Avila Energy Corporation

Form 51-102F1
Management's Discussion and Analysis

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

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared as of August 24, 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 June 30, 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 interim financial statements and MD&A on August 28, 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 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 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 six-month period ended June 30, 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.*

nmf – not a meaningful number

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

	Three months ended June 30			*Six months ended June 30*		
($)	***2023***	*2022*	*%*	***2023***	*2022*	*% change*
Cash flow from (used in) operating	**379,437**	(2,088,171)	118	**(2,934,493)**	(1,856,915)	84
Change in non-cash working capital	**(830,966)**	2,368,659	(135)	**(867,488)**	2,239,622	(139)
Funds flow (used in) from operations	**(451,529)**	280,488	(152)	**(3,801,981)**	382,707	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.

SECOND QUARTER FINANCIAL HIGHLIGHTS

During the second quarter, the Company focused on the stabilization of its upstream production and cash-flow, while it completed negotiations and finished the quarter. During this time the Company settled of all outstanding matters associated with the EnerTwin developed by Micro Turbine Technologies BV. ("MTT") of the Netherlands. The result being the confirmation of the issuance of our 15% equity investment in MTT and by way of the signing of a settlement agreement as announced on June 26th the Company, is now proceeding with confidence its plans to become a Carbon Neutral Energy Producer through the development of its Vertically Integrated Energy Business.

All budgeting is now being reviewed in an effort to ensure that both the upstream P&NG production consistently increases and that future downstream, Direct-to-Consumer energy sales to continue to develop in a complementary manner in late 2023 and with full-cycle manufacturing, sales and servicing to be in place by the end of the 3rd quarter of 2024 as budgeted on page 16 of its updated Corporation Presentation available on the Company's website www.avilanergy.com.

DETAILED FINANCIAL ANALYSIS

SALES VOLUMES

	Three months ended June 30			Six months ended June 30		
	2023	2022	% change	**2023**	2022	% change
Heavy oil & condensate *(bbls/d)*	**17**	37	(54)	**19**	28	(32)
Natural gas *(Mcf/d)*	**2,238**	580	286	**2,307**	656	252
Natural gas liquids *(bbls/d)*	**6**	12	(50)	**6**	10	(40)
Total *(boe/d)*	**396**	145	173	**409**	147	178
Oil and natural gas liquids %	**6**	34	(82)	**6**	26	(77)

Average production increased 173 percent to 396 boe/day for the three months ended June 30, 2023, from 145 boe/day for the three months ended June 30, 2022.

Average production increased 178 percent to 409 boe/day for the six months ended June 30, 2023, from 147 boe/day for the six months ended June 30, 2022. The increase in average production is mainly due to the Company completing two property acquisitions on September 1, 2022, and November 1, 2022, in the WCA and ECA area that contributed to the additional natural gas and natural gas production volumes.

Approximately 58 percent of the Company's production in the first six months of 2023 was from West Central Alberta, and the remaining 42 percent of the Company's production was from the East Central Alberta area.

PETROLEUM AND NATURAL GAS SALES

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Heavy oil and condensate	**139,626**	370,640	(62)	**338,999**	537,401	(37)
Natural gas	**548,695**	364,149	51	**1,281,913**	678,039	89
Natural gas liquids	**47,258**	19,824	138	**82,690**	52,283	58
Petroleum and natural gas	**735,579**	754,613	(3)	**1,703,602**	1,267,723	34
Per boe						
Petroleum and natural gas	**20.41**	57.19	(64)	**23.03**	47.55	(52)

Total production revenue decreased three percent to $735,579 for the three months ended June 30, 2023, from $754,613 for the three months ended June 30, 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 June 30, 2023.

Total production revenue increased 34 percent to $1,703,602 for the six months ended June 30, 2023, from $1,267,723 for the six months ended June 30, 2022. The variance table that follows the price analysis summarizes the factors contributing to this increase in total production revenue for the six months ended June 30, 2022.

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 Forge 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 June 30			Six months ended June 30		
	2023	2022	% change	**2023**	2022	% change
Average Benchmark Prices						
WTI crude oil *(US$/bbl)*[(1)]	**73.77**	108.41	(32)	**74.94**	101.35	(26)
WCS differential *(US$/bbl)*	**(15.01)**	(12.77)	18	**(19.97)**	(13.61)	47
US$/Cdn$ exchange rate	**0.745**	0.783	(5)	**0.742**	0.786	6
WCS *(Cdn$/bbl)*	**78.93**	122.08	(35)	**74.06**	111.56	(34)
AECO daily spot *($/GJ)*	**2.43**	6.88	(65)	**2.84**	5.70	(50)
Average Realized Prices						
Heavy oil *($/bbl)*	**91.44**	111.89	(18)	**100.44**	105.91	(5)
Natural gas *($/Mcf)*	**2.69**	6.90	(61)	**3.07**	5.71	(46)
Natural gas liquids *($/bbl)*	**83.94**	18.15	362	**81.95**	28.86	184
Average realized price *($/boe)*	**20.41**	57.19	(64)	**23.03**	47.55	(52)
Oil Price Differentials						
Heavy oil differential to WCS *($/bbl)*[(3)]	**12.51**	(10.19)	223	**26.38**	(5.65)	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 price decreased 18 percent to $91.44 per bbl for the three months ended June 30, 2023, from $111.89 for the three months ended June 30, 2022. Avila's average realized heavy oil price decreased five percent to $100.44 for the six months ended June 30, 2023, from $105.91 for the six months ended June 30, 2022. The decrease is mainly due to a lower WTI crude oil price in 2023 compared to the WTI crude oil price in 2022.

Avila's average natural gas price decreased 61 percent to $2.69 per Mcf for the three months ended June 30, 2023, from $6.90 per Mcf for the three months ended June 30, 2023. Avila's average natural gas price decreased 46 percent to $3.07 per Mcf for the six months ended June 30, 2023, from $5.71 per Mcf for the six months ended June 30, 2022. The changes in average natural gas price is a function of the AECO daily spot price.

Variance analysis	Amount	% change
Three months ended June 30, 2022, production revenue	754,613	
Increase (decrease) due to:		
Natural gas volumes	1,041,455	nmf
Realized natural gas price	(856,909)	nmf
Heavy oil and NGL volumes	(209,363)	nmf
Realized heavy oil and NGL price	5,783	nmf
Total decrease	(19,034)	nmf
Three months June 30, 2023, production revenue	**735,579**	

Variance analysis	Amount	% change
Six months ended June 30, 2022, production revenue	1,267,723	
Increase (decrease) due to:		
Natural gas volumes	1,706,730	392
Realized natural gas price	(1,102,856)	(253)
Heavy oil and NGL volumes	(203,098)	(47)
Realized heavy oil and NGL price	35,103	8
Total decrease	435,879	100
Six months June 30, 2023, production revenue	**1,703,602**	

ROYALTY EXPENSES

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Crown royalties	**17,866**	16,081	11	**77,669**	46,588	67
Freehold and overriding royalties	**20,634**	33,676	(39)	**90,734**	70,963	28
Total royalty expenses	**38,500**	49,757	(23)	**168,403**	117,551	43
Per boe	**1.07**	3.77	(72)	**2.28**	4.41	(48)
Average royalty rates *(% of revenue)*						
Crown royalties	**2.4**	2.1	14	**4.5**	3.7	22
Freehold and overriding royalties	**2.8**	4.5	(38)	**5.4**	5.6	(4)
Total royalty expenses	**5.2**	6.6	(21)	**9.9**	9.3	6

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 decreased 72 percent to $38,500 for the three months ended June 30, 2023, from $49,757 for the three months ended June 30, 2022. The combined royalty rate decreased 21 percent to 5.2 percent for the three months ended June 30, 2023, from 6.6 percent for the three months ended June 30, 2022.

Total royalty expenses increased 43 percent to $168,403 for the six months ended June 30, 2023, from $117,551 for the six months ended June 30, 2022. The combined royalty rate increased six percent to 9.9 percent for the six months ended June 30, 2023, from 9.3 percent for the six months ended June 30, 2022. The change in royalty composition is mainly due to the Company completing two property acquisitions on September 1, 2022, and November 1, 2022, in the WCA and ECA areas.

PRODUCTION AND OPERATING EXPENSES

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Production and operating expenses	**529,978**	264,551	100	**900,359**	464,153	94
Transportation costs	**137,475**	32,768	320	**294,140**	89,618	228
Total	**667,453**	297,319	125	**1,194,499**	553,771	116
Per boe	**18.52**	22.53	(18)	**16.15**	20.77	(22)

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.

Operating expenses increased 125 percent to $667,453 for the three months ended June 30, 2023, from $297,319 for the three months ended June 30, 2022. On a boe basis, operating expenses decreased 18 percent to $18.52 per boe for the three months ended June 30, 2023, from $22.53 for the three months ended June 30, 2022.

Operating expenses increased 116 percent to $1,194,499 for the six months ended June 30, 2023, from $553,771 for the six months ended June 30, 2022. On a boe basis, operating expenses decreased 22 percent to $16.15 per boe for the six months ended June 30, 2023, from $20.77 for the six months ended June 30, 2022, The increase in operating expenses is mainly due to the workover expenses and other non-routine activities in the six months ended June 30, 2023.

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 June 30			Six months ended June 30		
($/boe)	**2023**	2022	% change	**2023**	2022	% change
Petroleum and natural gas sales	**20.41**	57.19	(64)	**23.03**	47.55	(52)
Royalty expenses	**(1.07)**	(3.77)	(72)	**(2.28)**	(4.41)	(48)
Production and operating expenses	**(18.52)**	(22.53)	(18)	**(16.15)**	(20.77)	(22)
Operating netback	**0.82**	30.89	(97)	**4.60**	22.37	(79)

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.

Avila's operating netback decreased 97 percent to $ 0.82 per boe for the three months ended June 30, 2023, from $30.89 for the three months ended June 30, 2022. The decrease is mainly due to lower petroleum and natural gas sales prices in the three months ended June 30, 2023.

Avila's operating netback decreased 79 percent to $4.60 per boe for the six months ended June 30, 2023, from $22.37 for the six months ended June 30, 2022. The decrease is mainly due to lower petroleum and natural gas sales prices in the six months ended 2023.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2019**	2018	% change
Consulting and executive fees	**129,180**	81,131	59	**334,820**	116,019	189
Wages and salaries	**72,018**	-	100	**196,410**	-	100
Bank charges and late fees	**23,780**	-	100	**181,512**	-	100
Office and administration	**102,951**	9,757	nmf	**150,354**	11,868	nmf
Professional fees	**70,418**	21,529	227	**144,465**	58,476	147
Insurance	**33,800**	-	100	**94,110**	-	100
Shareholder and trust services	**31,637**	2,632	nmf	**70,136**	3,331	nmf
Advertising and promotion	**25,196**	-	100	**37,221**	-	100
Listing fees	**-**	1,500	(100)	**4,050**	3,000	35
Management fees	**-**	10,500	(100)	**-**	21,000	(100)
Capital overhead recoveries	**-**	-	-	**-**	-	-
Net G&A expense	**488,980**	127,049	285	**1,213,078**	213,694	nmf
Per boe (gross)	**13.57**	9.63	41	**16.40**	8.02	105
Per boe (net)	**13.57**	9.63	41	**16.40**	8.02	105

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. The most significant components of G&A expenses are employee and consultant compensation, office rent and accounting and legal costs.

Gross G&A expenses increased 285 percent to $488,980 for the three months ended June 30, 2023, from $127,049 for the three months ended June 30, 2022. On a boe basis, G&A expenses increased 41 percent to $13.57 per boe for the three months ended June 30, 2023, from $9.63 for the three months ended June 30, 2022.

Gross G&A expenses increased to $1,213,078 for the six months ended June 30, 2023, from $213,694 for the six months ended June 30, 2022. On a boe basis, G&A expenses increased 105 percent to $16.40 per boe for the six months ended June 30, 2023, from $8.02 for the six months ended June 30, 2022. The increase in G&A expenses is mainly due to wages and salaries being paid in 2023, bank charges associated with the GIC application fee and penalties associated with the 2022 flow-through share offering and additional professional fees associated with the Insight proposed business combination agreement.

FINANCE INCOME AND EXPENSE

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Interest income	**-**	-	-	**(31,729)**	-	100
Interest on promissory note	**-**	-	-	**-**	7,814	(100)
Interest	**-**	(7,304)	(100)	**(465)**	6,482	(107)
Interest on convertible debentures	**43,251**	-	100	**86,503**	-	100
Net interest expense (income)	**43,251**	(7,304)	nmf	**54,309**	14,296	280
Interest (expense) income ($/boe)	**1.20**	(0.55)	318	**0.73**	0.54	35
Fair value of change on derivative	**-**	-	-	**-**	(7,453)	(100)
Interests on conversions	**-**	-	-	**1,566**	5,871	(73)
Interest expense on dividend	**-**	-	-	**103,101**	-	100
Accretion on convertible preferred	**-**	-	-	**10,846**	-	100
Accretion on lease liabilities	**41,116**	-	100	**83,902**	-	100
Accretion on convertible debentures	**109,072**	48,891	123	**223,238**	59,262	276
Accretion on decommissioning	**(82,506)**	7,727	nmf	**(40,911)**	10,015	nmf
Net finance expense (income)	**110,933**	49,314	125	**436,051**	81,991	396
Finance expense (income) *($/boe)*	**3.08**	3.74	(81)	**5.89**	3.08	91

Interest income includes interest earned on cash deposits.

DEPLETION AND DEPRECIATION EXPENSE

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Depletion and depreciation	**286,501**	12,425	nmf	**636,223**	23,488	nmf
Depreciation on right-of-use	**47,472**	-	100	**94,944**	-	100
Total	**333,973**	12,425	nmf	**731,167**	23,488	nmf
Per boe	**9.27**	0.94	nmf	**9.88**	0.88	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 is calculated at an individual component level.

Total depletion and depreciation expense increased to $333,973 ($9.27 per boe) for the three months ended June 30, 2023, from $12,425 ($0.94 per boe) of depletion and depreciation expense for the three months ended June 30, 2022. Total depletion and depreciation expense increased to $731,167 ($9.88 per boe) for the six months ended June 30, 2023, from $23,488 ($0.88 per boe) of depletion and depreciation expense for the six months ended June 30, 20228. Total costs subject to depletion and depreciation expense include approximately $17,480,200 ($nil at June 30, 2022) relating to future development costs estimated to complete wells where proved and probable reserves have been assigned.

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 six months ended June 30, 2023, no impairment triggers were identified and therefore no impairment test was performed.

During the six months ended June 30, 2022, no impairment triggers were identified and therefore no impairment test was performed.

NET EARNINGS, FUNDS FLOW FROM OPERATIONS

Net Earnings and Funds Flow from Operations

	Three months ended June 30			Six months ended June 30		
($)	**2023**	2022	% change	**2023**	2022	% change
Net income (loss)	**111,813**	250,752	(55)	**(3,439,632)**	309,231	nmf
Items not involving cash:						
Depletion and depreciation	**333,973**	12,425	nmf	**731,167**	23,488	nmf
Gain on acquisition	**-**	(32,003)	(100)	**-**	(32,003)	(100)
Finance expense (including accretion)	**110,933**	49,314	125	**467,780**	81,991	470
Gain on convertible preferred	**-**	-	-	**(553,048)**	-	100
Flow-through premium liability	**(376,265)**	-	100	**(376,265)**	-	100
Change in derivative liability	**(631,983)**	-	100	**(631,983)**	-	100
Funds flow (used in) from operations	**(451,529)**	280,488	(261)	**(3,801,981)**	382,707	nmf

Per Share Information

	Three months ended June 30			Six months ended June 30		
($, except where noted)	**2023**	2022	% change	**2023**	2022	% change
Net income (loss)	**111,813**	250,752	(55)	**(3,438,632)**	309,231	nmf
Basic *($/share)*	**-**	0.01	(100)	**(0.03)**	0.01	(400)
Diluted *($/share)*	**-**	0.01	(100)	**(0.03)**	0.01	(400)
Funds flow (used in) from	**(451,529)**	280,488	(261)	**(3,801,981)**	382,707	nmf
Basic *($/share)*	**-**	0.01	(100)	**(0.03)**	0.01	(400)
Diluted *($/share)*	**-**	0.01	(100)	**(0.03)**	0.01	(400)

Funds flow used in operations was $451,529 ($ nil per basic and diluted share) for the three months ended June 30, 2023, from $280,488 ($0.01 per basic and diluted share) of funds from operations for the three months ended June 30, 2022. Funds flow used in operations for was $3,801,981 ($(0.03) per basic and diluted share) for the six months ended June 30, 2023, from $382,707 ($0.01 per basic and diluted share) of funds flow from operations for the six months ended June 30, 2022.

Net income was $111,813 ($ nil income per basic and diluted share) for the three months ended June 30, 2023, from net income of $250,752 ($0.01 income per basic and diluted share) for the three months ended June 30, 2022. Loss for the six months ended June 30, 2023, was $3,438,632 ($0.03 loss per basic and diluted share) from net income of $309,231 ($0.01 income per basic and diluted share) for the six months ended June 30, 2022.

The increase in net loss is primarily due to the $3,000,000 write off of the advance for the failed NEBC property acquisition.

BOE Netbacks

	Three months ended June 30			Six months ended June 30		
($/boe)	**2023**	2022	% change	**2023**	2022	% change
Production revenue	**20.41**	57.19	(64)	**23.03**	47.55	(52)
Royalty expenses	**(1.07)**	(3.77)	(72)	**(2.28)**	(4.41)	(48)
Production and operating	**(18.52)**	(22.53)	(18)	**(16.15)**	(20.77)	(22)
Operating netback	**0.82**	30.89	(97)	**4.60**	22.37	(79)
General and administrative	**(13.57)**	(9.63)	41	**(16.40)**	(8.02)	105
Write off advance	**-**	-	-	**(40.55)**	-	100
Cash flow netback	**(12.75)**	21.26	(160)	**(52.35)**	14.35	nmf
Depletion and depreciation	**(9.27)**	(0.94)	nnf	**(9.88)**	(0.88)	nmf
Finance expense	**(3.08)**	(3.74)	(39)	**(5.89)**	(3.08)	79
Gain on acquisition of property	**-**	2.42	(100)	**-**	1.20	(100)
Change in derivative liability	**17.54**	-	100	**8.54**	-	100
Gain on convertible preferred	**-**	-	-	**7.48**	-	100
Flow-through premium liability	**10.44**	-	100	**5.09**	-	100
Other income	**0.22**	-	100	**0.51**	-	100
Net earnings (loss) for the period	**3.10**	19.00	(84)	**(46.50)**	11.59	nmf

CAPITALIZATION AND FINANCIAL RESOURCES

CAPITAL EXPENDITURES

	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Land	**-**	-	-	**4,148**	-	100
Drilling	**-**	-	-	**5,723**	-	100
Completion/Workover costs	**149,648**	-	100	**219,216**	-	100
Production equipment & facilities	**32,568**	685,319	(95)	**744,389**	1,054,989	29
Property acquisition	**-**	532,003	(100)	**-**	532,003	(100)
Engineering studies	**-**	-	-	**-**	-	-
Total property, plant, and equipment	**182,216**	1,217,322	(85)	**973,476**	1,586,992	(39)
Land	**-**	-	-	**-**	78,905	(100)
Geological and geophysical	**-**	-	-	**-**	-	-
Exploratory Drilling	**-**	-	-	**-**	-	-
Completion	**-**	-	-	**-**	-	-
Total exploration and evaluation costs	**-**	-	-	**-**	78,905	(100)
Total capital expenditures	**182,216**	1,217,322	(85)	**973,476**	1,665,897	(42)

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

Net capital expenditures for the six months ended June 30, 2023, were $973,476.

Net capital expenditures for the six months ended June 30, 2022, were $1,665,897. 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.

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 $1,425,275 at June 30, 2023, including cash proceeds from the Company's equity offerings. At June 30, 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 August 24, 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 141,889,954 Common Shares.

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

	August 28, 2023	**June 30, 2023**
Common Shares	**141,889,954**	141,889,954
Dilutive Securities		
Warrants	**19,788,684**	20,788,684
Stock options	**1,753,770**	1,753,770
Total Dilutive Securities	**21,542,454**	22,542,454
Total Basic and Diluted Common Shares	**163,432,408**	164,432,408
Weighted average Common Shares		
Basic	**130,752,785**	127,369,407
Diluted	**130,752,785**	127,369,407

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	**6,500,106**	-	-	-	-	6,500,106
	6,500,106	-	-	-	-	6,500,106

GOING CONCERN

The oil and gas company is subject to factors that are beyond the Company's control. See "Risks and Uncertainties" contained in the annual MD&A.

In order 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 lithium exploration 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.

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

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 2 to the annual restated and amended financial statements of the Company.

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.

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 the 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.

SUMMARY OF QUARTERLY RESULTS

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Operations				
Average daily production				
Heavy oil and condensate *(bbls/d)*	**17**	21	36	53
Natural gas *(Mcf/d)*	**2,238**	2,376	2,003	1,070
NGLs *(bbls/d)*	**6**	5	1	2
Total *(boe/d)*	**396**	422	371	234
Average realized sales price				
Heavy oil and condensate *($/bbl)*	**91.44**	107.89	76.41	97.72
Natural gas *($/Mcf)*	**2.69**	3.43	5.17	4.74
NGLs *($/bbl)*	**83.94**	79.44	87.42	70.96
Total *($/boe)*	**20.41**	25.51	35.59	42.87
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	**20.41**	25.51	35.59	42.87
Royalty expenses	**(1.07)**	(3.42)	(3.66)	(3.81)
Production and operating expenses	**(18.52)**	(13.89)	(26.97)	(10.47)
Operating netback	**0.82**	8.20	4.96	28.59
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	**735,579**	968,023	1,215,114	923,268
Funds flow (used) from operations	**(451,529)**	(3,350,452)	(5,776,870)	2,808,044
Per share – basic	**-**	(0.03)	(0.11)	0.07
Per share – diluted	**-**	(0.03)	(0.11)	0.07
Cash from (used) in operations	**379,437**	(3,313,930)	(5,162,217)	5,006,707
Per share – basic	**-**	(0.03)	(0.10)	0.12
Per share – diluted	**-**	(0.03)	(0.10)	0.12
Net income (loss)	**111,813**	(3,551,545)	(23,232,246)	2,416,753
Per share – basic	**-**	(0.03)	(0.44)	0.06
Per share – diluted	**-**	(0.03)	(0.44)	0.04
Capital expenditures, net	**182,216**	791,260	21,009,775	14,269,500
Total assets	**45,400,687**	45,473,756	68,871,879	59,823,671
Total net cash and working capital	**(1,425,275)**	(1,615,293)	3,876,247	1,902,424
Shares outstanding, end of period	**141,889,954**	141,889,954	111,437,322	86,983,586
Weighted average shares (basic and diluted)	**141,889,954**	112,691,462	52,766,406	40,051,302

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Operations				
Average daily production				
Heavy oil and condensate *(bbls/d)*	37	20	-	-
Natural gas *(Mcf/d)*	580	732	92	273
NGLs *(bbls/d)*	12	8	5	4
Total *(boe/d)*	145	150	20	49
Average realized sales price				
Heavy oil and condensate *($/bbl)*	111.89	94.66	-	-
Natural gas *($/Mcf)*	6.90	4.76	7.08	3.50
NGLs *($/bbl)*	18.15	45.11	62.08	54.52
Total *($/boe)*	57.19	38.10	47.85	23.89
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	57.19	38.10	47.85	23.89
Royalty expenses	(3.77)	(5.03)	(8.78)	(1.96)
Production and operating expenses	(22.53)	(19.04)	(18.49)	(8.98)
Operating netback	30.89	14.03	20.58	12.95
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	754,613	513,110	90,457	109,182
Funds flow (used) from operations	280,488	102,219	(398,241)	(525,148)
Per share – basic	-	-	(0.02)	(0.02)
Per share – diluted	-	-	(0.02)	(0.02)
Cash used in operations	(2,088,171)	231,256	(417,912)	(210,922)
Per share – basic	(0.06)	-	(0.02)	(0.01)
Per share – diluted	(0.06)	-	(0.02)	(0.01)
Net income (loss)	250,752	58,479	(1,084,670)	(209,996)
Per share – basic	0.01	-	(0.06)	(0.01)
Per share – diluted	0.01	-	(0.06)	(0.01)
Capital expenditures, net	1,217,322	448,575	-	-
Total assets	10,603,851	4,613,850	4,583,826	4,732,886
Total net cash and working capital	5,269,084	1,467,571	1,835,527	2,277,030
Shares outstanding, end of period	35,651,341	35,651,341	35,651,341	34,890,862
Weighted average shares (basic and diluted)	35,651,341	25,541,590	25,541,590	34,890,862