



Financial Statements

For the Three Months Ended March 31, 2023, and 2022

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

As at	March 31, 2023	December 31, 2022
Assets		
Current assets		
Cash	\$ 67,438	\$ 6,564,110
Advances (note 3)	4,083,720	2,340,000
Accounts receivable	765,607	897,902
Prepaid expenses (note 4)	1,582,744	762,647
Total current assets	6,499,509	10,564,659
Property, plant, and equipment (note 5)	43,963,583	43,522,045
Exploration and evaluation assets (note 7)	12,154,901	12,154,901
Right-of-use asset (note 6)	1,338,815	1,386,287
Deferred tax asset	1,234,605	1,234,605
Investment (note 8)	1,146,372	-
Intangible assets	16,382	9,382
Total non-current assets	59,854,658	58,307,220
Total assets	\$ 66,354,167	\$ 68,871,879
Liabilities and Shareholders' Equity		
Current liabilities		
Account payable and accrued liabilities	\$ 4,201,776	\$ 1,716,512
Flow-through share premium liability	2,006,889	2,006,889
Promissory notes (note 10)	600,000	1,800,000
Dividend payable (note 12)	103,101	
Derivative liability (note 11)	631,983	631,983
Convertible debenture (note 11)	280,418	267,329
Interest payable on debentures	152,065	126,499
Lease liabilities (note 6)	139,200	139,200
Total current liabilities	8,115,432	6,688,412
Interest payable on debentures	76,497	76,497
Lease liabilities (note 6)	1,280,830	1,276,154
Convertible debentures (note 11)	3,707,613	3,785,673
Convertible preferred share dividend liability (note 12)	-	542,202
Decommissioning liability (note 9)	3,376,082	3,334,487
Total liabilities	16,556,454	15,703,425
Shareholders' Equity		
Share capital (note 12)	57,063,710	56,883,006
Contributed surplus	4,454,073	4,454,073
Convertible debentures – equity portion (note 11)	1,293,483	1,293,483
Deficit	(13,013,553)	(9,462,108)
	49,797,713	53,168,454
Total liabilities and shareholders' equity	\$ 66,354,167	\$ 68,871,879

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

Nature of Operations and Going Concern (note 1)

Subsequent events (note 20)

Commitments (note 17)

Economic Dependence (note 15)

AVILA ENERGY CORPORATION
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE
INCOME (LOSS)

(Expressed in Canadian dollars)

Three months ended March 31,	2023	2022
Revenue		
Oil and natural gas (<i>Note 14</i>)	\$ 838,120	\$ 445,316
Gain on convertible preferred share dividend	553,048	-
Interest income (<i>note 16</i>)	31,729	-
Processing income	1,577	-
Other income	29,266	-
	1,453,740	445,316
Expenses		
Production and operating	527,046	256,452
General and administrative	724,098	86,645
Write off advance (<i>note 3</i>)	3,000,000	-
Depletion and depreciation (<i>note 5</i>)	397,194	11,063
	4,648,338	354,160
Results from operating activities	(3,194,598)	91,156
Finance expense (<i>note 16</i>)	(356,847)	(32,677)
Income (loss) and comprehensive income (loss)	\$ (3,551,445)	\$ 58,479
Net loss per share (<i>note 12(e)</i>)		
Basic	\$ (0.03)	\$ -
Diluted	\$ (0.03)	\$ -

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

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

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2023	30,000,000	111,437,322	\$56,883,006	\$1,293,483	\$4,454,073	\$(9,462,108)	\$53,168,454
Conversion of debentures (<i>note 11</i>)	-	452,596	180,704	-	-	-	180,704
Conversion of preferred shares (<i>note 12</i>)	(30,000,000)	30,000,000	-	-	-	-	-
Income and comprehensive income	-	-	-	-	-	(3,551,445)	(3,551,445)
Balance at March 31, 2023	-	141,889,918	\$57,063,610	\$1,293,483	\$4,454,073	\$(13,013,553)	\$49,797,713

	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2022	35,651,341	\$9,023,278	\$235,500	\$3,358,412	\$(9,939,443)	\$2,677,747
Income and comprehensive income	-	-	-	-	58,479	58,479
Balance at March 31, 2022	35,651,341	\$9,023,278	\$235,500	\$3,358,412	\$(9,880,964)	\$2,736,226

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

AVILA ENERFY CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

Three months ended March 31,	2023	2022
Operating activities		
Income (loss) for the period	\$ (3,551,445)	\$ 58,479
Adjustments for:		
Depletion and depreciation (note 5)	397,194	11,063
Finance expense (note 16)	356,847	32,677
Gain on convertible preferred share dividend	(553,048)	
Interest paid (note 16)	-	-
Changes in non-cash working capital (note 13)	36,522	129,037
Net cash used in operating activities	(3,313,930)	231,256
Financing activities		
Surface lease payments	(38,110)	-
Promissory note repayment	(1,200,000)	-
Net cash used in financing activities	(1,238,110)	-
Investing activities		
Expenditures on oil and natural gas properties	(791,260)	(369,670)
Expenditures on exploration and evaluation assets	-	(78,905)
Investments	(1,146,372)	-
Expenditures on intangible assets	(7,000)	-
Changes in non-cash working capital (note 13)	-	-
Net cash used in investing activities	\$ (1,944,632)	\$ (448,575)
Change in cash	\$ (6,496,672)	\$ (217,319)
Cash, beginning of period	6,564,110	413,337
Cash, end of period	\$ 67,438	\$ 196,018

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

1. NATURE OF OPERATIONS

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

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

Going Concern

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the three-month period ended March 31, 2023, the Company incurred a net loss of \$3,551,445 and had net cash used in operating activities of \$4,513,928. In addition, the Company has a deficit of \$13,013,553 and had a remaining \$7,262,753 flow through share obligation.

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

The Company’s ability to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative obligations and continue its exploration activities in the 2023 fiscal year, is dependent upon management’s ability to obtain additional financing, through various means including, but not limited, to equity financing. No assurance can be given that any such additional financing will be available, or that it can be obtained on terms favourable to the Company.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These condensed interim financial statements are unaudited and have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The condensed consolidated interim financial statements do not include all the information and footnotes required by IFRS for a complete set of financial statements. The condensed interim financial statements have been prepared using the same accounting policies and methods of computation as disclosed in the Company’s December 31, 2022, financial statements except as stated below and should be read in conjunction with those financial statements. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and expenses during the reported period. Actual results may differ from these estimates.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

The condensed interim financial statements were authorized for distribution by the Company's Board of Directors on May 30, 2023.

3. ADVANCES

A reconciliation of the advances is provided below:

	Three months ended March 31, 2023	Year ended December 31, 2022
Advance to 611890 Alberta Inc. - MTT	\$ 4,083,720	\$ 2,340,000
Advance to 611890 Alberta Inc – NE BC	3,000,000	-
Write off NE BC advance	(3,000,000)	-
Balance, end of period	\$ 4,083,720	\$ 2,340,000

At December 31, 2022, the advance to 611890 Alberta Inc. ("611890") was for the assumption of the contract with Micro Turbine Technology ("MTT").

During 2022, the Company advanced \$2,400,000 to 611890 for the purchase of the Northeast British Columbia ("NEBC") assets. During 2023, The Company advanced an additional \$3,000,000 to 611890 for an additional non-refundable security deposit to the vendor of the property. On March 15, 2023, the Company withdrew from the NEBC acquisition and to write off the \$3,000,000.

4. PREPAID EXPENSES

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

	Three months ended March 31, 2023	Year ended December 31, 2022
Legal expenses	\$ 57,500	\$ -
Valuation services	15,350	-
Data analysis	1,499,894	762,647
AER Deposit	10,000	-
Balance, end of period	\$ 1,582,744	\$ 762,647

In December 2022, the Company prepaid \$762,647 to Terra Land Development Ltd. and an additional \$737,247 in 2023 for data analysis to collect the information from 1,050 potential customers, site preparation and their current power, heating, and cooling needs. This expense qualifies as a Canadian Renewable Conservation Expense ("CRCE") for flow-through share purposes.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

5. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT AND CORPORATE ASSETS

(\$)	Total
Cost	
Balance, December 31, 2021	\$ 882,127
Additions – property acquisitions	38,135,149
Additions - regular	214,284
Additions – cash calls	1,399,999
Change in decommissioning provisions	3,163,821
Balance at December 31, 2022	\$ 43,795,380
Additions	791,260
Change in decommissioning provisions	-
Balance at March 31, 2023	\$ 44,586,640
Accumulated depletion and depreciation:	
Balance, December 31, 2021	\$ (44,252)
Depletion and depreciation for the period	(229,082)
Balance at December 31, 2022	\$ (273,335)
Depletion and depreciation for the period	(349,722)
Balance at March 31, 2023	\$ (623,057)
Net carrying value:	
Balance December 31, 2022	\$ 43,522,045
Balance March 31, 2023	\$ 43,963,583

As at March 31, 2023, no impairment triggers were identified and therefore an impairment test was not performed.

6. RIGHT-OF-USE ASSETS AND LEASES

The Company became party to surface lease arrangements as a result of the WCA property acquisition and Donalda property acquisition. These lease arrangements are negotiated on an individual basis and are effective for varying terms, effective for periods of two to 26 years. The lease payments are discounted using the Company's incremental borrowing rate of 12.26 percent at the inception of the lease to calculate the lease liability. The discounted cash flows relating to the lease liabilities included in the statement of financial position are \$139,200 in 2023, \$292,241 for 2024 - 2025, \$203,121 for 2025-2026 and \$780,792 for years beyond 2026.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

Right-of-use Assets

(\$)	Total
Cost	
Balance, December 31, 2021	\$ -
Initial recognition	1,488,495
Depreciation	(62,208)
Balance at December 31, 2022	\$ 1,386,287
Depreciation	(47,472)
Balance at March 31, 2023	\$ 1,338,815

Lease Liability

(\$)	Total
Balance, December 31, 2021	\$ -
Initial recognition	1,448,495
Surface lease payments	(83,157)
Accretion expense	49,996
Balance at December 31, 2022	\$ 1,415,354
Surface lease payments	(38,110)
Accretion expense	42,786
Balance at March 31, 2023	\$ 1,420,030

Leases

Statement of Financial Position

(\$)	March 31, 2023
Current lease liabilities	139,200
Non-current lease liabilities	1,280,830

Results of Operations

(\$)	Three months ended March 31, 2023
Accretion expense of lease liabilities	42,786

7. EXPLORATION ASSETS

	Three months ended March 31, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	\$ 12,154,901	\$ 1,537,296
Additions – regular	-	533,714
Additions - acquisitions	-	10,083,891
Balance, end of period	\$ 12,154,901	\$ 12,154,901

Exploration and evaluation assets consist of the Company's exploration projects (seismic assets, undeveloped land, and exploration projects) for which the determination of proved or probable reserves is indeterminable at this time.

As at March 31, 2023, no impairment indicators were identified and therefore an impairment test was not performed.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

8. INVESTMENTS

	Three months ended March 31, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	\$ -	\$ -
Additions - MTT	1,338,815	-
Additions	-	-
Balance, end of period	\$ 1,338,815	\$ -

On January 4, 2023, the Company advanced \$1,338,815 to 611890 for the MTT investment. On January 31, 2023, a new agreement was signed between MTT and the Company. The Company will received a 15% equity stake in MTT and will assume the outstanding loan balance of 2,500,000 Euros from 611890. Once the Company advances the 2,500,000 Euros to MTT, the Company will receive an additional equity share in MTT of 15% for a combined total of 30%.

9. DECOMMISSIONING LIABILITY

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

A reconciliation of the decommissioning liability is provided below:

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance, beginning of period	\$ 3,334,487	\$ 282,594
Provisions made during the period - acquisitions	-	3,163,821
Change in discount rate	-	(282,594)
Accretion	41,595	170,625
Balance, end of period	\$ 3,376,082	\$ 3,334,487

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

10. PROMISSORY NOTES

A reconciliation of the promissory note is provided below:

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

(i) On September 15, 2020, the Company converted related party liabilities to unsecured promissory notes in the amount of \$217,195. The promissory notes bear simple interest at 5% per annum with principal and interest payable on maturity being two years from the date of issuance. During the year ended December 2022, a total of \$76,924 (2021 - \$142,780) was applied against the balance of the promissory notes.

(ii) On November 1, 2022, the Company entered into a promissory note in the amount of \$1,800,000 for the Donalda property acquisition. The unsecured promissory note is non-interest bearing, with \$1,000,000 due on or before January 31, 2023, and \$800,000 due on or before September 1, 2023.

11. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

	Convertible debenture - liability component	Derivative liability	Equity Component	Total
Balance, beginning of period	\$ 521,039	\$ 729,318	\$ 235,500	\$1,485,857
Proceeds, net of transaction costs	3,580,045	-	1,057,983	4,638,028
Conversions	(356,870)	(48,191)	-	(405,061)
Fair value change	-	(49,144)	-	(49,144)
Accretion expense	308,788	-	-	308,788
Balance at December 31, 2022	4,053,002	\$631,983	\$1,293,483	\$5,978,468
Conversions	(179,137)	-	-	(179,137)
Fair value change	-	-	-	-
Accretion expense	114,166	-	-	114,166
Balance at March 31, 2023	3,988,031	631,983	1,293,483	5,528,935

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

	Three months ended March 31, 2023	Year ended December 31, 2022
Convertible debenture (i)	\$ 315,002	\$ 308,041
Convertible debenture (ii)	280,418	267,329
Convertible debenture (iii)	3,392,611	3,477,632
Balance, end of period	\$ 3,988,031	\$ 4,053,002
Short term	280,418	267,329
Long term	3,707,613	3,785,673
Derivative liability (ii)	631,983	631,983
Short term	631,983	631,983

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

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

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

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

(ii) On June 28, 2020, the Company offered a non-brokered private placement of \$400,000 debenture units, each unit being comprised of an aggregate \$1,000 principal amount of a 10% convertible unsecured subordinated debenture due on April 30, 2023, and one detachable common share purchase warrant entitling the holder to purchase 10,000 common shares at a price of \$0.10 for a period of 36 months following the closing. The debenture bears an interest rate of 10% per annum payable semi-annually, payable either in cash or common shares in the capital of the

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

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.

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

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

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

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

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

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

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

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

During the three months ended March 31, 2023, convertible debentures with a stated value of \$179,137 were converted into 450,000 common shares (452,596 with accrued interest) at the holder's option. There were 450,000 conversion warrants valued at nil issued in connection with conversion, exercisable at \$0.75 for a period of 24 months.

12. SHAREHOLDERS' EQUITY

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

(a) Issued and outstanding

	Three months ended March 31, 2023			Year ended December 31, 2022		
	Number of Common Shares	Number of Preferred Shares	Amount	Number of Common Shares	Number of Preferred Shares	Amount
Balance, beginning of period	111,437,322	30,000,000	\$ 56,883,006	35,651,341	-	\$ 9,023,278
Issue of Common Shares (i)	-	-	-	22,196,708	-	8,000,000
Flow through premium (i)	-	-	-	-	-	(2,006,889)
Issue of Common Shares (ii)	-	-	-	44,440,000	30,000,000	41,174,122
Issue of Common Shares (iii)	-	-	-	4,222,222	-	1,345,000
Issue of Common Shares (iv)	-	-	-	3,790,623	-	1,173,155
Issue of Common Shares (v)	452,596	-	180,704	1,136,428	-	405,061
Warrants issued (i)	-	-	-	-	-	(1,212,126)
Conversion of preferred shares	30,000,00	(30,000,00)	-	-	-	-
Share issue costs	-	-	-	-	-	(1,018,595)
Balance, end of period	141,889,918	-	\$ 57,063,710	111,437,322	30,000,000	\$ 56,883,006

Issued shares for cash

(i) On December 23, 2022, the Company issued 11,940,298 flow-through units at \$0.335 and 10,256,410 charity flow-through units at \$0.39 per share for gross proceeds of \$8,000,000. Each Unit being comprised of one (1) Common Share and one-half (1/2) common share purchase warrants, each full warrant entitling the holder thereof to purchase one (1) additional common share at a price of \$0.50 for a period of 24 months from the date of issuance. The flowthrough shares were issued at a premium of \$0.065 and \$0.12 per share and a premium was recognized as a liability of \$2,006,889; \$1,212,126 of the proceeds were assigned to the warrants.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

Issued shares for the property acquisition.

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

Issued shares for services.

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

Issued shares for warrants exercised.

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

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

Issued shares for convertible debentures.

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

	Three months ended March 31, 2023		Year ended December 31, 2022	
	Number of Common Shares	\$	Number of Common Shares	\$
July 29, 2022 (iii)	-	-	20,000	\$ 7,400
September 20, 2022 (iii)	-	-	182,100	67,377
September 30, 2022 (iii)	-	-	557,277	206,192
September 30, 2022 (ii)	-	-	224,580	64,166
October 20, 2022 (iii)	-	-	50,625	18,731
November 22, 2022 (iii)	-	-	71,128	26,317
December 9, 2022 (iii)	-	-	30,717	14,878
February 8, 2023 (iii)	-	163,153	-	-
February 21, 2023 (iii)	-	17,551	-	-
	-	\$ 180,704	1,136,428	\$ 405,061

Convertible debenture (note 10 (ii))

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

Convertible debenture (note 10(iii))

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

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

During the three months ended March 31, 2023, convertible debentures with a stated value of \$179,137 (\$180,704 stated value of debenture plus accrued debenture interest converted to shares of \$1,566) were converted into 452,596 common shares at the holder's option.

(b) Convertible preferred shares

On September 14, 2022, 30,000,000 convertible preferred shares were issued to Leonard B. Van Betuw as consideration paid for the WCA acquisition. The Convertible shares will have a term of 3.75 years, expiring June 14, 2026, and earn an accruing annual dividend at a rate of two percent based on the value of \$0.32 share, payable upon conversion. The conversion of the Convertible shares at the election of the holder can only occur after one of three milestones have been achieved: a) the Company exceeds the production rate of 3,000 BOE/d; b) the Common Shares trade at a volume weighted average price (VWAP) of more than \$1.00 per share for 20.

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

consecutive business days or c) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible

Preferred Shares and any unpaid dividend shall automatically be redeemed on a 1:1 basis by the issuance of Common shares.

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

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

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

On March 29, 2023, there was a forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares, as a result of a significant event taking place which was the signing of the Business Combination Agreement announced on April 3, 2023, with Insight Acquisition Corp. As a result, the Company has written off the Convertible Preferred Shares dividend liability, recording a \$553,048 gain on conversion and \$103,101 in dividend payable.

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

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

(c) Share-based compensation plans

Stock Option Plan

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

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

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

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

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

Options Outstanding at March 31, 2023				Options Exercisable at March 31, 2023	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/share)	Number Exercisable	Weighted Average Exercise Price (\$/share)
\$0.35	200,000	1.6	\$0.35	200,000	0.35
\$0.39	717,949	1.7	\$0.39	717,949	\$0.39
\$0.34	835,821	1.7	\$0.34	835,821	\$0.34

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

	Three months ended March 31, 2023	Year ended December 31, 2022
Risk-free interest rate (%)	-	3.85
Expected life (years)	-	2
Expected volatility (%)	-	109
Expected forfeiture rate (%)	-	-
Expected dividend yield (%)	-	-
Fair value of stock options granted (\$/share)	-	0.12

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

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

AVILA ENERGY CORPORATION
SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

(d) Share purchase warrants

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

	Three months ended March 31, 2023		Year ended December 31, 2022	
	Number of Warrants	Weighted Average Exercise Price (\$/share)	Number of Warrants	Weighted Average Exercise Price (\$/share)
Balance, beginning of period	21,627,850	\$ 0.44	12,984,694	\$ 0.28
Issued – May 10, 2022	-	-	200,800	0.75
Issued – May 12, 2024	-	-	226,400	0.75
Issued – May 16, 2024	-	-	8,000	0.75
Issued – June 9, 2022	-	-	4,000	0.75
Issued – June 28, 2022	-	-	110,000	0.75
Issued – July 28, 2022	-	-	20,000	0.75
Issued – Sept. 14, 2022,	-	-	40,000	0.75
Issued -Sept. 15, 2022	-	-	100,000	0.75
Issued – Sept. 30, 2022	-	-	550,000	0.75
Issued – October 20, 2022	-	-	50,000	0.75
Issued – December 9, 2024	-	-	30,000	0.75
Issued – Dec. 23, 2022	-	-	11,098,354	0.50
Issued – February 8, 2023	400,000	0.75	-	-
Issued February 21, 2023	50,000	0.75	-	-
Exercised (note 11 (a)(iv))	-	-	(3,790,623)	(0.21)
Expired	-	-	(3,775)	(0.20)
Balance, end of period	22,077,850	\$ 0.44	21,627,850	\$ 0.44

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

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)
\$0.05	600,000	2.8
\$0.15	377,000	0.6
\$0.20	98,050	0.8
\$0.25	1,000,000	0.3
\$0.35	6,702,746	0.4
\$0.40	412,500	0.2
\$0.50	11,098,354	1.7
\$0.75	1,789,200	1.4
	22,077,850	1.3

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

(e) Per share amounts

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

Three months ended March 31,	2023	2022
Weighted average shares outstanding	112,691,462	25,541,590
Weighted average diluted shares outstanding	112,691,462	25,541,590
Net loss per share		
Net income (loss)	\$ (3,551,445)	\$ 58,479
Basic (\$/share)	(0.03)	-
Diluted (\$/share)	(0.03)	-

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprise:

Three months ended March 31,	2023	2022
Change in receivables	\$ (1,611,125)	\$ 183,007
Change in prepaid expenses	(820,097)	7,162
Change in accounts payable and accrued liabilities	2,467,744	(61,133)
Total	\$ 36,522	\$ 129,037
Change in operating non-cash working capital	\$ 36,522	\$ 129,037
Change in investing non-cash working capital	-	-

14. OIL AND NATURAL GAS REVENUE

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

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

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

Three months ended March 31,	2023	2022
Oil and natural gas revenue		
Heavy oil	\$ 199,373	\$ 166,761
Natural gas	733,218	313,890
Natural gas liquids	35,432	32,459
Total oil and natural gas revenue, gross	\$ 968,023	\$ 513,110
Less: Royalty expenses	(129,903)	(67,794)
Oil and natural gas revenue, net	\$ 838,120	\$ 445,316

15. ECONOMIC DEPENDENCE

Sales from the Company's business are substantially derived from very few customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its account receivable. As at March 31, 2023, accounts receivable of \$32,068 (December 31, 2022 - \$376,988) were due from these customers and were collected subsequently to quarter and year end.

16. FINANCE INCOME (EXPENSE)

Three months ended March 31,	2023	2022
Finance income:		
Interest income on bank deposits	\$ 31,729	\$ -
Finance expenses:		
Interest on promissory note	-	(7,816)
Interest on debentures	(43,252)	(13,785)
Interest	(465)	-
Fair value of change in derivative liability	-	(7,453)
Interest on conversions	1,566	5,871
Interest expense on dividend liability	(103,101)	-
Accretion on convertible preferred share dividend	(10,846)	-
Accretion on lease liabilities	(42,786)	-
Accretion on convertible debenture	(114,166)	(10,371)
Accretion on decommissioning provision	(41,595)	(2,288)
	\$ (356,847)	\$ (32,677)
Net finance income (expense)	\$ (325,118)	\$ (32,677)

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

17. COMMITMENTS

As a result of the issuance of flow-through shares on December 23, 2022, the Company has a commitment to incur \$8,000,000 in qualifying flow-through expenditures. As at March 31, 2023, the Company has incurred \$737,247 of flow-through expenditures with a \$7,262,753 remaining amount to be incurred prior to December 23, 2023.

2023	\$ 7,262,753
2024	-
2025	-
2026	-
Thereafter	-
	<hr/> \$ 7,262,753

18. FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. Virtually all of Avila's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. As at March 31, 2023, the Company's accounts receivable consisted of \$282,260 (December 31, 2022 - \$376,988) from oil and natural gas marketers, \$387,917 (December 31, 2022 - \$372,544) from joint venture partners, and \$95,430 (December 31, 2022 - \$148,370) in taxes receivable from Canada Revenue Agency.

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

As at March 31, 2023, 42 percent all the Company's accounts receivable were under 90 days in age and eight percent were considered past-due.

Aging	
Current (less than 90 days)	\$ 322,068
Past due (over 90 days)	443,539
Total	\$ 765,607

(b) Liquidity risk

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

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

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

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

	Carrying amount	Contractual cash flows total	< 1 year	1 – 2 years	2 – 5 years	More than 5 years
Accounts payable and other liabilities	\$1,258,056	\$1,258,056	\$1,258,056	\$ -	\$ -	\$ -

(c) Market risk

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

Foreign currency exchange rate risk

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand.

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

Interest rate risk

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

(d) Capital management

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

incurred in its investment program. Avila may, from time to time, issue shares and / or adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of net debt to the trailing funds flow from operations of the immediately preceding three-month period calculated on an annualized basis. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized cash flow from operations in the previous three-month period before changes in non-cash working capital and decommissioning provision expenditures. Avila's current strategy is to maintain a ratio of no more than 1.0 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at March 31, 2023, Avila had a working capital deficit of \$1,615,923 (\$3,876,247 working capital surplus at December 31, 2022).

The Company has not paid or declared any dividends since inception, nor are any contemplated in the foreseeable future.

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

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

(e) Vertically Integrated Energy Business

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

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

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

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

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

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

19. RELATED PARTY TRANSACTIONS

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

During the period ended March 31, 2023, legal services totalling \$88,168 (March 31, 2022, \$36,947 were provided by a law firm in which an Officer of the Company is a partner. As at March 31, 2023, there is \$26,997 (March 31, 2022 - \$ 72,442) included in accounts payable and accruals.

The Company has a \$500,000 convertible secured debenture bearing 5% interest compounded semi-annually that is held by Leonard Van Betuw, who is also President and Chief Executive Officer of the Company. At March 31, 2023, there is \$76,497 interest owing on the convertible secured debenture due July 31, 2027 (December 31, 2022 - \$45,519).

The Company has an accounts receivable of 765,607 (December 31, 2022 - \$228,657) from 611890 Alberta Inc as per the joint venture agreement. Leonard Van Betuw, who is director of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. Leonard Van Betuw, who is director of 611890 Alberta Inc is also President and Chief Executive Officer of the Company

During September 2022, the Company purchased WCA assets from 611890 Alberta Inc for \$25,909,100. Consideration for the WCA assets consisted of 30,000,000 preferred shares issued to Leonard Van Betuw, 12,180,000 common shares issued directly to Leonard Van Betuw

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

During December 2022, the Company purchased NEBC assets from 611890 Alberta Inc. for \$2,400,000. 611890 Alberta Inc. purchased the NEBC assets for \$1,200,000 and incurred the costs associated with the

AVILA ENERGY CORPORATION

SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2023, and March 31, 2022

preparation of the bid, post award negotiations, feasibility studies, engineering, budgeting, and legal costs and then sold the assets to the Company for \$2,400,000, resulting in a collateral benefit of \$1,200,000 for 611890 Alberta Inc. Leonard Van Betuw, who is director of 611890 Alberta Inc is also President and Chief Executive Officer of the Company.

20. SUBSEQUENT EVENTS

On April 3, 2023, the Company entered into a business combination agreement with Insight Acquisition Corp. (NYSE: INAQ) (“Insight”) a special purpose acquisition company (“SPAC”), pending shareholder and regulatory approval. Upon closing of the proposed SPAC transaction, the combined company intends to operate as “Avila Energy Inc.” and list on Nasdaq Stock Exchange. The proposed transaction includes a financing arrangement between the Company, Insight and Meteora Capital Partners (“Meteora”) per a prepaid forward purchase agreement contingent upon closing the SPAC deal.