AVILA ENERGY

Financial Statements

For the Three and Six Months Ended June 30, 2023, and 2022

NOTICE OF NO AUDIT REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by the auditor. The accompanying unaudited interim condensed financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants for a review of the interim financial statements by the entity's auditors.

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

As at	June 30, 2023	December 31, 2022
Assets		
Current assets		
Cash	**$ 128,636**	$ 6,564,110
Advances *(note 3)*	**4,083,720**	2,340,000
Accounts receivable	**602,098**	897,902
Prepaid expenses *(note 4)*	**1,792,307**	762,647
Total current assets	**6,606,761**	10,564,659
Property, plant, and equipment *(note 6)*	**22,222,575**	21,913,886
Exploration and evaluation assets *(note 8)*	**12,154,901**	12,154,901
Right-of-use asset *(note 7)*	**1,291,343**	1,386,287
Deferred tax asset	**1,962,353**	1,962,353
Investment (*note 9*)	**1,146,372**	-
Intangible assets	**16,382**	9,382
Total non-current assets	**38,793,926**	37,426,809
Total assets	**$ 45,400,687**	$ 47,991,468
Liabilities and Shareholders' Equity		
Current liabilities		
Account payable and accrued liabilities	**$ 5,087,794**	$ 1,716,512
Flow-through share premium liability *(note 21)*	**1,630,624**	2,006,889
Promissory notes *(note 11)*	**600,000**	1,800,000
Dividend payable *(note 13)*	**103,101**	-
Derivative liability *(note 12)*	**-**	631,983
Current loan payable *(note 12)*	**284,999**	267,329
Interest payable on debentures	**186,318**	126,499
Lease liabilities *(note 7)*	**139,200**	139,200
Total current liabilities	**8,032,036**	6,688,412
Interest payable on debentures	**76,497**	76,497
Lease liabilities *(note 7)*	**1,185,923**	1,276,154
Convertible debentures *(note 12)*	**3,812,104**	3,785,673
Convertible preferred share dividend liability *(note 13)*	**-**	542,202
Decommissioning liability *(note 10)*	**3,265,012**	3,334,487
Total liabilities	**16,371,572**	15,703,425
Shareholders' Equity		
Share capital *(note 13)*	**57,063,710**	56,883,006
Contributed surplus	**4,454,073**	4,454,073
Convertible debentures – equity portion *(note 12)*	**1,293,483**	1,293,483
Deficit	**(33,782,151)**	(30,342,519)
Total equity	**29,029,115**	32,288,043
Total liabilities and shareholders' equity	**$ 45,400,687**	$ 47,991,468

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

Nature of Operations and Going Concern (*note 1*)
Subsequent events (note 22)
Commitments *(note 18)*
Economic Dependence *(note 16)*

AVILA ENERGY CORPORATION
INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
(unaudited)	**2023**	2022	**2023**	2022
Revenue				
Petroleum and natural gas sales (*note 15*)	**$ 697,079**	$ 704,856	**$ 1,535,199**	$ 1,150,172
Gain on convertible preferred share *(note 13)*	**-**	-	**553,048**	-
Change in derivative liability (*note 12)*	**631,983**	-	**631,983**	-
Flow-through premium liability (*note 21*)	**376,265**	-	**376,265**	-
Gain on acquisition of assets (*note 5)*	**-**	32,003	**-**	32,003
Interest income *(note 17)*	**-**	-	**31,729**	-
Processing income	**2,114**	-	**3,691**	-
Other income	**5,711**	-	**34,977**	-
	1,713,152	736,859	**3,166,892**	1,182,175
Expenses				
Production and operating	**667,453**	297,319	**1,194,499**	553,771
General and administrative	**488,980**	127,049	**1,213,078**	213,694
Write off advance *(note 3)*	**-**	-	**3,000,000**	-
Depletion and depreciation *(notes 6 & 7)*	**333,973**	12,425	**731,167**	23,488
	1,490,406	436,793	**6,138,744**	790,953
Results from operating activities	**222,746**	300,066	**(2,971,852)**	391,122
Finance expense *(note 17)*	**(110,933)**	(49,314)	**(467,780)**	(81,991)
Net income (loss) and comprehensive net income (loss)	**$ 111,813**	$ 250,752	**(3,439,632)**	$ 309,231
Net income (loss) per share *(note 13(e))*				
Basic	**$ -**	$ 0.01	**$ (0.03)**	$ 0.01
Diluted	**$ -**	$ 0.01	**$ (0.03)**	$ 0.01

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

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

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit
Balance, at January 1, 2023	30,000,000	111,437,322	$56,883,006	$1,293,483	$4,454,073	$(30,342,519)
Conversion of debentures *(note 12)*	-	452,632	180,704	-	-	-
Conversion of preferred shares (*note 13*)	(30,000,000)	30,000,000	-	-	-	-
Loss and comprehensive loss	-	-	-	-	-	(3,439,632)
Balance at June 30, 2023	**-**	**141,889,954**	**$57,063,710**	**$1,293,483**	**$4,454,073**	**$(33,782,151)**

	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2022	35,651,341	$9,023,278	$235,500	$3,358,412	$(9,939,443)	$2,677,747
Issue convertible debenture	-	-	1,221,142	-	-	1,221,142
Share Issue costs	-	(155,790)	-	-	-	(155,790)
Income and comprehensive income	-	-	-	-	309,231	309,231
Balance at June 30, 2022	**35,651,341**	**$8,867,488**	**$1,456,642**	**$3,358,412**	**$(9,630,212)**	**$4,052,330**

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

AVILA ENERGY CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
Expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
(unaudited)	**2023**	2022	**2023**	2022
Operating activities				
Net income (loss) for the period	**111,813**	$ 250,752	**$ (3,439,632)**	$ 309,231
Adjustments for non-cash items:				
Depletion and depreciation *(notes 6 & 7)*	**333,973**	12,425	**731,167**	23,488
Gain on acquisition of property *(note 5)*	**-**	(32,003)	**-**	(32,003)
Finance expense *(note 17)*	**110,933**	49,314	**467,780**	81,991
Gain on convertible preferred share *(note 13)*	**-**	-	**(553,048)**	-
Flow-through premium liability (*note 21*)	**(376,265)**	-	**(376,265)**	-
Change in derivative liability *(note 12)*	**(631,983)**	-	**(631,983)**	-
Changes in non-cash working capital *(note 14)*	**830,966**	(2,368,659)	**867,488**	(2,239,622)
Net cash from (used in) operating activities	**379,437**	(2,088,171)	**(2,934,493)**	(1,856,915)
Financing activities				
Issue of convertible debenture	**-**	3,551,093	**-**	3,551,093
Issue of convertible debenture – equity	**-**	1,221,142	**-**	1,221,142
Lease liability payments	**(136,023)**	-	**(174,133)**	-
Promissory note repayment	**-**	(67,429)	**(1,200,000)**	(67,429)
Share issuance costs	**-**	(155,790)	**-**	(155,790)
Net cash (used in) from financing activities	**(136,023)**	4,549,016	**(1,374,133)**	4,549,016
Investing activities				

Expenditures on oil and natural gas properties	**(182,216)**	(1,185,320)	**(973,476)**	(1,554,990)
Expenditures on exploration and evaluation	**-**	-	**-**	(78,905)
Expenditures on investments *(note 9)*	**-**	-	**(1,146,372)**	-
Expenditures on intangible assets	**-**	-	**(7,000)**	-
Net cash used in investing activities	**$ (182,216)**	$ (1,185,320)	**$ (2,126,848)**	$ (1,633,895)
Change in cash	**$ 61,198**	$ 1,275,525	**$(6,435,474)**	$ 1,058,206
Cash, beginning of period	**67,438**	196,018	**6,564,110**	413,337
Cash, end of period	**$ 128,636**	$ 1,471,543	**$ 128,636**	$ 1,471,543

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

1. NATURE OF OPERATIONS

Avila Energy Corporation ("Avila" or the "Company") was incorporated on January 13, 2010, by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta). Avila is a company that is engaged in the business of acquiring, exploring, and developing crude oil, natural gas, and natural gas liquids ("NGLs") in Western Canada. The Company's assets consist of the West Central Alberta assets ("WCA") located 50 kilometres southwest of Edmonton, Alberta, and the East Central Alberta assets ("ECA") located 90 kilometres east of Red Deer, Alberta. The Company in the initial phases of development of a Carbon Capture and Sequestration Plan in WCA. On November 14, 2022, the Company announced the launch of its Vertically Integrated Energy Business with utilizing the patented combined cycle micro turbine and currently is a licensed to manufacture, sell and service the EnerTwin; issued by Micro Turbine Technology BV. ("MTT') for North American sales in Canada and the United States of America.

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

Going Concern

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the six-month period ended June 30, 2023, the Company incurred a net loss of $3,439,632 and had net cash used in operating activities of $ 2,934,493. In addition, the Company has a deficit of $33,782,151.

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

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The condensed interim financial statements were authorized for distribution by the Company's Board of Directors on August 28, 2023.

3. ADVANCES

A reconciliation of the advances is provided below:

	Six months ended June 30, 2023	Year ended December 31, 2022
Advance to 611890 Alberta Inc. – MTT	**$ 4,083,720**	$ 2,340,000
Advance to 611890 Alberta Inc – NE BC	**3,000,000**	-
Write off NE BC Advance	**(3,000,000)**	-
Balance, end of period	**$ 4,083,720**	$ 2,340,000

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

During 2022, the Company advanced $2,400,000 to 611890 for the purchase of the Northeast British Columbia ("NEBC") assets. This advance was written off by the Company during the year ended December 31, 2022. During 2023, The Company advanced an additional $3,000,000 to 611890 for an additional non-refundable security deposit to the vendor of the property. On March 15, 2023, the Company withdrew from the NEBC acquisition and wrote off the $3,000,000 advance.

4. PREPAID EXPENSES

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

	Six months ended June 30, 2023	Year ended December 31, 2022
Data analysis	**$ 1,499,894**	$ 762,647
MTT payment	**198,788**	-
Legal expenses	**57,500**	-
Valuation services	**15,350**	-
AER deposit	**20,775**	-
Balance, end of period	**$ 1,792,307**	$ 762,647

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

5. BUSINESS COMBINATION

On June 25, 2022, the Company participated in a Joint Venture by acquiring a seven percent interest in oil and gas properties in the northeast British Columbia area. The acquired oil and gas interest was valued at $1,825,525; the purchase was $500,000 and the assumption of $1,293,522 in discounted commissioning liabilities. The transaction was accounted for as business combination under IFRS – 3 – "Business Combinations" as the assets met the definition of a business. This acquisition contributed no revenues, royalties, or direct operating expense from June 25 to June 30, 2022, resulting in no net income.

Net assets acquired		**Total**
Petroleum and natural gas properties and equipment		$1,825,525
Decommissioning liabilities		(1,293,522)
Fair value of net assets acquired	**$**	**532,003**
Consideration		
Cash	**$**	**500,000**
Gain on acquisition		**$32,003**

6. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT ("PP&E)

($)		**Total**
Cost		
Balance, December 31, 2021	$	882,127
Additions – property acquisitions		38,135,149
Additions - regular		214,283
Additions – cash call		1,399,999
Balance at December 31, 2022	$	40,631,558
Additions		973,476
Change in decommissioning provisions		(28,564)
Balance at June 30, 2023	**$**	**41,576,470**
Accumulated depletion and depreciation:		
Balance, December 31, 2021	$	(44,252)
Depletion and depreciation for the period		(229,082)
Impairment		(18,444,338)
Balance at December 31, 2022	$	(18,717,672)
Depletion and depreciation for the period		(636,223)
Balance at June 30, 2023	**$**	**(19,353,895)**
Net carrying value:		
Balance December 31, 2022	$	21,913,886
Balance June 30, 2023	$	22,222,575

As at June 30, 2023, no impairment triggers were identified and therefore an impairment test was not performed.

7. RIGHT-OF-USE ASSETS AND LEASES

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

Right-of-use Assets

($)		**Total**
Cost		
Balance, December 31, 2021	$	-
Initial recognition		1,448,495
Depreciation		(62,208)
Balance at December 31, 2022	$	1,386,287
Depreciation		(94,944)
Balance at June 30, 2023	**$**	**1,291,343**

Lease Liability

($)		**Total**
Balance, December 31, 2021	$	-
Initial recognition		1,448,495
Surface lease payments		(83,137)
Interest expense		49,996
Balance at December 31, 2022	$	1,415,354
Surface lease payments		(174,133)
Interest expense		83,902
Balance at June 30, 2023	**$**	**1,325,123**

Leases

Statement of Financial Position

($)	**June 30, 2023**
Current lease liabilities	139,200
Non-current lease liabilities	1,185,923

Results of Operations

($)	**Six months ended June 30, 2023**
Interest expense of lease liabilities	83,902

8. EXPLORATION ASSETS ("E & E")

	Six months ended June 30, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	**$ 12,154,901**	$ 1,537,296
Additions – regular	**-**	533,714
Additions - acquisitions	**-**	10,083,891
Balance, end of period	**$ 12,154,901**	$ 12,154,901

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

As at June 30, 2023, no impairment indicators were identified and therefore an impairment test was not performed.

9. INVESTMENTS

	Six months ended June 30, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	**$ -**	$ -
Additions - MTT	**1,146,372**	-
Balance, end of period	**$ 1,146,372**	$ -

On January 4, 2023, the Company advanced $1,146,372 to 611890 for the MTT investment.

10. DECOMMISSIONING LIABILITY

The Company's decommissioning provision results from ownership interests in oil and natural gas assets including well site, gathering systems and processing facilities. The total provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimated the total undiscounted amount required to settle its decommissioning provision at June 30, 2023, to be approximately $7,620,706 (December 31, 2022 - $7,620,706). These payments are expected to be incurred over a period of one to 50 years with the majority of costs to be incurred in 2038. A discount rate of 5.39 percent (December 31, 2022 – 5.39 percent) and an inflation rate of 2.0 percent (December 31, 2022 – 2.0 percent) was used to calculate the decommissioning provision.

A reconciliation of the decommissioning liability is provided below:

	Six months ended June 30, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 3,334,487**	$ 282,594
Provisions made during the period - acquisitions	**-**	3,163,821
Changes in decommissioning provision	**(28,564)**	(282,553)
Accretion adjustment from prior period	**(127,988)**	-
Accretion	**87,077**	170,625
Balance, end of period	**$ 3,265,012**	$ 3,334,487

11. PROMISSORY NOTES

A reconciliation of the promissory note is provided below:

	Six months ended June 30, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 1,800,000**	$ 67,429
Interest (i)	**-**	9,495
Repayment of promissory note (i)	**-**	(76,924)
Promissory note (ii)	**-**	1,800,000
Repayment of promissory note (ii)	**(1,200,000)**	-
Balance, end of period	**$ 600,000**	$ 1,800,000

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

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

12. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

	Convertible debenture - liability component	Derivative liability	Equity Component	Total
Balance at January 1, 2022	$ 521,039	$ 729,318	$ 235,500	$1,485,857
Proceeds, net of transaction costs	3,580,045	-	1,057,983	4,638,028
Conversions	(356,870)	(48,191)	-	(405,061)
Fair value change	-	(49,144)	-	(49,144)
Accretion expense	308,788	-	-	308,788
Balance at December 31, 2022	**4,053,002**	**631,983**	**1,293,483**	**5,978,468**
Conversions	(179,137)	**-**	**-**	(179,137)
Maturity	(284,899)	(631,983)	**-**	**(916,882)**
Accretion expense	223,238	**-**	**-**	223,238
Balance at June 30, 2023	**$3,812,204**	**-**	**$1,293,483**	**$5,105,687**

	Six months ended June 30, 2023	Year ended December 31, 2022
Convertible debenture (i)	**$ 322,343**	$ 308,041
Convertible debenture (ii)	**-**	267,329
Convertible debenture (iii)	**3,489,761**	3,477,632
Balance, end of period	**$ 3,812,104**	$ 4,053,002
Short term	**-**	267,329
Long term	**3,812,104**	3,785,673
Derivative liability (ii)	**-**	631,983
Short term	**-**	631,983

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

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

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

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

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

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

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

On April 30, 2023 $284,999 of the unconverted debt portion of the $400,000 convertible debenture matured and is reclassified to current loan payable. The debenture holders have not indicated to the Company whether they are going to request repayment or convert the convertible debentures into Common Shares. Since no more conversion feature exists the Company has removed the $631,983 derivative liability.

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

	Six months ended June 30, 2023	Year ended December 31, 2022
Expected stock price	**-**	0.32
Risk-free interest rate *(%)*	**-**	4.30
Expected life *(months)*	**-**	4
Expected volatility (%)	**-**	90.48
Expected forfeiture rate (%)	**-**	-
Expected dividend yield *(%)*	**-**	-

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

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

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

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

During the year ended December 31, 202, convertible debentures with a stated value of $340,895 were converted into 911,847 common shares at the holder’s option. There were 911,847 conversion warrants valued at nil issued in connection with conversion, exercisable at $0.75 for a period of 24 months.

During the six months ended June 30, 2023, convertible debentures with a stated value of $179,137 were converted into 450,000 common shares (452,632 with accrued interest) at the holder’s option. There were 450,000 conversion warrants valued at nil issued in connection with conversion, exercisable at $0.75 for a period of 24 months.

13. SHAREHOLDERS' EQUITY

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

(a) Issued and outstanding

	Six months ended June 30, 2023			Year ended December 31, 2022		
	Number of Common Shares	**Number of Preferred Shares**	**Amount**	Number of Common Shares	Number of Preferred Shares	Amount
Balance, beginning of period	**111,437,322**	**30,000,000**	**$ 56,883,006**	35,651,341	-	$ 9,023,278
Issue of Common Shares (i)	**-**	**-**	**-**	22,196,708	-	8,000,000
Flow through premium (i)	**-**	**-**	**-**	-	-	(2,006,889)
Issue of Common Shares (ii)	**-**	**-**	**-**	44,440,000	30,000,000	41,174,122
Issue of Common Shares (iii)	**-**	**-**	**-**	4,222,222	-	1,345,000
Issue of Common Shares (iv)	**-**	**--**	**-**	3,790,623	-	1,173,155
Issue of Common Shares (v)	**452,632**	**-**	**180,704**	1,136,428	-	405,061
Warrants issued (i)	**-**	**-**	**-**	-	-	(1,212,126)
Conversion of preferred shares	**30,000,00**	**(30,000,00)**	**-**	-	-	-
Share issue costs	-	**-**	**-**	-	-	(1,018,595)
Balance, end of period	**141,889,954**	**-**	**$ 57,063,710**	111,437,322	30,000,000	$ 56,883,006

Issued shares for cash

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

Issued shares for the property acquisition

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

Issued shares for services

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

Issued shares for warrants exercised

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

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

Issued shares for convertible debentures

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

	Six months ended June 30, 2023		Year ended December 31, 2022	
	Number of Warrants	**$**	Number of Common Shares	$
July 29, 2022 (iii)	-	-	20,000	$ 7,400
September 20, 2022 (iii)	-	-	182,100	67,377
September 30, 2022 (iii)	-	-	557,277	206,192
September 30, 2022 (ii)	-	-	224,580	64,166
October 20, 2022 (iii)	-	-	50,625	18,731
November 22, 2022 (iii)	-	-	71,128	26,317
December 9, 2022 (iii)	-	-	30,717	14,878
February 8, 2023 (iii)	**401,684**	**163,153**	-	-
February 21, 2023 (iii)	**50,948**	**17,551**	-	-
	452,632	**$ 180,704**	1,136,428	$ 405,601

Convertible debenture (note 12 (ii))

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

Convertible debenture (note 12(iii))

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

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

During the six months ended June 30, 2023, convertible debentures with a stated value of $179,137 ($180,704 stated value of debenture plus accrued debenture interest converted to shares of $1,566) were converted into 452,632 common shares at the holder's option.

(b) Convertible preferred shares

On September 14, 2022, 30,000,000 convertible preferred shares were issued to Leonard B. Van Betuw as consideration paid for the WCA acquisition. The Convertible shares will have a term of 3.75 years, expiring June 14, 2026, and earn an accruing annual dividend at a rate of two percent based on the value of $0.32 share, payable upon conversion. The conversion of the Convertible shares at the election of the holder can only occur after one of three milestones have been achieved: a) the Company exceeds the production rate of 3,000 BOE/d; b) the Common Shares trade at a volume weighted average price (VWAP) of more than $1.00 per share for 20 consecutive business days or c) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Preferred Shares and any unpaid dividend shall automatically be redeemed on a 1:1 basis by the issuance of Common shares.

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

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

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

On March 29, 2023, there was a forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares, as a result of a significant event taking place which was the signing of the

Business Combination Agreement announced on April 3, 2023, with Insight Acquisition Corp. As a result, the Company has written off the Convertible Preferred Shares dividend liability, recording a $553,048 gain on conversion and $103,101 in dividend payable.

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

	Six months ended June 30, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 542,202**	$ -
Initial recognition	**-**	529,179
Accretion	**10,846**	13,023
Gain on write off	**(553,048)**	-
Balance, end of period	**$ -**	$ 542,202

(c) Share-based compensation plans

Stock Option Plan

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

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

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

	Six months ended June 30, 2023		Year ended December 31, 2022	
	Number of Options	**Weighted Average Exercise Price *($/share)***	Number of Options	Weighted Average Exercise Price *($/share)*
Balance, beginning of period	**1,753,770**	**$ 0.36**	200,000	$ 0.35
Granted	**-**	**-**	717,949	0.39
Granted	**-**	**-**	835,821	0.34
Balance, end of period	**1,753,770**	**$ 0.36**	1,753,770	$ 0.36
Exercisable, June 30, 2023	**1,753,770**	**$ 0.36**	1,753,770	$ 0.36

The following table summarizes information regarding stock options outstanding at June 30, 2023:

Options Outstanding at June 30, 2023				Options Exercisable at June 30, 2023	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price *($/share)*	Number Exercisable	Weighted Average Exercise Price *($/share)*
$ 0.35	**200,000**	**1.3**	**$ 0.35**	**200,000**	**$ 0.35**
$ 0.39	**717,949**	**1.5**	**$ 0.39**	**717,949**	**$ 0.39**
$ 0.34	**835,821**	**1.5**	**$ 0.34**	**835,821**	**$ 0.34**

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

	Six months ended June 30, 2023	Year ended December 31, 2022
Risk-free interest rate *(%)*	**-**	3.85
Expected life *(years)*	**-**	2
Expected volatility (%)	**-**	109
Expected forfeiture rate (%)	**-**	0
Expected dividend yield *(%)*	**-**	-
Fair value of stock options granted ($/share)	**-**	0.03

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

Share-based compensation from options recognized in net loss during the period ended June 30, 2023, was $nil (December 31, 2022 - $44,993).

(d) Share purchase warrants

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

	Six months ended June 30, 2023		Year ended December 31, 2022	
	Number of Warrants	**Weighted Average Exercise Price *($/share)***	Number of Warrants	Weighted Average Exercise Price *($/share)*
Balance, beginning of period	**21,627,850**	**$ 0.44**	12,984,694	$ 0.28
Issued – May 10, 2022	**-**	**-**	200,800	0.75
Issued – May 12, 2024	**-**	**-**	226,400	0.75
Issued – May 16, 2024	**-**	**-**	8,000	0.75
Issued – June 9, 2022	**-**	**-**	4,000	0.75
Issued – June 28, 2022	**-**	**-**	110,000	0.75
Issued – July 28, 2022	**-**	**-**	20,000	0.75
Issued – Sept. 14, 2022	**-**	**-**	40,000	0.75
Issued -Sept. 15, 2022	**-**	**-**	100,000	0.75
Issued – Sept. 30, 2022	**-**	**-**	550,000	0.75
Issued – October 20, 2022	**-**	**-**	50,000	0.75
Issued – December 9, 2024	**-**	**-**	30,000	0.75
Issued – Dec. 23, 2022	**-**	**-**	11,098,354	0.50
Issued – February 8, 2023	**400,000**	**0.75**	-	-
Issued – February 21, 2023	**50,000**	**0.75**	-	-
Exercised *(note 13 (a)(iv))*	**-**	**-**	(3,790,623)	(0.21)
Expired – May 6, 2023	**(876,666)**	**(0.35)**	-	-
Expired – June 1, 2023	**(412,500)**	**(0.40)**	-	-
Expired	**-**	**-**	(3,775)	(0.20)
Balance, end of period	**20,788,684**	**$ 0.44**	21,627,850	$ 0.44

The following table summarizes information regarding share purchase warrants outstanding at June 30, 2023:

Exercise Price	**Number Outstanding**	**Weighted Average Remaining Contractual Life** *(years)*
$0.05	600,000	2.6
$0.15	377,000	0.4
$0.20	98,050	0.6
$0.25	1,000,000	0.1
$0.35	5,826,080	0.2
$0.50	11,098,354	1.5
$0.75	1,789,200	1.1
	20,788,684	**1.0**

(e) Per share amounts

The Company calculates per share amounts based on the weighted average Common Shares outstanding for the three and six months ended June 30, 2023, and for the three and six months ended June 30, 2022. For periods ended June 30, 2023, or 2022 all the stock options and warrants were anti-dilutive and were omitted from the weighted average number of diluted Common Shares outstanding calculation.

	Three months ended June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Weighted average shares outstanding	**141,889,994**	35,651,342	**127,369,407**	35,651,342
Weighted average diluted shares outstanding	**141,889,954**	35,651,342	**127,369,407**	35,651,342
Net income (loss) per share				
Net income (loss)	**$ 111,813**	$ 250,752	**$ (3,439,632)**	$ 309,231
Basic *($/share)*	**-**	0.01	**(0.03)**	0.01
Diluted *($/share)*	**-**	0.01	**(0.03)**	0.01

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprise:

	Three months ended June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Change in receivables	**$ 163,209**	$	**$ (1,447,916**	$ (2,033,049)
Change in prepaid expenses and deposits	**(209,563)**	(1)	**(1,029,660**	7,161
Change in accounts payable and accrued liabilities	**877,320**	(152,601)	**3,345,064**	(213,734)
	$ 830,966	$		$ (2,239,622)
Change in operating non-cash working	**$ 830,966**	$	**$ 867,48**	$ (2,239,622)
Change in investing non-cash working capital	**-**	-	**-**	-

15. OIL AND NATURAL GAS REVENUE

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

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

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

	Three months ended June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Oil and natural gas revenue				
Heavy oil	**$ 139,626**	$ 370,640	**$ 338,999**	$ 537,401
Natural gas	**548,695**	364,149	**1,281,913**	678,039
Natural gas liquids	**47,258**	19,824	**82,690**	52,283
Oil and natural gas revenue, gross	**735,579**	754,613	**1,703,602**	1,267,723
Less: Royalty expenses	**(38,500)**	(49,757)	**(168,403)**	(117,551)
Oil and natural gas revenue, net	**$ 697,079**	$ 704,856	**$ 1,535,199**	$ 1,150,172

16. ECONOMIC DEPENDENCE

Sales from the Company’s business are substantially derived from very few customers and as a result, the Company is economically dependent on these customers. The Company’s exposure to credit risk is limited to the carrying value of its account receivable. As at June 30, 2023, accounts receivable of $65,371 (December 31, 2022 - $376,988) were due from these customers and were collected subsequently to quarter and year end.

17. FINANCE INCOME (EXPENSE)

	Three months ended June 30		Six months ended June 30	
	2023	2022	**2023**	2022
Finance income:				
Interest income on bank deposits	**$ -**	$ -	**$ 31,729**	$ -
Finance expenses:				
Interest on promissory note	**-**	-	**-**	(7,814)
Interest on debentures	**(43,251)**	-	**(86,503)**	-
Interest	**-**	7,304	**465**	(6,482)
Fair value of change in derivative liability	**-**	-	**-**	7,453
Interest on conversions	**-**	-	**(1,566)**	(5,871)
Interest expense on dividend liability	**-**	-	**(103,101)**	-
Accretion on lease liabilities	**(41,116)**	-	**(83,902)**	-
Accretion on convertible preferred share	**-**	-	**(10,846)**	-
Accretion on convertible debenture	**(109,072)**	(48,891)	**(223,238)**	(59,262)
Accretion on decommissioning provision	**82,506**	(7,727)	**40,911**	(10,015)
	(110,933)	(49,314)	**(467,780)**	(81,991)
Net finance expense recognized in loss	**$ (110,933)**	$ (49,314)	**$(436,051)**	$ (81,991)

18. COMMITMENTS

As a result of the issuance of flow0through shares on December 23, 2022, the Company has a commitment to incur $8,000,000 in qualifying flow-through expenditures. As at June 30, 2023, the Company has incurred $1,499,894 of flow-through expenditures with a $6,500,106 remaining amount to be incurred prior to December 23, 2023.

2023	$	6,500,106
2024		-
2025		-
2026		-
Thereafter		-
	$	**6,500,106**

19. FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. Virtually all of Avila's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. As at June 30, 2023, the Company's accounts receivable consisted of $65,371 (December 31, 2022 - $ 376,988) from oil and natural gas marketers, $389,419 (December 31, 2022 – $372,544) from joint venture partners, and $147,308 (December 31, 2022 - $148,370) in taxes receivable from Canada Revenue Agency.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company did not have any allowance for doubtful accounts as at June 30, 2023, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2023.

As at June 30, 2023, 55 percent all the Company's accounts receivable were under 90 days in age and 45 percent were considered past-due.

Aging		
Current (less than 90 days)	$	332,947
Past due (over 90 days)		269,151
Total	**$**	**602.098**

(b) Liquidity risk

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

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of June 30, 2023:

	Carrying amount	Contractual cash flows total	< 1 year	1 – 2 years	2 – 5 years	More than 5 years
Accounts payable and other liabilities	$5,087,794	$5,087,794	$5,087,794	$ -	$ -	$ -
Lease liabilities	1,284,007	1,284,007	139,200	1,144,807	-	-

(c) Market risk

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

Foreign currency exchange rate risk

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

Commodity price risk

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

The Company had no contracts that have not been recorded at fair value during the six months ended at June 30, 2023, or for the six months ended June 30, 2022.

Interest rate risk

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

(d) Capital management

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

The Company monitors capital based on the ratio of net debt to the trailing funds flow from operations of the immediately preceding three-month period calculated on an annualized basis. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized cash flow from operations in the previous three-month period before changes in non-cash working capital and decommissioning provision expenditures. Avila's current strategy is to maintain a ratio of no more than 1.0 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at June 30, 2023, Avila had a working capital deficit of $1,425,275 ($3,876,247 at December 31, 2022).

The Company has declared a $103,101 on the convertible preferred shares on March 30, 2023.

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

(e) Vertically Integrated Energy Business

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

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

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

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

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

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

20. RELATED PARTY TRANSACTIONS

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

During the period ended June 30, 2023, executive services totalling $84,500 was provided by companies that is affiliated with officers of Avila. At June 30, 2023, Aila still owes $39,500 for the services provided.

A $27,000 fee was paid to company that is affiliated with an officer of Avila for sourcing a potential convertible debenture offering. This same affiliate company was paid $651 of accrued interest on an outstanding convertible debenture.

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 June 30, 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 $389,418 (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

21. FLOW-THROUGH SHARE PREMIUM LIABILITY

A reconciliation of the flow-through share premium liability is provided below:

	Six months ended June 30, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 2,006,889**	$ -
Issuance of flow-through shares (*note 13(a)(i)*)	**-**	2,006,889
Settlement pursuant to qualified expenditures	**(376,265)**	-
Balance, end of period	**$ 1,630,624**	$ 2,006,889

22. SUBSEQUENT EVENTS

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 serving MTT's EnerTwin in Canada and the United States. Avila has fulfilled all financial obligations to MTT, totalling 4,160,000 Euros. The license to manufacture, sell, and service the EnerTwin is now in effect, with an up-front license fee of 1,500,000 Euros. Avila will receive 12,328 non-voting shares of MTT, representing 15 percent of the issued share capital at a price of 202.80 Euros per share, making a total investment of 2,500,000 Euros. Additionally, Avila will initiate CSA and UL certifications at a cost of 135,350.40 Euros and there is an interest expense totaling 26,649.60 Euros. The shares obtained by Avila are subject to MT's right to purchase 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 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.

On July 4, 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 percent, along with an additional annual administration fee of 10 percent, payable upon repayment of the 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 percent of the outstanding amount.

On August 11, 2023. The Company announced it mutually agreed to terminate the previously announced Business Combination Agreement between Insight Acquisition Corp. ("Insight Acquisition"), Avila Amalco Sub Inc. and Avila Energy Corporation ("Avila"), dated as of April 3, 2023 (the "BC Agreement"). As part of the termination of the BC Agreement, Avila has agreed to pay Insight US$300,000 as partial reimbursement of its costs relating to the Insight Acquisition prior to April 1, 2024.