AVILA ENERGY CORPORATION

Amended and Restated

Financial Statements

For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

WDM CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of:
AVILA ENERGY CORPORATION

SERVICE

INTEGRITY

TRUST

Opinion

We have audited the financial statements of Avila Energy Corporation ("the Company"), which comprise the statements of financial position as at December 31, 2022 and 2021 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $20,403,076 during the year ended December 31, 2022, and as of that date, had accumulated losses since inception of $30,342,519. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Business Combinations

Key Audit Matter Description

The Company completed several acquisitions during the year, including West Central Alberta, and Donalda properties. The identifiable assets acquired and the liabilities assumed are measured at fair value as of the acquisition date. Where the net of the fair value of the assets acquired and liabilities is more than the fair value of consideration transferred, the difference is recognised as a gain in profit or loss. In assessing fair value of the acquired assets and contingent consideration, management used various valuation techniques involving significant judgment and subjectivity.

We considered this to be a key audit matter due to the complexity of the transaction, which included valuation of the acquired intangible assets and contingent consideration liabilities. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating the audit evidence relating to management's estimates. As such, an increased extent of audit effort was required, which included the involvement of internal valuation specialists.

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Audit Response

We responded to this matter by performing procedures over management's valuation techniques in determining fair value of the acquired assets, contingent consideration and in determining gain of acquisition. Our audit work in relation to this included, but was not restricted to, the following:

- Analyzed the signed purchase agreements to obtain an understanding of the key terms and conditions and to identify the necessary accounting considerations.
- Tested the mathematical accuracy of management's valuation models and supporting calculations.
- Evaluated the reasonableness of key assumptions in management's models, including testing of historical financial results which were used as a basis for future projections.
- With the assistance of internal valuation specialists, evaluated the reasonableness of management's model, through assessing the appropriateness of valuation models used and testing the significant assumptions and inputs by:
  - Comparing to externally available industry and economic trends;
  - Evaluating budgets and forecasts for future operations; and
  - Comparison against guideline companies within the same industry.
- Assessed the appropriateness of the disclosures relating to the assumptions used in the acquisition in the notes to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Amended and Restated Financial Statements

We draw attention to Note 29 to the amended and restated financial statements, which explains that the financial statements for the year ended December 31, 2022 have been amended from those on which we originally reported on April 30, 2023. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mike Kao.

WDM

Chartered Professional Accountants

Vancouver, B.C.
August 8, 2023

AVILA ENERGY CORPORATION

Amended and Restated Statements of Financial Position

December 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Note	2022 As restated (Note 29)	2021
Assets			
Current Assets			
Cash		6,564,110	413,337
Advances	**5**	2,340,000	1,586,601
Accounts Receivable		376,988	-
Joint Venture Receivable		372,544	158,565
Sales Tax Receivable		148,370	21,506
Prepaid Expenses	**5**	762,647	28,646
Total Current Assets		**10,564,659**	**2,208,655**
Non-current Assets			
Property and Equipment	**6**	21,913,886	837,875
Exploration and Evaluation Assets	**7**	12,154,901	1,537,296
Right-of-Use Assets	**8**	1,386,287	-
Deferred Tax Asset	**9**	1,962,353	-
Intangible Assets	**10**	9,382	-
Total Non-current Assets		**37,426,809**	**2,375,171**
Total Assets		**47,991,468**	**4,583,826**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	**11**	1,716,512	305,699
Current Interest Payable – Debentures		126,499	-
Convertible Debentures – Current	**15**	267,329	-
Derivative Liability – Current	**15**	631,983	-
Flow-Through Share Premium Liability	**12**	2,006,889	-
Current Lease Liability	**8**	139,200	-
Promissory Notes	**14**	1,800,000	67,429
Total Current Liabilities		**6,688,412**	**373,128**
Non-current Liabilities			
Interest Payable – Debentures		76,497	-
Lease Liability	**8**	1,276,154	-
Convertible Debentures	**15**	3,785,673	521,039
Derivative Liability	**15**	-	729,318
Convertible Preferred Shares Dividend Liability	**17 (a)**	542,202	-
Decommissioning Provision	**13**	3,334,487	282,594
Total Non-current Liabilities		**9,015,013**	**1,532,951**
Total Liabilities		**15,703,425**	**1,906,079**
Shareholder's Equity			
Share Capital	**17(b)**	56,883,006	9,023,278
Contributed Surplus		4,454,073	3,358,412
Convertible Debentures – Equity Portion		1,293,483	235,500
(Deficit)		(30,342,519)	(9,939,443)
Total Shareholder's Equity		**32,288,044**	**2,677,747**
Total Liabilities and Shareholder's Equity		**47,991,468**	**4,583,826**

Going Concern (Note 1)
Commitments (Note 25)
Economic Dependence (Note 19)

Approved on behalf of the Board:

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

"Jeff Decter" — Jeff Decter, Director

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

AVILA ENERGY CORPORATION

Amended and Restated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Canadian Dollars)

	Note	Number of Convertible Preferred Shares	Number of Common Shares	Share Capital	Share Issuance Costs	Contributed Surplus	Convertible Debentures – Equity Portion	Shares to be Issued	Deficit	Total
				$	$	$	$	$	$ As restated (Note 29)	$ As restated (Note 29)
Balance, December 31, 2020			**13,056,290**	**7,092,087**	**(1,013,939)**	**1,767,125**	**2,292**	**127,950**	**(8,524,257)**	**(548,742)**
Issued Shares for Cash	**17(b)(ii)**	-	20,299,167	4,352,883	-	-	-	(60,050)	-	4,292,833
Issued Shares for Services	**17(b)(ii)**	-	-	167,500	-	-	-	(80,400)	-	87,100
Warrants Issued	**17(d)**	-	-	(1,391,238)	-	1,391,238	-	-	-	-
Warrants Issued as Finder's Fee	**17(d)**	-	-	-	(178,056)	178,056	-	-	-	-
Warrants Exercised	**17(d)**	-	373,300	93,994	-	(23,000)	-	-	-	70,994
Conversion Of Debentures	**17(b)(ii)**	-	1,922,584	356,546	-	-	(2,292)	-	-	354,254
Share Based Compensation		-	-	-	-	44,993	-	-	-	44,993
Share Issuance Costs		-	-	-	(353,874)	-	-	-	-	(353,874)
Flow-Through Share Premium		-	-	(102,625)	-	-	-	12,500	-	(90,125)
Equity Portion of Debentures		-	-	-	-	-	235,500	-	-	235,500
Net Comprehensive Loss		-	-	-	-	-	-	-	(1,415,186)	(1,415,186)
Balance, December 31, 2021			**35,651,341**	**10,569,147**	**(1,545,869)**	**3,358,412**	**235,500**	**-**	**(9,939,443)**	**2,677,747**
Issued Shares for Cash	**17(b)**	-	22,196,708	8,000,000	-	-	-	-	-	8,000,000
Issued Shares for the Acquisition	**17(a)**	30,000,000	44,440,000	41,174,122	-	-	-	-	-	41,174,122
Issued Shares for Services	**17(b)(i)**	-	4,222,222	1,345,000	-	-	-	-	-	1,345,000
Warrants Issued	**17(d)**	-	-	(1,212,126)	-	1,212,126	-	-	-	-
Warrants Issued as Finder's Fee	**17(d)**	-	-	-	-	58,912	-	-	-	58,912
Warrants Exercised	**17(d)**	-	3,790,623	1,173,155	-	(372,725)	-	-	-	800,430
Compensation Options Issued	**17(c)**	-	-	-	(197,348)	197,348	-	-	-	-
Share Issuance Costs		-	-	-	(821,247)	-	-	-	-	(821,247)
Conversion of Debentures	**17(b)(i)**	-	1,136,428	405,061	-	-		-	-	405,061
Flow-Through Share Premium	**12**	-	-	(2,006,889)	-	-	-	-	-	(2,006,889)
Equity Portion of Debentures		-	-	-	-	-	1,057,983	-	-	1,057,983
Net Comprehensive Loss		-	-	-	-	-	-	-	(20,403,076)	(20,403,076)
Balance, December 31, 2022		**30,000,000**	**111,437,322**	**59,447,470**	**(2,564,464)**	**4,454,073**	**1,293,483**	**-**	**(30,342,519)**	**32,288,043**

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

AVILA ENERGY CORPORATION

Amended and Restated Statements of Loss and Comprehensive Loss

For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Canadian Dollars)

	Note	2022	2021
		$ **As restated (Note 29)**	$
Revenue			
Oil and Natural Gas Revenue	**18**	3,406,105	301,340
Royalty expenses		(324,574)	(34,830)
Revenue, net of royalties		**3,081,531**	**266,510**
Operating Costs		1,699,945	116,339
Net Operating Income		**1,381,586**	**150,171**
Expenses			
Accretion		492,361	110,661
Consulting Fees	**16(a)**	433,073	756,863
Depletion	**6**	54,192	44,252
Depreciation - Property, Plant and Equipment	**6**	174,890	-
Depreciation – Right-of-Use Assets	**8**	62,208	-
Interest		180,341	68,751
Interest - Lease Liability	**8**	49,996	-
Listing Fees		32,896	44,667
Management Fees	**16(a)**	60,311	42,000
Office and Administration		148,390	31,040
Professional Fees	**16(a)**	381,152	294,371
Share-based Compensation	**17(c)**	-	44,993
Shareholder and Trust Services		10,240	25,139
Total Expenses		**2,080,050**	**1,462,737**
Loss Before Other Items		**(698,464)**	**(1,312,566)**
Other Income/(Loss)			
Change in Derivative Liability		49,144	(166,030)
Change in Fair Market Value of Convertible Debenture		-	(88,236)
Gain on Settlement of Debt		1,432	27,771
Reversal of Flow-Through Share Premium Liability	**12**	-	123,875
Other Income		7,696	-
Write Off of Advances	**5**	(2,400,000)	-
Acquisition Expense	**9**	(1,345,000)	-
Impairment on Goodwill	**9,10**	(11,516,303)	-
Impairment on PPE	**6**	(18,444,338)	-
Gain on acquisition of assets	**9**	13,942,757	-
Total Other Loss		**(19,704,612)**	**(102,620)**
Net Loss and Comprehensive Loss For the Year		**(20,403,076)**	**(1,415,186)**
Basic and Diluted Loss Per Share		(0.39)	(0.06)
Weighted Average Number of Common Shares Outstanding			
Basic		52,766,406	25,541,590
Diluted		84,722,990	25,541,590

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

AVILA ENERGY CORPORATION

Amended and Restated Statements of Cash Flows

For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Canadian Dollars)

	2022 $ **As restated (Note 29)**	2021 $
Operating activities		
Net and Comprehensive Loss for the Year	**(20,403,076)**	**(1,415,186)**
Items not Affecting Cash		
Gain on acquisition of assets	(13,942,757)	-
Acquisition Expense	1,345,000	-
Interest Expense	180,341	68,751
Interest Expense - Lease Liability	49,996	-
Shares and Warrants Issued for Services	-	44,993
Change in Derivative Liability	(49,144)	166,030
Accretion Expense	492,361	110,661
Reversal of Flow-Through Share Premium Liability	-	(123,875)
Gain on Settlement of Debt	(1,432)	(27,771)
Impairment on Goodwill	11,516,303	-
Impairment of PPE	18,444,338	-
Change in Fair Market Value of Convertible Debenture	-	88,236
Depreciation - Property, Plant and Equipment	174,890	-
Depreciation - Right of Use Assets	62,208	-
Depletion	54,192	44,252
Total Items not Affecting Cash	**18,326,296**	**371,277**
Change in Non-Cash Working Capital		
Accounts payable and accrued liabilities	1,410,813	(66,476)
Current Interest Payable - Debentures	126,499	-
Accounts Receivable	(376,988)	-
Joint Venture Receivable	(213,979)	(158,565)
Sales Tax Receivable	(126,864)	(14,659)
Prepaid Expenses	(734,001)	-
Total Change in Balance Sheet Amounts	**85,480**	**(239,700)**
Net Cash Used for Operating Activities	**(1,991,301)**	**(1,283,609)**
Investing activities		
Capital Investments	(3,695,472)	(739,831)
Increase in advances	(753,399)	(1,720,000)
Net cash Used for Investing activities	**(4,448,871)**	**(2,459,831)**
Financing activities		
Shares Issued for Cash	8,000,000	4,292,833
Repayment of lease liabilities	(17,828)	-
Warrants Exercised	800,430	70,994
Share Issuance Costs	(821,245)	(190,342)
Proceeds from Debenture Issuance	4,697,017	-
Decrease in Promissory Note	(67,429)	(152,780)
Net Cash from Financing Activities	**12,590,945**	**4,020,705**
Change in Cash and Cash Equivalents	**6,150,773**	**277,265**
Cash, beginning of year	413,337	136,072
Cash, end of year	**6,564,110**	**413,337**

Supplemental Cash Flow information (Note 21)

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

NOTE 1 - CORPORATION INFORMATION

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

The records office and principal address is located at 1439 17th Avenue SE, Suite 201, Calgary, Alberta.

Going Concern

The financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operation and realization of assets and settlement of liabilities in the normal course of business. As of December 31, 2022, the Company reported a net loss of $20,403,076 (2021 – $1,415,186), a cumulative deficit of $30,342,519 (2021 - $9,939,443) and working capital of $3,876,247 (2021 –$1,835,527). The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing that will provide the Company with a sustainable revenue stream. Even if the Company has been successful in the past, there is no assurance that it will manage to obtain additional financing in the future.

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

NOTE 2 - BASIS OF PREPARATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended December 31, 2022.

These amended audited financial statements were approved and authorized for issue by the Board of Directors on August 8, 2023.

b) Basis of Measurement

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

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

a) Convertible Debentures

Convertible debentures are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, using estimated interest rates based upon non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method.

b) Derivative Liability

The Company measures the fair value of the derivative by reference to the fair value on the convertible debenture issuance date with an estimated life ending on the convertible debenture maturity date and revalues them at each reporting date. In determining the fair value for the derivative liability, the Company used the Black-Scholes option pricing model with the following assumptions: average volatility rate; market price at the reporting date; risk-free interest rate; the remaining expected life of the embedded derivatives and an exchange rate at the reporting date. The inputs used in the Black- Scholes model are taken from observable markets. Changes to these estimates could result in the fair value of the derivative liability being less than or greater than the amount recorded.

c) Property and Equipment

Valuation of Plant and Equipment

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

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under National Instrument 51-1–1 - Standards of Disclosure for Oil and Gas Activities.

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

Fair Value of Plant and Equipment and Petroleum and Natural Gas Assets

The fair value for pipelines is measured at their replacement cost which reflects current costs to rebuild the pipelines. The fair value for facilities is measured at their insured value which is 0.75% of one year of their cash flow potential savings or earnings in processing fees expense savings and processing fee income earnings. The fair value of the petroleum and natural gas assets is measured at their market value. The market value of petroleum and natural gas assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

Impairment of Plant and Equipment

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

d) Decommissioning Provision

The value of decommissioning provisions depends on estimates of current credit-adjusted risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures. Management uses judgment to assess the Corporation's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Corporation's production activity is required to follow various environmental laws and regulations in Canada. The assessment of decommissioning provisions is based on management's understanding of the current legal and environmental requirements and third-party engineering valuations.

e) Deferred Tax Assets

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

f) Warrants

Estimating fair value for warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, and dividend yield of the warrants. The fair value of warrants is evaluated using the Black-Scholes valuation model at the date of grant. The Company has made estimates as to the expected volatility, share price and expected life of warrants. The expected volatility is based on the historical volatility of the Company, over the period of the expected life of the warrants. The expected life of the warrants is based on historical data. These estimates may not necessarily be indicative of future actual patterns. Share price is based on the price of shares issued in recent raises.

g) Common Shares

As the Company's shares are trading on a listed exchange, the Company is required to estimate the fair value of the common shares issued on debt, promissory notes, and accounts payable and accrued liabilities settlements, issued in exchange for services, and used in the valuation of the conversion feature of the derivative liability. The Company estimated the fair value of common shares based on expected capital raises, history of debt conversions with third parties, and internal company information.

h) Business Combination

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgments on whether the assets acquired, and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

i) Cash Generating Units

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

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

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

b) Convertible Debentures

The Company has issued convertible debentures which, on conversion, must be satisfied entirely in common shares of the Company for an amount equal to the greater of the conversion value and the redemption value of the instrument.

The Company reviews the terms of its convertible debentures to determine whether there are embedded derivatives, including the embedded conversion option that is required to be separated and accounted for as individual derivative financial instruments or equity components.

The debenture host contracts are subsequently recorded at amortized cost at each reporting date, using the effective interest method. The embedded derivatives are subsequently recorded at fair value at each reporting date, with changes in fair value recognized in profit (loss).

The Company presents its embedded derivative liability and related debenture host contracts as separate instruments on the statement of financial position.

c) Revenue Recognition

The Company principally generates revenue from the sale of commodities, which primarily consist of natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer.
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

d) Intangible Assets

Intangible Assets IAS 38 Intangible Assets was amended in March 2021 to revise how to recognize costs in relation to the configuration or customization of application software. The Company adopted the amendment in 2022 and the adoption did have an impact on the Company's financial statements by way of the Company recording to costs associated to the internally generated website as an intangible asset.

e) Goodwill

The Corporation records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis.

To test for impairment, goodwill is allocated to the related CGU expected to benefit from the acquisition. Goodwill is tested by comparing the carrying amount of the CGU to the recoverable amount. Fair value less costs to dispose is derived by estimating the discounted after-tax future net cash flows as described in the property and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows.

f) Property and Equipment

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

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

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

g) Depletion and Depreciation

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

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

	Years of useful life
Facilities and equipment	25
Pipelines	25

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

h) Impairment of Long-Lived Assets

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

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

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

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

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

i) Share Capital

Share capital represents the amount received on the issue of shares, less issuance costs. Proceeds from unit placements are allocated between shares and warrants issued by estimating the value of the warrants using the Black-Scholes options pricing model; the fair value is allocated to warrants from the net proceeds and the balance is allocated to the shares. Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised. Deficit includes all current and prior year profits or losses. 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 fair value of the Convertible Preferred Shares is recorded by an independent valuation due to the variability in the conversion features. The dividend payments are recorded as a Convertible Preferred Share Dividend Liability and the fair value is the discounted present value of the future dividend payments. Changes to these estimates could result in the fair value of the Convertible Preferred Share Dividend Liability being less than or greater than the amount recorded.

j) Share-Based Payment Transactions

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

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

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

k) Flow-through Shares

The Company, from time to time, issues flow-through common shares to finance significant portions of its property development programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The premium is recognized as other income and the related deferred tax is recognized as a tax provision which is reduced when qualifying flow-through expenditures are incurred.

Proceeds received from the issuance of flow-through shares are restricted to be used only for qualifying Canadian Development and Canadian Renewable Conservation Expenses within a two-year period in accordance with Government of Canada flow-through share regulations.

The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through share regulations. When applicable, this tax is accrued as a financial expense until paid.

l) Net Income/(Loss) per Share

Basic earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period. Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common shares, which comprise options granted to employees and warrants. Under this method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. The basic and diluted loss per share are the same because the exercise of options and warrants would have an anti-dilutive effect.

m) Financial Instruments

i) Classification

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

The following table summarizes the Company's financial instruments as at December 31, 2022:

Financial assets/liabilities	Classification
Cash	Amortized cost
Accounts Receivable	Amortized cost
Joint Venture Receivable	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Convertible Debentures	Amortized cost
Convertible Preferred Shares Dividend Liability	Amortized cost
Lease Liability	Amortized cost
Derivative Liability	FVTPL
Promissory Notes Payable	Amortized cost

ii) Measurement

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

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

Debt investments at FVTOCI

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

Equity investments at FVTOCI

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

iii) Impairment of financial assets at amortized cost

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

iv) Derecognition

Financial assets

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

Financial liabilities

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

n) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation, and corresponding lease asset, are recognized at the commencement of the lease. The present value of the lease obligation is based on the future lease payments and is discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with similar characteristics. The lease asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs, on commencement of the lease. Depreciation is recognized on the lease asset over the shorter of the estimated useful life of the asset or the lease term. Lease payments are allocated between the liability and interest expense. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. Gains and losses on derecognition are generally recognized in profit or loss.

o) Borrowing Costs

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

p) Business Combination

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

q) Decommissioning Provisions

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

r) Income Tax

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

(Expressed in Canadian Dollars, unless otherwise stated)

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

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

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

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

NOTE 5 – PREPAID EXPENSES AND ADVANCES

During 2022, the Company advanced $2,400,000 to 611890 Alberta Inc. for the purchase of the North East British Columbia (“NEBC”) assets. Subsequent to year-end on March 15, 2023, the Company withdrew from the NEBC acquisition and wrote off the advance of $2,400,000 to 611890 Alberta Inc.(Note 27). As at December 31, 2022, the balance for advances is $2,340,000 which is an advance to 611890 Alberta Inc. to assume the contract with MICRO TURBINE TECHNOLOGY (“MTT”). In December 2022, the Company prepaid $762,647 to Terra Land Development Ltd for data analysis to collect the information from 1,050 potential customers about their current power, heating and cooling needs. This expense qualifies as a Canadian Renewable Conservation Expenses (“CRCE”).

NOTE 6 - PROPERTY AND EQUIPMENT

	Natural Gas and Liquid Interests $
COST	
Balance, December 31, 2020	773,011
Change in Estimates in Asset Retirement Obligation	109,116
Balance, December 31, 2021	**882,127**
Additions – Acquisitions, see Business Combinations (Note 9)	38,135,149
Additions – Capital Investments	214,283
Additions - Cash Calls	1,399,999
Balance, December 31, 2022	**40,631,558**
ACCUMULATED DEPLETION & DEPRECIATION	
Balance, December 31, 2020	-
Depletion	44,252
Balance, December 31, 2021	**44,252**
Depreciation	174,890
Depletion	54,192
Impairment	18,444,338
Balance, December 31, 2022	**18,717,672**
NET BOOK VALUE	
Balance, December 31, 2021	**837,875**
Balance, December 31, 2022	**21,913,886**

(Expressed in Canadian Dollars, unless otherwise stated)

As at December 31, 2022 the Company identify indicators of impairment and recorded an impairment of $18,444,338 (2021 - $Nil). At December 31, 2022, future development costs of the Company's proved plus probable reserves of $17,517,000 (December 31, 2021 - $2,688,000) were included in the depletion calculations.

In addition to assessing evidence of possible impairment, the Company is also required to assess whether there is any indication that a previously recognized impairment loss for an asset (other than goodwill) no longer exists or may have decreased.

If an indication of possible reversal is identified, the Company must estimate the recoverable amount of that asset. Should the Company obtain sufficient evidence to support an higher recoverable amount of that asset, the Company is allowed to reverse the previously recognized impairment loss up to an upper limit for the carrying amount of that asset. The increased carrying amount after applying the reversal of the previously recognized impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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

	$
Balance, December 31, 2020	281,600
Acquisition	1,255,696
Balance, December 31, 2021	1,537,296
Additions	533,714
Acquisitions, see Business Combinations (Note 9)	10,083,891
Balance, December 31, 2022	**12,154,901**

Exploration and evaluation ("E&E") assets consist primarily of the Company's seismic assets, undeveloped land and exploration projects which are pending the determination of technical feasibility and commercial viability. At December 31, 2022, and 2021, no impairment indicators were identified related to the Company's E&E assets, therefore impairment tests were not performed.

NOTE 8 – RIGHT OF USE ASSETS AND LEASE LIABILITIES

RIGHT OF USE ASSETS

Carrying Amount	$
Net carrying amount, December 31, 2021	-
Additions	1,448,495
Dispositions	-
Accumulated depreciation	(62,208)
Balance, December 31, 2022	**1,386,287**

LEASE LIABILITIES

Carrying Amount	$
Net carrying amount, December 31, 2021	-
Additions	1,448,495
Less: Payment on lease liability (principal and interest)	(33,141)
Balance, December 31, 2022	**1,415,354**
Surface Lease Payable – Current	139,200
Surface Lease Payable – Long-term	1,276,154
Balance, December 31, 2022	**1,415,354**

During the year ended December 31, 2022, the Company became party to surface lease arrangements as a result of WCA and Donalda acquisitions (Note 9). These lease arrangements are negotiated on an individual basis and are effective for varying terms, effective for periods of two (2) to twenty-six (26) years.

(Expressed in Canadian Dollars, unless otherwise stated)

The following table details the discounted cash flows of the Company's lease liabilities as at December 31, 2022:

Years	$
1 year	139,200
2 to 3 years	292,241
4 to 5 years	203,121
More than 5 years	780,792
Total	**1,415,354**

NOTE 9 – BUSINESS COMBINATIONS

(a) West Central Alberta

On September 1, 2022, the Company purchased 100% of oil and gas properties in the west central Alberta area ("WCA"). The transaction was accounted for as a business combination under IFRS 3 - "Business Combinations" as the assets met the definition of a business.

The aggregate consideration paid of $41,703,300 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 $16,516,645; 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.

Net assets acquired	$
Petroleum and natural gas properties and equipment	8,063,320
Exploration and evaluation assets	8,453,325
Facilities	5,416,566
Pipelines	5,883,660
Goodwill	11,516,303
Deferred Tax Asset	5,640,021
Joint Venture Receivable/(Payable)	(1,087,818)
Decommissioning liabilities	(2,182,077)
Fair Value of Net Assets Acquired	**41,703,300**
Total Consideration Paid in Shares	**41,703,300**

The business combination resulted in a goodwill value of $11,516,303 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 date.

The purchase of the WCA assets meets 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.

<u>Acquisition Cost</u>

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

(Expressed in Canadian Dollars, unless otherwise stated)

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 $342,902 of net operating income.

(b) Donalda

On November 1, 2022, the Company acquired 100% interest in oil and gas properties in the Donalda Area. The transaction was accounted for as a 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
Exploration and evaluation assets	1,630,566
Facilities	1,920,600
Pipelines	7,474,440
Deferred Tax Liability	(3,677,668)
Decommissioning liabilities	(981,744)
Fair Value of Net Assets Acquired	15,742,757
Less: Total Consideration to be Paid in Cash	(1,800,000)
Gain on acquisition	**13,942,757**

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 date.

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.

NOTE 10 – GOODWILL & INTANGIBLE ASSET

	Website	Goodwill	Total
	$	$	$
Cost			
Balance, December 31, 2021	-	-	-
Additions - (Note 9 (a))	**9,382**	**11,516,303**	**11,525,685**
Balance, December 31, 2022	**9,382**	**11,516,303**	**11,525,685**

(Expressed in Canadian Dollars, unless otherwise stated)

Accumulated amortization and impairment losses			
Balance, December 31, 2021	-	-	-
Amortization	**-**	**-**	**-**
Impairment	**-**	**(11,516,303)**	**(11,516,303)**
Balance, December 31, 2022	**-**	**(11,516,303)**	**(11,516,303)**
Net book value			
Balance, December 31, 2021	-	-	-
Balance, December 31, 2022	**9,382**	**-**	**9,382**

For the year ended December 31, 2022, the Company's management assessed the value of the Goodwill recorded as a result of the acquisition of the West Central Alberta properties (Note 9) to be $Nil. Due to the delayed close of the transaction, management determined that the consideration given up to acquire the properties at the time of the initial binding agreement June 14, 2021, was significantly higher than the value at the time of close of the deal on September 1, 2022 and the value of the shares, consideration paid, on September 14, 2022. Due to changes in commodity prices, interest rate and the Company's own share price traded at the time, the Company recorded impairment charges in the amount of $11,516,303.

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	**2021**
	$	$
Accounts Payable – Trade	1,054,264	305,699
Accounts Payable – Land & Lease Rentals	65,310	-
Accounts Payable – Royalties	146,923	-
Joint Venture Payable	143,887	-
Accounts Payable – Federal Deductions Payable	2,515	-
Accounts Payable – Accruals	303,613	-
Balance	**1,716,512**	**305,699**

NOTE 12 – FLOW-THROUGH SHARE PREMIUM LIABILITY

	2022	**2021**
	$	$
Opening Balance	-	21,250
Flow-Through Share Premium Liability obligation due to issuance of Flow-Through	2,006,889	102,625
Settlement of flow-through share premium liability pursuant to incurring qualified expenditures	-	(123,875)
Balance	**2,006,889**	**-**

NOTE 13 – DECOMMISSIONING OBLIGATION

The Company's estimated net present value of decommissioning liabilities, $3,334,487 as at December 31, 2022 (2021- $282,594) is based on an undiscounted total future liability of $7,620,706 (2021 – $178,897). These payments are expected to be incurred over a period of 1 to 50 years with the majority of costs to be incurred in 2038. At December 31, 2022, credit-adjusted risk-free rate 5.39% (2021 – 1.66%) and an inflation rate of 2.0% (2021 – 3.4%) were used to calculate the net present value of the decommissioning liabilities.

(Expressed in Canadian Dollars, unless otherwise stated)

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

	2022	2021
	$	$
Balance, December 31, 2021	282,594	164,325
Accretion Expenses	170,625	9,153
Additions – Acquisitions, see Business Combinations (Note 9)	3,163,821	-
Change in Estimates	(282,553)	109,116
Balance, December 31, 2022	**3,334,487**	**282,594**

NOTE 14 – PROMISSORY NOTES

	2022	2021
	$	$
September 15, 2020, Promissory Note (a)	-	67,429
November 1, 2022, Promissory Note (b)	1,800,000	-
	1,800,000	**67,429**

(a) 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 31, 2022, a total of $76,924 (2021- $142,780) was applied against the balance of the promissory notes.

(b) On November 1, 2022, the Company entered into a promissory note in the amount of $1,800,000 for the Donalda acquisition, (Note 9 (b)). 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. A total of $1,200,000 was settled subsequent to year end.

NOTE 15 – CONVERTIBLE DEBENTURES

	Convertible Debenture - Liability Component	Derivative Liability	Equity Component	Total
	$	$	$	$
Balance, December 31, 2020	703,526	801,499	2,292	1,507,317
Conversions	(100,209)	(230,934)	(2,292)	(333,435)
Fair value change	(138,937)	158,753	235,500	255,316
Accretion expense	56,659	-	-	56,659
Balance, December 31, 2021	**521,039**	**729,318**	**235,500**	**1,485,857**
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, December 31, 2022	**4,053,002**	**631,983**	**1,293,483**	**5,978,468**

	2022	2021
	$	$
Convertible Debenture (a)	308,041	282,628
Convertible Debenture (b)	267,329	238,411
Convertible Debenture (c)	3,477,632	-
	4,053,002	**521,039**

(Expressed in Canadian Dollars, unless otherwise stated)

Short-term	267,329	-
Long-term	3,785,673	521,039
Derivative liability (b)	**631,983**	**729,318**
Short-term	631,983	-
Long-term	-	729,318

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

The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debenture and the fair value of the liability. As a result of the conversion price of the debenture not being fixed at the time of issuance, the conversion feature is considered a derivative liability and is revalued each month. The value of the derivative liability as at December 31, 2020, was determined using a fair value estimation method with the following inputs: discount rate - 20%; volatility - 120%; risk-free rate - 0.18 %.

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

The fair value of the equity component (conversion feature) was determined at the time of change as the difference between the face value of the convertible debenture and the fair value of the liability component. The value of the equity component was determined to be $235,500. The value of the liability component was determined to be $265,000. The loss on fair market value change was determined to be $88,236.

At December 31, 2022, the debt host carrying value was determined to be $308,041.

(b) On June 28, 2020, the Company offered a non-brokered private placement of $400,000 debenture units, each unit being comprised of an aggregate $1,000 principal amount of a 10% convertible unsecured subordinated debenture due on April 30, 2023, and one detachable common share purchase warrant entitling the holder to purchase 10,000 common shares at a price of $0.10 for a period of 36 months following the closing. The debenture bears an interest rate of 10% per annum payable semi-annually, payable either in cash or common shares in the capital of the issuer at the option of the subscriber. The offering closed on July 7, 2020, for gross proceeds of $400,000. The fair value of the liability component of the convertible debentures at the time of issue was initially calculated as being equivalent to the discounted cash flows for the debentures assuming an effective interest rate of 20%. The effective interest rate was based on the estimated rate for a debenture without a conversion feature. As the fair value of the derivative liability component and the fair value of the liability component were determined to have a greater combined fair value than the face value of the debentures, the difference between the face value of the debentures and the fair value of the derivative liability was attributed to the debt component. The fair value of the derivative was determined to be $151,800 and the fair value of the debt component was determined to be $248,200 on the date of issuance.

The value of the warrants is determined by allocating the residual of the debenture units transaction price after all financial liabilities in the debenture units are recognized. As the financial liabilities make up the full amount of the debenture unit transaction price, no value has been assigned to the warrants.

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

On February 15, 2022, convertible debenture with stated value $64,166 (2021 – $86,048) was converted into 224,580 common shares (2021 - 960,480) 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 Black-Scholes option pricing model fair value estimation method with the following inputs: expected stock price - $0.32; risk free interest rate – 4.30%; expected stock price volatility - 90.48%; expected dividend yield – Nil; expected option life in months – 4. The carrying value of the liability component was determined to be $267,329 (2021 - $238,411).

(c) 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 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.

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 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.

At December 31, 2022, the carrying balance of the debt component of the convertible debentures was determined to be $3,477,632.

On January 30th and February 14, 2023, subsequent to year end, two convertible debentures with total stated value $181,381, including accrued interest, were converted into 452,632 common shares and 450,000 attached warrants, at the holder's option. The attached common share purchase warrants are exercisable at a price $0.75 per warrant for a period of two years.

NOTE 16 - RELATED PARTY TRANSACTIONS

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

(Expressed in Canadian Dollars, unless otherwise stated)

a) Compensation of Key Management Personnel

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

	2022	2021
	$	$
Management fees	119,484	202,725

b) Amounts Due to Related Parties

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

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

	2022	2021
	$	$
Legal costs[(1)]	127,166	78,648
Unsecured promissory notes due September 15, 2022[(2)]	Nil	67,429
Convertible secured debenture due July 31, 2027[(3)]	500,000	500,000
Interest Owing on Convertible secured debenture due July 31, 2027[(3)]	45,919	20,919
Joint venture (receivable)/payable [(4)]	(228,657)	(158,565)
Advances [(5)]	-	(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, president and Chief Executive Officer of the Company, Leonard Van Betuw, is also a director of 611890 Alberta Inc.
5. Funds have been advanced in respect of a joint venture agreement with 611890 Alberta Inc. having a common director, Leonard Van Betuw, who is also a director and CEO of the Company.

c) Participation in Private Placements

	Price	Number of Units	Proceeds
	$		$
January 2021 Private Placement	0.15	1,600,000	240,000
September 2021 Private Placement	0.25	124,000	31,000
		1,724,000	**271,000**

d) 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. [(1)]	2,340,000
September 2022	Purchase of the WCA assets from 611890 Alberta Inc. [(2)]	25,909,100
December 2022	Purchase of the NEBC assets from 611890 Alberta Inc.	2,400,000
Total		**30,649,100**

1. Funds have been advanced in respect of 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.

(Expressed in Canadian Dollars, unless otherwise stated)

e) 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. (1)	1,200,000
Total		**1,200,000**

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

NOTE 17 - SHARE CAPITAL AND RESERVES

As at December 31, 2022, there were 111,437,322 (2021 – 35,651,341) common shares and 30,000,000 (2021- nil) convertible preferred shares issued and outstanding.

a) Convertible Preferred Shares

Authorized

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 on June 14, 2026, and earn an accruing annual dividend at a rate of two percent (2%) 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 has been achieved: a) the Company exceeds the production rate of 3,000 BOE/d, b) the Common Shares trade at a volume weighted average price (VWAP) of more than $1.00 per share for twenty (20) consecutive business days or c) the second year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible 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 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.

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

	$
Balance, December 31, 2021	-
Initial recognition	529,179
Accretion	13,023
Conversion	-
Balance, December 30, 2022	**542,202**

On March 29, 2023, subsequent to year end, forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares occurred, 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 (Note 26). As a result, the Company has written off the Convertible Preferred Shares dividend liability, recording $553,048 gain on conversion and $103,101 in dividend payable.

b) Common Shares Authorized

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

Issued and outstanding common shares

i.) During the Year Ended December 31, 2022

- On July 5, 2022, the Company issued 375,000 common shares at a price of $0.25, 53,500 common shares at a price of $0.20 and 3,900 commons shares at a price of $0.15 for gross proceeds of $105,035 for the exercise of warrants.
- On July 12, 2022, the Company issued 12,000 common shares at a price of $0.20 for gross proceeds of $2,400 for the exercise of warrants.
- On July 14, 2022, the Company issued 100,000 common shares at a price of $0.25 for gross proceeds of $25,000 for the exercise of warrants.
- On July 29, 2022, the Company issued 16,666 common shares at a price of $0.20 for gross proceeds of $3,333 for the exercise of warrants.
- On July 29, 2022, the Company issued 20,000 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 twenty-four (24) months from the date of issuance.
- On August 2, 2022, the Company issued 375,000 common shares at a price of $0.25 for gross proceeds of $93,750 for the exercise of warrants.
- On August 11, 2022, the Company issued 75,000 common shares at a price of $0.20 for gross proceeds of $15,000 for the exercise of warrants.
- On August 15, 2022, the Company issued 41,666 common shares at a price of $0.20 for gross proceeds of $8,333 for the exercise of warrants.
- On August 22, 2022, the Company issued 50,000 common shares at a price of $0.20 for gross proceeds of $10,000 for the exercise of warrants.
- On August 31, 2022, the Company issued 433,333 common shares at a price of $0.20 for gross proceeds of $86,667 for the exercise of warrants.
- On September 7, 2022, the Company issued 150,000 common shares at a price of $0.20 for gross proceeds of $30,000 for the exercise of warrants.
- On September 14, 2022, the Company issued 44,440,000 common shares at a price of $0.57 as consideration paid for the WCA acquisition (Note 9 (a)).
- 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 service for arranging the acquisition between the buyer and seller for the WCA acquisition (Note 9 (a)).
- On September 20, 2022, the Company issued 182,100 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 there of to purchase one (1) additional Common Share at a price of $0.75 for a period of twenty-four (24) months from the date of issuance.
- On September 30, 2022, the Company issued 557,277 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 twenty-four (24) months from the date of issuance.
- On September 30, 2022 the Company issued 224,580 common shares for convertible debenture debt plus interest payable issued at $0.10 per share in accordance with the conversion price as determined in each debt instrument.

- On October 12, 2022, the Company issued 100,000 common shares at a price of $0.20 for gross proceeds of $20,000 for the exercise of warrants.
- On October 20, 2022, the Company issued 50,625 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 twenty-four (24) months from the date of issuance.
- On October 25, 2022, the Company issued 50,000 common shares at a price of $0.20 for gross proceeds of $10,000 for the exercise of warrants.
- On October 26, 2022, the Company issued 79,559 common shares at a price of $0.20 for gross proceeds of $15,912 for the exercise of warrants.
- On October 31, 2022, the Company issued 325,000 common shares at a price of $0.20 for gross proceeds of $65,000 for the exercise of warrants.
- On November 2, 2022, the Company issued 500,000 common shares at a price of $0.20 for gross proceeds of $100,000 for the exercise of warrants.
- On November 3, 2022, the Company issued 83,333 common shares at a price of $0.20 for gross proceeds of $16,667 for the exercise of warrants.
- On November 4, 2022, the Company issued 966,666 common shares at a price of $0.20 for gross proceeds of $193,333 for the exercise of warrants.
- On November 22, 2022, the Company issued 71,128 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 twenty-four (24) months from the date of issuance.
- On December 9, 2022, the Company issued 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 twenty-four (24) months from the date of issuance.
- On December 23, 2022, the Company issued 11,940,298 flow-through units at $0.335 and 10,256,410 charity flow-through unit at $0.39 per share for gross proceeds of $8,000,000. Each Unit being comprised on (1) Common Shares 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 twenty-four (24) months from the date of issuance. The flow through 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.

ii.) During the Year Ended December 31, 2021

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

3,833,333 common shares at a price of $0.15 and 1,916,667 warrants at an exercise price of $0.20 in the Company and 1,802,500 flow-through shares at a price of $0.20 per share. The premium was recognized as a liability of $90,125.

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

c) Stock Options

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

For the year ended December 31, 2022, 1,753,770 options were outstanding with a weighted average exercise price of $0.36 and an average remaining life of 1.93 years.

(Expressed in Canadian Dollars, unless otherwise stated)

Expiry Date	Exercise Price	December 31, 2021	Granted	Exercised	Expired/ Cancelled	December 31, 2022
October 31, 2024	$0.35	200,000	-	-	-	200,000
December 23, 2024	$0.39	-	717,949	-	-	717,949
December 23, 2024	$0.34	-	835,821	-	-	835,821
		200,000	1,553,770	-	-	1,753,770

During the year ended December 31, 2022, the Company recognized share-based compensation of $197,348 (2021 - $44,993) relating to the flow-through units issued using the Black-Scholes option pricing model for stock options granted and vested during the period. The stock options are exercisable at $0.39 & $0.34 per common share and expire on December 23, 2024.

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

	2022	**2021**
Risk free interest rate	3.85%	1.26%
Expected stock price volatility	109.17%	122.27%
Expected dividend yield	Nil	Nil
Expected option life in months	24	36

d) Share Purchase Warrants

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

	Number of Warrants	**Weighted average exercise price $**
Outstanding and Exercisable, December 31, 2020	4,016,700	0.24
Issued	9,382,961	0.29
Exercised	(373,300)	0.18
Expired	(41,667)	0.40
Outstanding and Exercisable, December 31, 2021	**12,984,694**	**0.28**
Issued	12,437,554	0.53
Exercised	(3,790,623)	0.21
Expired	(3,775)	0.20
Outstanding and Exercisable, December 31, 2022	**21,627,850**	**0.44**

The continuity schedule of share purchase warrants for the year ended December 31, 2022, is as follows. Total outstanding share purchase warrants as at December 31, 2022, is 21,627,850 with a weighted average exercise price of $0.44 and an average remaining life of 1.21 years.

(Expressed in Canadian Dollars, unless otherwise stated)

Expiry Date	Exercise Price $	December 30, 2021	Issued	Exercised	Expired/ Cancelled	December 31, 2022
November 5, 2022	0.20	2,874,998	-	(2,871,223)	(3,775)	-
May 6, 2023	0.35	876,666	-	-	-	876,666
June 1, 2023	0.40	412,500	-	-	-	412,500
July 7, 2023	0.25	1,850,000	-	(850,000)	-	1,000,000
August 26, 2023	0.35	168,200	-	-	-	168,200
September 9, 2023	0.35	1,160,000	-	-	-	1,160,000
September 13, 2023	0.35	4,088,680	-	-	-	4,088,680
September 20, 2023	0.35	100,000	-	-	-	100,000
September 23, 2023	0.35	309,200	-	-	-	309,200
November 5, 2023	0.15	444,450	-	(67,450)	-	377,000
January 31, 2024	0.20	100,000	-	(1,950)	-	98,050
May 10, 2024	0.75	-	200,800	-	-	200,800
May 12, 2024	0.75	-	226,400	-	-	226,400
May 16, 2024	0.75	-	8,000	-	-	8,000
June 9, 2024	0.75	-	4,000	-	-	4,000
June 28, 2024	0.75	-	110,000	-	-	110,000
July 28, 2024	0.75	-	20,000	-	-	20,000
September 14, 2024	0.75	-	40,000	-	-	40,000
September 15, 2024	0.75	-	100,000	-	-	100,000
September 30, 2024	0.75	-	550,000	-	-	550,000
October 20, 2024	0.75	-	50,000	-	-	50,000
December 9, 2024	0.75	-	30,000	-	-	30,000
December 23, 2024	0.50	-	11,098,354	-	-	11,098,354
February 1, 2026	0.05	600,000	-	-	-	600,000
		12,984,694	12,437,554	(3,790,623)	(3,775)	21,627,850

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

	2022	**2021**
Risk free interest rate	2.39% - 4.53%	0.29% - 0.91%
Expected stock price volatility	107%-122%	112%-128%
Expected dividend yield	Nil	Nil
Expected option life in months	23-24	24-58

NOTE 18 – OIL AND NATURAL GAS SALES

The following table represents the Company's Sales in oil and natural gas sales for the years ended December 31, 2022, and 2021:

	2022 $	**2021** $
Heavy Crude Oil	1,270,998	7,817
Conventional Natural Gas	2,059,400	230,349
Natural Gas Liquids	75,707	63,174
	3,406,105	**301,340**

(Expressed in Canadian Dollars, unless otherwise stated)

NOTE 19 - ECONOMIC DEPENDENCE

Sales from the Company's business are substantially derived from a 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 accounts receivable. As at December 31, 2022, accounts receivable of $376,988 (2021 – $0) were due from these customers and were collected subsequent to year end.

The Company's two significant customers accounted for more than 95% of its sales. For the year ended December 31, 2022, the two customers accounted for 69% and 27%, respectively. For the year ended December 31, 2021, the two customers accounted for 82% and 17%, respectively.

NOTE 20 – NET LOSS PER SHARE ATTRIBUTABLE TO AVILA'S SHAREHOLDERS

The calculations of basic and diluted net loss per share are derived from both net loss attributable to Avila's shareholders and weighted average shares outstanding, calculated as follows:

	2022 $	**2021** $
Net Loss attributable to Avila's Shareholders		
Basic and diluted	(20,403,076)	(1,415,186)
Weighted average shares outstanding		
Basic	52,766,406	25,541,590
Diluted	84,722,990	25,541,590
Net loss per share attributable to Avila's shareholders		
Basic ($/share)	(0.39)	(0.06)
Diluted ($/share)	(0.39)	(0.06)

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

The non-cash transactions for the year ended December 31, 2022, consisted of the Company:

a) Issuing 44,440,000 common and 30,000,000 convertible preferred shares valued at $41,174,121 in consideration for the WCA properties acquisitions noted in Note 9(a) and Note 17(a)(b).

b) Issuing $1,800,000 promissory note to Oceanic Greystone Securities Inc. in consideration for the Donalda oil and gas properties noted in Note 9(b).

c) Conversion of $64,166 stated value of Convertible Debenture (b) including the accrued interest into 224,580 common shares; and

d) Conversion of $340,895 stated value into 452,632 common shares of Convertible Debenture (c) including the accrued interest noted in Note 15.

e) 1,553,770 share-based compensation options granted and vested fair valued at $197,348, noted in Note 17(c).

f) $2,006,889 Flow- Through Share Premium Liability due to issuance of Flow-Through Shares noted in Note 12 and Note 17(b)(i).

g) Issuing 439,200 finder's warrants valued at $58,912 pursuant to the Convertible Debenture (c) private placement financing noted in Note 15.

NOTE 22 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

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

The Company's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's policy.

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

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

Fair values

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

- Derivative liability is considered to be a Level 3 classification as inputs are not based on observable market data. Please see Note 15 for details on inputs.
- There were no transfers between levels during the year.
- The Company has exposure to liquidity risk and market risk because of its financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financing to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. The Company has working capital of $3,876,247 as at December 31, 2022 (2021 - $1,835,527).

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

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

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

Market risk

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

Interest rate risk

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

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

a. *Government Approvals and Certifications* – The Company has estimated the time associated with the certification process based on estimates provided by 3rd party consultants but these timelines are subject to availability of the Industry partners and Certification personnel, resulting in unanticipated delays.

b. *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.

(Expressed in Canadian Dollars, unless otherwise stated)

c. *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.

d. *Customer Demand* – Customer demand could be subject to change due to the introduction of competitive technology.

e. *Market Adaptations* – Customer adaptation does not necessarily follow the Company's assumptions.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. 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. The credit risk for cash and accounts receivable is considered negligible since the counterparties are reputable banks with high quality external credit ratings and customers with no history of default.

The Company has credit risk exposure related to its economic dependence on a very few customers for its sales (Note 19). The Company has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.

NOTE 23 - CAPITAL MANAGEMENT

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

There were no changes to the Company's approach to capital management during the year ended December 31, 2022.

NOTE 24 – INCOME TAXES

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

	2022	**2021**
	$	$
Net Income Loss for the year	(20,403,076)	(1,415,186)
Expected income tax recovery	(4,692,707)	(339,645)
Permanent differences	(444,949)	8,107
Change in unrecognized deductible temporary differences	5,137,656	1,312,388
Total income tax expense	-	-

As at December 31, 2022 and 2021, the Company has temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly, the Company recorded deferred tax assets and liabilities as follows:

	2022	**2021**
Deferred Tax Assets (Liabilities)	$	$
Property, Plant and Equipment	(2,302,490)	(362,608)
Intangible Asset	(108)	-
Right-of-Use Asset	(318,846)	-
Lease Liability	325,531	-
Exploration and Evaluation Asset	5,761,601	-
Flow-Through Liability	461,584	-
Share Issuance Cost	187,538	-
Convertible debentures	-	(65,151)
Non-Capital losses	5,372,601	427,759

(Expressed in Canadian Dollars, unless otherwise stated)

	2022	2021
Deferred Tax Assets (Liabilities)	$	$
Valuation Allowance	(7,525,058)	-
Net Deferred Tax Assets	1,962,353	-

For the year ended December 31, 2022, deferred income tax liabilities of $3,677,668 were recognized on the Donalda acquisition (Note 9(b)). The deferred income tax liability arises from the difference between the fair value of the net assets acquired and their tax basis.

For the year ended December 31, 2022, deferred income tax asset of $5,640,021 were recognized on the WCA acquisition (Note 9(a)). The deferred income tax asset arises from the difference between the fair value of the net assets acquired and their tax basis.

The Canadian deferred tax asset has been offset against the Canadian deferred tax liability.

In assessing the ability to realize deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those deferred tax assets are deductible. Management foresees sufficient taxable profit to utilize deferred income tax asset up to $1,962,353. Management did not recognize further deferred tax assets as of December 31, 2022.

As at December 31, 2022, the Company's unrecognized Canadian non-capital losses expire as follows:

	$
2030	185,847
2031	332,320
2032	290,656
2033	584,259
2034	305,171
2035	5,099,852
2036	105,006
2037 to 2042	16,233,020
	23,136,131

NOTE 25 – COMMITMENTS

Flow-through shares issued on December 23, 2022 for gross proceeds of $8,000,000

As a result of the issuance of flow-through shares on December 23, 2022, the Company had a commitment to incur $8,000,000 in qualifying flow-through expenditures. As at December 31, 2022, flow-through expenditures commitment of $8,000,000 remained unspent and is expected to be incurred prior to December 23, 2023.

NOTE 26 – PROPOSED TRANSACTION

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 of the proposed SPAC deal.

NOTE 27 - 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 Euros from 611890 Alberta Inc. 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%. The Company will have to reimburse 611890 Alberta Inc for their initial cash investment of 2,500,000 Euros 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.
- On June 26, 2022, the Company participated in a Joint Venture with its partner, 611890 Alberta Inc and acquired a 7% 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 on 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 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 to the increasing costs of construction due to inflation, future natural gas prices and a growing concern 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, these factors resulted in the Company's decision to withdraw from the NEBC acquisition and to write off $5,400,000, consisting of the $2,400,000 consideration paid to 611890 Alberta Inc in 2022 and the $3,000,000 advance to the Seller in 2023.
- On January 26, 2023, the Company paid $1,200,000 towards the outstanding $1,800,000 promissory note for the Donalda acquisition. The amount remaining as of April 30, 2023, is $600,000.

NOTE 28 – EVENTS AFTER REPORTING PERIOD

- On April 13, 2023, the Company received a termination notice from Micro Turbine Technology ("MTT"), due to non-compliance with the Company's obligations under the Loan agreement from March 22, 2022. The Company immediately disputed this claim. On June 26, 2023, the Company settled its contractual dispute with MTT. The Company agreed to compensate MTT over time in a final settlement.

  On July 26, 2023, the Company completed all terms of settlement with MTT and has been issued the licensed rights for the manufacturing, sale, supply, and servicing of MTT's EnerTwin in Canada and the United States. Avila has fulfilled all financial obligations to MTT, totaling €4,160,000. The license to manufacture, sell, and service the EnerTwin is now in effect, with an up-front license fee of €1,500,000. Avila will receive 12,328 non-voting shares of MTT, representing 15% of the issued share capital, at a price of €202.80 per share, making a total investment of €2,500,000. Additionally, Avila will initiate CSA and UL certifications at a cost of €135,350.40, and there is an interest expense totaling €26,649.60. The shares obtained by Avila are subject to MTT's right to repurchase them for cancellation at a cost of one Euro if Avila fails to sell 5,000 EnerTwin units by July 1, 2026

- On June 27, 2023, the Company received a notice of default from Insight stating that certain terms of the Business Combination Agreement ("BCA") had been breached by the Company and that Insight intended to terminate the business combination agreement (Note 26) unless the Company cured the alleged defaults by July 26, 2023. The Company believes it has cured the defaults by the cure period. In the event that Insight does not agree that the defaults are cured, any potential claim by Insight would be for the termination fee of US$5,000,000 and the reimbursement of expenses incurred by Insight as defined in the BCA. No claim has been filed by Insight as of the auditor's report date. Avila will contest any claim filed by Insight as without merit.

- On July 5, 2023, the Company signed a term sheet with a private Canadian investments company for a secured two-year term loan of $3,000,000. The financing terms include monthly interest-only payments at an annualized rate of 12%, along with an additional annual administration fee of 10%, payable upon repayment of the term loan. Avila's CEO, provided a personal guarantee for the loan and will be compensated for providing this guarantee with a monthly fee of 0.25% of the outstanding amount.

NOTE 29 – AMENDED AND RESTATED FINANCIAL STATEMENTS

The consolidated financial statements as at December 31, 2022, and for the year then ended have been restated to correct an error in its filing. The Company discovered the deficiency in the accounting information subsequent to the filing and issuance of the financial statements and now wishes to rectify the situation by restating the financial statements for the year ended December 31, 2022, using the updated and complete information currently available.

The Company determined that the approach employed to ascertain the fair value of PPE linked to asset retirement obligation during the acquisition of WCA and Donalda (Note 9) was inappropriate, resulting in inaccuracies in determining deferred tax asset, deferred tax liabilities, goodwill and gain on acquisition. Furthermore, at year end, the presence of impairment indicators required the recognition of additional impairment for the PPE. The effects of the restatement are as follows:

a) To accurately present the purchase price equations for the WCA and Donalda acquisitions (as stated in Note 6 and Note 9), asset retirement obligation (ARO) associated with the acquired assets is excluded.
   - At WCA acquisition, this increased the goodwill value to $11,516,303, and deferred tax asset to $5,640,021.
   - At Donalda acquisition, this decreased the gain on acquisition to $13,942,757 and deferred tax liability to $3,677,668.

b) To adjust the fair value of property and equipment as at December 31, 2022, an impairment of $18,444,338 was recorded (as stated in Note 6).
   - This decreased the non-current asset by $20,880,411 and created a loss of $20,403,076.

(Expressed in Canadian Dollars, unless otherwise stated)

Amended and Restated Statement of Financial Position

	As at December 31, 2022		
	$ As restated (Note 29)	$ As previously reported	$ Restatement
Deferred Tax Asset	1,962,353	1,234,605	727,748
Property and Equipment	21,913,886	43,522,045	(21,608,159)
Deficit	(30,342,519)	(9,462,108)	(20,880,411)

Amended and Restated Statement of Income (Loss) and Comprehensive Income (Loss)

	Year Ended December 31, 2022		
	$ As restated (Note 29)	$ As previously reported	$ Restatement
Impairment on Goodwill	(11,516,303)	(9,836,173)	(1,680,130)
Impairment on PPE	(18,444,338)	-	(18,444,338)
Gain on acquisition of assets	13,942,757	14,698,700	(755,943)
Total Other Income (Loss)	(19,704,612)	1,175,799	(20,880,411)
Net Income (Loss) and Comprehensive Income (Loss) For the Year	(20,403,076)	477,335	(20,880,411)
Basic and Diluted Income (Loss) Per Share	(0.39)	0.01	(0.40)

Amended and Restated Statement of Cash Flows

	Year Ended December 31, 2022		
	$ As restated (Note 29)	$ As previously reported	$ Restatement
Net Income (Loss)	(20,403,076)	477,335	(20,880,411)
Items not Affecting Cash			
Gain on acquisition of assets	(13,942,757)	(14,698,700)	755,943
Impairment on Goodwill	11,516,303	9,836,173	1,680,130
Impairment on PPE	18,444,338	-	18,444,338