AVILA ENERGY CORPORATION

Amended Interim Financial Statements

For the three months ended March 31, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

- 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

Avila Energy Corporation

Amended Statements of Financial Position
As at March 31, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

	Note	2022 $	2021 $
ASSETS			
CURRENT			
Cash		196,018	413,337
Advances	5	1,216,931	1,586,601
Joint Venture Receivable		347,429	158,565
Sales Tax Receivable		19,305	21506,
Prepaid Expense		21,484	28,646
		1,801,167	2,208,655
NON-CURRENT			
Property and Equipment	6	1,196,482	837,875
Exploration and Evaluation Assets	7	1,616,201	1,537,296
TOTAL ASSETS		4,613,850	4,583,826
LIABILITIES			
CURRENT			
Accounts Payable and Accrued Liabilities	9	266,167	305,699
Flow-Through Share Premium Liability	10	-	-
Promissory Notes	11	67,429	67,429
Total current liabilities		333,596	373,128
NON-CURRENT			
Convertible Debentures	12	537,281	521,039
Derivative Liability	12	721,865	729,318
Decommissioning Provision	8	284,882	282,594
Total Non-Current Liabilities		1,544,028	1,532,951
TOTAL LIABILITIES		1,877,624	1,906,079
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share Capital	14	9,023,278	9,023,278
Contributed Surplus		3,358,412	3,358,412
Convertible Debentures – Equity Portion		235,500	235,500
Shares to Be Issued		-	-
Deficit		(9,880,964)	(9,939,443)
TOTAL SHAREHOLDERS' EQUITY		2,736,226	2,677,747
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,613,850	4,583,826

Going Concern (Note 1(a))
Commitments (Note 19)

Approved on behalf of the Board:

"Leonard Van Betuw"
Leonard Van Betuw, Director and CEO

"Lars Glimhagen"
Lars Glimhagen, CFO

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

Avila Energy Corporation

Amended Statements of Changes in Shareholders' Equity (Deficiency)
For the Three Months Ended March 31, 2022 and 2021
(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, 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)	2,660,000	479,050	-	-	-	(60,500)	-	419,000
Issued Shares for Services	14(a)	-	80,400	-	-	-	(80,400)	-	-
Conversion of Subscription Receipts	14(a)	-	-	(178,056)	178,056	-	-	-	-
Conversion Of Debentures	14(a)	700,000	40,000	-	-	(2,292)	-	-	37,708
Conversion of Interest on Debentures	14(a)	288,406	12,037	-	-	-	-	-	12,037
Flow-Through Share Premium		-	8,750	-	-	-	12,500	-	21,250
Net Loss for the Period		-	-	-	-	-	-	(214,847)	(214,847)
Balance, March 31, 2021		23,340,531	8,647,824	(1,088,779)	1,767,125	-	-	(8,739,104)	587,066
Balance, December 31, 2021		35,651,341	10,569,147	(1,545,869)	3,358,412	235,500	-	(9,939,443)	2,677,747
Net Income for the Period		-	-	-	-	-	-	58,479	58,479
Balance, March 31, 2022		**35,651,341**	**10,569,147**	**(1,545,869)**	**3,358,412**	**235,500**	**-**	**(9,880,964)**	**2,736,226**

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

Avila Energy Corporation

Amended Statements of Income (Loss) and Comprehensive Income (Loss)

For the Three Months Ended March 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Note	2022 $	2021 $
OIL AND NATURAL GAS REVENUE	15	513,110	19,013
OPERATING COSTS		(256,452)	(2,699)
ROYALTY EXPENSE		(67,794)	(10,931)
		188,864	5,383
EXPENSES			
Accretion		12,659	-
Consulting Fees	13(a)	34,888	116,117
Depletion	6	11,063	-
Interest		20,018	19,997
Listing Fees		1,500	10,750
Management Fees	13(a)	10,500	10,500
Office and Administration		2,111	1,197
Professional Fees	13(a)	36,947	60,049
Shareholder and Trust Services		699	1,621
		130,385	220,231
NET INCOME (LOSS) FOR THE PERIOD		58,479	(214,847)
Basic and Diluted Loss Per Share		0.00	(0.01)
Weighted Average Number of Common Shares Outstanding, Basic and Diluted		25,541,590	16,015,753

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

Avila Energy Corporation

Amended Statements of Cash Flows

As at March 31, 2022 and 2021

(Expressed in Canadian Dollars)

	2022 $	2021 $
OPERATING ACTIVITIES		
Net Loss and Comprehensive Loss for the Period	58,479	(214,847)
Items Not Affecting Cash:		
Interest Expense	20,018	19,997
Accretion	12,659	
Depletion	11,063	
	102,219	(194,850)
Changes in Non-Cash Working Capital Accounts:		
Sales Tax Receivable	2,201	(23,455)
Prepayments and Other Receivables	187,969	(159,954)
Accounts Payables and Accrued Liabilities	(61,133)	91,175
	231,256	(92,234)
INVESTING ACTIVITIES		
Increase in Advances	-	(320,000)
Acquisition of PPE	(369,670)	-
Acquisition of E&E Assets	(78,905)	(739,832)
	(448,575)	(1,059,832)
FINANCING ACTIVITIES		
Shares Issued for Cash	-	1,289,506
	-	1,289,506
CHANGE IN CASH	(217,319)	(57,410)
CASH, BEGINNING OF YEAR	413,337	136,072
CASH, MARCH 31	196,018	78,662

The accompanying notes are integral part of these financial statements.

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.

These amended interim financial statements have been amended and refiled on June 20, 2022.

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 of March 31, 2022, the Company reported a net income of $58,479 (2021 – net loss of $214,847), a cumulative deficit of $9,880,964 (2021 - $8,739,104) and a working capital of $1,467,571 (2021 – working deficit of $214,847). 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.

In addition, the Company has experienced significant volatility with crude oil prices due to macro-economic uncertainty, due to (a) OPEC and Russia abandoning production quotas and increasing production levels; (b) demand reduction for crude oil products as a result of the COVID-19 outbreak and potential lack of storage forcing production shut-ins, and (c) the effects of the current war between Russia and Ukraine, which include significant sanctions having been imposed (and likely more to come) on Russia by NATO members, which are anticipated to reduce the supply of oil and natural gas from Russia to other countries, thereby reducing supply to the existing demand and presumptively increasing the global prices of oil and natural gas. The duration and impact of these global events remain uncertain and could impact cash flow and the Company's financial condition in the future.

NOTE 2 - BASIS OF PREPARATION

a) Statement of Compliance

These interim 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 interim condensed financial statements were approved and authorized for issue by the Chief Financial Officer and Board of Directors on May 27, 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.

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.

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

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.

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.

c) 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.

d) 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.

e) 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.

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

f) 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.

g) 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.

h) 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 of March 31 2022, the Company had one CGU (2021 – 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.

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.

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.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

d) 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.

e) 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.

The following table shows the original classification under IFRS 9:

Financial assets/liabilities	Classification
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

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized in profit or loss. Other net gains and losses are recognized 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 recognized 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 recognized 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.

NOTE 5 – ADVANCES

As at March 31, 2022, the Company has advanced a total of $1,216,931 to its joint partner, 611890 Alberta Inc. 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
Balance, December 31, 2021	882,127
Additions	369,670
Balance, March 31, 2022	1,251,797

(Expressed in Canadian Dollars, unless otherwise stated)

ACCUMULATED DEPLETION	
Balance, December 31, 2020	-
Depletion	44,252
Balance, December 31, 2021	44,252
Depletion	11,063
Balance, March 31, 2022	55,315
NET BOOK VALUE	
Balance, December 31, 2021	837,875
Balance, March 31, 2022	1,196,482

NOTE 7 – EXPLORATION AND EVALUATION ("E&E") ASSETS

Balance, December 31, 2020	281,600
Acquisition	1,255,696
Balance, December 31, 2021	1,537,296
Additions	78,905
Balance, March 31, 2022	1,616,201

NOTE 8 – DECOMMISSIONING OBLIGATION

The Company's estimated net present value of decommissioning liabilities is $282,594 as at March 31, 2022 (2021 - $164,325), based on an undiscounted total future liability of $412,682 (2021 – $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 March 31, 2022, risk-free rate 1.66% (2021 – 1.34%) and an inflation rate of 3.4% (2020 – 1.69%) were used to calculate the net present value of the decommissioning liabilities.

As at March 31, 2022 and 2021, the Company has the following reclamation provision:

	2022	2021
	$	$
Balance, December 31,	282,594	164,325
Accretion Expenses	2,288	9,153
Change in Estimates	-	109,116
Balance, March 31, 2022	284,882	282,594

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable – trade	168,204	357,902
Interest Payable	97,961	56,245
Balance	266,167	537,480

NOTE 10 – FLOW-THROUGH SHARE PREMIUM LIABILITY

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

(Expressed in Canadian Dollars, unless otherwise stated)

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%.

As of March 31, 2022, there is an amount owing to a related party in the amount of $67,429.

NOTE 12 – CONVERTIBLE DEBENTURES

	Convertible Debenture - Liability Component	Derivative Liability	Equity Component	Total
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**
Conversions	5,871	-	-	5,871
Fair value change	-	(7,453)	-	(7,453)
Accretion expense	10,371	-	-	10,371
Balance, March 31, 2022	**537,281**	**721,865**	**235,500**	**1,494,664**

	2022	2021
	$	$
Debenture (a)	288,499	282,628
Debenture (b)	248,782	234,411
	537,281	521,039
Long-term	537,281	521,039
Derivative liability (b)	721,865	729,318

(a) 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.

NOTE 12 – CONVERTIBLE DEBENTURES (Continued)

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.

(b) 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 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.

(Expressed in Canadian Dollars, unless otherwise stated)

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.

	2022 $	2021 $
Management fees	10,500	39,543
Interest on promissory note	816	-
	11,316	39,543

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 March 31, 2022 and 2021, the Company has the following amounts due to related parties.

	2022 $	2021 $
Accounts payable and accrued liabilities including management fees and interest (1)	21,734	85,409
Unsecured promissory notes due September 15, 2022, bearing interest at 5% per annum compounded semi-annually (2)	67,429	175,362
Convertible secured debenture due July 31, 2027, bearing interest at 5% per annum, compounded semi-annually (3)	500,000	500,000
	589,163	760,771

1. A partner in a legal firm is also a director of the Company. For the three months ended March 31, 2022, legal expense and share issuance cost related charges totaled $36,947 (2021 - $57,995). Amounts owed to the legal firm as at March 31, 2022 was $72,442 (2020 - $57,995).
2. Promissory note issued on September 13, 2020 in the amount of $102,415 was issued to a company in which the director is also an officer of the Company.
3. The Convertible secured debenture is held by 611890 Alberta Inc. 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
		1,724,000	271,000

NOTE 14 - SHARE CAPITAL AND RESERVES

As at March 31, 2022, there were 35,651,341 (2021 – 22,340,531) common shares issued and outstanding.

a) Common Shares

Authorized

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

Issued and outstanding common shares

i.) During the Three Months Ended March 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.
- 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.

ii.) During the Three Months Ended March 31, 2022

There were no shares issued during the here months ended March 31, 2022

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

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.

	Number of Options	Weighted average exercise price $
Outstanding and Exercisable, December 31, 2021	-	-
Issued	200,000	0.35
Outstanding and Exercisable, March 31, 2022	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
Outstanding and Exercisable, March 31, 2022	12,984,694	0.28

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

As at March 31, 2022, 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

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

	2022 (1)	2021
Risk free interest rate	-	0.29% - 0.91%
Expected stock price volatility	-	112%-128%
Expected dividend yield	-	Nil
Expected option life in months	-	24-58

Note1 – There were no warrants issued during the three months ending March 31, 2022

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 March 31, 2022 and 2021:

	2022	2021
	$	$
Oil	166,761	609
Gas	313,890	15,497
Liquids	32,459	2,907
	513,110	19,013

NOTE 16 - 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.

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.

Liquidity Risk continued

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.

NOTE 16 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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 17 - 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 period ended March 31, 2022.

NOTE 18 - 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.

NOTE 19 - 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 have 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.

NOTE 20 - SUBSEQUENT EVENTS

On April 8, 2022 the Company filed a price reservation for the issuance of up to 5,000 Debenture Units of the Corporation ("**Unit**" or "**Units**"), being a total of $5,000,000 in principal. Each Unit is comprised of an aggregate $1,000 principal amount of a 4% convertible unsecured subordinated debenture ("**Debenture**") due on April 1, 2025 (the "**Maturity Date**"). Further, conditional to full conversion (1 Unit converts into 2,000 Class A Common Shares) of the entire principal of the Units held by the holder (the "**Holder**"), the subsequent issuance of Class A Common Share purchase warrants by the Issuer (the "**Conditional Warrants**") to the Holder entitling the Holder to purchase one (1) Class A Common Share per each Class A Common Share received on the Conversion at a price of $0.75 for a period of two (2) years following the conversion date of the Debenture (the "**Private Placement**"). This is a non-brokered private placement for 5,000 units for gross proceeds of $5,000,000.

An initial closing of the partially brokered Private Placement of $2,512,000 was completed on May 11, 2022.