



**Financial Statements**

**For the Three Months Ended March 31, 2024, and 2023**

## **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   | March 31,<br>2024<br>(unaudited) | December 31,<br>2023<br>(audited) |
|---|----------------------------------|-----------------------------------|
| <b>Assets</b>                                     |                                  |                                   |
| <b>Current assets</b>                             |                                  |                                   |
| Cash  | \$ 55,662                        | \$ 66,572                         |
| Accounts receivable                               | 556,467                          | 914,993                           |
| Prepaid expenses (note 3)                         | 228,740                          | 351,031                           |
| <b>Total current assets</b>                       | <b>840,869</b>                   | <b>1,332,596</b>                  |
| Property, plant, and equipment (note 4)           | 26,481,812                       | 26,600,261                        |
| Right-of-use asset (note 5)                       | 107,260                          | 109,755                           |
| Investment (note 6)                               | 3,564,711                        | 3,564,711                         |
| Intangible assets (note 7)                        | 2,155,208                        | 2,155,208                         |
| Assets under development (note 8)                 | 2,071,720                        | 2,071,720                         |
| <b>Total non-current assets</b>                   | <b>34,380,711</b>                | <b>34,501,655</b>                 |
| <b>Total assets</b>                               | <b>\$ 35,221,580</b>             | <b>\$ 35,834,251</b>              |
| <b>Liabilities and Shareholders' Equity</b>       |                                  |                                   |
| <b>Current liabilities</b>                        |                                  |                                   |
| Account payable and accrued liabilities           | \$ 5,394,514                     | \$ 5,097,402                      |
| Lease liabilities (note 5)                        | 16,186                           | 16,186                            |
| Promissory note (note 10)                         | 600,000                          | 600,000                           |
| Loan payable (note 13)                            | 284,999                          | 284,999                           |
| Dividend payable (note 14)                        | 103,101                          | 103,101                           |
| Interest payable on convertible debentures        | 323,401                          | 287,726                           |
| <b>Total current liabilities</b>                  | <b>6,722,201</b>                 | <b>6,389,414</b>                  |
| Interest payable on debentures                    | 107,747                          | 101,497                           |
| Lease liabilities (note 5)                        | 83,472                           | 80,941                            |
| Decommissioning liability (note 9)                | 2,819,177                        | 2,790,224                         |
| Term loan (note 11)                               | 3,000,000                        | 3,000,000                         |
| Trade payable (note 12)                           | 5,994,313                        | 5,994,313                         |
| Convertible debentures (note 13)                  | 4,028,093                        | 4,035,969                         |
| <b>Total liabilities</b>                          | <b>22,755,003</b>                | <b>22,392,358</b>                 |
| <b>Shareholders' Equity</b>                       |                                  |                                   |
| Share capital (note 14)                           | 58,362,219                       | 57,900,721                        |
| Contributed surplus                               | 4,710,167                        | 4,710,167                         |
| Convertible debentures – equity portion (note 13) | 1,173,728                        | 1,242,158                         |
| Deficit   | (51,779,537)                     | (50,411,153)                      |
|   | <b>12,466,577</b>                | <b>13,441,893</b>                 |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 35,221,580</b>             | <b>\$ 35,834,251</b>              |

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

**Nature of Operations and Going Concern (note 1)**

**AVILA ENERGY CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE**  
**INCOME (LOSS)**

(Expressed in Canadian dollars)

| Three months ended March 31,                          | <b>2024</b>           | 2023 (restated)       |
|---|-----------------------|-----------------------|
| <b>Revenue</b>  |                       |                       |
| Oil and natural gas ( <i>note 16</i> )                | \$ 232,324            | \$ 838,120            |
| Gain on convertible preferred share dividend          | -                     | 553,048               |
| Interest income ( <i>note 18</i> )                    | -                     | 31,729                |
| Processing income                                     | -                     | 1,577                 |
| Other income  | -                     | 29,266                |
|   | <b>232,324</b>        | <b>1,453,740</b>      |
| <b>Expenses</b>                                       |                       |                       |
| Production and operating                              | 515,384               | 558,506               |
| General and administrative                            | 429,757               | 724,098               |
| Write off advance                                     | -                     | 3,000,000             |
| Depletion and depreciation ( <i>notes 4 &amp; 5</i> ) | 191,188               | 352,216               |
|   | <b>1,136,329</b>      | <b>4,634,820</b>      |
| Results from operating activities                     | <b>(904,005)</b>      | <b>(3,181,080)</b>    |
| Finance expense ( <i>note 18</i> )                    | <b>(464,379)</b>      | <b>(317,326)</b>      |
| <b>Income (loss) and comprehensive income (loss)</b>  | <b>\$ (1,368,384)</b> | <b>\$ (3,498,406)</b> |
| Net loss per share ( <i>note 14(e)</i> )              |                       |                       |
| Basic   | \$ (0.01)             | \$ (0.03)             |
| Diluted   | \$ (0.01)             | \$ (0.03)             |

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

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

|   | Number of<br>Common<br>Shares | Share Capital        | Convertible<br>Debenture<br>- Equity | Contributed<br>Surplus | Deficit                | Total<br>Equity      |
|---|-------------------------------|----------------------|--------------------------------------|------------------------|------------------------|----------------------|
| Balance, at January 1, 2024                 | 163,049,954                   | \$ 57,900,721        | \$1,242,158                          | \$ 4,710,167           | \$ (50,411,153)        | \$ 13,441,893        |
| Conversion of debentures ( <i>note 13</i> ) | 631,500                       | 199,248              | (68,430)                             | -                      | -                      | 130,818              |
| Subscription receipts ( <i>note 14</i> )    | -                             | 270,000              | -                                    | -                      | -                      | 270,000              |
| Share issue costs ( <i>note 14</i> )        | -                             | (7,750)              | -                                    | -                      | -                      | (7,750)              |
| Loss and comprehensive loss                 | -                             | -                    | -                                    | -                      | (1,368,384)            | (1,368,384)          |
| <b>Balance at March 31, 2024</b>            | <b>163,681,454</b>            | <b>\$ 58,362,219</b> | <b>\$1,173,728</b>                   | <b>\$ 4,710,167</b>    | <b>\$ (51,779,537)</b> | <b>\$ 12,466,577</b> |

*(restated)*

|   | Number of<br>Preferred<br>Shares | Number of<br>Common<br>Shares | Share Capital       | Convertible<br>Debenture<br>- Equity | Contributed<br>Surplus | Deficit               | Total<br>Equity     |
|---|----------------------------------|-------------------------------|---------------------|--------------------------------------|------------------------|-----------------------|---------------------|
| Balance, at January 1, 2023                       | 30,000,000                       | 111,437,322                   | \$56,883,006        | \$1,293,483                          | \$4,454,073            | \$(30,317,260)        | \$32,313,302        |
| Conversion of debentures ( <i>note 13</i> )       | -                                | 452,596                       | 180,704             | -                                    | -                      | -                     | 180,704             |
| Conversion of preferred shares ( <i>note 14</i> ) | (30,000,000)                     | 30,000,000                    | -                   | -                                    | -                      | -                     | -                   |
| Loss and comprehensive loss                       | -                                | -                             | -                   | -                                    | -                      | (3,498,406)           | (3,498,406)         |
| <b>Balance at March 31, 2023</b>                  | <b>-</b>                         | <b>141,889,918</b>            | <b>\$57,063,710</b> | <b>\$1,293,483</b>                   | <b>\$4,454,073</b>     | <b>\$(33,815,666)</b> | <b>\$28,995,600</b> |

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

**AVILA ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)

| Three months ended March 31,                           | 2024               | 2023 (restated)       |
|--|--------------------|-----------------------|
| <b>Operating activities</b>                            |                    |                       |
| Income (loss) for the period                           | \$ (1,368,384)     | \$ (3,498,406)        |
| Adjustments for:                                       |                    |                       |
| Depletion and depreciation ( <i>notes 4 &amp; 5</i> )  | 191,188            | 352,216               |
| Finance expense ( <i>note 18</i> )                     | 464,379            | 317,326               |
| Gain on convertible preferred share dividend           | -                  | (553,048)             |
| Interest paid ( <i>note 18</i> )                       | (96,317)           | -                     |
| Changes in non-cash working capital ( <i>note 15</i> ) | 621,200            | 36,522                |
| <b>Net cash from (used in) operating activities</b>    | <b>(187,934)</b>   | <b>(3,345,390)</b>    |
| <b>Financing activities</b>                            |                    |                       |
| Subscription receipts ( <i>note 14</i> )               | 270,000            | -                     |
| Share issue costs ( <i>note 14</i> )                   | (7,750)            | -                     |
| Surface lease payments ( <i>note 5</i> )               | -                  | (6,650)               |
| Promissory note repayment ( <i>note 10</i> )           | -                  | (1,200,000)           |
| <b>Net cash from (used in) financing activities</b>    | <b>262,250</b>     | <b>(1,206,650)</b>    |
| <b>Investing activities</b>                            |                    |                       |
| Expenditures on oil and natural gas properties         | (85,226)           | (791,260)             |
| Investments ( <i>note 6</i> )                          | -                  | (1,146,372)           |
| Expenditures on intangible assets ( <i>note 7</i> )    | -                  | (7,000)               |
| Changes in non-cash working capital ( <i>note 15</i> ) | -                  | -                     |
| <b>Net cash from (used in) investing activities</b>    | <b>\$ (85,226)</b> | <b>\$ (1,944,632)</b> |
| Change in cash   | \$ (10,910)        | \$ (6,496,672)        |
| Cash, beginning of period                              | 66,572             | 6,564,110             |
| Cash, end of period                                    | \$ 55,662          | \$ 67,438             |

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

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

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### 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 the Micro Turbine Technology.

The head office is located at Suite 201, 1439 – 17<sup>th</sup> 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 three-month period ended March 31, 2024, the Company incurred a net loss of \$1,368,384 and had net cash used in operating activities of \$187,934. In addition, the Company has a deficit of \$51,779,537.

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 2024 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.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### 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 consolidated 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, 2023, 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 May 29, 2024.

### 3. PREPAID EXPENSES

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

|   | Three months ended<br>March 31, 2024 | Year ended<br>December 31, 2023 |
|---|--------------------------------------|---------------------------------|
| MTT annual license fee                        | \$ 177,492                           | \$ 266,238                      |
| Investor relation fees                        | 2,089                                | 30,000                          |
| Land service retainer fees                    | -                                    | 3,009                           |
| Prepaid financing fees on term loan           | 13,125                               | 15,750                          |
| AER decommissioning and crown royalty deposit | 36,034                               | 36,034                          |
| Balance, end of period                        | \$ 228,740                           | \$ 351,301                      |



# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### 4. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT (“PP&E”)

| (\$)   | Total                  |
|--|------------------------|
| <b>Cost</b>  |                        |
| Balance, December 31, 2022                         | \$ 52,786,459          |
| Additions – regular oil and natural gas properties | 848,091                |
| Additions – property acquisitions                  | 522,969                |
| Additions – power generating assets                | 5,708,869              |
| Change in decommissioning provisions               | (591,940)              |
| Balance at December 31, 2023                       | \$ 59,274,448          |
| Additions – regular oil and natural gas properties | 71,617                 |
| Additions – property acquisitions                  | 13,609                 |
| Change in decommissioning provisions               | (14,982)               |
| <b>Balance at March 31, 2024</b>                   | <b>\$ 59,344,692</b>   |
| <b>Accumulated depletion and depreciation:</b>     |                        |
| Balance, December 31, 2022                         | \$ (18,717,672)        |
| Depletion and depreciation for the period          | (1,716,684)            |
| Impairment for the period                          | (12,239,831)           |
| Balance at December 31, 2023                       | \$ (32,674,187)        |
| Depletion and depreciation for the period          | (188,693)              |
| <b>Balance at March 31, 2024</b>                   | <b>\$ (32,862,880)</b> |
| <b>Net carrying value:</b>                         |                        |
| Balance December 31, 2023                          | \$ 26,600,261          |
| Balance March 31, 2024                             | \$ 26,481,812          |

As at March 31, 2024, no impairment triggers were identified and therefore an impairment test was not performed.

### 5. RIGHT-OF-USE ASSETS AND LEASES

#### Voluntary change in accounting policy

Avila re-assessed its policy for the measurement of its right-of-use of assets and lease liability.

Prior to the exploration and development of oil and natural gas, an entity must enter into both a mineral rights agreement (commonly referred to as a “mineral lease”) with the mineral rights owner as well into a surface-land-use agreement (commonly referred to as a “surface lease”) with the land owner, who may be a government body or private owner. IFRS 16 contains a specific scope exemption for “leases to explore for or use minerals, oil, natural gas and similar non-generative resources.”

Previously, Avila’s right-of-use assets was measured using all of the Company’s surface leases. The Company has elected to only calculate the right-of-use asset and lease liability for the surface leases in which the Company has no corresponding mineral lease.

The Company has accounted for the change in accounting policy using retroactive restatement of prior periods.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

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 \$17,971 for 2024, \$24,521 for 2025-2026 and \$38,196 for years beyond 2026.

### Right-of-use Assets

|                                  | <b>Total</b>      |
|----------------------------------|-------------------|
| <b>Cost</b>                      |                   |
| Balance, December 31, 2022       | \$ 119,732        |
| Depreciation                     | (9,977)           |
| Balance at December 31, 2023     | \$ 109,755        |
| Depreciation                     | (2,495)           |
| <b>Balance at March 31, 2024</b> | <b>\$ 107,260</b> |

### Lease Liability

|                                  | <b>Total</b>     |
|----------------------------------|------------------|
| Balance, December 31, 2022       | \$ 123,540       |
| Surface lease payments           | (37,919)         |
| Accretion expense                | 11,506           |
| Balance at December 31, 2023     | \$ 97,127        |
| Accretion expense                | 2,532            |
| <b>Balance at March 31, 2024</b> | <b>\$ 99,659</b> |

## 6. INVESTMENT

|                                   | <b>Three months ended<br/>March 31, 2024</b> | Year ended<br>December 31, 2023 |
|-----------------------------------|--|---------------------------------|
| <b>Cost</b>                       |  |                                 |
| Balance, beginning of period      | \$ 3,564,711                                 | \$ -                            |
| Additions – MTT non-voting shares | -  | 3,564,711                       |
| Balance, end of period            | <b>\$ 3,564,711</b>                          | <b>\$ 3,564,711</b>             |

The investment in MTT non-voting shares represents a 15% equity stake in MTT so the investment is being recorded at the lower of cost and fair market value.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### 7. GOODWILL AND INTANGIBLE ASSETS

|   | <b>Total</b>           |
|---|------------------------|
| <b>Cost</b>                               |                        |
| Balance at December 31, 2022              | \$ 11,525,685          |
| Additions – MTT license                   | 2,138,826              |
| Additions – intangible assets             | 7,000                  |
| Balance at December 31, 2023              | \$ 13,671,511          |
| Additions                                 | -                      |
| <b>Balance at March 31, 2024</b>          | <b>\$ 13,671,511</b>   |
| <br>                                      |                        |
| Balance at December 31, 2022              | \$ (11,516,303)        |
| Depletion and depreciation for the period | -                      |
| Balance at December 31, 2023              | \$ (11,516,303)        |
| Depletion and depreciation for the period | -                      |
| <b>Balance at March 31, 2024</b>          | <b>\$ (11,516,303)</b> |
| <br>                                      |                        |
| <b>Net carrying value:</b>                |                        |
| Balance December 31, 2023                 | \$ 2,155,208           |
| Balance March 31, 2024                    | \$ 2,155,208           |

### 8. ASSETS UNDER DEVELOPMENT

|  | <b>Total</b>        |
|--|---------------------|
| <b>Cost</b>                                |                     |
| Balance at December 31, 2022               | \$ -                |
| Additions – Terra Land Development Costs   | 1,474,494           |
| Additions – MTT Phase I CSA Certification  | 198,788             |
| Additions – MTT Phase II CSA Certification | 398,438             |
| Balance at December 31, 2023               | \$ 2,071,720        |
| Additions                                  | -                   |
| <b>Balance at March 31, 2024</b>           | <b>\$ 2,071,720</b> |
| <br>                                       |                     |
| <b>Net carrying value:</b>                 |                     |
| Balance December 31, 2023                  | \$ 2,071,720        |
| Balance March 31, 2024                     | \$ 2,071,720        |

The Company will depreciate the start-up costs of the vertically integrated business unit cense over the expected units to be sold under the vertically integrated business unit which is expected to commence in 2024.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### 9. 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 March 31, 2024, to be approximately \$7,347,230 (December 31, 2023 - \$7,347,230). 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 6.30 percent (December 31, 2023 – 6.30 percent) and an inflation rate of 2.0 percent (December 31, 2023 – 2.0 percent) was used to calculate the decommissioning provision.

A reconciliation of the decommissioning liability is provided below:

|  | Three months ended<br>March 31, 2024 | Year ended<br>December 31, 2023 |
|--|--------------------------------------|---------------------------------|
| Balance, beginning of period           | \$ 2,790,224                         | \$ 3,334,487                    |
| Change in decommissioning provision    | (14,982)                             | (591,940)                       |
| Accretion adjustment from prior period | -                                    | (127,988)                       |
| Accretion                              | 43,935                               | 175,665                         |
| Balance, end of period                 | \$ 2,819,177                         | \$ 2,790,224                    |

### 10. PROMISSORY NOTES

A reconciliation of the promissory note is provided below:

|                                  | Three months<br>ended March 31,<br>2024 | Year ended<br>December 31,<br>2023 |
|----------------------------------|---|------------------------------------|
| Balance, beginning of period     | \$ 600,000                              | \$ 1,800,000                       |
| Repayment of promissory note (i) | -                                       | (1,200,000)                        |
| Balance, end of period           | \$ 600,000                              | \$ 600,000                         |

(i) 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.

### 11. TERM LOAN

|                              | Three months ended<br>March 31, 2024 | Year ended<br>December 31, 2023 |
|------------------------------|--------------------------------------|---------------------------------|
| Balance, beginning of period | \$ 3,000,000                         | \$ -                            |
| Amount drawn                 | -                                    | 3,000,000                       |
| Balance, end of period       | \$ 3,000,000                         | \$ 3,000,000                    |

On July 5, 2023, The Company signed a term sheet with a private Canadian investment company for a secured two-year term loan of \$3,000,000. The terms of the financing are interest only paid monthly,

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

at an annualized rate of 12% plus the accrual of an additional administration fee of 10% payable at the time of the repayment of the term loan. The President and CEO of the Company has agreed to provide a personal guarantee for the \$3,000,000 for which he will be compensated for providing this guarantee by the Company an amount of 0.25 percent per month calculated on the amount outstanding at the end of each month.

### 12. LONG TERM TRADE PAYABLE

|                              | Three months ended<br>March 31, 2024 | Year ended<br>December 31, 2023 |
|------------------------------|--------------------------------------|---------------------------------|
| Balance, beginning of period | \$ 5,994,313                         | \$ -                            |
| Power generating costs       | -                                    | 5,698,894                       |
| GST payable on power assets  | -                                    | 295,419                         |
| Balance, end of period       | \$ 5,994,313                         | \$ 5,994,313                    |

On December 28, 2023, The Company incurred \$5,994,314 of costs relating to a power generation facility. Payments terms are interest only half percent per month for two years prior to receiving a request to commence construction and commissioning of the power generation facility. This expense qualifies as a Canadian Renewable Conservation Expense ("CRCE") for flow-through share purposes. This purchase meets the definition of a related party transaction as the purchase was between QVB Energy and the Company. The CEO of QVB Energy is the CEO of the Company (see note 20 'related party transactions')

### 13. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

|                                     | Convertible<br>debenture -<br>liability<br>component | Derivative<br>liability | Equity<br>Component | Total              |
|-------------------------------------|--|-------------------------|---------------------|--------------------|
| Balance, beginning of period        | \$4,053,002  | \$ 631,983              | \$1,293,483         | \$5,978,468        |
| Conversions                         | (179,137)  | -                       | (51,325)            | (230,462)          |
| Maturity                            | (284,999)  | (631,983)               | -                   | (916,982)          |
| Accretion expense                   | 447,103  | -                       | -                   | 447,103            |
| <b>Balance at December 31, 2023</b> | <b>4,035,969</b>                                     | <b>\$ -</b>             | <b>\$1,242,158</b>  | <b>\$5,278,127</b> |
| Conversions                         | (122,944)  | -                       | (68,430)            | (191,374)          |
| Accretion expense                   | 115,068  | -                       | -                   | 115,068            |
| <b>Balance at March 31, 2024</b>    | <b>4,028,093</b>                                     | <b>-</b>                | <b>1,173,728</b>    | <b>5,201,821</b>   |

|                             | Three months<br>ended March 31,<br>2024 | Year ended<br>December 31,<br>2023 |
|-----------------------------|---|------------------------------------|
| Convertible debenture (i)   | \$ 346,520                              | \$ 338,174                         |
| Convertible debenture (ii)  | -                                       | -                                  |
| Convertible debenture (iii) | 3,681,573                               | 3,697,795                          |
| Balance, end of period      | \$ 4,028,093                            | \$ 4,035,969                       |
| Short term                  | -                                       | -                                  |
| Long term                   | 4,028,093                               | 4,035,969                          |

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## AVILA ENERGY CORPORATION

### SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

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(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.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

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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.

- (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, 2023, convertible debentures with a stated value of \$179,137 were converted into 450,000 common shares (452,596 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.

During the three months ended March 31, 2024, convertible debentures with a stated value of \$199,248 were converted into 600,000 common shares (631,500 with accrued interest) at the holder's option. There were 600,000 conversion warrants valued at nil issued in connection with conversion, exercisable at \$0.75 for a period of 24 months.

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### 14. 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

|                                | Three months ended<br>March 31, 2024 |                                  |               | Year ended<br>December 31, 2023 |                                  |               |
|--------------------------------|--------------------------------------|----------------------------------|---------------|---------------------------------|----------------------------------|---------------|
|                                | Number of<br>Common Shares           | Number of<br>Preferred<br>Shares | Amount        | Number of<br>Common Shares      | Number of<br>Preferred<br>Shares | Amount        |
| Balance, beginning of period   | 163,049,954                          | -                                | \$ 57,900,721 | 111,437,322                     | 30,000,000                       | \$ 56,883,006 |
| Issue of Common Shares (iii)   | 631,500                              | -                                | 199,248       | 452,632                         | -                                | 232,029       |
| Conversion of preferred shares | -                                    | -                                | -             | 30,000,000                      | (30,000,000)                     | -             |
| Issue of Common Shares (i)     | -                                    | -                                | -             | 21,160,000                      | -                                | 801,906       |
| Subscription receipts (i)      | -                                    | -                                | 270,000       | -                               | -                                | 45,180        |
| Share issue costs              | -                                    | -                                | (7,750)       | -                               | -                                | (61,400)      |
| Balance, end of period         | 163,681,454                          | -                                | \$ 58,362,219 | 163,049,954                     | -                                | \$ 57,900,721 |

#### Issued shares for cash.

- (i) On September 20, 2023, the Company announced it intends to complete a non-brokered private placement consisting of the issuance of up to 60,000,000 units (the "Units") at a price of \$0.05 per Unit for gross proceeds of up to \$3,000,000. Each Unit is comprised of one common share in the share capital of the Company and one-half (1/2) common share purchase warrant. Each full Warrant entitles its holder to purchase one additional common share at a price of \$0.12 for a period of 24 months following the closing.

On October 31, 2023, the Company announced it closed the first tranche of \$1,058,000 of its non-brokered private placement by issuing 21,660,000 units at a price of \$0.05 per unit and 10,580,000 warrants with an exercise price of \$0.12 per share. The Company received an additional \$45,180 of subscription receipts that will be issued in the closing of the second tranche. The \$1,058,000 of proceeds were allocated using the relative fair method between the value of the common shares \$1,058,000 (10,580,000 common shares multiplied by the share price of \$0.05 per share) and the value of the warrants using Black-Scholes model of \$337,879. The relative fair allocation resulted in \$801,906 being allocated to common shares and \$256,094 to contributed surplus.

During the three months ended March 31, 2024, the Company received an additional \$270,000 of subscription receipts that will be issued in the closing of the second tranche.



# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

### Issued shares for convertible debentures.

- (ii) The following table summarizes the activity under the Company's shares issued on conversion of debentures:

|                         | Three months ended<br>March 31, 2024 |            | Year ended<br>December 31, 2022 |            |
|-------------------------|--------------------------------------|------------|---------------------------------|------------|
|                         | Number of<br>Common Shares           | \$         | Number of<br>Common<br>Shares   | \$         |
| February 8, 2023 (iii)  | -                                    | -          | 401,684                         | 209,493    |
| February 21, 2023 (iii) | -                                    | -          | 50,948                          | 22,536     |
| January 29, 2024 (iii)  | 631,500                              | 199,248    | -                               | -          |
|                         | 631,500                              | \$ 199,248 | 452,632                         | \$ 232,029 |

### Convertible debenture (note 13(iii))

During the year ended December 31, 2023, convertible debentures with a stated value of \$179,137 (\$180,704 stated value of debenture plus accrued debenture interest converted to shares of \$1,567) were converted into 452,632 common shares at the holder's option.

During the three months ended March 31, 2024, convertible debentures with a stated value of \$122,944 (\$130,818 stated value of debenture plus accrued debenture interest converted to shares of \$7,874) were converted into 631,500 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

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

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:

|                              | Three months ended<br>March 31, 2024 | Year ended<br>December 31, 2022 |
|------------------------------|--------------------------------------|---------------------------------|
| Balance, beginning of period | \$ -                                 | \$ 542,202                      |
| Accretion                    | -                                    | 10,846                          |
| Gain on write off            | -                                    | (553,048)                       |
| Balance, end of period       | \$ -                                 | \$ -                            |

### (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 timeframe 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:

|                              | Three months ended<br>March 31, 2024 |  | Year ended<br>December 31, 2023 |   |
|------------------------------|--------------------------------------|--|---------------------------------|---|
|                              | Number of<br>Options                 | Weighted<br>Average<br>Exercise<br>Price<br>(\$/share) | Number of<br>Options            | Weighted<br>Average<br>Exercise Price<br>(\$/share) |
| Balance, beginning of period | 1,753,770                            | \$ 0.36  | 1,753,770                       | \$ 0.36   |
| Granted                      | -                                    | -  | -                               | -   |
| Balance, March 31, 2024      | 1,753,770                            | \$ 0.36  | 1,753,770                       | \$ 0.36   |
| Exercisable, March 31, 2024  | 1,753,770                            | \$ 0.36  | 1,753,770                       | \$ 0.36   |

# AVILA ENERGY CORPORATION

## SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS

For the three-month period ended March 31, 2024, and March 31, 2023

The following table summarizes information regarding stock options outstanding at March 31, 2024:

| Options Outstanding at March 31, 2024 |                    |   | Options Exercisable at March 31, 2024      |                    |  |
|---------------------------------------|--------------------|---|--|--------------------|--|
| 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            | 0.6   | \$0.35                                     | 200,000            | \$0.35                                     |
| \$0.39                                | 717,949            | 0.7   | \$0.39                                     | 717,949            | \$0.39                                     |
| \$0.34                                | 835,821            | 0.7   | \$0.34                                     | 835,821            | \$0.34                                     |

Share-based compensation from options recognized in net loss during the period ended March 31, 2024, was \$nil (December 31, 2023 - \$nil).

### (d) Share purchase warrants.

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

|                              | Three months ended March 31, 2024 |  | Year ended December 31, 2023 |  |
|------------------------------|-----------------------------------|--|------------------------------|--|
|                              | Number of Warrants                | Weighted Average Exercise Price (\$/share) | Number of Warrants           | Weighted Average Exercise Price (\$/share) |
| Balance, beginning of period | 30,200,484                        | \$ 0.34                                    | 21,627,850                   | \$ 0.44                                    |
| Issued – February 8, 2023    | -                                 | -  | 400,000                      | 0.75                                       |
| Issued – February 21, 2023   | -                                 | -  | 50,000                       | 0.75                                       |
| Issued – October 17, 2023    | -                                 | -  | 3,880,000                    | 0.12                                       |
| Issued – October 24, 2023    | -                                 | -  | 600,000                      | 0.12                                       |
| Issued – October 30, 2023    | -                                 | -  | 5,850,000                    | 0.12                                       |
| Issued – November 21, 2023   | -                                 | -  | 250,000                      | 0.12                                       |
| Issued – January 29, 2024    | 600,000                           | 0.75                                       | -                            | -  |
| Expired - May 6, 2023        | -                                 | -  | (876,666)                    | (0.35)                                     |
| Expired - June 1, 2023       | -                                 | -  | (412,500)                    | (0.40)                                     |
| Expired - July 7, 2023       | -                                 | -  | (1,000,000)                  | (0.25)                                     |
| Expired - August 26, 2023    | -                                 | -  | (168,200)                    | (0.35)                                     |
| Expired                      | -                                 | -  | -                            | -  |
| Balance, end of period       | 30,800,484                        | \$ 0.35                                    | 30,200,484                   | \$ 0.34                                    |

On September 20, 2023, the Company announced it intends to extend by one year 7,472,130 outstanding Warrants with exercise prices of \$0.35, \$0.15, \$0.20, and \$0.75 and with expiration dates ranging from September 9, 2023, to December 9, 2024. 1,160,000 warrants with an exercise price of \$0.35 were set to expire September 9, 2023, 4,088,680 warrants with an exercise price of \$0.35 were set to expire September 13, 2023, 100,000 warrants with an exercise price of \$0.35 were set to expire September 20, 2023 and 309,200 warrants with an exercise price of \$0.35 were set to expire September 23, 2023. In addition, 377,000 warrants with an exercise price of \$0.15 were set to expire on November 4, 2023 have been extended by an additional year. In addition, 98,050 warrants with an exercise price of \$0.20 were

# **AVILA ENERGY CORPORATION**

## **SELECTED NOTES TO INTERIM FINANCIAL STATEMENTS**

For the three-month period ended March 31, 2024, and March 31, 2023

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set to expire on January 30, 2024 have been extended by an additional year. In addition, 1,339,200 warrants with an exercise price of \$0.75 were set to expire on May 10, 2024 to December 9, 2024, have been extended by an additional year.

### **15. SUBSEQUENT EVENT**

The Company's mid-stream operations are now currently undergoing remediation due to an additional well being subsequently brought on to production. The well started H<sub>2</sub>S that contaminated Avila's facilities and has resulted in the temporary shut-in of the facilities for remediation. The producer has acknowledged that its production is the source of the contamination, and the Company has filed an insurance claim for business interruption, including the recovery of the net loss of revenues as a result of the event. Avila as CSO (Common-Stream-Operator), and its mid-stream customer have assessed the problem and are collectively expected to have completed its engineering and planning processes for remediation, and expect to have completed the remediation and re-started, production, processing and the sale of Natural Gas on or before the end of the second week of June 2024.