



AVILA ENERGY CORPORATION

(Formerly Petro Viking Energy Inc.)

Amended and Restated

Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian Dollars)

- Independent Auditor's Report
- Statements of Financial Position
- Statements of Changes in Shareholders' Equity (Deficiency)
- Statements of Loss and Comprehensive Loss
- Statements of Cash Flows
- Notes to the Financial Statements

Independent Auditor's Report

To the Shareholders of:

Avila Energy Corporation
(Formerly Petro Viking Energy Inc.)

Opinion

We have audited the financial statements of Avila Energy Corporation ("the Company"), which comprise the statement of financial position as at December 31, 2021 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 *Auditor's 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 Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$1,415,186 during the year ended December 31, 2021, and as of that date, had accumulated losses since inception of \$9,939,443. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 30, 2021.

Other Information

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

Our opinion on the financial statements does not cover the other information and will 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 auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Amended and restated Financial Statements

We draw attention to Note 20 to the amended and restated financial statements, which explains that the financial statements for the year ended December 31, 2021 have been amended from those on which we originally reported on April 30, 2022. Our opinion is not modified in respect of this matter.

SERVICE

INTEGRITY

TRUST



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Auditor's 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 auditor's 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 judgment 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 auditor's 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 auditor's 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.

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 auditor's report is Mike Kao.

WDM

Chartered Professional Accountants

Vancouver, B.C.

May 6, 2022



Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Statements of Financial Position – Amended and Restated

As at December 31, 2021 and 2020

(Expressed in Canadian Dollars)

	Note	2021 \$	2020 \$
ASSETS			
CURRENT			
Cash		413,337	136,072
Restricted Cash		-	935,500
Advances	5	1,586,601	382,465
Joint Venture Receivable		158,565	-
Sales Tax Receivable		21,506	6,847
Prepaid Expense		28,646	163,533
		<u>2,208,655</u>	<u>1,624,417</u>
NON-CURRENT			
Property and Equipment	6	837,875	773,011
Exploration and Evaluation Assets	7	<u>1,537,296</u>	<u>281,600</u>
		<u>4,583,826</u>	<u>2,679,028</u>
LIABILITIES			
CURRENT			
Accounts Payable and Accrued Liabilities	9	305,699	426,308
Convertible Debenture	12	-	29,898
Flow-Through Share Premium Liability	10	-	21,250
Subscription Liability		-	935,500
Promissory Notes	11	<u>67,429</u>	<u>-</u>
		373,128	1,412,956
NON-CURRENT			
Convertible Debentures	12	521,039	673,628
Derivative Liability	12	729,318	801,499
Decommissioning Provision	8	282,594	164,325
Promissory Notes	11	<u>-</u>	<u>175,362</u>
		<u>1,906,079</u>	<u>3,227,770</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share Capital	14	9,023,278	6,078,148
Contributed Surplus		3,358,412	1,767,125
Convertible Debentures – Equity Portion		235,500	2,292
Shares to Be Issued		-	127,950
Deficit		<u>(9,939,443)</u>	<u>(8,524,257)</u>
		<u>2,677,747</u>	<u>(548,742)</u>
		<u>4,583,826</u>	<u>2,679,028</u>

Going Concern (Note 1(a))

Commitments (Note 19)

Approved on behalf of the Board:

“Leonard Van Betuw”

Leonard Van Betuw, Director and CEO

“Michel Lebeuf”

Michel Lebeuf, Jr, Director

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Statements of Changes in Shareholders' Equity (Deficiency) – Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Share Issuance Costs	Contributed Surplus	Convertible Debentures - Equity Portion	Shares to be Issued	Deficit	Total
			\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019		8,877,623	6,663,083	(929,906)	1,617,760	2,292	-	(7,575,550)	(222,321)
Issued Shares for Cash		3,191,667	437,754	-	62,247	-	-	-	500,001
Warrants Issued as Finder's Fee		-	-	(17,021)	62,230	-	-	-	45,209
Issued Shares for Services		670,000	-	-	24,888	-	80,400	-	105,288
Cash For Shares to Be Issued		317,000	-	-	-	-	60,050	-	60,050
Share Issuance Costs		-	-	(67,012)	-	-	-	-	(67,012)
Flow-Through Share Premium		-	(8,750)	-	-	-	(12,500)	-	(21,250)
Net Comprehensive Loss		-	-	-	-	-	-	(948,707)	(948,707)
Balance, December 31, 2020		13,056,290	7,092,087	(1,013,939)	1,767,125	2,292	127,950	(8,524,257)	(548,742)
Issued Shares for Cash	14(a)	20,299,167	4,352,883	-	-	-	(60,050)	-	4,292,833
Issued Shares for Services	14(a)	-	167,500	-	-	-	(80,400)	-	87,100
Warrants Issued	14(c)	-	(1,391,238)	-	1,391,238	-	-	-	-
Warrants Issued as Finder's Fee		-	-	(178,056)	178,056	-	-	-	-
Warrants Exercised	14(c)	373,300	93,994	-	(23,000)	-	-	-	70,994
Conversion Of Debentures	14(a)	1,922,584	356,546	-	-	(2,292)	-	-	354,254
Share-Based Compensation	14(b)	-	-	-	44,993	-	-	-	44,993
Share Issuance Costs		-	-	(353,874)	-	-	-	-	(353,874)
Flow-Through Share Premium		-	(102,625)	-	-	-	12,500	-	(90,125)
Equity Portion of Debentures		-	-	-	-	235,500	-	-	235,500
Net Comprehensive Loss		-	-	-	-	-	-	(1,415,186)	(1,415,186)
Balance, December 31, 2021		35,651,341	10,569,147	(1,545,869)	3,358,412	235,500	-	(9,939,443)	2,677,747

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Statements of Loss and Comprehensive Loss – Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars)

	Note	2021 \$	2020 \$
OIL AND NATURAL GAS REVENUE	15	301,340	-
OPERATING COSTS		(116,339)	-
ROYALTY EXPENSE		(34,830)	-
		<hr/>	<hr/>
		150,171	-
EXPENSES			
Accretion		110,661	90,702
Consulting Fees	13(a)	756,863	363,912
Depletion	6	44,252	-
Finance Fees		-	11,284
Interest		68,751	51,044
Listing Fees		44,667	5,995
Management Fees	13(a)	42,000	54,910
Office and Administration		31,040	19,553
Professional Fees	13(a)	294,371	163,395
Share-based Compensation	14(b)	44,993	-
Shareholder and Trust Services		25,139	28,165
		<hr/>	<hr/>
		(1,462,737)	(788,960)
LOSS BEFORE OTHER ITEMS		<hr/>	<hr/>
		(1,312,566)	(788,960)
Change in Derivative Liability		(166,030)	(220,508)
Change in Fair Market Value of Convertible Debenture		(88,236)	-
Gain on Derecognition of Related Party Liabilities		-	48,975
Gain on Settlement of Debt		27,771	-
Reversal of Flow-Through Share Premium Liability	10	123,875	-
Reversal of Payables		-	11,786
		<hr/>	<hr/>
		(102,620)	(159,747)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		<hr/>	<hr/>
		1,415,186	948,707
Basic and Diluted Loss Per Share		<hr/>	<hr/>
		0.06	0.10
Weighted Average Number of Common Shares Outstanding, Basic and Diluted		<hr/>	<hr/>
		25,541,590	9,307,679

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Statements of Cash Flows – Amended and Restated

As at December 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
OPERATING ACTIVITIES		
Net Loss and Comprehensive Loss for the Year	(1,415,186)	(948,707)
Items Not Affecting Cash:		
Interest Expense	68,751	51,044
Reversal of Payable	-	(11,786)
Shares and Warrants Issued for Services	44,993	105,288
Accretion Expense	110,661	90,702
Change in Derivative Liability	166,030	220,508
Reversal of Flow-Through Share Premium Liability	(123,875)	-
Depletion	44,252	-
Gain on settlement of debt	(27,771)	-
Change in Fair Market Value of Convertible Debenture	88,236	-
Gain on Loan Discount	-	(48,975)
	<u>(1,043,909)</u>	<u>(541,926)</u>
Changes in Non-Cash Working Capital Accounts:		
Sales Tax Receivable	(14,659)	4,800
Prepayments and Other Receivables	(158,565)	7,500
Accounts Payables and Accrued Liabilities	(66,476)	211,831
	<u>(1,283,609)</u>	<u>(317,795)</u>
INVESTING ACTIVITIES		
Increase in Advances	(1,720,000)	(382,465)
Acquisition of E&E Assets	(739,831)	-
	<u>(2,459,831)</u>	<u>(382,465)</u>
FINANCING ACTIVITIES		
Shares Issued for Cash	4,292,833	560,050
Subscriptions to Units	-	935,500
Warrants Exercised	70,994	-
Restricted Cash	-	(935,500)
Share Issuance Costs	(190,342)	(110,450)
Debentures Issued for Debt (net)	-	385,417
Decrease in Promissory Notes	(152,780)	-
	<u>4,020,705</u>	<u>835,017</u>
CHANGE IN CASH	277,265	134,757
CASH, BEGINNING OF YEAR	136,072	1,315
CASH, END OF YEAR	<u>413,337</u>	<u>136,072</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Promissory Notes Issued in Accounts Payable	-	217,195
Share Issuance Costs in Accounts Payable	-	74,884

The accompanying notes are integral part of these financial statements.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements - Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 1 - CORPORATION INFORMATION

Avila Energy Corporation (formerly Petro Viking Energy Inc.) (“the Company”) was incorporated under the laws of the province of Alberta on January 13, 2010. The Company’s common shares are listed for trading on the Canadian Securities Exchange with the ticker symbol “VIK”. On December 3, 2021, the Company changed its name to Avila Energy Corporation from Petro Viking Energy Inc. as approved by the Company’s shareholders.

The records office and principal address is located at 5940 Macleod Trail, Suite 500, Calgary, Alberta, T2H 2G4.

a) Going concern

The financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to going concern, which assumes continuity of operation and realization of assets and settlement of liabilities in the normal course of business. As at December 31, 2021, the Company reported a loss of \$1,415,186 (2020 - \$948,707), a cumulative deficit of \$9,939,443 (2020 - \$8,524,257) and a working capital of \$1,835,527 (2020 – working capital of \$211,461). The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing that will provide the Company with a revenue stream. Even if the Company has been successful in the past, there is no assurance that it will manage to obtain additional financing in the future.

These conditions indicate a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

b) COVID-19

The outbreak of the COVID-19 virus and the worldwide pandemic has impacted the Company’s plans and activities. The Company may face disruption to operations, supply chain delays, travel and trade restrictions, and impacts on economic activity in affected countries or regions can be expected and are difficult to quantify. Regional disease outbreaks and pandemics represent a serious threat to hiring and maintaining a skilled workforce and could be a major health-care challenge for the Company. There can be no assurance that the Company’s personnel will not be impacted by these regional disease outbreaks and pandemics and ultimately that the Company would see its workforce productivity reduced or incur increased medical costs and insurance premiums as a result of these health risks.

In addition, the pandemic has created a dramatic slowdown in the global economy. The duration of the outbreak and the resulting travel restrictions, social distancing recommendations, government response actions, business disruptions and business closures may have an impact on the Company’s exploration operations and access to capital. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic’s impact on global industrial and financial markets which may reduce metal prices, share prices and financial liquidity thereby severely limiting access to essential capital.

NOTE 2 - BASIS OF PREPARATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

These audited financial statements were approved and authorized for issue by the Audit Committee and Board of Directors on May 6, 2022.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these financial statements is presented in Canadian dollars, except as otherwise stated.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements - Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 2 - BASIS OF PREPARATION (Continued)

b) Basis of Measurement (Continued)

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of assets or liabilities affected in future periods.

In particular, the Company has identified the following areas where significant judgments and estimates are required. Changes in these judgments and estimates may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and in the relevant notes to the financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

a) 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.

b) 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.

c) Property and Equipment

Valuation of Plant and Equipment

The amounts recorded for depletion and depreciation of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

For impairment testing, property and equipment assets are aggregated into cash generating units ("CGUs"), based on management's judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Fair Value of Plant and Equipment

The market value of property and equipment assets is the estimated amount for which the assets could be exchanged on the acquisition date 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 interests (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

Avila Energy Corporation

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Notes to the Financial Statements - Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

c) Property and Equipment (Continued)

Impairment of Plant and Equipment

The determination of the recoverable amount for value in use requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential, recent transactions involving similar projects, and future operating performance. An oil and gas property's fair value less costs to sell requires the use of estimates as to the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

d) Decommissioning Provision

The value of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Management uses judgment to assess the Corporation's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Corporation's production activity is required to follow various environmental laws and regulations in Canada. The assessment of decommissioning provisions is based on management's understanding of the current legal and environmental requirements and third-party engineering valuations.

e) Deferred Tax Assets

Judgment is required to determine which types of arrangements are a tax on income in contrast to an operating cost. Judgment is also required in determining whether deferred income tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate enough taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditures, dividends and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in income tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain income tax deductions in future periods.

f) 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 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.

g) Common Shares

As the Company's shares has been temporarily halted for 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.

Avila Energy Corporation

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Notes to the Financial Statements - Amended and Restated

For the Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

h) 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 judgements 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 business and the Company obtains control of the business inputs and processes.

i) Cash Generating Units

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. As at December 31 2021, the Company had one CGU (2020 – one). The Company reviews the composition of its CGU at each reporting date to assess whether any changes are required considering new facts and circumstances.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

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

Restricted cash relates to funds held in escrow until the escrow conditions are met for the subscription receipts issued during the year. The funds will be released once the escrow conditions are met.

b) 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 are required to be separated and accounted for as individual derivative financial instruments or equity components.

In circumstances where an equity component is identified, the liability component is recognized at the fair value of a similar liability that does not have a conversion option and the equity component is recognized as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible debenture is measured at amortized cost using the effective interest method. The equity component is not re-measured subsequent to initial recognition.

In circumstances where the convertible debentures contain embedded derivatives that are to be separated from the debenture host contracts, the total proceeds received are first allocated to the fair value of the derivative financial instruments determined using the Black-Scholes Model. The remaining proceeds, if any, are then allocated to the debenture host contracts, usually resulting in those instruments being recorded at a discount from their principal amount. This discount is accreted over the expected life of the instruments to profit (loss) using the effective interest method. The Black-Scholes method uses inputs such as discount rates, volatility, share price and risk-free rate.

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.

Avila Energy Corporation

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Notes to the Financial Statements - Amended and Restated

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) 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.

d) Plant and Equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning provisions and transfers from exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income (loss) as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income (loss) as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the statement of loss and comprehensive loss.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Plant and Equipment (Continued)

i) Depletion

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, considering estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

e) Impairment of Long-Lived Assets

The Company assesses at each reporting date whether there is an indication that an asset or cash generating unit (“CGU”) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s or CGU’s recoverable amount. The recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell (“FVLCS”) and its value in use (“VIU”). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from the other assets or groups of assets, in which case, the asset is tested as part of a larger CGU. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In calculating the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset/CGU. In determining FVLCS, recent market transactions are considered.

If no such transactions can be identified, an appropriate valuation model is used, which would generally be determined based on the present value of the estimated future cash flows arising from the continued use and eventual disposal of the asset. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses on continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued when revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s/CGU’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and is recognized through other comprehensive income.

f) 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.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Share-Based Payment Transactions

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees, the fair value is measured at grant date and each tranche is recognized separately on a straight-line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model considering the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. On expiry, the fair value of share options is reversed to deficit.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

h) 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 flow-through 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.

i) 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.

j) Financial Instruments

i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Financial Instruments (continued)

The following table shows the original classification under IFRS 9:

<u>Financial assets/liabilities</u>	<u>Classification</u>
Cash	Amortized cost
Restricted Cash	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Subscription Liability	Amortized cost
Convertible Debenture	Amortized cost
Derivative Liability	FVTPL
Promissory Notes Payable	Amortized cost

ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Financial Instruments (continued)

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

k) Borrowing Costs

Borrowing costs that are related to the issuance of new debt are recorded net of the associated debt and recognized into income using the effective interest method over the life of the debt. Discounts where proceeds received are less than par value of the debt are recorded at a reduction to long-term debt and are amortized using the effective interest method and included in borrowing costs.

l) Business Combination

Business combinations are accounted for using the acquisition method where the acquisition of companies and assets meet the definition of a business under IFRS. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in income. Associated transaction costs are expensed when incurred.

m) Jointly Controlled Assets

Many of the Company's oil and natural gas activities involve jointly controlled assets and are conducted under joint non-operating agreements. The financial statements include the Company's share of these jointly controlled assets and liabilities.

n) Decommissioning Provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's property and equipment. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated property and equipment and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to financing expenses. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any difference between the recorded provision and the actual costs incurred is recorded as a gain or loss in the statement of loss and comprehensive loss.

o) Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted. Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where applicable.

Deferred tax is provided using the statement of financial position method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Income Tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused income tax credits and any unused income tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused income tax credits and unused income tax losses can be utilized.

NOTE 5 – ADVANCES

As at December 31, 2021, the Company has advanced a total of \$1,586,601 to its joint partner, Avila Exploration and Development Canada Ltd for the continuing development of assets and expenditures to be incurred under a joint venture agreement dated December 9, 2019. These expenditures may qualify as eligible flow-through expenditures for which the flow-through tax credits are passed on to its flow-through investors.

NOTE 6 - PROPERTY AND EQUIPMENT

	Natural Gas and Liquids Interests
	\$
COST	
Balance, December 31, 2020	773,011
Change in Estimates in Asset Retirement Obligation	109,116
	<hr/>
Balance, December 31, 2021	882,127
	<hr/>
ACCUMULATED DEPLETION	
Balance, December 31, 2020	-
Depletion	44,252
	<hr/>
Balance, December 31, 2021	44,252
	<hr/>
NET BOOK VALUE	
Balance, December 31, 2020	<hr/> 773,011
Balance, December 31, 2021	<hr/> 837,875

NOTE 7 – EXPLORATION AND EVALUATION (“E&E”) ASSETS

	\$
Balance, December 31, 2020	281,600
Acquisition	1,255,696
	<hr/>
Balance, December 31, 2021	<hr/> 1,537,296

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NOTE 8 – DECOMMISSIONING OBLIGATION

The Company's estimated net present value of decommissioning liabilities is \$282,593 as at December 31, 2021 (2020 - \$164,325), based on an undiscounted total future liability of \$412,682 (2020 - \$221,962). These payments are expected to be incurred over a period of 17 years with the majority of costs to be incurred in 2038. At December 31, 2021, risk-free rate 1.66% (2020 - 1.21%) and an inflation rate of 3.4% (2020 - 2%) were used to calculate the net present value of the decommissioning liabilities.

As at December 31, 2021 and 2020, the Company has the following reclamation provision:

	2021	2020
	\$	\$
Balance, beginning of year	164,325	164,325
Accretion Expenses	9,153	-
Change in Estimates	109,116	-
Balance, end of year	282,594	164,325

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable – trade	229,337	371,318
Interest Payable	76,362	54,990
	305,699	426,308

NOTE 10 – FLOW-THROUGH SHARE PREMIUM LIABILITY

Opening Balance	21,250	-
Flow-Through Share Premium Liability obligation due to issuance of Flow-Through Shares	102,625	21,250
Settlement of flow-through share premium liability pursuant to incurring qualified expenditures	(123,875)	-
Balance, end of year	-	21,250

NOTE 11 – PROMISSORY NOTES

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.

For accounting purposes, the promissory notes were recorded at a fair market value of \$168,220 that was calculated as being equivalent to the discounted cash flows for the promissory notes assuming an effective interest rate of 20%.

During the year ended December 31, 2021, an amount of \$142,780 was applied against the balance of the promissory notes.

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NOTE 12 – CONVERTIBLE DEBENTURES

	Convertible Debenture - Liability Component	Derivative Liability	Equity Component	Total
	\$	\$	\$	\$
Balance, December 31, 2019	384,264	429,191	2,292	815,747
Proceeds, net of transaction costs	248,200	151,800	-	400,000
Fair value change	-	220,508	-	220,508
Accretion expense	71,062	-	-	71,062
Balance, December 31, 2020	703,526	801,499	2,292	1,507,317
Conversions	(100,209)	(230,934)	(2,292)	(333,435)
Fair value change	(138,937)	158,753	235,500	255,316
Accretion expense	56,659	-	-	56,659
Balance, December 31, 2021	521,039	729,318	235,500	1,485,875
			2021	2020
			\$	\$
Debenture (a)			-	29,898
Debenture (b)			282,628	411,764
Debenture (c)			238,411	261,864
			521,039	703,526
Short-term			-	29,898
Long-term			521,039	673,628
Derivative liability (b)			-	351,179
Derivative liability (c)			729,318	450,320
			729,318	801,499

- (a) On November 20, 2018, the Company received cash proceeds of \$30,000 for the issuance of convertible debentures. As at December 31, 2018, the cash proceeds were considered to be subscription payables. The debentures certificates were issued on February 1, 2019. The debentures are unsecured and bear simple interest at 15% per annum with principal and interest payable on maturity being two years from the date of issuance. The debentures are convertible into units at a conversion price of \$0.05 per share at any time during the term of the debentures. Each unit will be comprised of one common share and one common share purchase warrant exercisable for common share at a price of \$0.05 per warrant for a period of 60 months.

For accounting purposes, the convertible debentures have been separated into 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 issue 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 issue 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 \$2,292. The value of the liability component was determined to be \$27,708.

During the year ended December 31, 2021, the convertible debentures matured, and converted to 600,000 units at a conversion price of \$0.05 per unit.

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NOTE 12 – CONVERTIBLE DEBENTURES (Continued)

- (b) On December 9, 2019, the Company issued a debenture for \$500,000 as payment for the business combination in which the Company acquired 50% interest in non-operating assets. The debenture is unsecured and bears a compounded 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 issuance, the conversion feature is considered a derivative liability and is revalued each month. The value of the derivative liability as at December 31, 2020 was determined using a fair value estimation method with the following inputs: discount rate - 20%; volatility - 120%; risk-free rate - 0.18 %.

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 to \$0.25 effective March 1, 2021. As a result of the conversion price of the debentures being fixed at the time of change, the convertible debentures have been separated into 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. The value of the liability component was determined to be \$265,000. The loss on fair market value change was determined to be \$88,236.

- (c) 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.

As a result of the conversion price at maturity of the debentures not being fixed at the time of issuance, the conversion feature is considered to be a derivative liability and is revalued at each period end. The value of the derivative liability at the date of issuance and at the 2020 year-end date was determined using a fair value estimation method with the following inputs: discount rate - 20%; volatility – 118% to 119%; risk-free rate – 0.22% to 0.29 %.

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

During the year ended December 31, 2021, it was determined that the probability of the Holder waiting until maturity to convert was 0% which results in the value of the derivative liability to be \$729,318 using Black-Scholes option pricing model fair value estimation method with the following inputs: expected stock price - \$0.32; risk free interest rate – 0.81%; expected stock price volatility – 107.59%; expected dividend yield – Nil; expected option life in months – 16.

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NOTE 13 - RELATED PARTY TRANSACTIONS

Key management includes directors (executive and non-executive) and senior management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). The amounts paid by the Company for the services provided by related parties have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions are in the normal course of operations. Details of transactions between the Company and related parties, in addition to those transactions disclosed elsewhere in these financial statements, are described below.

a) Compensation of Key Management Personnel

All related party transactions were in the ordinary course of business and were measured at their exchange amount.

	2021	2020
	\$	\$
Management and consulting fees	202,725	340,773
Interest on promissory notes	6,632	3,167
	<u>209,357</u>	<u>343,940</u>

b) Amounts Due to Related Parties

Amounts due to related parties are in the normal course of business, unsecured, non-interest bearing, and have no specific terms of repayment.

As at December 31, 2021 and 2020, the Company has the following amounts due to related parties.

	2021	2020
	\$	\$
Accounts payable and accrued liabilities including management fees and interest (1)	21,734	93,903
Unsecured promissory notes due September 15, 2022, bearing interest at 5% per annum compounded semi-annually	67,429	175,362
Convertible secured debenture due July 31, 2027, bearing interest at 5% per annum, compounded semi-annually (2)	500,000	500,000
	<u>589,163</u>	<u>769,265</u>

1. A partner in a legal firm is also a director of the Company. For the year ended December 31, 2021, legal expense and share issuance cost related charges totaled \$218,936 (2020 - \$122,681). Amounts owed to the legal firm as at December 31, 2021 was \$78,648 (2020 - \$121,012).
2. The Convertible secured debenture is held by Avila Exploration and Development Canada Ltd. in which the President and Chief Executive Officer is also the President and Chief Executive Officer of the Company.

c) Participation in Private Placements

	Price	Number of Units	Proceeds
	\$		\$
January 2021 Private Placement	0.15	1,600,000	240,000
September 2021 Private Placement	0.25	124,000	31,000
		<u>1,724,000</u>	<u>271,000</u>

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NOTE 14 - SHARE CAPITAL AND RESERVES

As at December 31, 2021, there were 35,651,341 (2020 – 13,056,290) common shares issued and outstanding.

a) Common Shares

Authorized

Unlimited number of common shares, without nominal or par value.

Issued and outstanding common shares

On August 25, 2020, the Company had a share consolidation on a 2:1 basis. All disclosure of shares in the financial statements is post-consolidation.

i.) During the Year Ended December 31, 2020

- On January 8, 2020 the Company issued 83,334 units of the Company at \$0.30 for net proceeds of \$25,000. Each unit consists of one common share and one-half warrant with an 18 month term exercisable at \$0.40. Based on the residual method, a value of \$19,955 was assigned to the common shares and \$5,045 to warrants.
- On June 1, 2020, the Company entered into consulting agreement where the Company was required to issue 20,000 shares in June 2020, July 2020, August 2020, September 2020, October 2020 and November 2020 for a cumulative of 120,000 shares. On signing of the agreement, the Company was required to issue 550,000 common shares and 412,500 warrants at an exercise price of \$0.20 for a term of 3 years. These shares and warrants were formally issued after the year-end.
- On November 5, 2020, the Company issued 1,916,666 units (one common share and one-half warrant) of the Company at \$0.15 per share for gross proceeds of \$287,500.
- On December 15, 2020, the Company issued 350,000 common shares of the Company at \$0.15 per share for gross proceeds of \$52,500. Also on that date, the Company received a subscription for 67,000 common shares at \$0.15 per share for gross proceeds of \$10,050. These shares were issued after the year-end.
- On December 21, 2020, the Company issued 333,334 common shares of the Company at \$0.15 per share for gross proceeds of \$50,000.
- On December 23, 2020, the Company issued 333,333 common shares of the Company at \$0.15 per share for gross proceeds of \$50,000 and 175,000 flow-through shares at \$0.20 per share for gross proceeds of \$35,000. Also on that date, the Company received a subscription for 250,000 flow-through shares at \$0.20 per share for gross proceeds of \$50,000, these shares were issued after year end. The flow-through shares were issued at a premium of \$0.05 per share to the most recent raise by the Company. The premium was recognized as a liability of \$21,250.

ii.) During the Year Ended December 31, 2021

- On January 18, 2021, the Company issued 1,867,000 common shares at a price of \$0.15 per share for gross proceeds of \$280,050 (includes 267,000 of common shares subscribed but not issued in prior year) and 500,000 flow-through shares at a price of \$0.20 per share for gross proceeds of \$100,000 (includes 50,000 of flow-through shares subscribed but not issued in prior year) pursuant to the non-brokered private placement offering initiated on November 11, 2020. An additional premium was recognized as a liability for \$12,500.
- On February 2, 2021, the Company issued 670,000 common shares at a price of \$0.30 per share in connection with the consulting agreement dated June 1, 2020. The Company recorded a corresponding gain on the settlement of debt of \$27,771.
- On February 10, 2021, the Company issued 660,001 common shares at a price of \$0.15 per common share for gross proceeds of \$99,000 pursuant to the non-brokered private placement offering initiated on November 11, 2020.
- On March 9, 2021, the Company exchanged the subscription receipts in the amount of \$935,500 from the November 5, 2020 Offering Memorandum as the conditions for the shares being released were met by the completed listing of the Company on the CSE on March 5, 2021. As a result of this exchange, the Company issued 3,833,333 common shares at a price of \$0.15 and 1,916,667 warrants at an exercise price of \$0.20 in the Company and 1,802,500 flow-through shares at a price of \$0.20 per share. The premium was recognized as a liability of \$90,125.

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NOTE 14 - SHARE CAPITAL AND RESERVES (Continued)

a) Common Shares (Continued)

- On March 15, 2021 the Company made a non-brokered private placement offering up to a maximum of \$1,250,000 by the issuance of 5,000,000 units. Each unit is comprised of one common share in the share capital of the Company as a price of \$0.25 per common share and one half warrant, each whole warrant entitling its holder to purchase one additional share at a price of \$0.35 for a period of 24 months following the closing.
- On March 31, 2021 the Company issued 988,406 common shares for debt. Of these Shares, 100,000 Shares were issued at \$0.10, 793,062 shares were issued at \$0.05 per share and 95,344 shares were issued at \$0.025 per share. Each of the shares was priced in accordance with the conversion price as determined in each debt instrument.
- On May 21, 2021, the Company issued 1,753,333 common shares at a price of \$0.25 per common share for gross proceeds of \$438,333 pursuant to the non-brokered private placement offering initiated on March 15, 2021.
- On June 14, 2021, the Company issued 73,698 common shares at a price of \$0.18 per common share for conversion of outstanding debenture interest. The debenture agreement provides for the holder of each debenture to convert outstanding interest at a price equivalent to the ten-day Weighted Volume Average Price at the date of conversion.
- On June 17, 2021, the Company issued 24,000 common shares at a price of \$0.15 per common share for the conversion of broker warrants.
- On June 23, 2021, the Company issued 103,100 common shares at a price of \$0.15 per common share for the conversion of broker warrants.
- On June 28, 2021, the Company issued 51,050 common shares at a price of \$0.15 per common share for the conversion of broker warrants.
- On July 7, 2021, the Company issued 150,000 common shares at \$0.25 per common share for the exercise of warrants.
- On July 15, 2021, the Company issued 45,150 common shares at \$0.15 per common share for the exercise of broker warrants.
- On August 19, 2021 the Company issued 100,000 common shares for debt issued at \$0.10 per share in accordance with the conversion price as determined in each debt instrument.
- On September 21, 2021, the Company closed the Private Placement and issued 10,200,000 common units from its share capital at \$0.25 per unit for gross proceeds of \$2,550,000. Each common unit being comprised of one (1) Common Share and one-half (1/2) common share purchase warrant, each full warrant entitling the holder thereof to purchase one (1) additional Common Share at a price of \$0.35 for a period of twenty-four (24) months from the date of issuance in four tranches.
- On October 1, 2021 the Company issued 500,000 common shares for debt issued at \$0.10 per share in accordance with the conversion price as determined in each debt instrument.
- On November 12, 2021, the Company issued 260,480 common shares for debt issued at \$0.10 per share in accordance with the conversion price as determined in each debt instrument.

b) Stock Options

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.

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NOTE 14 - SHARE CAPITAL AND RESERVES (Continued)

b) Stock Options (Continued)

	Number of Options	Weighted average exercise price \$
Outstanding and Exercisable, December 31, 2020	-	-
Issued	200,000	0.35
Outstanding and Exercisable, December 31, 2021	200,000	0.35

During the year ended December 31, 2021, the Company recognized share-based compensation of \$44,993 (2020 - \$nil) using the Black-Scholes option pricing model for stock options granted and vested during the period. The stock options are exercisable at \$0.35 per common share and expire on October 31, 2024.

c) Share Purchase Warrants

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of Warrants	Weighted average exercise price \$
Outstanding and Exercisable, December 31, 2019	-	-
Issued	4,016,700	0.24
Outstanding and Exercisable, December 31, 2020	4,016,700	0.24
Issued	9,382,961	0.29
Exercised	(373,300)	0.18
Expired	(41,667)	0.40
Outstanding and Exercisable, December 31, 2021	12,984,694	0.28

As at December 31, 2021, the Company had the following share purchase warrants outstanding and exercisable:

Expiry date	Number of Warrants	Exercise Price \$
November 5, 2022	2,874,998	0.20
May 6, 2023	876,666	0.35
June 1, 2023	412,500	0.40
July 7, 2023	1,850,000	0.25
August 26, 2023	168,200	0.35
September 9, 2023	1,160,000	0.35
September 13, 2023	4,088,680	0.35
September 20, 2023	100,000	0.35
September 23, 2023	309,200	0.35
November 5, 2023	444,450	0.15
January 31, 2024	100,000	0.20
February 1, 2026	600,000	0.05
	12,984,694	0.28

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NOTE 14 - SHARE CAPITAL AND RESERVES (Continued)

c) Share Purchase Warrants (Continued)

The value of the warrants determined using the Black-Scholes option pricing model with the range of the following assumptions:

	2021	2020
Risk free interest rate	0.29% - 0.91%	0.26%-1.63%
Expected stock price volatility	112%-128%	118%-140%
Expected dividend yield	Nil	Nil
Expected option life in months	24-58	18-36

NOTE 15 – OIL AND NATURAL GAS SALES

The following table represents the Company's 50% interest in oil and natural gas sales for the year ended December 31, 2021 and 2020:

	2021	2020
	\$	\$
Oil	7,817	-
Gas	230,349	-
Liquids	63,174	-
	<u>301,340</u>	<u>-</u>

NOTE 16 - INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

Net loss for the year	(1,415,186)	(948,707)
Expected income tax recovery	(339,645)	(227,690)
Permanent differences	8,107	(9,697)
Change in unrecognized deductible temporary differences	331,538	237,387
Total income tax expense	<u>-</u>	<u>-</u>

Significant components of the Company's unrecognized deductible temporary differences and tax losses are as follows:

Property, plant and equipment	(362,608)	(127,560)
Promissory notes payable	-	(4,811)
Convertible debentures	(65,151)	(50,429)
Non-capital losses	427,759	182,800
Unrecognized temporary differences and non-capital losses	<u>-</u>	<u>-</u>

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.

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NOTE 16 - INCOME TAXES (Continued)

As at December 31, 2021, the Company's unrecognized Canadian non-capital losses expire as follows:

	\$
2030	185,847
2031	332,320
2032	290,656
2033	584,259
2034	305,171
2035	5,099,852
2036	105,006
2037 to 2041	<u>2,440,218</u>
	<u>9,343,329</u>

NOTE 17 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company's risk management policies are established by the Board of Directors 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 policy.

The Company's financial instruments include cash, accounts payable and accrued liabilities, subscriptions to convertible debentures, debenture and promissory notes payable, derivative liability and convertible debentures. The carrying values of cash, accounts payable and accrued liabilities and subscriptions to convertible debentures approximate their fair values due to their relatively short periods to maturity.

The carrying value of convertible debentures approximates its fair market value as the interest rates are based on market rates.

Fair values

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Derivative liability is considered to be a Level 3 classification as inputs are not based on observable market data. Please see note 12 for details on inputs.
- There were no transfers between levels during the year.
- The Company has exposure to liquidity risk and market risk because of its financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financing to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities.

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.

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NOTE 17 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities.

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 price 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 flows or earnings.

Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's cash flows, net loss and comprehensive loss, liquidity, or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures to appropriate level and to maximize returns.

Currently, the Company's long-term debts all have fixed interest rates.

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 its debt as they bear a fixed interest rate.

NOTE 18 - CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financing is dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the year ended December 31, 2021.

NOTE 19 - COMMITMENTS

On June 1, 2020, the Company entered into a 24-month term consulting agreement where it is to compensate the consultant \$6,000 per month. The consulting fee was settled with 120,000 shares for the initial 6 months.

On September 16, 2021, the Company entered into a 12-month term consulting agreement for marketing services for a monthly remuneration of \$22,500.

As a result of the issuance of flow-through shares in December 2020 and January 2021, the Company had a commitment to incur \$135,000 in qualifying flow-through expenditures. As at December 31, 2021, the Company has completed the commitment and spent the full \$135,000 on qualifying flow-through expenditures.

As a result of the issuance of flow-through shares in March 2021, the Company had a commitment to incur \$360,500 in qualifying flow-through expenditures. As at December 31, 2021, the Company has completed the commitment and spent the full \$360,500 on qualifying flow-through expenditures.

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NOTE 20 – AMENDED AND RESTATED FINANCIAL STATEMENTS

Subsequent to the issuance of the previously reported financial statements for the year ended December 31, 2021 (filed on SEDAR on May 2, 2022) management determined that a note describing a material proposed transaction was not disclosed.

The financial statements of the Company as at December 31, 2021 and for the year ended have been restated to include the note describing the proposed transaction as follows:

PROPOSED TRANSACTION

On June 14, 2021, the Company entered into a binding agreement for the purchase of interest in 53,835 acres (net 43,935 acres) of mineral rights (the “Acquisition”).

Under the terms of the agreement, the Purchase Price for the Acquisition will be satisfied by way of the issuance of 44,440,000 Class “A” common shares (the “Common Shares”) at \$0.60 per share and 30,000,000 convertible preferred shares (the “Convertible Shares”) convertible at a price of \$0.80 per share.

The Convertible Shares will have a term of five years and earn an accruing annual dividend at a rate of two percent payable upon conversion. The Conversion of the Convertible Shares at the election of the holder can only occur after one of three milestones has been achieved: (i) the Company exceeds the production rate of 3,000 BOE/d, (ii) the Common Shares trade at a volume weighted average price (VWAP) of more than \$1.00 per share for twenty consecutive business days, and (iii) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Shares shall automatically be redeemed on a 1:1 basis along with any accrued dividends by the issuance of Common shares.

An independent valuation based on capital commitment of \$14,300,000 for drilling determined the fair value of the Acquisition to be approximately \$26,900,000.

As of the Auditor’s report date, the Company has received conditional regulatory approval on the Acquisition; final regulatory approval has not yet been received.