Avila Energy Corporation

Form 51-102F1

Amended Management's Discussion and Analysis

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

The following management's discussion and analysis ("MD&A") was prepared as of August 07, 2023 and is management's assessment of the historical financial and operating results of Avila Energy Corporation ("Avila" or the "Company") and should be read in conjunction with the unaudited interim financial statements of the Company for the period ended March 31, 2023 together with the notes related thereto, as well as the audited restated and amended financial statements of the Company for the year ended December 31, 2022, together with the notes related thereto along with the management's discussion and analysis thereon.

Avila's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of these statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgements and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Avila's financial position, results of operations and funds flow from operations.

Avila's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A on May 30, 2023 and restated on August 8, 2023.

Nature of Business: Avila is a company that is engaged in the business of acquiring, exploring, and developing crude oil, natural gas, and natural gas liquids ("NGLs") in Western Canada. The Company's assets consist of the West Central Alberta assets ("WCA") located 50 kilometres southwest of Edmonton, Alberta, and the East Central Alberta assets ("ECA") located 90 kilometres east of Red Deer, Alberta. The Company is in the initial phases of development of a Carbon Capture and Sequestration Plan in WCA. On November 14, 2022, the Company announced the launch of its Vertically Integrated Energy Business with the Micro Turbine Technology. The Company exists under the laws of the Province of Alberta, with its principal place of business located at Suite 201, 1439 17th Avenue S.E., in Calgary, Alberta.

Forward-Looking Statements and Information: *Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include but are not limited to capital expenditures, business strategy and objectives, reserves quantities and the discounted present value of future net cash flows from such reserves, net revenue, future production levels, exploration plans, development plans, acquisition and disposition plans and the timing thereof, operating, and other costs and royalty rates.*

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this MD&A, assumptions have been made regarding, among other things:

- *the ability of Avila to obtain equipment, services and supplies in a timely manner to carry out its activities;*
- *the ability of Avila to market oil and natural gas successfully to current and new customers;*
- *the timely receipt of required regulatory approvals;*
- *the ability of Avila to access existing and additional financing on acceptable terms;*
- *currency, exchange, and interest rates;*
- *future oil and gas prices; and*
- *the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation.*

Although Avila believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information because Avila can give no assurance that such expectations will prove to be correct. Forward-looking statements and information are based on current expectations, estimates and projections that involve a number of risks *and uncertainties which could cause actual results to differ materially from those anticipated by Avila and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:*

- *the ability of management to execute its business plan;*
- *the risks of the oil and gas industry, such as operational risks in exploring for, developing, and producing crude oil and natural gas and market demand;*
- *risks and uncertainties involving geology of oil and gas deposits;*
- *risks inherent in Avila's marketing operations;*
- *the uncertainty of reserves estimates and reserves life;*
- *the uncertainty of estimates and projections relating to production, costs and expenses;*
- *potential delays or changes in plans with respect to exploration or development projects or capital expenditures;*
- *Avila's ability to enter into or renew leases;*
- *fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;*
- *health, safety and environmental risks;*
- *uncertainties as to the availability and cost of financing;*
- *the ability of Avila to add production and reserves through development and exploration activities;*
- *general economic and business conditions;*
- *the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;*
- *uncertainty in amounts and timing of royalty payments;*
- *risks associated with existing and potential future lawsuits and regulatory actions against Avila; and*
- *other risks and uncertainties described elsewhere in this MD&A or in any of Avila's other filings and documents that have been distributed to shareholders, including but not limited to the financial statements of the Company for the three-month period ended March 31, 2023.*

The forward-looking statements and information contained in this MD&A are made as of the date hereof and except where required by law, Avila undertakes no obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement.

BOE Conversions: *Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1; utilizing a conversion on a 6:1 basis may be misleading as an indicator of value.*

Non-GAAP Terms: *This document contains the terms "funds flow from operations" and "netbacks" which are non-GAAP terms. The Company uses these measures to help evaluate its performance. The Company considers corporate netbacks a key measure as it demonstrates profitability relative to current commodity prices. The Company considers funds flow from operations a key measure as it demonstrates Avila's ability to generate funds necessary to fund future growth through capital investment. Avila's determination of funds flow from operations may not be comparable to that reported by other companies.*

Avila determines funds flow from operations as cash flow from operating activities before changes in non-cash working capital as follows:

	Three months ended March 31,		
($)	**2023**	2022	% change
Cash flow from (used in) operating activities	**(3,313,930)**	*231,256*	*nmf*
Change in non-cash working capital	**36,522**	*(129,037)*	*nmf*
Funds flow from (used in) operations	**(3,350,452)**	*102,219*	*nmf*

Funds flow from (used in) operations per share is calculated using the weighted average basic and diluted shares used in calculating earnings (loss) per share.

DESCRIPTION OF BUSINESS

Avila Energy Corporation ("Avila" or the "Company") is a resource-based company engaged in the acquisition of, exploration for, and the development and production of crude oil, natural gas, and natural gas liquids in Western Canada. The Company was incorporated on January 13, 2010, and exists under the laws of the Province of Alberta, with its principal place of business located at Suite 201, 1439 – 17th Avenue S.E., in Calgary, Alberta.

FIRST QUARTER FINANCIAL HIGHLIGHTS

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

DETAILED FINANCIAL ANALYSIS

SALES VOLUMES

	Three months ended March 31,		
	2023	2022	% change
Heavy oil and condensate *(bbls/d)*	**21**	20	5
Natural gas *(Mcf/d)*	**2,376**	732	225
Natural gas liquids *(bbls/d)*	**5**	8	(38)
Total *(boe/d)*	**422**	150	181
Oil and natural gas liquids %	**6**	18	(67)

Average production of 422 boe/day was reported during the three months ended March 31, 2023, which consisted of 26 bbls/day of crude oil and NGLs, and 2,376 Mcf/day of natural gas. Approximately 54 percent of the Company's production in the first three months of 2023 was from West Central Alberta, and the remaining 46 percent of the Company's production was from the East Central Alberta area.

Average production of 150 boe/day was reported during the three months ended March 31, 2022, which consisted of 28 bbls/day of crude oil and NGLs, and 732 Mcf/day of natural gas. 100 percent of the Company's production in the first three months of 2022 was from West Central. The Company completed two property acquisitions on September 1, 2022, and November 1, 2022, in the WCA area that contributed to the additional natural gas and natural gas liquids volumes.

PETROLEUM AND NATURAL GAS SALES

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Heavy oil and condensate	**199,373**	166,761	20
Natural gas	**733,218**	313,890	134
Natural gas liquids	**35,432**	32,459	9
Petroleum and natural gas	**968,023**	513,110	89
Per boe			
Petroleum and natural gas	**25.51**	38.10	(33)

Total production revenue was $968,023 for the three months ended March 31, 2013, an increase of 89 percent from the $513,110 of production revenue reported for the three months ended March 31, 2022. The variance table that follows the price analysis summarizes the factors contributing to this decrease in total production revenue for the three months ended March 31, 2023.

The Company sells all of its crude oil and natural gas production on a spot basis. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal benchmark trading exchanges that Avila compares its oil price to are the West Texas Intermediate (“WTI”) oil spot price and the Western Canadian Select (“WCS”) spot price. The differential between the WTI spot price can widen due to several factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

The Company currently has no plans to enter into any financial instruments.

The following table summarizes the Company's benchmark and realized petroleum and natural gas prices during the period:

	Three months ended March 31,		
($/bbl)	**2023**	2022	% change
Average Benchmark Prices			
WTI crude oil (US$/bbl)	**76.11**	94.29	(19)
WCS differential (US$/bbl)	**(21.01)**	(14.48)	45
US$/Cdn$ exchange rate	**0.740**	0.790	(6)
WCS (Cdn$/bbl)	**74.52**	101.03	(26)
AECO daily spot ($/GJ)	**3.24**	4.52	(28)
Average Realized Prices			
Heavy oil and condensate ($/bbl)	**107.89**	94.66	14
Natural gas ($/Mcf)	**3.43**	4.76	(28)
Natural gas liquids ($/bbl)	**79.44**	45.11	76
Average realized price ($/boe)	**25.51**	38.10	(33)
Oil Price Differentials			
Heavy oil differential to WCS ($/bbl)	**33.37**	(6.37)	nmf

(1) WTI represents posting price of West Texas Intermediate crude oil.
(2) WCS represents the benchmark Western Canadian heavy crude oil price.

Avila's average realized heavy oil and condensate price increased 14 percent to $107.89 per bbl for the three months ended March 31, 2023, from $94.66for the three months ended March 31, 2022.

Avila's average natural gas price decreased 28 percent to $3.43 per Mcf for the three months ended March 31, 2023, from $4.76 for the three months ended March 31, 2022.

The following table summarizes the impact of the Company's production activities, and prices on oil and natural gas revenue:

Variance analysis	Amount	% change
Three months ended March 31, 2022, production revenue	513,110	
Increase (decrease) due to:		
Crude oil and NGLs volumes	(15,091)	(3)
Natural gas volumes	668,806	147
Realized natural gas price	(249,478)	(55)
Realized crude oil and NGLs price	50,676	11
Total decrease	454,913	100
Three months March 31, 2023, production revenue	**968,023**	

ROYALTY EXPENSES

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Crown	**59,803**	30,507	96
Freehold and overriding royalties	**70,100**	37,287	88
Total royalty expenses	**129,903**	67,794	92
Per boe	**3.42**	5.03	(32)
Average royalty rates *(% of revenue)*			
Crown	**6.2**	5.9	5
Freehold and overriding royalties	**7.2**	7.3	(1)
Total royalty expenses	**13.4**	13.2	2

The Company's royalties are owed to the provincial government of Alberta and mineral rights owners. Royalties are either paid or taken in kind. The terms of the provincial government royalty regimes and mineral rights owner agreements impact the Company's overall corporate royalty rate.

Alberta crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives for new wells drilled on Crown lands. In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that was effective on January 1, 2017. These highlights include the replacement of royalty credits and holidays on conventional wells through a Drilling and Completion Cost Allowance to emulate revenue minus cost framework, a post-payout royalty rate based on commodity prices, and the reduction of royalty rates for mature wells, with the intent of delivering a neutral internal rate of return for any given play compared to the previous Alberta Royalty Framework. No changes will be made to the royalty structure of wells drilled prior to January 2017 for a 10-year period from the royalty program's implementation date.

Total royalty expenses increased 92 percent to $129,903 for the three months ended March 31, 2023 ($67,794 for the three months ended March 31, 2022), representing a combined royalty rate of 13.4 percent (13.2 percent at March 31, 2022).

PRODUCTION AND OPERATING EXPENSES

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Production and operating expenses	**370,381**	199,602	86
Transportation costs	**156,665**	56,850	176
Total	**527,046**	256,452	106
Per boe	**13.89**	19.04	(27)

Production and operating expenses include all expenses associated with the production of crude oil and natural gas. The material components of operating expenses are labour, equipment maintenance, minor workovers, third party processing fees, fuel, and power. Avila operating expenses increased 106 percent to $527,046 for the three months ended March 31, 2023, from $256,452 for the three months ended March 31, 2022. On a boe basis, operating expenses decreased 27 percent to $13.89 per boe for the three months ended March 31, 2023, from $19.04 for the three months ended March 31, 2022.

Production and operating expenses also include transportation costs. Transportation costs generally include third-party pipeline tariffs and trucking costs incurred to deliver the products to the purchasers at main delivery points.

OPERATING NETBACK

	Three months ended March 31,		
($/boe)	**2023**	2022	% change
Production revenue	**25.51**	38.10	(33)
Royalty expenses	**(3.42)**	(5.03)	(32)
Production and operating expenses	**(13.89)**	(19.04)	(27)
Operating netback	**8.20**	14.03	(42)

Operating netback is used by the Company to measure the contribution to the Company's earnings of oil and natural gas production after consideration of the direct costs of production. Operating netback is reconciled to net earnings by subtracting general and administrative costs, interest, taxes, depletion, and depreciation.

The operating netback decreased 42 percent to $8.20 per boe for the three months ended March 31, 2023, from $14.03 per boe for the three months ended March 31, 2022. This decrease was primarily due to lower realized prices for crude oil, NGLs and natural gas and partially offset by lower operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses include costs incurred by the Company that are not directly associated with the production of oil and natural gas.

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Advertising and promotion	**12,025**	-	100
Bank charges and late fees [(1)]	**157,732**	-	100
Consulting and executive fees	**205,640**	34,888	489
Insurance	**60,310**	-	100
Listing fees	**4,050**	1,500	170
Management fees	**-**	10,500	(100)
Office and administration expenses	**47,403**	2,111	nmf200
Professional fees	**74,047**	36,947	100
Shareholder and trust services	**38,499**	699	Nmf
Wages, salaries and payroll costs	**124,392**	-	-
Total G&A expense	**724,098**	86,645	736

Per boe			
Gross G&A expense	**19.08**	6.43	197
Capital overhead recoveries	**-**	-	-
Total G&A expense	**19.08**	6.43	197

Note 1 – Bank charges and late fees include the following:

	$
Bank service charges and interest	6,072
GIC application fee	131,660
Penalty for late filing of flow-through forms to CRA	20,000
Total bank charges and late fees	**157,732**

The most significant components of G&A expenses are bank charges and late fees, employee and consultant compensation, professional fees. G&A expenses increased to $724,098 for the three months ended March 31, 2023, from $86,455 for the three months ended March 31, 2022.

FINANCE INCOME AND EXPENSE

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Interest income	**31,729**	-	100
Interest on promissory note	**-**	(7,816)	(100)
Interest [(1)]	**465**	-	100
Interest on convertible debentures	**(43,252)**	(13,784)	213
Net interest (expense) income	**(11,058)**	(21,600)	(49)
Interest (expense) income ($/boe)	**(0.29)**	(1.60)	(82)
Fair value change on derivative liability	**-**	7,453	(100)
Interest on conversions	**(1,566)**	(5,871)	(73)
Interest expense on dividend liability	**(103,101)**	-	100
Accretion on convertible preferred dividend	**(10,846)**	-	100

Accretion on lease liabilities	**(42,786)**	-	100
Accretion on convertible debentures	**(114,166)**	(10,371)	Nmf
Accretion on decommissioning provision	**(41,595)**	(2,288)	Nmf
Net finance (expense) income	**(325,118)**	(32,677)	Nmf
Finance (expense) income) ($/boe) [(2)]	**(8.57)**	(2.43)	253

1. Interest income includes interest earned on cash deposits.
2. Finance expense includes accretion on decommissioning obligations and convertible debentures.

DEPLETION AND DEPRECIATION EXPENSE

	Three months ended March 31,		
($, except where noted)	**2023**	2022	% change
Depletion and depreciation expense	**349,722**	11,063	Nmf
Depreciation on right-of-use asset	**47,472**	-	Nmf
Total	**397,194**	11,063	Nmf
Per boe	**10.47**	0.82	Nmf

The Company follows a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. Depletion and depreciation are calculated at an individual component level.

Total depletion and depreciation expense was $397,194 ($10.36 per boe) for the three months ended March 31, 2023, from $11,063 ($0.82 per boe) of depletion and depreciation expense for the three months ended March 31, 2022.

Oil & Natural Gas Properties and Equipment

Avila performs an impairment test calculation for each of its CGUs in accordance with IAS 36 when indicators of impairment exist. The recovery of costs is tested by comparing the carrying amount of the oil and natural gas assets for each CGU to the discounted cash flows from those assets using proved and probable reserves and expected future prices and costs. If the carrying amount exceeds the recoverable amount, then an impairment would be recognized on the amount by which the carrying amount of the assets exceeds the present value of expected cash flows using proved and probable reserves and expected future prices and costs.

During the three months ended March 31, 2023, no impairment triggers were identified and therefore no impairment test was performed.

During the three months ended March 31, 2022, no impairment triggers were identified and therefore no impairment test was performed.

NET EARNINGS, FUNDS FLOW FROM OPERATIONS AND BOE NETBACKS

Net Earnings and Funds Flow from Operations

	Three months ended March 31,		
($ except where noted)	**2023**	2022	% change
Net income (loss)	**(3,551,445)**	58,479	Nmf
Items not involving cash:			
Depletion and depreciation	**397,194**	11,063	Nmf
Finance expense (including accretion)	**356,847**	32,677	Nmf
Gain on convertible preferred dividend	**(553,048)**	-	100
Interest paid	**-**	-	-
Funds flow from (used) in operations	**(3,350,452)**	102,219	Nmf

Per share information

($, except where noted)	Three months ended March 31, **2023**	2022	% change
Net income (loss)	**(3,551,445)**	58,479	Nmf
Basic *($/share)*	**(0.03)**	-	100
Diluted *($/share)*	**(0.03)**	-	100
Funds flow (used in) from operations	**(3,350,452)**	102,219	Nmf
Basic *($/share)*	**(0.03)**	-	100
Diluted *($/share)*	**(0.03)**	-	100

Funds flow used from operations increased to $3,350,452 ($0.03 per basic and diluted share) for the three months ended March 31, 2023, from funds flow from operations of $102,219 ($nil per basic and diluted share) for the three months ended March 31, 2022. The decrease in funds flow used in operations is primarily due to the increased operating netback and lower G&A costs.

Net loss of $3,551,445 ($0.03 loss per basic and diluted share) for the three months ended March 31, 2023, from net income of $58,479 ($nil per basic and diluted share) for the three months ended March 31, 2022.

BOE Netbacks

($ except where noted) *($/boe)*	Three months ended March 31, **2023**	2022	% change
Production revenue	**25.51**	38.16	(33)
Royalty expenses	**(3.42)**	(5.09)	(32)
Production and operating	**(13.89**	(19.04)	(27)
Operating netback	**8.20**	14.03	(42)
General and administrative	**(19.08)**	(6.43)	197
Cash finance expense	**-**	-	-
Cash flow netback	**(10.88)**	7.60	NMF
Depletion and depreciation	**(10.47)**	(0.82)	Nmf
Accretion on decommissioning and convertible debenture	**(8.57)**	(2.43)	Nmf
Gain on convertible preferred dividend liability	**15.38**	-	Nmf
Write off advance		-	00
Net income (loss) for the period	**(93.61)**	4.34	00

CAPITALIZATION AND FINANCIAL RESOURCES

CAPITAL EXPENDITURES

($)	Three months ended March 31, **2023**	2022
Land	**4,148**	-
Drilling costs	**5,723**	-
Completion/Workover costs	**69,568**	-
Engineering studies	**-**	-
Production equipment and facilities	**711,821**	369,670
Total property, plant, and equipment	**791,260**	369,670
Land	**-**	78,905
Geological and geophysical costs	**-**	-
Exploratory drilling cost	**-**	-
Exploratory completion costs	**-**	-
Total exploration and evaluation costs	**-**	78,905
Total capital expenditures	**791,260**	448,575

Avila plans to execute its growth strategy through strategic property and corporate acquisitions supplemented with exploration, exploitation, and development activities.

Net capital expenditures for the three months ended March 31, 2023, were $791,260.

Net capital expenditures for the three months ended March 31, 2022, were $448,575.

Funding for capital expenditures was provided from proceeds of the issuance of equity and to a lesser extent, working capital.

WORKING CAPITAL

Avila had a working capital deficit of $1,615,923 at March 31, 2023, including cash proceeds from the Company's equity offerings. At March 31, 2023, the major components of Avila's current assets were cash, accounts receivable and prepaid expenses. Current liabilities largely consist of trade payables and accrued liabilities related to the Company's operations. The Company manages its working capital using a combination of its funds from operations and future equity offerings.

There are currently no capital commitments and no known unusual trends or liquidity issues as at May 31, 2023. The Company expects to be able to meet future obligations associated with on-going operations from cash flow from operations and amounts that are currently available under the equity line.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares ("Common Shares"). Since incorporation, Avila has successfully closed a number of private and public offerings, resulting in the issuance of 141,889,918 Common Shares.

The following table provides a summary of the outstanding Common Shares, stock options, and share purchase warrants at the dates indicated:

	May 30, 2023	**March 31, 2023**
Common Shares	**141,889,954**	141,889,954
Dilutive Securities		
Warrants	**22,077,850**	22,077,850
Stock options	**1,753,770**	1,753,770
Total Dilutive Securities	**23,831,620**	23,831,620
Total Basic and Diluted Common Shares	**165,721,538**	165,721,538
Weighted average Common Shares		
Basic	**124,333,358**	112,691,462
Diluted	**124,333,358**	112,691,462

CONTRACTUAL OBLIGATIONS

The Company has entered into various commitments. The following table summarizes the outstanding contractual obligations of the Company for the next five years and thereafter:

($)	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Flow- through share	**7,262,753**	-	-	-	-	7,262,753
	7,262,753	-	-	-	-	7,262,753

GOING CONCERN

Subject to factors that are beyond the Company's control. See "Risks and Uncertainties" contained in the annual MD&A.

To finance the Company's future exploration programs and to cover administrative and overhead expenses, the Company may raise money through the sale of equity instruments or divestiture of working interests. Many factors influence the Company's ability to raise funds, including the health of the resource market, the climate for investment, the Company's track record and the experience and caliber of its management. Management believes it will be able to raise equity capital as required in the long term but recognizes there will be risks involved that may be beyond their control.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

COMPENSATION OF KEY MANAGEMENT PERSONEL AND RELATED PARTY TRANSACTIONS

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

($)	**2023**	2022
Executive services (1) (2) (3) (4)	**70,000**	15,000

Note:

1. Executive services include services provided by company whose president is also an Officer of the Company - $7,000.
2. Executive services include services provided by a company whose president is also an Officer of the Company - $18,000.
3. Executive services provided by an officer of the Company - $15,000.
4. Executive services provided by a director of the Company - $30,000.

During the period ended March 31, 2023, legal services totalling $88,168 (March 31, 2022, $36,947) were provided by a law firm in which an Officer of the Company is a partner. As at March 31, 2023, there is $26,978 (March 31, 2022 - $72,442) included in accounts payable and accruals.

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

The Company has an accounts receivable of $388,330 (December 31, 2022 - $228,657) from 611890 Alberta Inc as per the joint venture agreement. Leonard Van Betuw, who is director of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. Leonard Van Betuw, who is director of 611890 Alberta Inc is also President and Chief Executive Officer of the Company

CRITICAL ACCOUNTING ESTIMATES

Management is often required to make judgements, assumptions, and estimates in the application of International Financial Reporting Standards that have a significant impact on the financial results of the Company. A comprehensive discussion of the Company's significant accounting policies is contained in note 3 to the annual financial statements.

RISKS AND UNCERTAINTIES

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and / or results of operations of the Company. The risks that could affect the Company have been described in the MD&A of the Company for the year ended December 31, 2022. The risks identified therein do not constitute an exhaustive list of all possible risks as there may be additional risks of which management is currently unaware.

SUMMARY OF QUARTERLY RESULTS

	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Operations				
Average daily production				
Heavy oil and condensate *(bbls/d)*	**21**	36	53	37
Natural gas *(Mcf/d)*	**2,376**	2,003	1,070	580
NGLs *(bbls/d)*	**5**	1	2	12
Total *(boe/d)*	**422**	371	234	145
Average realized sales price				
Heavy oil and condensate *($/bbl)*	**107.89**	76.41	97.72	111.89
Natural gas *($/Mcf)*	**3.43**	5.17	4.74	6.90
NGLs *($/bbl)*	**79.44**	87.42	70.96	18.15
Total *($/boe)*	**25.51**	35.59	42.87	57.19
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	**25.51**	35.59	42.87	57.19
Royalty expenses	**(3.42)**	(3.66)	(3.81)	(3.77)
Production and operating expenses	**(13.89)**	(26.97)	(10.47)	(22.53
Operating netback	**8.20**	4.96	28.59	30.89
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	**968,023**	1,215,114	923,268	754,613
Funds flow (used) from operations	**(3,350,452)**	(5,776,870)	2,808,044	312,491
Per share – basic	**(0.03)**	(0.11)	0.07	-
Per share – diluted	**(0.03)**	(0.11)	0.07	-
Cash from (used) in operations	**(3,313,930)**	(5,162,217)	5,006,707	(2,067,047)
Per share – basic	**(0.03)**	(0.10)	0.12	(0.06)
Per share – diluted	**(0.03)**	(0.10)	0.12	(0.06)
Net income (loss)	**(3,551,445)**	(23,232,246)	2,416,753	250,752
Per share – basic	**(0.03)**	(0.06)	0.06	0.01
Per share – diluted	**(0.03)**	(0.06)	0.04	0.01
Capital expenditures, net	**791,260**	21,009,775	14,269,500	1,240,252
Total assets	**45,473,766**	47,991,468	59,823,671	10,603,851
Total net cash and working capital	**(1,615,293)**	3,876,247	1,902,424	5,269,084
Shares outstanding, end of period	**141,889,954**	111,437,322	86,983,586	35,651,341
Weighted average shares (basic and diluted)	**112,691,462**	52,766,406	40,051,302	35,651,341

SUMMARY OF QUARTERLY RESULTS (continued)

	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Operations				
Average daily production				
Heavy oil and condensate *(bbls/d)*	20	-	-	-
Natural gas *(Mcf/d)*	732	92	273	221
NGLs *(bbls/d)*	8	5	4	3
Total *(boe/d)*	150	20	49	40
Average realized sales price				
Heavy oil and condensate *($/bbl)*	94.66	-	-	-
Natural gas *($/Mcf)*	4.76	7.08	3.50	3.03
NGLs *($/bbl)*	45.11	62.08	54.52	41.72
Total *($/boe)*	38.10	47.85	23.89	22.40
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	38.10	47.85	23.89	22.40
Royalty expenses	(5.03)	(8.78)	(1.96)	(1.77)
Production and operating expenses	(19.04)	(18.49)	(8.98)	(8.08)
Operating netback	14.03	20.58	12.95	12.55
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	513,110	90,457	109,182	82,688
Funds flow (used) from operations	102,219	(398,241)	(525,148)	74,330
Per share – basic	-	(0.02)	(0.02)	-
Per share – diluted	-	(0.02)	(0.02)	-
Cash used in operations	231,256	(417,912)	(210,922)	(367,691)
Per share – basic	-	(0.02)	(0.01)	(0.02)
Per share – diluted	-	(0.02)	(0.01)	(0.02)
Net income (loss)	58,479	(1,084,670)	(209,996)	94,327
Per share – basic	-	(0.06)	(0.01)	-
Per share – diluted	-	(0.06)	(0.01)	-
Capital expenditures, net	448,575	-	-	-
Total assets	4,613,850	4,583,826	4,732,886	2,829,143
Total net cash and working capital	1,467,571	1,835,527	2,277,030	323,334
Shares outstanding, end of period	35,651,341	35,651,341	34,890,862	24,345,712
Weighted average shares (basic and diluted)	25,541,590	25,541,590	34,890,862	19,757,802

SUBSEQUENT EVENTS

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

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 Micro Turbine Technology (“MTT”), and 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.

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 a material 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 of the December 31, 2022 financial statements), 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.