CALGARY, AB T3B 4Y9

Status

Current

Creditor(s)

Block

1 2344963 ALBERTA LTD.
243240 RANGE ROAD 32
CALGARY, AB T3Z 2E3
Phone #: 403 346 6603 Fax #: 403 340 1280
Email: info@chapmanriebbek.com

Status

Current

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 24081926272

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2024-Aug-19

Registration Status: Current

Expiry Date: 2026-Aug-19 23:59:59

Issued in Red Deer Judicial Centre

Court File Number is 2410-00058

Judgment Date is 2024-Mar-13

This Writ was issued on 2024-Aug-19

Type of Judgment is Other

Original Judgment Amount: \$116,901.96

Costs Are: \$1,301.69

Post Judgment Interest:

Current Amount Owing: \$118,203.65

Exact Match on:

Debtor

No: 1

Solicitor / Agent

C.E. FORGUES & COMPANY

#200, 6784 - 65 AVE

RED DEER, AB T4P 1A5

Phone #: 403 342 7044

Fax #: 403 342 7055

Reference #: RDR144/1449

Email: chris@forgeslaw.com

Debtor(s)

Block

Status

Current

1 AVILA ENERGY CORPORATION
#201, 1439 -17 AVENUE SE
CALGARY, AB T2G 1J9

Creditor(s)

Block

Status

Current

1 TERROCO INDUSTRIES LTD.
#200, 6784 - 65 AVENUE
RED DEER, AB T4P 1A5

Search ID #: Z17893479

Email: chris@forgueslaw.com

Search ID #: Z17893479

Business Debtor Search For:

AVILA ENERGY CORP.

Search ID #: Z17893479

Date of Search: 2024-Sep-30

Time of Search: 09:42:52

Registration Number: 24081926829

Registration Type: WRIT OF ENFORCEMENT

Registration Date: 2024-Aug-19

Registration Status: Current

Expiry Date: 2026-Aug-19 23:59:59

Issued in Red Deer Judicial Centre

Court File Number is 2410-00059

Judgment Date is 2024-Mar-06

This Writ was issued on 2024-Aug-19

Type of Judgment is Other

Original Judgment Amount: \$85,462.25

Costs Are: \$1,301.69

Post Judgment Interest: \$0.00

Current Amount Owing: \$86,763.94

Exact Match on:

Debtor

No: 1

Solicitor / Agent

C.E. FORGUES & COMPANY

#200, 6784 - 65 AVENUE

RED DEER, AB T4P 1A5

Phone #: 403 342 7044

Fax #: 403 342 7055

Reference #: RDR144/1450

Email: chris@forgeslaw.com

Debtor(s)

Block

Status

1 AVILA ENERGY CORPORATION
#201, 1439 - 17 AVENUE SE
CALGARY, AB T2G 1J9

Current

Creditor(s)

Block

Status

1 TERROCO INDUSTRIES LTD.
#200, 6784 - 65 AVENUE
RED DEER, AB T4P 1A5

Current

Search ID #: Z17893479

Email: chris@forgueslaw.com

Result Complete