



**Avila Energy Corporation**

**Form 51-102F1  
Amended Management's Discussion and Analysis  
For The Year Ended December 31, 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 year ended December 31, 2022, has been prepared by management in accordance with the requirements under National Instrument 51-102 as of April 27, 2023, (the "Report Date"). The Report should be read in conjunction with Condensed Audited Financial Statements for the years ended December 31, 2022, Financial Statements and the Condensed Audited Financial Statements for the years ended December 31, 2022, and 2021 (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 April 30, 2023 and amended on July 6, 2023.

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](http://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 using six thousand cubic feet equal to one barrel unless otherwise stated. A barrel is a very approximate comparative measure that, in some cases, could be misleading if used in isolation.

## DESCRIPTION OF BUSINESS

The Company formed in January 13, 2010 is reporting issuer 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.

The Company's assets consist of the West Central Alberta assets ("WCA") located 50 kms southwest of Edmonton, Alberta. and the East Central Alberta assets ("ECA") located 90 kms east of Red Deer Alberta.

September 1, 2022, the WCA assets are comprised of 1.8 wells (net) of 4 wells (gross) and 1 facility, were consolidated with the acquisition previously announced consisting of 49.63 wells (net) of 48.37 wells (gross), ) resulting in developed and undeveloped mineral rights totaling 41,873 acres (net) of 43,659 acres (gross) tied and three (3) natural gas compression and processing facilities, 130 kilometers of gathering and sales lines, with a current capacity of up to 1,500 boe/d (9,000 mcf/d) and two direct points of sale tied into the Nova Gas gathering system owned by TC Energy and three (3) additional oil, natural gas, water separation and storage facilities having a total installed capacity of 1,200 bbl/d. The acquisition, upon receiving approval from the shareholders on August 31, 2022 closed on September 1, 2022.

November 1, 2022, the ECA assets are comprised of 22.7 wells (net) of 23 wells (gross), within developed and undeveloped minerals rights totaling 16,841 acres (net) of 17,216 acres (gross) tied into a network, comprised of three (3) natural gas compression and processing facilities, 171.86 kilometers of gathering and sales lines with the a current capacity of up to 1,000 boe/d (6,000 mcf/d) and a direct point of sale tied into the Nova Gas gathering system owned by TC Energy that were acquired in the 4<sup>th</sup> Quarter of 2023 and closed on November 1, 2022.

The Company for yearend 2022 completed an NI 51-101 evaluation of 100% of the Company's consolidated interests. The evaluation was completed by its independent Qualified Reserves Evaluators ("QRE"); Deloitte LLP, the Company's reserves evaluation ("Evaluation") for the year ended 2022 was completed with an effective of January 1, 2023, in accordance with the COGE Handbook from the QRE. The Company's Proven + Probable basis (2P) for the Company is 5,256,100 boe valued at \$30.734 million in future cash flows based on a net present value discounted 10% before income taxes (NPV10% BT), which is

an estimate of future cash flows and does not necessarily represent fair market value.

## DESCRIPTION OF BUSINESS (Continued)

Avila Energy's engineering is set to be funded by a sustainable capital program of CAD \$10.432 million for proved reserves and CAD \$17.517 million for proved plus probable reserves that are the foundation for the Company's upstream business unit.

### The Company's Reserves Evaluation by regions.\*\*

#### East Central Alberta (Donalda)

| Category                         | Work Interest "WI" |                   |               |             | Discounted NPV @10%  |
|----------------------------------|--------------------|-------------------|---------------|-------------|----------------------|
|                                  | Oil (bbl)          | Natural Gas (Mcf) | Liquids (bbl) | Total (BOE) | Before Tax Cash Flow |
| Proven Developed Producing (PDP) | -                  | 3,802,800         | 2,700         | 638,500     | \$ 3,462,100         |
| Proven Developed (DP)            | -                  | 6,974,600         | 4,900         | 1,167,300   | \$ 7,832,500         |
| Total Proven (TP)                | -                  | 9,179,500         | 6,400         | 1,536,400   | \$ 9,019,100         |
| Total Proven + Probable (2P)     | -                  | 11,609,600        | 8,100         | 1,943,100   | \$ 11,007,100        |

#### West Central Alberta (Ferrybank)

| Category                                   | Work Interest "WI" |                   |                |                  | Discounted NPV @ 10% |
|--|--------------------|-------------------|----------------|------------------|----------------------|
|  | Oil (bbl)          | Natural Gas (Mcf) | Liquids (bbl)  | Total (BOE)      | Before Tax Cash Flow |
| Proven Developed Producing (PDP)           | 31,900             | 3,337,200         | 39,200         | 627,300          | \$ 4,382,900         |
| Proven Developed (DP)                      | 39,400             | 5,919,800         | 90,500         | 1,116,500        | \$ 8,143,300         |
| Total Proven (TP)                          | 154,800            | 11,190,600        | 206,700        | 2,226,600        | \$ 14,853,300        |
| Total Proven + Probable (2P)               | 416,100            | 15,578,700        | 283,100        | 3,295,700        | \$ 19,700,000        |
| Minor - Property (2P)                      | 14,200             | -                 | -              | 14,200           | \$ 30,800            |
| <b>Company Total Proven + Probable(2P)</b> | <b>430,300</b>     | <b>27,188,300</b> | <b>291,200</b> | <b>5,256,100</b> | <b>\$ 30,734,100</b> |

\*\*Based on the QRE (Deloitte LLP) published Price Deck dated December 31, 2022, a summary of which is as follows:

- (i) The QRE prepared an independent evaluation of reserves and future net revenues derived from, the Petroleum and Natural Gas assets interests of Avila according to the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"); and
- (ii) As required, these reserves and future net revenues were estimated using forecast prices and costs (before and after income taxes) according to the requirements of National Instrument 51-101 ("NI 51-101"). The effective date of this evaluation is January 1, 2023. The acquisition of the WCA properties did not close prior to the effective date of this report. The closing date of the WCA acquisition is September 1, 2022.

#### WCA Acquisition

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 WCA. Upon the completion of this acquisition in the 4<sup>th</sup> quarter of 2021 the Company advanced its evaluation of the assets, identifying an additional 5 booked and 10 un-booked potential locations of the 5 locations (2.5 Net) have been booked, 2 locations being Proven (1.0 Net) and 3 locations being Probable (1.5 Net) increasing significantly both Proven and Probable reserves. The Gross Purchase Price was \$285 per acre, with the total net cost to the Company, 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 June 30<sup>th</sup>, 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. On August 31<sup>st</sup> the Company held a Special Meeting to Vote on the approval of the Acquisition proposed for 100% of the assets in WCA. 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 13<sup>th</sup>, 2022. The courts approval signified the closing of the acquisition, in WCA, taking effect September 1, 2022. The Company identifies the following trends and risks within the WCA business unit that have affected the financial statements, and future trends and risks

that are likely to affect them as the following:

**DESCRIPTION OF BUSINESS (Continued)**

1. Natural Gas prices in North America trended upwards and peaked in July of 2022 in comparison to 2021. The WCA properties, which is approximately 18% heavy oil, 80% natural gas and 2% natural gas liquids, this acquisition increases the Company’s revenues and cash flow from oil and diversifies its exposure to the price volatility in Natural Gas.
2. Initial production tests and increasing production rates in the WCA properties continue to contribute to the reduction in the Company’s overall cost of production and general administrative costs per boe/d.
3. Risk of natural gas prices decreasing, due to over-supply, resulting in reduced revenues, margins and cashflow.
4. Seasonal prices for natural gas can potentially result in greater volatility in the Company’s revenues, margins and cashflow.
5. The Company’s current oil production and future oil developments planned are expected to be a counter to the volatility in pricing associated with Natural Gas production.
6. The company in 2023 will continue to increase its production of oil and condensate with acquisition of the WCA assets which diversifies the Company’s revenue stream. A decrease in natural gas prices will not necessarily decrease the Company’s oil revenue and a decrease in oil prices will not decrease the Company’s natural gas revenue.

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

The following purchase price allocation is based on management’s best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be \$16,516,644; which was based on the NPV of 10% discounted cash flows created by an Independent Qualified Reserves Evaluator (“QRE”). Management determined the fair value of the facilities to be \$5,416,566 and pipeline to be \$5,883,660. The Company assumed decommissioning liabilities and asset retirement obligation of \$2,182,077 in discounted decommissioning liabilities was based on the future value of \$5,685,194, an inflation rate of 2.0%, credit adjusted risk free rate of 5.39% and life of the asset of 1 to 50 years.

| <b>Net assets acquired</b>                         | <b>\$</b>         |
|--|-------------------|
| Petroleum and natural gas properties and equipment | 8,063,320         |
| Asset Retirement Obligation                        | 2,182,077         |
| Exploration and evaluation assets                  | 8,453,325         |
| Facilities   | 5,416,566         |
| Pipelines  | 5,883,660         |
| Goodwill   | 9,836,173         |
| Deferred Tax Asset                                 | 5,138,074         |
| Joint Venture Receivable/(Payable)                 | (1,087,818)       |
| Decommissioning liabilities                        | (2,182,077)       |
| <b>Fair Value of Net Assets Acquired</b>           | <b>41,703,300</b> |
| <b>Total consideration paid in Shares</b>          | <b>41,703,300</b> |

The business combination resulted in a goodwill value of \$9,836,173 which Management impaired to \$Nil at year end (Note 10). Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the Closing.

The purchase of the WCA assets meet the definition of a related party transaction as the purchase was between 611890 Ltd and the Company. The CEO of 6118590 Ltd is the CEO of the company.

Acquisition Cost

The Company incurred acquisition costs fair valued at \$1,345,000 for service for arranging the acquisition between the buyer and seller settled with 4,222,222 common shares issuance (Note 17 (b)).

Revenue and operating income

This acquisition contributed \$1,501,797 in revenues, royalty expense of \$126,394 and \$1,032,501 in direct operating expense for the year ended December 31, 2022 resulting in \$342,901 of net operating income. This acquisition contributed \$1,501,797 in revenues, royalty expense of \$126,394 and \$1,032,501 in direct operating expense for the year ended December 31, 2022, resulting in \$342,901 of net operating income.

## DESCRIPTION OF BUSINESS (Continued)

### ECA Acquisition

On November 1, 2022, the Company acquired 100% interest in oil and gas properties in the Donalda Area. The transaction was accounted for as business combination under IFRS 3 - "Business Combinations" as the assets met the definition of a business. The total purchase is comprised of \$1,800,000 in the form of a promissory note (Note 14 (b)).

The following purchase price allocation is based on management's best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be \$11,007,129, which was based on the NPV of 10% discounted cash flows created by an independent QRE. The assumption of \$981,744 in discounted decommissioning liabilities and asset retirement obligation was based on the future value of \$3,772,618, an inflation rate of 2.0%, credit adjusted risk free rate of 5.39% and life of the asset of 9 to 50 years.

| Net assets acquired                                | \$                |
|--|-------------------|
| Petroleum and natural gas properties and equipment | 9,376,563         |
| Asset Retirement Obligation                        | 981,744           |
| Exploration and evaluation assets                  | 1,630,566         |
| Facilities   | 1,920,600         |
| Pipelines  | 7,474,440         |
| Deferred Tax Liability                             | (3,903,469)       |
| Decommissioning liabilities                        | (981,744)         |
| Fair Value of Net Assets Acquired                  | 16,498,700        |
| Less: Total consideration to be paid in Cash       | (1,800,000)       |
| <b>Gain on acquisition</b>                         | <b>14,698,700</b> |

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

### Acquisition Cost

The Company did not incur any acquisition cost.

### Revenue and operating income

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

The Company in additions to its benefits have identified similar trends in ECA business unit that have affected the financial statements, and future trends and risks that are likely to affect them as the following:

1. The ECA assets provides an alternate revenue stream to reduce its exposure to the continuing upgrades that are occurring within the overall Nova Gas gathering system in Alberta. This ensures that any temporary shut-ins for system upgrades that occur in Alberta do not affect 100% of the Company's natural gas production. Natural Gas in North America trended upwards also in ECA region and peaked in July of 2022 in comparison to 2021. By acquiring the ECA properties, which are currently 100% natural gas liquids, the acquisition increases the Company's revenues and cash flow.
2. The Company's second business unit is increasing production rates and is contributing to the reduction in the Company's overall cost of production and general administrative costs per boe/d.
3. The ECA business units 100% owned and operated 3 natural gas processing facilities and extensive network of 171.86 kilometers of pipelines provided a unique opportunity, due to the fact this network of infrastructure is the only active gathering system in an area of underdeveloped and commercially available mineral rights in Alberta estimated to be approximately 600 square kilometers (150,000 acres).
4. Risk of natural gas prices decreasing, due to over-supply, resulting in reduced revenues, margins and cashflow.
5. Seasonal prices for natural gas can potentially result in greater volatility in the Company's revenues, margins and cashflow.
6. The Company in 2022 encountered oil in the region and will continue to advance its exploration plans with in the business unit to diversify the business unit's exposure to Natural Gas prices by increasing oil production in the region through future oil developments that are currently in the earlier stages of planning and are counter to the volatility in pricing associated with business units 100% exposure to Natural Gas production.

## DESCRIPTION OF BUSINESS (Continued)

### NEBC Acquisition

On June 26, 2022, the Company participated in a Joint Venture with its partner, 611890 Alberta Inc and acquired a 7% of interest in oil and gas properties in the northeast British Columbia Area (“NEBC”). As of September 30, 2022, the Company, through its initial Joint Venture with its Partner, 611890 Alberta Inc. acquired an additional 17%, for a cumulative total of 24%. On December 1, 2022, the Company acquired the remaining 76% interest for a cumulative total of 100%. The total amount paid to 611890 Alberta Inc. was \$2,400,000. The acquired oil and gas interest was valued at \$7,600,044 and the assumption of \$21,497,890 in decommissioning liabilities based from the British Columbia Government amount disclosed to the Company that includes amounts for 4 facilities and 111 wells that are either shut in or producing. The joint venture in NEBC is a related party transaction under the definition found in IFRS IAS 24 due to Leonard B. Van Betuw being a member of the key management personnel of the Company and the joint venture partner, 611890 Alberta Inc. In November of 2022 the initial assessment completed by the BCOGC (British Columbia Oil and Gas Commission) was completed and a deposit of \$11,800,000 was requested by BCOGC to be posted by the Company. At this time the Company requested the BCOGC to complete a review of the assessment based on the 600% increase of \$1,800,000 that was currently held as security for the assets, representing a material difference. The seller and the buyer both recognized that the assessment was materially more than what was contemplated and agreed to extend the post-closing conditions for the transfer, at which time Avila agreed to advance an additional non-refundable security deposit of \$3,000,000 as part of an understanding that with more time the Seller would submit all of the decommissioning activities completed in 2022 by the seller on behalf of Avila as the buyer to the BCOGC as part of a request to the BCOGC to complete a reassessment of the required security deposit to include the work in progress that was completed since the sale was closed on June 26, 2022 up to and including the months of January and February of 2023. Due to the delay in the delivery of the data by the seller and the limited human resources at the BCOGC the reassessment would be completed before the end of March as anticipated by the BCOGC. Therefore, the Company, taking this decision into account, in addition the increasing costs of construction due to inflation, future natural gas prices and a growing concerns that it would be likely the Company would be subject to work stoppages in the region, due to on-going political unrest and indecision in the Province of British Columbia were the factors that resulted in the Company’s decision to withdraw from the NEBC acquisition and will write off of \$5,400,000, including the \$2,400,000 consideration paid to 611890 Alberta Inc. in 2022 and the \$3,000,000 advance to the Seller in 2023.

### Development of the Company’s “Carbon Capture and Sequestration plan”:

The Company has not submitted a proposal for a CCUS or CCS project to the Government of Alberta. In Western Central Alberta, Avila’s projected levels of Carbon Capture and Sequestration are to be part of our secondary recovery program anticipated to be implemented within our existing oil fields currently in their primary production phase. The Company plans to initiate the engineering in 2023 and expects the engineering to be completed by the end of 2023. By the end of 2023, the Company expects the completion of our CRCE expenditures, within the application to be prepared and submitted to the Government of Alberta in 2024. Currently the Company sells its natural gas to customers that have provided the Company certification that natural gas is being used as an input that has offsets in place and as such, carbon taxes are not being imposed on Avila’s production.

Avila’s Carbon Capture and Sequestration plans are in the initial phases of development. The objectives and milestones with respect to Carbon Capture and Sequestration is the following:

- I. Configuration of the Equipment - \$1,200,000 to be used to complete the modeling and configuration of the natural gas fired turbine generators which is to be integrated with the installation of heat and exhaust recovery equipment. The purpose of this equipment will to integrate the proposed Amine Plant to be located on site. The commercial suitability is to be determined by the amount of CO<sub>2</sub> to be recovered and combined with the Company’s future secondary oil recovery and the associated sequestering of CO<sub>2</sub> in the Company’s Rex oil field being current in the early stages of development and located in the same area as the Carbon Capture facility in West Central Alberta, all prior to June 30, 2023.
- II. Construction of the Temporary Road- \$200,000 to be used to prepare the right way for the installation of the power generation associated carbon capture equipment prior to September 30, 2023, in advance of the completion of this work, the Company will be completing a site survey and solicitation for the completion of the work.
- III. Site Preparation and Approvals - \$600,000 to be used for the negotiation of the proposed inter-connect of the power generation, as well as the approvals, access and site preparation for the sale of power.

To do the above, Avila currently has access to a site that is associated with its 100% owned and operated facilities, as well as a low-pressure natural gas gathering system and high-pressure sales pipelines that are associated with its oil and natural gas production in the region. This provides Avila the foundation to complete a Carbon Capture and Sequestration program in the West Central Alberta area. The cost for the construction of an integrated closed system on site is estimated at \$12,000,000 and expected to commence in 2024 or 2025.

## DESCRIPTION OF BUSINESS (Continued)

### Vertically Integrated Energy Business

On November 14, 2022, the Company announced the launch of its Vertically Integrated Energy Business, being to target its first direct-to-consumer sales in North America in 2023 and net zero tier 3 (scope 3) CO<sub>2</sub> emission energy deliveries in 2027. Notwithstanding this launch, the Company will continue to primarily focus its activities to operate in the oil and gas sector of the energy business and will start to develop business downstream only when economically feasible. Avila Energy has obtained from MTT the preferred licensing rights to manufacture, sell, lease, and service the “EnerTwin” in Canada and the United States (the “Licensing Rights”). The launch of Avila Energy’s “Vertically Integrated Energy Business” is supported by over 10 years of investment in research and development, including a 2.5 million Euro cash investment made by 611890 Alberta Inc in MICRO TURBINE TECHNOLOGY (“MTT”).

611890 Alberta Inc. sold the preferred license agreement to the Company for \$8,228,111 CAD. During 2022, the Company has advanced \$2,340,000 to 611890 Alberta Inc. for the investment in MTT. On January 31, 2023, a new agreement was signed between MTT and the Company. The Company will receive a 15% equity stake in MTT and will assume the outstanding loan balance of \$2,500,000 Euro from 611890 Alberta Inc. Once the Company advances the \$2,500,000 Euro to MTT, the Company will receive an additional equity share in MTT of 15% for a combined total of 30%. The Company will have to reimburse 611890 Alberta Inc for their initial cash investment of \$2,500,000 Euro which is \$3,600,000 CAD, (\$2,500,000 times a foreign exchange rate of 1.44 equal to the rate on January 31, 2023) less the payments made in 2022 of \$2,340,000 by the Company to equal a total outstanding balance owing to 611890 Alberta Inc. of \$1,260,000.

In the 2<sup>nd</sup> quarter, the Company plans to submit their application to the Canadian Standards Association (CSA). After the CSA completes its review of the application submitted by the Company for approval of the EnerTwin and their review of the KIWA Certification in support of this application for CSA certification of the “EnerTwin” product line in Canada, the Company is positioning itself to commence manufacturing and initial deliveries in late 2023 in Canada for 2024. The timeline to commence manufacturing is contingent upon CSA approval which could take longer than anticipated resulting in delays to the anticipated manufacturing commencement date.

Upon the receiving CSA approval, the sale and distribution of the “EnerTwin” in the United States is automatically UL approved by way of the agreements between Canada and the United States.

Once The Company pays the balance of the loan to MTT which is Euros 2,000,000, it can finalize the negotiations at its current location for warehousing, manufacturing, monitoring and support services in North America and expects to finalize negotiations in the 4<sup>th</sup> quarter of 2023.

Avila Energy’s launch of its Vertically Integrated Energy Business is based on MTT’s proven technology of the EnerTwin and is an opportunity to strengthen Avila’s activities in the field of integrated energy supply to energy consumers with a high-tech micro-CHP generation system. The growing collaboration complements Avila’s portfolio in the most meaningful way possible and is a reassuring step towards its vision of delivering a vertically integrated energy solution.

The Company’s overview of the development of the Vertically Integrated Energy Business are the following:

- 1) 2nd quarter of 2023 the preparation and filing of the application for the Canadian Standards Association (“CSA”) and Underwriter Laboratories (“UL”) Certifications for the EnerTwin in North America, based on past applications for CSA approval of KIWA certified equipment. KIWA is a member of NVCi – the Dutch Association of Certification services. NVCi is the branch organization for certification and inspection in the Netherlands. The Company has estimated that this process is anticipated to 10-12 months in duration. 1st half of 2023 the commencement of pre-sales and servicing of the EnerTwin that are conditional on the Company attaining CSA and UL approval. In the event that the CSA and UL approval is not attained, the sales would be refunded to customers.
- 2) The development of the Company’s manufacturing of the EnerTwin, including the assembly or 3rd part manufactured sub-assemblies and the final testing prior to shipping to the customer. The ramp up of this manufacturing facility is to be completed in parallel to the CSA approval, with the first 100 installations being demonstration installations to be replace by CSA approved equipment within targeted markets in North America utilizing the EnerTwin as KIWA Certified equipment.

## DESCRIPTION OF BUSINESS (Continued)

### Vertically Integrated Energy Business (Continued)

3) Initial contracts are anticipated to be executed 3 months after receiving CSA Certification.

The Company's Vertically Integrated Energy Business is based on the following assumptions:

- Motivation for Customer Adaptation:
  - a) Power, Heat, Cooling and Daily Transportation in one invoice;
  - b) Reduce Consumers Carbon footprint by 40% and save the consumer money;
  - c) Mitigates concern for brownouts and protection from increasing transmission fees;
  - d) Fixed Contract plus only an annual inflation adjustment; and
  - e) Capacity to transition to Hydrogen in the future.
- The Company's long-term goal is to allocate a portion of its natural gas production to its newly acquired customers as a source of fuel with the cost of energy being billed to the customer at a fixed price plus an annual inflation rate adjustment. The Company's strategy is to include the delivery of fuel and the maintenance, under long-term contracts that offers price stability. The Company plans to continue to still sell their current suite of customers in addition to the newly acquired customers from the Vertically Integrated Business.
- Fuel is to be delivered from centralized locations by way of refrigerated compressed natural gas in certified (under existing transportation laws as Liquids, Petroleum, Gas) insulated storage containers.
- The Company assumes early market development will qualify for government subsidies both in Canada and the United States as an efficient upgrade and or substitute for current heating and cooling. For example, the Company anticipates that the EnerTwin will qualify under the existing Canadian Greener Homes Program which will offer rebates on eligible home retrofits.

The Company will be using the proceeds from the \$8,000,000 funds raised from flow through shares for Canadian renewable and conservation expenses, more specifically to advance its Vertically Integrated Energy Business a combination of tier 1, tier 2, and tier 3 carbon dioxide (CO<sub>2</sub>) emissions reductions; incurring the completing work associated with the CRCE eligible expenditures, the Company's objectives and milestones with respect to the integration of sales of EnerTwin microturbines is the following:

- To establish the foundation for the sale of a total of 1,000 installations in 2024 upon completing the data analysis, configuration of the equipment to be used and preparation of the site for the installation of the EnerTwin at an average cost of \$6,000 per location. The assumption of 1,000 units in a region is based on a potential site that the Company identified in southern Alberta that is capable of and contains the capacity for 1,000 units to be installed. There is a risk that the site could no longer be feasible, but the company would look for a similar site. There is a risk that the number of locations could be lower in a region due to a lack of customer demand.
  - I. Data Analysis - \$1,500,000 will require the collection of information of more than 1,000 potential customer's current power, heating, and cooling needs. Prior to June 30 of 2023, the Company anticipates using the data to determine the commercial suitability of each potential customer's location. The commercial suitability is determined by usage, carbon footprint reduction and proximity to the Company natural gas distribution hubs.
  - II. Configuration of the Equipment - \$2,500,000 to be used to complete the modeling and configuration of the heating, chilling, and storage batteries with the EnerTwin in prior to September 30, 2023. The successful integration of the equipment will result in commercially viable supply of off Grid Power, Heating, Cooling, and the Supply of natural gas as a fuel, including the options to charge an electric vehicle.
  - III. Site Preparation and Approvals - \$1,000,000 to be used for the site preparation to clear the land in advance of the installation of up to 1,000 sites for the storage and the tie-in of insulated natural gas storage containers, prior to December 31, 2023. The 1,000 sites are for residential homes in which the Company would enter into an agreement with a developer and builder. The Company would be installing the EnerTwin units into each residential home. There are a number of risks in relying on other parties to progress the development as the following:
    - a. Permitting requirements – there is a risk that the developer and builder do not attain a building and development permit. The company has found land zoned for residential construction but there is a risk the Company is unable to close the deal.



## DESCRIPTION OF BUSINESS (continued)

### Vertically Integrated Energy Business (Continued)

- b. Timing – relying on other parties could cause timing delays and drive-up costs and prevent the Company from reaching milestones and targets.
  - c. Costs – relying on other parties could cause cost increases that are out of the Company’s control.
  - d. Installation permits – there is a risk that the Company is unable to obtain installation permits from the government.
  - e. CSA approval – there is a risk that the EnerTwin does not receive CSA approval. There is a risk that the CSA approval is delayed which would drive up costs, cause timing delays and prevent the company from reaching milestones and targets.
  - f. Market risk – there is a risk that interest rates increase which would drive down demand for customers to purchase the residential homes. Also, if demand is lower for residential homes, there is a risk that 1,000 units are not sold in 2024 which would cause timing delays and prevent the company from reaching milestones and targets.
  - g. Collection risk – there is a risk of not collecting all of the proceeds from the sales of 1,000 units.
- IV. Installation costs Analysis - The Company will need to make the determinations respecting the installation cost of installing each micro turbine into residential homes meets the criteria of making a service connection because each micro turbine will transmit electricity to each customer.  
Cost: 1,000 locations at an average cost of \$2,000 per location. Anticipated to commence in 2024.

**The Company’s capital budget for the next 12 months is as follows.**

### WCA PROPERTY

The initial proposed Capital Program for the Company in West Central Alberta (“WCA”) is as follows:

|                          | 2022 Budgeted     | 2022 Actual Spent | 2023 Budgeted       |
|--------------------------|-------------------|-------------------|---------------------|
| <b>New Drills</b>        | \$Nil             | \$Nil             | 6,800,000           |
| <b>Well Equipping</b>    | Nil               | Nil               | Nil                 |
| <b>Facility Upgrades</b> | 10,000            | 10,000            | 400,000             |
| <b>Well Tie Ins</b>      | 260,000           | 260,000           | Nil                 |
| <b>Well Workovers</b>    | 150,000           | 150,000           | 400,000             |
| <b>Total</b>             | <b>\$ 420,000</b> | <b>\$ 420,000</b> | <b>\$ 7,600,000</b> |

There are no changes or updates to the 2022 budget. To date, \$420,000 of the budgeted capital expenditures have been spent.

The Company plans to finance the expenditures from a combination of cash-flow, debt and as needed a through the issuance of equity to the degree necessary that the Directors of the Company deem is necessary to maintain a strong financial position.

The Company is planning to drill one well into the Wabamun Formation in West Central Alberta in the first half of 2023 at a cost of \$1,000,000 including a contingency for inflation of 15%, including the tie-in to the Company’s existing pipelines and facilities. The well is projected to produce at an average rate of 250 BOE/d over the following 12 months.

At the Company’s 5-29 in facility in 2023 the Company has capital program approved to increase the Capacity of the facility to separate additional natural gas liquids from raw production at an estimated cost of \$400,000 including a contingency of 25%.

The Company in 2022 completed an analysis of up-hole potential in shallower geological horizons in West Central Alberta and the first re-completion in 2022 has resulted in the Company identifying 3 similar horizon that the Company plans to re-complete in 2023 at a total cost of \$400,000.

## DESCRIPTION OF BUSINESS (continued)

### Overview of completed Upstream Program and Proposed Capital Program to Date and Future Milestones

The Company outlines their production achievements as the following:

In September of 2022, the Company scheduled a well workovers in the West Central Alberta region which was completed in early October. Since completion, the well is producing at an average rate of 45 boe/d, with 45% heavy oil and 55% natural gas and liquids. Also, the Company advanced its exploitation of the West Central Alberta region through an up-hole re-completion of a vertical well. The initial production results were volumes of 70 boe/d which is the combination of 90% natural gas and 10% light oil. The production results confirmed a geological concept that was under development by the Company in the region. Currently, the well is producing 30 boe/d, 170 mcf/d of natural gas.

To ensure that the Company has the capacity to process natural gas and oil, in the WCA Area, at a sustainable rate of more than 960 boe/d, the Company has executed the following:

- The 13-2 facility's construction was complete on February 28<sup>th</sup>, 2023.
- The 5-29 facility upgrades have advanced to where budgets have been reviewed and the Company is preparing requests for quotes prior to completing a final review of the 3<sup>rd</sup> Party process Engineers proposed upgrades to Avila Energy's 5-29 natural gas and liquids separation and sales facility, this is anticipated to completed on or before June 30, 2023.

The Company also has one commitment to process up to 3,000 mcf/d of 3rd party natural gas volumes in West Central Alberta and also sees the potential to expand its exploration for oil in East Central Alberta in 2024 based on test results that were completed in the 3<sup>rd</sup> quarter of 2022. If commodity prices remain stable, and inflation does not persist long into 2023, production is anticipated to grow from a fluctuating production rates that range from 600 to 700 boe/d in Alberta to 1,000 boe/d of sustainable production by June of 2023 at an additional cost of \$800,000, supported by the Evaluation issued by the Company's QRE on April 27, 2022, upon the completion of work-overs, tie-ins and the drilling of one well and the tie-in of this well in the 3<sup>rd</sup> quarter into the Company's 100% owned and operated existing pipelines and facilities the Company has the potential to reach its next milestone of 1,200 boe/d.

In July of 2023, the Company will be assessing market conditions and commodity prices in North America prior to determining the weighting of the balance of its capital plans in 2023 and 2024 to determine whether it will be dedicating capital to oil or natural gas in Canada to achieve its next milestone of exiting 2023 at a production rate of more than 2,000 boe/d.

Prior to processing volumes in excess of more than 1,000 boe/d through its 100% owned and operated facilities in West Central Alberta, the Company continues to upgrade its facilities and pipelines, which has had a persisting effect on production over the past 6 months and will continue to do so into September of 2023. The Company plans to continue to upgrade and reconfigure its pipelines and facilities to increase production capacity to 2,000 boe/d in Western Central Alberta.

Due to increasingly volatile commodity prices in the 1<sup>st</sup> quarter of 2023, the Company implemented a strategy to focus on reducing the cost of capital expenditures versus achieving projected production targets within a specific timeframe at any cost. The Company remains conservative on near term guidance for its rate of growth in production while remaining focused on the Company's capacity to exit 2023 at 2,000 boe/d, and be able to establish a sustainable rate of 2,500 boe/d in Alberta in 2024.

### ECA PROPERTY

The initial proposed Capital Program for the Company in East Central Alberta ("ECA") is as follows:

|                          | 2022 Budgeted | 2022 Actual Spent | 2023 Budgeted       |
|--------------------------|---------------|-------------------|---------------------|
| <b>New Drills</b>        | \$Nil         | \$Nil             | 950,000             |
| <b>Well Equipping</b>    | Nil           | Nil               | Nil                 |
| <b>Facility Upgrades</b> | Nil           | Nil               | Nil                 |
| <b>Well Tie Ins</b>      | Nil           | Nil               | Nil                 |
| <b>Well Workovers</b>    | Nil           | Nil               | 219,300             |
| <b>Total</b>             | <b>\$ Nil</b> | <b>\$ Nil</b>     | <b>\$ 1,169,300</b> |

There were no expenditures for 2022 budgeted as the property was acquired in November of 2022.

## DESCRIPTION OF BUSINESS (continued)

In East Central Alberta the Company has budget to complete the necessary testing and workovers of 4 wells at a cost of \$219,300 that are anticipated to result in production averaging 385 boe/d in the region for 2023. An the drilling of an additional well in the area is expected to add approximately 130 boe/d.

The Company plans to finance the expenditures from a combination of cash-flow, debt and as needed a through the issuance of equity to the degree necessary that the Directors of the Company deem is necessary to maintain a strong financial position.

### Upstream Summary of Corporate Capital Program and Expected Results

Assuming that commodity prices remain stable and inflation does not persist long into 2023, upon completion of the Company's current capital program production is anticipated to grow in Alberta to consistently be delivering a sustainable 1,000 boe/d by June of 2023, the Company will be assessing the market prior to mobilizing one drilling rig to meet the Company's needs for the balance of 2023 to drill initially up to 7 wells, 5 natural gas and 2 oil wells, and depending on the scheduling of this drilling program in the second half of 2023, the Company anticipated, this capital program will result in an 2023 exit rate of 1,750 boe/d. The Company, upon accessing the initial results of its 2023 drilling program and commodity prices in September of 2023, may consider positioning itself to drill an additional 2 oil wells and 1 natural gas well, at a cost \$2,500,000 that have the potential to add an additional 250 boe/d in production, resulting an exit rate for the Company reaching 2,000 boe/d, the production mix is anticipated to be comprised of 300 bbls/d of heavy crude oil and 1,700 boe/d of natural gas and liquids.

### VERTICALLY INTEGRATED ENERGY BUSINESS

The Capital Budget for the Vertically Integrated Energy Business is as the following:

|                                | 2022 Budgeted       | 2022 Actual Spent   | 2023 Budgeted       |
|--------------------------------|---------------------|---------------------|---------------------|
| <b>Investment in MTT</b>       | \$ 2,340,000        | \$ 2,340,000        | \$ 3,000,000        |
| <b>Property Acquisitions</b>   | 2,000,000           |                     | Nil                 |
| <b>Integration Analysis</b>    | 1,500,000           | 750,000             | 750,000             |
| <b>Site Preparation</b>        |                     |                     | 1,000,000           |
| <b>Contingencies</b>           |                     |                     | 600,000             |
| <b>Equipment Configuration</b> |                     |                     | 1,700,000           |
| <b>CSA Approval</b>            |                     |                     | 1,200,000           |
| <b>Total</b>                   | <b>\$ 5,840,000</b> | <b>\$ 3,090,000</b> | <b>\$ 8,250,000</b> |

In 2022, \$3,090,000 of the budgeted capital expenditures have been spent. For the integration analysis, the Company spent \$750,000 out of the \$1,500,000. \$750,000 of the remaining balance will be rolled over to 2023.

The Company plans to finance the expenditures from a combination of cash-flow, debt and as needed a through the issuance of equity to the degree necessary that the Directors of the Company deem is necessary to maintain a strong financial position.

The initial data from Europe KIWA certification is being compiled to commence the CSA Certification process in 2023. Acquisitions of property, includes equipment, and the buildout of warehousing and loading facilities as part of the Company's plan to be able to be ordering, warehousing, and assembling the EnerTwin in Canada by the fourth Quarter of 2023, upon receiving CSA Certification and subsequently UL Certification for the installation of the EnerTwin in North America.

## DISCUSSION OF OPERATIONS

The following is a summary of the significant events and transactions that occurred during the year ended December 31, 2022:

### Results of operations for the year ended December 31, 2022:

Net loss for the year ending December 31, 2022, was \$3,041,877 (2021– 1,415,186). The increase in net loss for the year was primarily due the \$2,400,000 write off of advances due to the NEBC acquisition, and impairment on Goodwill of \$11,516,202 and on PPE of \$1,083,139.

Gross revenue before royalty expense from heavy crude oil, conventional natural gas and natural gas liquids for the year ended December 31, 2022 was \$3,406,105 (2021 – \$948,707). Production volume for the year ended December 31, 2022 was 225.9 boe/d (2021 – 29.6 boe/d) prior to shrinkage due to processing and transportation resulting in sales volumes of 82,471 boe (2021 – 10,801 boe) for an average of \$41.30/boe or \$6.88/mcf. (2021 – \$27.91/boe or \$4.58/mcf).

Net operating income for the year ended December 31, 2022, was \$1,381,586 (2021 – \$150,171) and \$NOI/boe was \$16.75 (2021 – \$13.89).

For details related to the Company’s oil and gas operations, please refer to the “Summary of Quarterly Results” section.

## 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. On December 23, 2022, the Company raised \$8,000,000 of charity flow-through units and traditional flow-through units in respect of Canadian renewable and conservation expenses. The Company is committed to expend the proceeds on or before the end of 2023.

## ISSUED AND OUTSTANDING SHARE DATA AT THE REPORT DATE

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

For the year ended December 31,

|                                     | 2022        |            | 2021       |            |
|-------------------------------------|-------------|------------|------------|------------|
|                                     | Number      | \$ Amount  | Number     | \$ Amount  |
| Convertible Preferred shares        | 30,000,000  | 16,372,500 | Nil        | Nil        |
| Common shares                       | 111,437,322 | 43,074,970 | 35,651,341 | 10,569,147 |
| Warrants                            | 21,627,850  | 9,420,698  | 12,984,694 | 3,668,306  |
| Compensation Options <sup>(4)</sup> | 1,753,770   | 197,348    | 200,000    | 49,993     |

During the year ending December 31, 2021, the Company issued common shares of the Company as follows, please refer to the December 31, 2022 audited financials note 14 for further details:

| Reason for issue   | # Shares          | Average\$/share | Gross Proceeds    |
|--|-------------------|-----------------|-------------------|
| Shares Issued for the WCA Acquisition                                  | 44,440,000        | 0.57            | 25,330,800        |
| Shares Issued for the Conversion of Debentures plus debenture interest | 1,136,428         | 0.36            | 405,061           |
| Flow-through Share Issuance  | 22,196,708        | 0.22            | 4,780,985         |
| Share-Based Payment  | 4,222,222         | 0.32            | 1,345,000         |
| Shares Issued from Share Purchase Warrants                             | 3,790,623         | 0.32            | 1,173,155         |
| <b>Total</b>   | <b>75,785,981</b> | <b>0.44</b>     | <b>33,149,394</b> |

## COMPENSATION OF KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

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 | 119,484        | 202,725        |
|                 | <b>119,484</b> | <b>202,725</b> |

b) Amounts Due to Related Parties

As at December 31, 2022 and 2021, the Company had the following amounts due to (from) related parties:

|  | 2022      | 2021        |
|--|-----------|-------------|
|  | \$        | \$          |
| Legal costs <sup>(1)</sup>   | 127,166   | 78,648      |
| Unsecured promissory notes due September 15, 2022 <sup>(2)</sup>                 | Nil       | 67,429      |
| Convertible secured debenture due July 31, 2027 <sup>(3)</sup>                   | 500,000   | 500,000     |
| Interest Owing on Convertible secured debenture due July 31, 2027 <sup>(3)</sup> | 45,919    | 20,919      |
| Joint venture (receivable)/payable <sup>(4)</sup>                                | (228,657) | (158,565)   |
| Advances <sup>(5)</sup>  | -         | (1,586,601) |

1. Michel Lebeuf is a partner in a legal firm that the Company uses and is also a director of the Company. For the 12 months ended December 31, 2022, legal expense and share issuance cost related charges totaled \$211,350 (2021 - \$218,936). Amounts owed to the legal firm as at December 31, 2022 was \$127,166 (2021 - \$78,648).
2. Promissory note, bearing 5% interest compounded semi-annually, issued on September 13, 2020, in the amount of \$102,415 to LNG Management Services Ltd, controlled by Lars Glimhagen, the former Chief Financial Officer of the Company.
3. The Convertible secured debenture, bearing 5% interest compounded semi-annually, is held by Leonard Van Betuw, who is also the President and Chief Executive Officer of the Company.
4. The amount receivable of \$228,657 is from 611890 Alberta Inc. as per the joint venture agreement. The director of the Company, Leonard Van Betuw, is also a director of 611890 Alberta Inc and who is also the President and Chief Executive Officer of the Company.
5. Funds have been advanced in respect to a joint venture agreement with 611890 Alberta Inc. having a common director, Leonard Van Betuw, who is also a director and CEO with the Company.

**Related Party Transactions**

| Date           | Description  | Amount              |
|----------------|--|---------------------|
|                |  | \$                  |
| December 2022  | Advance of \$2,340,000 to 611890 Alberta Inc. for the 15% Equity stake and Preferred License from MTT <sup>(1)</sup> | 2,340,000           |
| September 2022 | Purchase of the WCA assets from 611890 Alberta Inc. <sup>(2)</sup>   | 25,909,100          |
| December 2022  | Purchase of the NEBC assets from 611890 Alberta Inc. <sup>(1)</sup>  | 2,400,000           |
| <b>Total</b>   |  | <b>\$30,649,100</b> |

1. Funds have been advanced in respect to the MICRO TURBINE TECHNOLOGY (“MTT”) investment and agreement with 611890 Alberta Inc. The director, president and Chief Executive Officer of the Company, Leonard Van Betuw, is also a director of 611890 Alberta Inc
2. Consideration for the WCA assets consisted of 30,000,000 convertible preferred shares issued to Leonard Van Betuw, 12,180,000 common shares issued directly to Leonard Van Betuw, the director, president and Chief Executive Officer of the Company, also a director of 611890 Alberta Inc, and 3,600,000 common shares issued to Leonard Van Betuw’s family member.

## COMPENSATION OF KEY MANAGEMENT PERSONNEL AND RELATED PARTIES (continued)

### Related Party Transactions – Collateral Benefit

| Transactions   | Description   | Amount             |
|--|---|--------------------|
| Purchase of the NEBC assets from 611890 Alberta Inc. | 611890 Alberta Inc. purchased the NEBC assets for \$1,200,000 and incurred the costs associated with the preparation of the bid, post award negotiations, feasibility studies, engineering, budgeting and legal costs and then sold the assets to the Company for \$2,400,000 resulting in a collateral benefit of \$1,200,000 for 611890 Alberta Inc. <sup>(1)</sup> | \$1,200,000        |
| <b>Total</b>   |   | <b>\$1,200,000</b> |

1. Funds were advances to 611890 Alberta Inc. Leonard Van Betuw, the director of the Company, also a director of 611890 Alberta Inc.

## 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 December 31, 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 December 31, 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. Avila Energy Corporation is exposed to several risks in the normal course of its business that have the potential to affect its operating performance is disclosed in Note 22 of the December, 2022 Financial Statements.

### Market risk – Petroleum and Natural Gas

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.

- Interest risk* - The Company does not have any current term debt or cash equivalents; therefore, interest risk is minimum.
- Foreign currency risk* - The Company conducts its activities in Canada with Canadian dollars; therefore, foreign currency risk is minimum.
- 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).

## RISK FACTORS AND UNCERTAINTIES (continued)

### Market risk – Vertically Integrated Energy Business

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, government approvals and certifications, manufacturing costs, supply chains, customer demand and market adaptations.

- 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. *Government Approvals and Certifications* – The risk of unattaining manufacturing, installation and sales licenses, as well as CSA or UL approval exists but the Company deems this risk as low due to the fact that the EnerTwin is KIWI certified in Europe. The risk would be deemed higher if the EnerTwin has never been certified, manufactured or installed in any country. There is a risk that delays in government approvals and certifications could affect the Company’s timelines. Company has estimated the time associated with the certification process based on estimated provided by 3<sup>rd</sup> party consultants but these time-lines are subject to availability of the industry partners and Certification personal, resulting in unanticipated delays. There is a risk that the government denies the Company’s future application for carbon capture and sequestration.
- d. *Government subsidies* – The risk of governments not issuing subsidies is possible as is the risk of the subsidy to be a lower amount than what the Company budgets or that the subsidy could change which will create fluctuation in cash flow. The Company assess this risk as low due to the continuing government messaging about climate change and the importance in addressing climate change in the future.
- e. *Manufacturing Costs* – The Company has based its manufacturing costs on past experiences 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.
- f. *Supply Chain* – The Company’s supply changes are currently under development and are subject to volatility, which may increase costs or cause interruptions in deliveries.
- g. *Customer Demand* – Customer demand could be subject to change due to the introduction of a competitive technology.
- h. *Market Adaptations* – Customer adaptation do not follow the Company’s assumptions.

## SUMMARY OF QUARTERLY RESULTS

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                  | Q4– 2022<br>December 31 | Q3– 2022<br>September 30 | Q2– 2022<br>June 30 | Q1– 2022<br>March 31 |
|-----------------------------------|-------------------------|--------------------------|---------------------|----------------------|
| Total assets                      | 68,871,879              | 59,823,671               | 10,603,851          | 4,613,850            |
| Property and equipment            | 43,522,045              | 33,083,752               | 3,694,901           | 1,196,482            |
| Exploration and evaluation assets | 12,154,901              | 14,709,550               | 1,616,201           | 1,616,201            |
| Working capital surplus/(deficit) | 3,876,247               | 1,902,424                | 5,269,084           | 1,467,571            |
| Equity                            | 53,168,454              | 34,814,953               | 4,052,330           | 2,736,226            |
| Gross revenues <sup>(1)</sup>     | 1,217,299               | 923,268                  | 752,428             | 513,110              |
| Net revenues                      | 1,088,904               | 841,204                  | 706,107             | 445,316              |
| Gross REV (\$/bbl)                | 38.84                   | 42.87                    | 58.86               | 38.16                |
| NET REV (\$/bbl)                  | 34.49                   | 39.06                    | 53.51               | 33.07                |
| OPEX (\$/bbl)                     | 26.76                   | 10.47                    | 14.81               | 19.04                |
| NOI (\$/bbl)                      | 7.73                    | 28.59                    | 38.71               | 14.03                |
| Total BOE for the Quarter         | 34,275                  | 21,535                   | 13,195              | 13,466               |
| Heavy Crude Oil (bbl/d)           | 36.31                   | 53.1                     | 36.5                | 19.56                |
| Conventional Natural Gas (mcf/d)  | 2,002.9                 | 1,070.3                  | 581.3               | 743.9                |
| Natural Gas Liquids (bbl/d)       | 0.97                    | 2.39                     | 24.22               | 16.17                |
| Operating Costs                   | 1,022,614               | 225,495                  | 195,384             | 256,452              |
| Total other items                 | (1,219,994)             | 2,363,790                | 32,003              | -                    |
| Total Expenses                    | 1,198,132               | 562,745                  | 188,788             | 130,385              |
| Income (loss) before income taxes | (2,351,836)             | 2,416,753                | 353,938             | 58,479               |
| Basic income (loss) per share     | (0.05)                  | 0.06                     | 0.01                | 0.00                 |
| Diluted income (loss) per share   | (0.03)                  | 0.04                     | 0.01                | 0.00                 |

## SUMMARY OF QUARTERLY RESULTS (continued)

| Reporting Period                          | Q4 – 2021<br>December 31 | Q3 – 2021<br>September 30 | Q2 – 2021<br>June 30 | Q1 – 2021<br>March 31 |
|---|--------------------------|---------------------------|----------------------|-----------------------|
| Total assets                              | \$4,583,826              | \$4,732,866               | 2,829,143            | 2,929,359             |
| Property and equipment                    | 837,875                  | 773,011                   | 773,011              | 773,011               |
| Exploration and evaluation property       | 1,537,296                | 281,600                   | 281,600              | 281,600               |
| Working capital (deficit)                 | 1,835,527                | 2,277,030                 | 323,334              | (204,063)             |
| Equity                                    | 2,677,747                | 3,222,363                 | 1,186,714            | 587,066               |
| Gross revenues <sup>(1)</sup>             | 90,457                   | 109,182                   | 82,688               | 19,013                |
| Net revenues                              | 38,876                   | 59,152                    | 46,762               | 5,381                 |
| Gross REV (\$/bbl)                        | 47.85                    | 23.89                     | 22.44                | 29.32                 |
| NET REV (\$/bbl)                          | 20.56                    | 12.94                     | 12.67                | 8.29                  |
| OPEX (\$/bbl)                             | 38.47                    | 5.01                      | 4.75                 | 4.90                  |
| NOI (\$/bbl)                              | (17.91)                  | 7.93                      | 7.92                 | 3.40                  |
| Total BOE for the Quarter                 | 1,891                    | 4,571                     | 3,691                | 649                   |
| Heavy Crude Oil (bbl/d)                   | 0.28                     | 0.48                      | 0.37                 | 0.11                  |
| Conventional Natural Gas (mcf/d)          | 93.6                     | 278.9                     | 223.4                | 38.4                  |
| Natural Gas Liquids (bbl/d)               | 3.21                     | 3.71                      | 3.4                  | 0.69                  |
| Operating Expense                         | 72,748                   | 22,890                    | 17,524               | 3,177                 |
| Total other items                         | (429,476)                | -                         | 326,856              | -                     |
| Operating expenses                        | 659,753                  | 269,150                   | 302,673              | 231,161               |
| Income (loss) before income taxes         | (1,280,237)              | (209,996)                 | 100,324              | (220,966)             |
| Basic and diluted income (loss) per share | (0.06)                   | (0.01)                    | 0.00                 | (0.01)                |
| Diluted income (loss) per share           | (0.06)                   | (0.01)                    | 0.00                 | (0.01)                |

### Notes:

- 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%.

In the event of an increase/(decrease) of \$1 in the unit prices for barrel and \$0.25 for MCF, the effects on gross revenue of \$3,406,105 based on the year ended December 31, 2022, would be as follows:

| Product                                     | Total Sales (units) | Price per Unit | Change in unit price | Increase / (Decrease)      |
|---|---------------------|----------------|----------------------|----------------------------|
| Heavy Crude Oil (bbl)                       | 13,308              | \$95.36        | \$1.00               | 13,306 / (13,306)          |
| Conventional Natural Gas (mcf)              | 401,441             | \$5.77         | \$0.25               | 100,360 / (100,360)        |
| Natural Gas Liquids (bbl)                   | 2,120.8             | \$87.45        | \$1.00               | 2,121 / (2,121)            |
| <b>Increase/(Decrease) on Gross Revenue</b> |                     |                |                      | <b>115,787 / (115,787)</b> |

| Production per Quarter         | 2022      |          |          |          | 2021    |          |          |         |
|--------------------------------|-----------|----------|----------|----------|---------|----------|----------|---------|
|                                | Q4        | Q3       | Q2       | Q1       | Q4      | Q3       | Q2       | Q1      |
| Heavy Crude Oil (bbl)          | 3,340.9   | 4,895    | 3,312.3  | 1761.7   | 25.7    | 43.9     | 34.0     | 9.7     |
| Conventional Natural Gas (mcf) | 184,266.2 | 98,523.5 | 52,745.5 | 65,906.5 | 8,425.4 | 25,100.2 | 20,104.5 | 3,456.6 |
| Natural Gas Liquids (bbl)      | 89.2      | 220.2    | 1091.8   | 719.58   | 460.4   | 343.4    | 306.3    | 62.9    |

A barrel of oil is determined by converting a volume of natural gas to barrels using the ratio of six (six) mcf to one (1) barrel.



## SELECTED ANNUAL INFORMATION

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

|   | Year Ended<br>December 31,<br>2022 | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | \$                                 | \$                                 | \$                                 |
| Total Gross revenue                         | 3,406,108                          | 301,340                            | -                                  |
| Total Revenue, net of Royalty Expense       | 3,081,531                          | 266,510                            | -                                  |
| Total Operating Income/(Loss)               | 1,381,586                          | 150,171                            |                                    |
| Total other items                           | 1,175,799                          | (102,620)                          | (159,747)                          |
| Income/(Loss) before income taxes           | (3,041,877)                        | (1,415,186)                        | 948,707                            |
| Basic and diluted earnings (loss) per share | 0.01                               | (0.06)                             | (0.10)                             |
| Diluted earnings (loss) per share           | 0.01                               | (0.06)                             | (0.10)                             |
| Total assets                                | 68,871,879                         | 4,583,826                          | 2,679,028                          |
| Working capital (deficit)                   | 3,876,248                          | 1,835,527                          | 211,461                            |

## LIQUIDITY, FINANCIAL CONDITION AND GOING CONCERN

The Company's cash and cash equivalents are comprised of bank deposits. On December 31, 2022, the Company had cash, accounts receivable, sales tax receivable, joint venture receivable, prepaid expenses, and short-term advances in the amount of \$10,564,659 (2021– 2,208,655). Accounts payable and accrued liabilities in the amount of \$1,716,512 (2021 – 305,699) are due December 31, 2022. , the Company had a working capital of \$3,876,248 (2021 - \$1,835,527) and a liquidity ratio of 2 (2021 – 6). As of April 30, 2023, the company had cash, accounts receivable, prepaid expenses, and short-term advances in the amount of \$425,000. Accounts payable and accrued liabilities in the amount of \$1,401,693. On April 30,2023 the Company had a working capital deficit of \$724,192 and a liquidity ratio of less than 1.

## 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.

## WITHDRAWAL OF FORWARD-LOOKING INFORMATION

The Company decided to withdraw the forward-looking comments pertaining to the future sales of the EnerTwin from the November 14, 2022 press release because the customer sales projection were based on internal market research which may seem speculative and misleading. The comments regarding the sales projections of customer numbers did not have any assumptions or risks as per Part 4A of NI51-102 Continuous Disclosure Obligations. At this time, the Company elects not to provide the details of the assumptions as releasing this information has the possible implications of the Company losing its competitive advantage of being a first mover of this technology in North America. In due time, the Company will provide the appropriate level of details and properly substantiate the numbers with assumptions and risks regarding potential sales related to the EnerTwin technology.

## SUBSEQUENT EVENTS

On January 4, 2023, the Company advanced \$210,000 to 611890 Alberta Inc for the MTT investment. On January 31, 2023, a new agreement was signed between MTT and the Company. The Company will receive a 15% equity stake in MTT and will assume the outstanding loan balance of 2,500,000 Euro from 611890 Alberta Inc. Once the Company advances the 2,500,000 Euro to MTT, the Company will receive an additional equity share in MTT of 15% for a combined total of 30%. The Company will have to reimburse 611890 Alberta Inc for their initial cash investment of 2,500,000 Euro which is \$3,600,000 CAD, (2,500,000 times a foreign exchange rate of 1.44 equal to the rate on January 31, 2023) less the payments made in 2022 of \$2,340,000 by the Company to equal a total outstanding balance owing to 611890 Alberta Inc. of \$1,260,000.

## **SUBSEQUENT EVENTS (continued)**

In February 2023, Thomas Valentine resigned as director from the Company's board due to time constraints and the Company accepted his resignation in anticipation of the Business Combination Agreement being signed, whereby the number of Board Members would need to be reduced to 5. In April 2023, Michel Jr. Lebeuf resigned as a director, making room for the Company's appointment of Chris Valentine. Mr. Valentine is a Senior Managing Partner at Celeres Capital. He is responsible for leading the firm's investment activities across asset-backed lending, structured finance, and whole loan principal finance. Mr. Valentine co-founded Celeres Capital, based in San Juan, Puerto Rico, in 2019 and has been in the industry for more than two decades. He has held a variety of roles across investment banking, private equity, and principal investing.

## **INSIGHT ACQUISITION**

Avila Energy Corporation on January 26, 2023 announced a preliminary non-binding Letter of Intent (the "LOI") with Insight Acquisition Corp. (NYSE: INAQ.U) ("IAC"), a Delaware corporation and a Special Purpose Acquisition Company, pursuant to which IAC is to combine with the Company (the "Resulting Company") in a transaction that will result in the combined entity being publicly listed for trading on a major stock exchange in the United States (the "Transaction"). The Transaction remains subject to the approval of the boards of directors and stockholders of each of IAC and the Company, as well as other customary closing conditions, including negotiation and execution of a definitive business combination agreement for the Transaction (the "Definitive Business Combination Agreement"), which may or may not occur. The Transaction will also be subject to regulatory approvals.

The parties to the LOI have agreed to continue to negotiate the terms of a Transaction, including a Definitive Business Combination Agreement, on an exclusive basis with the intention of coming to a definitive Agreement on or before March 24, 2023, at which point IAC may extend such time for an additional 15 calendar days. Avila issued a subsequent news release outlining the terms on April 3rd, 2023 for the Transaction, the Definitive Business Combination Agreement has been entered into and the filing statements for the Business Combination are expected to be put to a vote of the Avila shareholders in the third (3rd) quarter of 2023 the Company's Annual and Special Meeting.

As previously announced, the LOI remains non-binding and subject to constant evolution as the terms and conditions of the Transaction firm up. However, the negotiation and analysis of the Transaction continues to advance, since it was announced on January 26, 2023. IAC held its shareholder meeting on March 7, 2023, and post the declaration of initial redemptions, currently has approximately U.S. \$28,000,000 cash in trust. In connection with the Closing, the shareholders of IAC will be entitled to seek a final redemption of outstanding public shares, in exchange for a pro-rata portion of such trust proceeds. Any proceeds that remain in trust following such redemption will be available to the Resulting Company at Closing. As a result of the redemptions, the 80% rule is now assessed on the balance remaining in trust at the signing of the Definitive Business Combination Agreement.

On March 29, 2023, forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares occurred, as a result from a significant event taking place which was the signing of the Business Combination Agreement announced on April 3, 2023, with Insight Acquisition Corp a Delaware Corporation (Note 26). As a result, in the first quarter of 2023, the Company has written off the Convertible Preferred Shares dividend liability, recording \$553,048 gain on conversion and \$103,101 in dividend payable.

For better clarity, the Definitive Business Combination Agreement include the following provisions:

1. The Transaction will create the Resulting Company, the shareholders of which will be composed of the then current shareholders of Avila and shareholders and various participating parties of IAC and Insight Acquisition Sponsor LLC (the "Sponsor"). The Sponsor is the current sponsor of IAC.
2. By way of a Forward Purchase Sale Agreement ("FPSA") presently under negotiation, the Company will have the ability to retain US \$25,000,000 in Trust with IAC at Closing. In addition, prior to Closing, U.S. \$10,000,000 up to U.S. \$35,000,000 is under consideration to be concurrently raised by way of convertible debentures or other financial instruments. Negotiations with several strategic investors are advancing (but not closed).
3. In one scenario (high), post-closing of the Transaction, assuming no additional capital is raised and the U.S.\$25,000,000 FPSA is sold into the market at or above US \$9.50 per share, it is anticipated that the current and converted shareholders of Avila will hold collectively 12,528,000 shares of the Resulting Company, being approximately 59.6% of the then issued and outstanding shares of the Resulting Company post-closing of the Transaction. Based on the assumptions above, post-closing, Leonard B. Van Betuw's interest will remain more than 10% of the outstanding of the Resulting Company.

## **SUBSEQUENT EVENTS (continued)**

### **INSIGHT ACQUISITION (Continued)**

4. In another scenario (low), post-closing of the Transaction, assuming all U.S.\$28,000,000 in Trust is converted in to Common Shares @ \$10 per share and the FPSA is sold into the market at or above US \$9.50 per share, it is anticipated that the current and converted shareholders of Avila will hold collectively 12,528,000 shares of the Resulting Company, being approximately 52.1% of the then issued and outstanding shares of the Resulting Company post-closing of the Transaction. Based on the assumptions above, post-closing, Leonard B. Van Betuw's interest will remain more than 10% of the outstanding of the Resulting Company. While the final structuring of the Transaction has advanced significantly since January 24, 2023, Avila cautions that the Transaction continues to be subject to receipt of corporate, securities and tax advices for both Avila and IAC and closing of the Transaction shall be subject to the signing of the Definitive Business Combination Agreement and satisfaction of customary closing conditions including approval by Canadian and US securities regulators, approval by the IAC shareholders of any additional extensions that may be required from time to time in advance of consummating the contemplated initial business combination, and subsequent listing approval by a recognized United States Securities Exchange and approval by the boards of directors and shareholders of IAC and Avila, as may be applicable.
5. The Board of Directors of the Resulting Company is expected to consist of seven persons, five of which shall be appointed and designated by Avila, including three independent directors, and Leonard B. Van Betuw will remain the CEO and Chairman of the Board of the Resulting Company.
6. Avila has agreed to fully cooperate with IAC in the preparation of all documents required to be filed with the United States Securities and Exchange Commission (including all exhibits and amendments thereto), or any other regulatory body, in connection with the Transaction.
7. The earn-out provision, as part of the Transaction, as well as ancillary employment agreements are expected to be entered into between current members of Avila's management and the Resulting Company. Shares of the Resulting Company will be granted to certain persons (all to be named once the contemplated transaction is finalized and are to include namely, Employees, Executives, Directors, and Advisors) based on stock price performance on an earn-out structure basis. The presumed value is \$100,000,000 but is subject to change. Leonard B. Van Betuw, current CEO and director of Avila, will receive a portion of the earn-out shares but the number of shares to be awarded to Mr. Van Betuw is yet to be determined. The Company understands that shareholder approval may be required for the final approval of the earn-out payout.

### **DIRECTORS AND OFFICERS**

Leonard Van Betuw, President and Chief Executive Officer, and Director

Kyle Appleby, Director

Daniel Lucero, Director

Chris Valentine Director

Jeffrey Decter, Director

Lars Glimhagen, Chief Financial Officer (Interim)