Avila Energy Corporation

Form 51-102F1
Management's Discussion and Analysis

For The Three and Nine Months Ended September 30, 2022, and 2021

GENERAL

Management's Discussion and Analysis ("MD&A" or "Report") of the financial condition of Avila Energy Corporation. ("Avila" or the "Company") and results of operations of the Company for the three and nine months ended September 30, 2022, has been prepared by management in accordance with the requirements under National Instrument 51-102 as of August 24, 2022, (the "Report Date"). The Report should be read in conjunction with the Unaudited Interim March 31, 2022. Financial Statements and the Condensed Audited Financial Statements for the years ended December 31, 2021, and 2020 (collectively, the "Financial Statements"). The Financial Statements are presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and Avila's accounting policies as described in the notes to the Financial Statements. All dollar amounts in the Report are in Canadian dollars unless otherwise noted.

This MD&A has been prepared by management and approved by the Board of Directors on August 24, 2022.

The Financial Statements, together with the MD&A, are intended to provide investors with a reasonable basis for assessing the performance and potential future performance of the Company and are not necessarily indicative of the results that may be expected in future periods. The information in the MD&A may contain forward looking statements by the Company are not guarantee of future performance, as they are subject to significant risks and uncertainties that may cause projected results or events to differ materially from actual results or events. Please refer to the risks and cautionary notices of this MD&A.

Additional information about the Company and its business activities is available on SEDAR at **www.sedar.com**.

FORWARD LOOKING INFORMATION

Some statements contained in this MD&A constitute forward looking statements including, without limitation, anticipated developments in the Company's operations in future periods and other events or conditions that may occur in the future. These statements are about the future and are inherently uncertain and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties, and other factors, including, without limitation, those mentioned herein under heading "RISKS AND UNCERTAINTIES". Management believes that the expectations reflected in those statements are reasonable, but no assurance can be given that these expectations will prove to be correct. It is recommended not to place undue reliance on forward looking statements as the plans, intentions, or expectations upon which they are based might not occur. The Company undertakes to update any forward-looking information should the material factors or assumptions change resulting in a material change to the statements made.

For the purposes of calculating unit revenues and costs, natural gas is converted to a barrel of oil equivalent (BOE) using six thousand cubic feet equal to one BOE unless otherwise stated. A BOE is a very approximate comparative measure that, in some cases, could be misleading if used in isolation.

DESCRIPTION OF BUSINESS

The Company is reporting company registered in Alberta under the Business Corporations Act and has its records and principal address located at 1439 17th avenue SE, Suite 201, Calgary, Alberta.

On December 3, 2021, the Company changed its name to Avila Energy Corporation, formerly known as PetroViking Energy Inc.

On March 17, 2021, the Company completed the acquisition of mineral rights that resulted in the Company holding a 50% interest in 7,680 acres of mineral rights, (3,840 acres net) within its currently held mineral rights in West Central Alberta. Upon the completion of this acquisition in the 4th quarter of 2021 the Company advanced it's evaluation of the assets, identifying an additional 15 possible drilling locations of which 5 locations (2.5 Net) have been booked, increasing significantly both Proven and Probable reserves. The Gross Purchase Price was $285 per acre, with the total net cost to Petro Viking, being $747,640 including administrative fees from its Joint Venture partner of approximately $10,000. The mineral rights acquired are strategically located within a proven region where the mineral rights acquired are economically producing from the Belly River, Viking, Ellerslie, Duvernay and Wabamun.

On June 14, 2021, the Company entered into a binding agreement for the purchase of interest in 53,835 Acres, 43,935 (Net) of mineral rights (the "Acquisition"). On September 1, 2022, the Company completed the acquisition.

The consideration paid of $23,820,800 for the Acquisition was by way of the issuance of 44,440,000 Class A common shares (the "Common Shares") at $0.32 per share and 30,000,000 convertible preferred shares (the "Convertible Shares") convertible at a price of $0.32 per share. The Convertible Shares will have a term of five years (5) and earn an accruing annual dividend at a rate of two percent (2%), 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: a) the Company exceeds the production rate of 3,000 BOE/d, b) the Common Shares trade at a volume weighted average price (VWAP) of more than $1.00 per share for twenty (20) consecutive business days or c) the second- year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Shares shall automatically be redeemed on a 1:1 basis along with any accrued dividends by the issuance of Common shares.

On June 30th, the Company was re-listed and commenced trading on the Canadian Securities Exchange (CSE) at which point the Company took measured steps and continued to advance the business plan in anticipation of the approval and closing of the acquisition in West Central Alberta, which was granted by the Courts on September 14, 2022.

On August 31st the Company held a Special Meeting to Vote on the approval of the Acquisition proposed for 100% of the assets in West Central Alberta. The Company on August 31, 2022, received proxy votes from shareholders approving the Acquisition representing 60.21% of the Company's issued shares with 98.86% of the proxy votes received being in favor of the Acquisition. Following the approval, an application for court approval was prepared including the results which were presented to the Justice at the Court of King's Bench of Alberta on September 13th, 2022. The approval was granted and recorded and it was signed and dated September 14, 2022, the closing of the acquisition, in West Central Alberta, taking effect September 1, 2022.

Post-closing, the Company advanced its exploitation of the West Central Alberta region through an up-hole re-completion of a vertical well. The initial tests recorded being over 70 boe/d, 425 mcf/d per day of natural gas, 10% liquids. The results confirmed a concept that was under development by the Company in the region. The well testing, analysis, engineering, and procurement was completed, and the well was equipped in October and brought into production on November 1 and is currently producing at a rate of 50 boe/d, 228 mcf/d and 12 boe/d of light oil.

In September of 2022, the Company completed a well workover in the West Central Alberta region. Since the completion of the work in early October, the well has been producing at an average rate of 45 boe/d, with 45% heavy oil and 55% natural gas and liquids.

As of September 30, 2022, the Company completed the purchase of an intangible asset valued at $8,228,111 with the consideration paid by way of a down payment of $1,700,000 and a long-term, loans payable of $6,528,111.

As of September 30, 2022, the Company participated in a Joint Venture by acquiring a 26% interest in oil and gas properties in the northeast British Columbia Area. The acquired oil and gas interest was valued at $6,258,942; the purchase was $908,000 and the assumption of $4,434,931 in discounted decommissioning liabilities. The transaction was accounted for as business combination under IFRS 3 - "Business Combinations" as the assets met the definition of a business. This acquisition contributed no revenues, royalties or direct operating as of September 30, 2022. Resulting in no net income. The Company intends to assume 100% of the interests and activities of its Joint Venture in northeast British Columbia (the "NEBC Property") in, and for, the fiscal year ended December 31, 2022.

DISCUSSION OF OPERATIONS

Results of operations for the three and nine months ended September 30, 2022:

Net income for the three months ending September 30, 2022, was $2,416,753 (2021 – $(209,996)) and for the nine months ended September 30, 2022, net income was $2,725,984 (2021 – $(666,826)). The increase in net income for the period was primarily an increase in oil and gas revenues due to increased volume produced and increases in commodity prices and a gain on acquisition of assets of $2,538,586.

Gross Oil and gas revenue for the three months period ended September 30, 2022, was $923,268 (2021 – $109,182). While the total volume produced was 236.7 boe/d (2021 – 49.74 boe/d) prior to shrinkage due to processing and transportation resulting in sales volumes of 21,535 boe (2021 – 4,526.7 boe) for an average of $42.87/boe or $7.15/mcf. (2021 – $24.12/boe or $3.84/mcf).

Gross Oil and gas revenue and volume for the nine months period ended September 30, 2022, was $2,190,991 (2021 – $210,883). While the volume produced was 177.2 boe/d (2021 – 24 boe/d) prior to shrinkage due to processing and transportation resulting in net sales volumes of 48,196 boe (2021 – 6,315 boe) for an average of $46.71/boe or $7.78/mcf. (2021 – $33.4 per boe and $5.32/mcf).

Net operating income for the nine months period ended September 30, 2022, was $1,212,109 (2021 $111,298) and $NOI/boe was $25.15 (2021 – $24.59).

The results listed above are for the three and nine months ended September 30, 2022 including only 100% of West Central Alberta for 30 days the post-closing closing approved on August 31, 2022, effective September 1, 2022.

Details related to the Company's oil and gas operations, please refer to the "**Summary of Quarterly Results"** section.

The following is a summary of the significant events and transactions that occurred during the three and nine months ended September 30, 2022:

ISSUED AND OUTSTANDING SHARE DATA AT THE REPORT DATE

At the Report date, the Company had the following securities outstanding:

For the nine months ending September 30,

	2022		2021	
	Number	$ Amount	Number	$ Amount
Convertible Preferred shares	30,000,000	9,600,000	0	0
Common shares	86,983,586	25,214,953	34,980,862	9,023,278
Warrants	12,048,629	3,373,616	12,260,694	4,168,635
Compensation Options (4)	200,000	49,993	0	0

During the period ending September 30, 2022, the Company issued 30,000,000 convertible preferred shares and 48,662,222 common shares and preferred shares for acquisitions of assets. The Company issued 960,000 common shares upon conversion of debentures and 1,686,065 warrants were exercised for common shares. The number of outstanding shares is 86,983,586

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any special purpose entities, nor is it a party to any transactions or arrangements that would be excluded from the statement of financial position.

COMMITMENTS

The Company is partly financed by the issuance of flow-through shares. However, there is no guarantee that the funds spent by the Company will qualify as Canadian Development or Canadian Renewable Conservation Expenses, even if the Company has committed to take all the necessary measures for this purpose. Refusal of certain expenses by tax authorities would have negative consequences for investors. On December 31, 2021, the Company had met all of its obligation to incur eligible expenses pursuant to the terms of the flow-through shares financing. A total of $515,893 was spent development expenditures from which $495,500 has been renounced to shareholders holding flow-through shares.

COMPENSATION OF KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

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

The Company incurred the following transactions with directors and key management personnel during the nine months ended September 30:

	2022	**2021**
	$	$
Management and consulting fees (1)	Nil	88,455
Promissory Note (2)	Nil	67,429
Interest Owing on Convertible Debenture (3)	88,468	156,945
Convertible Debenture (3)	500,000	500,000
Legal costs (4)	15,333	50,180
Joint venture receivables (5)	259,656	158,565
Advances (6)	1,492,000	1,586,601
	2,355,457	**2,554,949**

A total of $2,355,457 was owed to various related parties on September 30, 2022.

1. $88,455 is owed to a director and officer of the company as of September 30, 2021.
2. On September 15, 2020, the Company issued promissory notes bearing interest at 5% compounded semi- annually in the amount of $217,195 maturing on September 15, 2022, in settlement of debt with a company of which an officer of the Company is also a director. As of September 30, 2022 the promissory note was paid off.
3. On September 30, 2019, the Company entered into an Asset Purchase Agreement for the acquisition of a 50% non-operating in 50% interest in a producing oil and gas property with 611890 Alberta Inc. by issuing a $500,000 convertible secured debenture bearing and interest rate of 5% compounded semi- annually with an asset acquisition between Avila Energy Corporation. ("**AEC**" or the "**Company**") and Avila Exploration & Development Canada LTD. ("**Avila**") whereby AEC will acquire a non-operating interest of fifty percent (50%) interest into a producing oil & gas property with a current NI

51-101- *Standards of Disclosure for Oil and Gas Activities* compliant Technical Report, as more fully described in Schedule

COMPENSATION OF KEY MANAGEMENT PERSONNEL AND RELATED PARTIES (continued)

A hereto (the "**Property**") by issuing a $500,000 convertible debt instrument in the share capital of Petro to Avila.

4. A partner in the company's legal firm is also a director of the Company. Amount owed to the legal firm on September 30, 2022, was $15,333.
5. The director of the Company is also a director of the joint venture partner 611890 Alberta Inc.
6. Funds have been advanced in respect to a joint venture agreement with 611890 Alberta Inc. having a common director with the Company.

CHANGES IN ACCOUNTING POLICIES

The same accounting policies used in the preparation of the Financial Statements is the same as those used in the most recent audited annual financial statements and in the opinion of management reflects all the adjustments considered necessary for the fair presentation in accordance with IFRS of the result of the years presented.

FINANCIAL INSTRUMENTS

On September 30, 2022, the Company's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities, due to related parties, and convertible debenture liabilities. IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of hierarchy are:

- 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 (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

As of September 30, 2022, the Company believes that the carrying values of other receivables, accounts payable and accrued liabilities, and due to related parties approximate their fair values because of their nature and relatively short maturity dates or durations.

RISK FACTORS AND UNCERTAINTIES

Avila Energy Corporation continues to work towards becoming a carbon neutral energy producer based in Calgary Alberta to attain this goal, the Company initially acquired a 50% non-working interest in a property located in Western Alberta consisting of production, pipelines, facilities and approximately 1,280 acres of developed surface and mineral leases in December 2019. An additional undeveloped property consisting of 3,840 acres was acquired during the first quarter of 2021. The proved and probable reserves are estimated to be $3,801,600, according to the independent evaluation report provided by Deloitte, LLP dated December 31, 2021. The Company in the nine months ended September 30, 2022 made a 24% participation through its Joint Venture partner in an acquisition in northeast British Columbia resulting in the addition of 6,288 acres (net) or 6,842 (gross) mineral rights. Avila Energy Corporation is exposed to several risks in the normal course of its business that have the potential to affect its operating performance. The Company's risk exposures and the impact of the Company's financial instruments are summarized in Note 14 of the September 30, 2022, Unaudited Financial Statements.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

a. *Interest risk* - The Company does not have any current term debt or cash equivalents; therefore, interest risk is minimum.

b. *Foreign currency risk* - The Company conducts its activities in Canada with Canadian dollars; therefore, foreign currency risk is minimum.

c. *Price risk* - The Company has exposure to price risk with regards to commodity prices. Commodity price risk is the risk that future cash flows will fluctuate as a result in commodity prices. Commodity prices for oil, and gas and liquids are impacted by world and continental/regional economic and other events that dictate the level of supply and demand.

Regarding the Company's oil and gas revenues, management has based the gross profit variances on the revenues in the last 12 months *(**see Summary of Quarterly Results**)*.

RUSSIA AND UKRAINE CONFLICT AND CORONAVIRUS (COVID-19)

In addition, the Company has experienced significant volatility with crude oil prices since year end 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.

RELIANCE ON KEY PERSONNEL

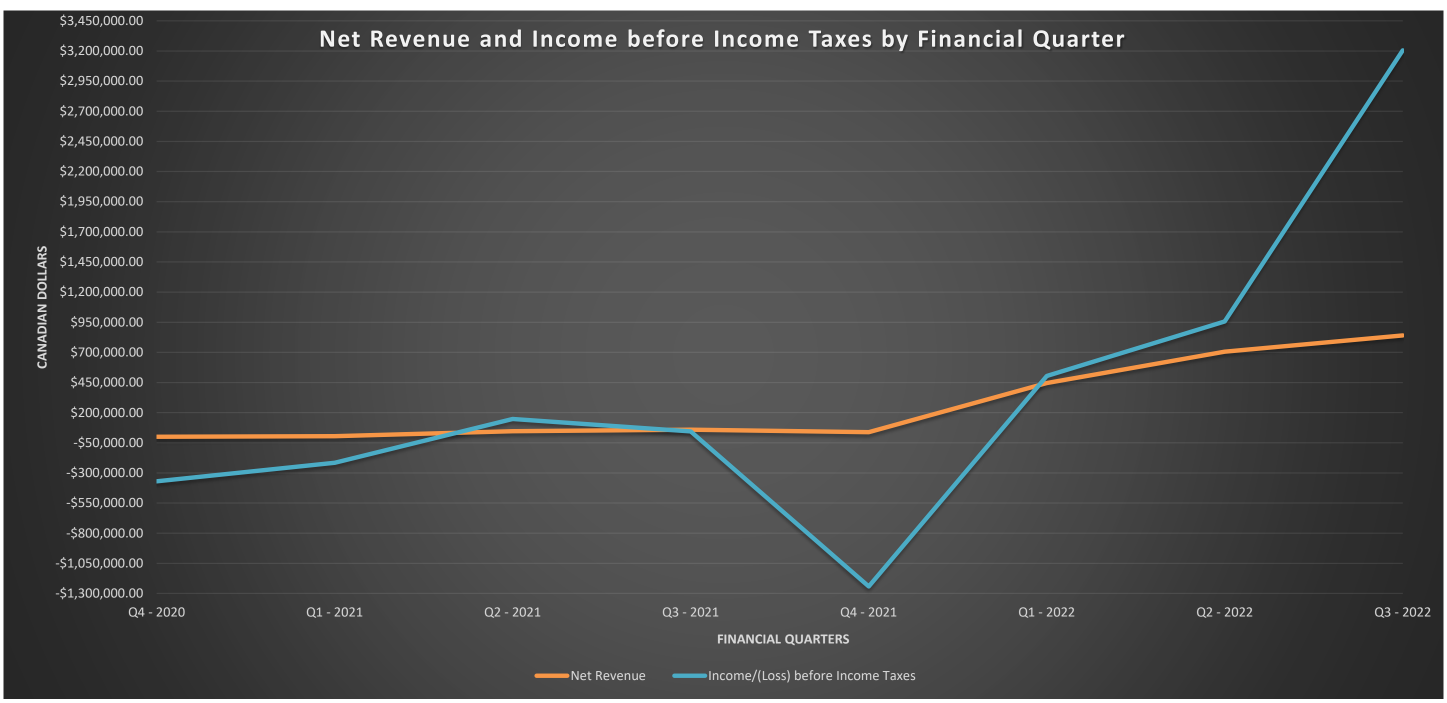
The Company relies on a relatively small number of directors, officers, and senior personnel. Loss of any one of those persons could have an adverse effect on the Company. The Company does maintain a limited amount of "key employee" insurance in respect to one senior member of management.

SELECTED ANNUAL INFORMATION

The following table provides a summary of the Company's financial operations. For more detailed information refer to the financial statements.

	September 30, 2022	September 30, 2021	September 30, 2020
	$	$	$
Total net revenue	1,190,991	59,154	-
Total other items	2,395,793	Nil	-
Income/(Loss) before income taxes	2,725,984	(209,996)	-
Basic and diluted earnings (loss) per share	0.07	(0.01)	-
Diluted earnings (loss) per share	0.04		
Comprehensive income (loss)	2,725,984	(209,996)	-
Total assets	59,823,671	4,732,866	-
Working capital (deficit)	1,902,424	2,277,030	-

SUMMARY OF QUARTERLY RESULTS



SUMMARY OF QUARTERLY RESULTS (continued)

Selected quarterly information for the eight most recently completed quarters is presented below in Canadian currency ($), and in accordance with the International Financial Reporting Standards ("IFRS").

Reporting Period	Q3– 2022 September 30	Q2– 2022 June 30	Q1– 2022 March 31	Q4 – 2021 December 31
Total assets	59,823,671	10,603,851	4,613,850	4,583,826
Property and equipment	33,083,752	3,694,901	1,196,482	837,875
Exploration and evaluation assets	14,709,550	1,616,201	1,616,201	1,537,296
Working capital (deficit)	1,902,424	5,269,084	1,467,571	1,835,527
Equity	34,814,953	4,052,330	2,736,226	2,677,747
Gross revenues [(1)]	923,268	752,428	513,110	90,457
Net revenues	841,204	706,107	445,316	38,876
Gross REV ($/boe)	42.87	58.86	38.16	47.85
NET REV ($/boe)	39.06	53.51	33.07	20.56
OPEX ($/boe)	10.47	14.81	19.04	38.47
NOI ($/boe)	28.59	38.71	14.03	(17.91)
Total BOE for the Quarter	21,535	13,195	13,466	1,891
Oil and condensates (boe/d)	53.1	36.5	19.56	0.28
Natural gas and liquids (mcf/d)	1084.5	654.2	779.0	119.2
Operating Expense	225,495	195,384	256,452	72,748
Total other items	2,363,790	32,003	-	(429,476)
Expenses	562,745	188,788	130,385	659,753
Income (loss) before income taxes	2,363,790	250,752	58,479	(1,280,237)
Basic income (loss) per share	0.06	0.01	0.00	(0.06)
Diluted income (loss) per share	0.04	0.01	0.00	(0.06)

Reporting Period	Q3 – 2021 September 30	Q2 – 2021 June 30	Q1 – 2021 March 31	Q4 – 2020 December 31
Total assets	$4,732,866	2,829,143	2,929,359	2,679,028
Property and equipment	773,011	773,011	773,011	773,011
Exploration and evaluation property	281,600	281,600	281,600	281,600
Working capital (deficit)	2,277,030	323,334	(204,063)	(211,461)
Equity	3,222,363	1,186,714	587,066	(548,742)
Gross revenues [(1)]	109,182	82,688	19,013	-
Net revenues	59,152	46,762	5,381	-
Gross REV ($/boe)	23.89	22.44	29.32	-
NET REV ($/boe)	12.94	12.67	8.29	
OPEX ($/boe)	5.01	4.75	4.90	-
NOI ($/boe)	7.93	7.92	3.40	-
Total BOE for the Quarter	4,571	3,691	649	-
Oil and condensates (boe/d)	0.48	0.37	0.11	-
Natural gas and liquids (mcf/d)	292.4	236.1	42.1	-
Operating Expense	22,890	17,524	3,177	-
Total other items	-	326,856	-	(159,747)
Operating expenses	269,150	302,673	231,161	473,067
Income (loss) before income taxes	(14,307)	100,324	(220,966)	(368,895)
Basic and diluted income (loss) per share	(0.01)	0.00	(0.01)	(0.10)

Notes:

1. The Company's 50% interest in revenues commenced March 2021 until August 31, 2022. Starting September 1, 2022, the Company's interest in revenue increases to 100%.

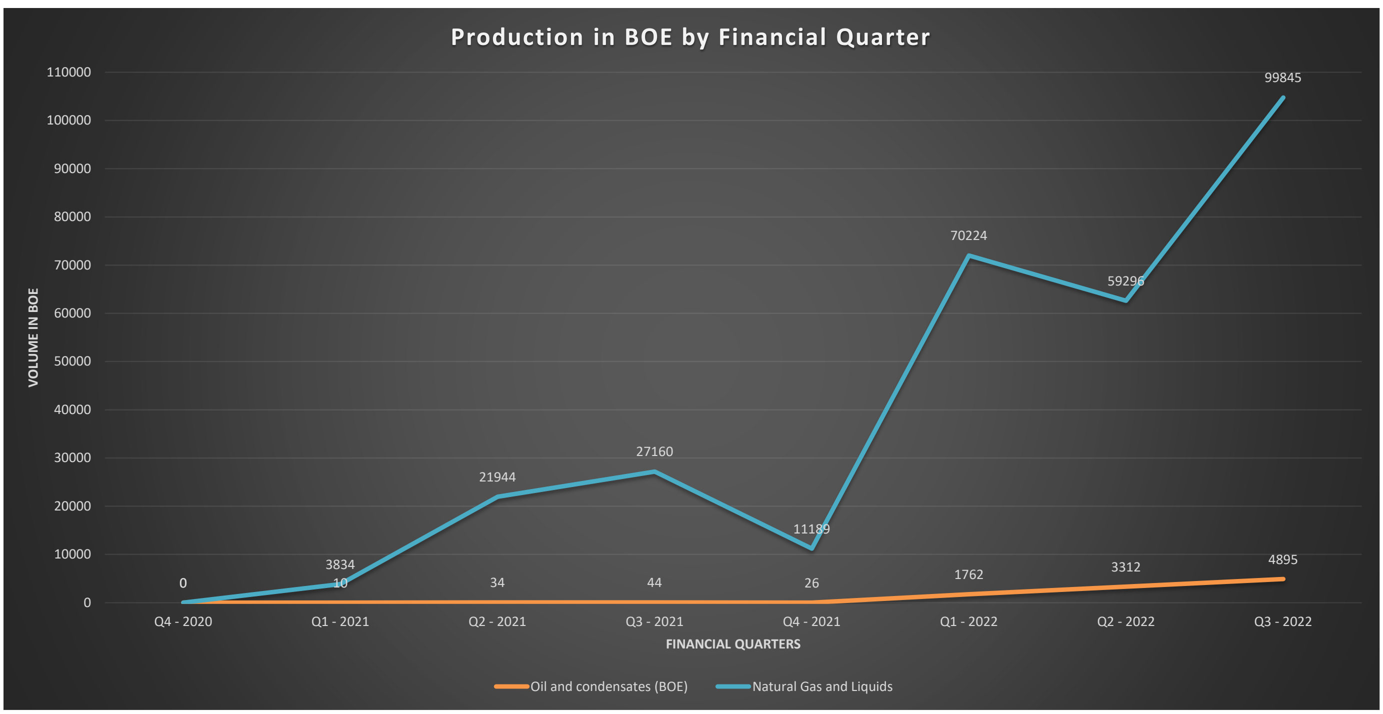
SUMMARY OF QUARTERLY RESULTS (Continued)

In the event of an increase/(decrease) of $1 in the unit prices for BOE and $0.25 for MCF, the effects on gross revenue of $2,190,991 based on the nine months ended September 30, 2022, would be as follows:

Product	Total production (units)	Price per Unit	Change in unit price	Increase / (Decrease)
Oil and condensates (boe)	9,969	$101.89	$1.00 / BOE	9,969 / (9,969)
Natural gas and liquids (mcf)	229,365	$5.06	$0.25 / MCF	229,365 / (229,365)
Increase on Gross Revenue				**239,334 / (239,334)**

	2022			**2021**				**2020**
Production per Quarter	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Oil & Condensates (BOE)	4,895	3,312.3	1761.7	25.7	43.9	34.0	9.7	Nil
Natural Gas & Liquids (MCF)	99,845	59,296.3	70,224	11,189	27,160.2	21,943.7	3,833.7	Nil

A barrel of oil equivalent (BOE) is determined by converting a volume of natural gas to barrels using the ratio of six (six) mcf to one (1) barrel. BOEs may be misleading, particularly if used in isolation.



LIQUIDITY, FINANCIAL CONDITION AND GOING CONCERN

The Company's cash and cash equivalents are comprised of bank deposits. On September 30, 2022, the Company had cash, accounts receivable, prepaid expenses, and short-term advances in the amount of $2,335,502. Accounts payable and accrued liabilities in the amount of $433,078 are due On July 31, 2022. September 30, 2022, the Company had a working capital of $1,902,424 (September 30, 2021 - $2,277,030) and a liquidity ratio of 5 (September 30, 2021 – 14).

SUBSEQUENT EVENTS

On July 26, 2022, the Company announced its election to assume 100% of the interests and activities of its Joint Venture in northeast British Columbia (the "NEBC Property") in, and for, the fiscal year ended December 31 2022.

DIRECTORS AND OFFICERS

Leonard Van Betuw, President and Chief Executive Officer, and Director
Kyle Appleby, Director
Thomas Valentine, Director
Daniel Lucero, Director
Michel Lebeuf, Corporate Secretary and Director
Jennifer Ottosen, CPA, Chief Financial Officer