Avila Energy Corporation

Form 51-102F1
Management's Discussion and Analysis

For The Three Months Ended March 31, 2024, and 2023

Management’s Discussion and Analysis

The following management’s discussion and analysis (“MD&A”) was prepared as of May 29, 2024 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 condensed interim financial statements of the Company for the period ended March 31, 2024 together with the notes related thereto, as well as the audited financial statements of the Company for the year ended December 31, 2023, together with the notes related thereto along with the management’s discussion and analysis thereon.

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

Avila’s Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A on May 29, 2024.

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

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

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

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

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;*
- *uncertainty of the execution of the Vertically Integrated Business Program;*
- *risks associated with existing and potential future lawsuits and regulatory actions against Avila; and*
- *other risks and uncertainties described elsewhere in this MD&A or in any of Avila's other filings and documents that have been distributed to shareholders, including but not limited to the financial statements of the Company for the three-month period ended March 31, 2024.*

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.*

nmf – not a meaningful number

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

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

	Three months ended March 31,		
($)	**2024**	2023	% change
Cash flow from (used in) operating activities	**(187,934)**	(3,345,390)	(94)
Change in non-cash working capital	**(621,200)**	(36,522)	nmf
Funds flow from (used in) operations	**(809,134)**	(3,381,912)	(76)

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

DESCRIPTION OF BUSINESS

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

FIRST QUARTER FINANCIAL HIGHLIGHTS

On March 20, 2024, the Company received a notice from a third-party customer that Avila should expect additional volumes of up to 4,000 Mcf/d to be processed at an Avila facility by the end of March,2024. First volumes were received by Avila on March 27, 2024 and during the initial test period combined rates have been 4,800 Mcf/d . It is expected the volume will increase to 10,000 Mcf/d by October 2024 when the third party completes a tie-in of a proposed pipeline to the Company's gathering system.

Avila Energy Corporation effective March 1, 2024, was delivered by the restructured company known as MTT Solutions B.V. an amended licensing agreement that included all previous rights and the re-instated the exclusive licensing provisions for North America, to Avila Energy Corporation that now includes, Canada, the United States and Mexico. Furthermore, within the agreement is the continued recognition of all investments and obligations previously made between MTT and Avila Energy, including a 15% preferred interest in the Company now know as MTT Solutions B.V. and right of first refusal to participate in and additional equity issuances to be completed by MTT Solutions B.V.

DETAILED FINANCIAL ANALYSIS

SALES VOLUMES

	Three months ended March 31,		
	2024	2023	% change
Heavy oil and condensate *(bbls/d)*	**2**	21	(90)
Natural gas *(Mcf/d)*	**986**	2,376	(59)
Natural gas liquids *(bbls/d)*	**3**	5	(40)
Total *(boe/d)*	**169**	422	(60)
Oil and natural gas liquids %	**3**	6	(50)

Average production of 169 boe/day was reported during the three months ended March 31, 2024, which consisted of 5 bbls/day of crude oil and NGLs, and 986 Mcf/day of natural gas. 100 percent of the Company's production in the first three months of 2024 was from West Central Alberta.

Average production of 422 boe/day was reported during the three months ended March 31, 2023, which consisted of 26 bbls/day of crude oil and NGLs, and 2,376 Mcf/day of natural gas. Approximately 54 percent of the Company's production in the first three months of 2023 was from West Central Alberta, and the remaining 45 percent of the Company's production was from the East Central Alberta area.

PETROLEUM AND NATURAL GAS SALES

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Heavy oil and condensate	**17,147**	199,373	(91)
Natural gas	**226,092**	733,218	(69)
Natural gas liquids	**18,128**	35,432	(49)
Petroleum and natural gas	**261,367**	968,023	(73)
Per boe			
Petroleum and natural gas	**17.04**	25.40	(33)

Total production revenue was $261,367 for the three months ended March 31, 2024, a decrease of 73 percent from the $968,023 of production revenue reported for the three months ended March 31, 2023. The variance table that follows the price analysis summarizes the factors contributing to this decrease in total production revenue for the three months ended March 31, 2024.

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

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

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

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

	Three months ended March 31,		
($/bbl)	**2024**	2023	% change
Average Benchmark Prices			
WTI crude oil (US$/bbl)	**76.97**	76.11	1
WCS differential (US$/bbl)	**(19.27)**	(21.01)	(8)
US$/Cdn$ exchange rate	**0.742**	0.740	-
WCS (Cdn$/bbl)	**77.80**	74.52	4
AECO daily spot ($/GJ)	**2.50**	3.24	(23)
Average Realized Prices			
Heavy oil and condensate ($/bbl)	**92.99**	107.89	(14)
Natural gas ($/Mcf)	**2.52**	3.43	(27)
Natural gas liquids ($/bbl)	**86.25**	79.44	9
Average realized price ($/boe)	**17.04**	25.40	(33)
Oil Price Differentials			
Heavy oil differential to WCS ($/bbl)	**15.19**	33.37	(54)

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

Avila's average realized heavy oil and condensate price decreased 14 percent to $92.99 per bbl for the three months ended March 31, 2024, from $107.89 for the three months ended March 31, 2023.

Avila's average natural gas price decreased 27 percent to $2.52 per Mcf for the three months ended March 31, 2024, from $3.43 for the three months ended March 31, 2023.
The following table summarizes the impact of the Company's production activities, and prices on oil and natural gas revenue:

Variance analysis	Amount	% change
Three months ended March 31, 2023, production revenue	968,023	
Increase (decrease) due to:		
Crude oil and NGLs volumes	(173,181)	(25)
Natural gas volumes	(315,252)	(44)
Realized natural gas price	(191,874)	(28)
Realized crude oil and NGLs price	(26,349)	(3)
Total decrease	(706,656)	(100)
Three months March 31, 2024, production revenue	**261,367**	

ROYALTY EXPENSES

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Crown	**16,423**	59,803	(73)
Freehold and overriding royalties	**12,620**	70,100	(82)
Total royalty expenses	**29,043**	129,903	(78)
Per boe	**1.89**	3.40	(44)
Average royalty rates *(% of revenue)*			
Crown	**6.3**	6.2	2
Freehold and overriding royalties	**4.8**	7.2	(33)
Total royalty expenses	**11.1**	13.4	(17)

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 78 percent to $29,043 for the three months ended March 31, 2024 ($129,903 for the three months ended March 31, 2023), representing a combined royalty rate of 11.1 percent for the three months ended March 31, 2024 (13.4 percent for the three months ended March 31, 2023).

PRODUCTION AND OPERATING EXPENSES

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Production and operating expenses	**459,954**	401,841	14
Transportation costs	**55,430**	156,665	(65)
Total	**515,384**	558,506	(8)
Per boe	**33.59**	14.66	129

Production and operating expenses include all expenses associated with the production of crude oil and natural gas. The material components of operating expenses are labour, equipment maintenance, minor workovers, third party processing fees, fuel, and power. Avila operating expenses decreased eight percent to $515,384 for the three months ended March 31, 2024, from $558,506 for the three months ended March 31, 2023. On a boe basis, operating expenses increased 129 percent to $33.59 per boe for the three months ended March 31, 2023, from $14.66 for the three months ended March 31, 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 March 31,		
($/boe)	**2024**	2023	% change
Production revenue	**17.04**	25.40	(33)
Royalty expenses	**(1.89)**	(3.40)	(44)
Production and operating expenses	**(33.59)**	(14.66)	129
Operating netback	**(18.44)**	7.34	(351)

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

The operating netback decreased 351 percent to $18.44 operating loss per boe for the three months ended March 31, 2024, from $7.34 per boe for the three months ended March 31, 2023. This decrease was primarily due to lower realized prices for crude oil, NGLs and natural gas and higher operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Consulting fees	**148,416**	205,640	(28)
Wages and salaries	**43,851**	124,473	(65)
Bank charges/late fees	**1,355**	152,733	(99)
Office/administration	**58,359**	59,434	(2)
Professional fees	**41,923**	74,047	(43)
Insurance	**10,202**	60,310	(83)
Shareholder and trust services	**2,765**	31,385	(91)
Advertising/promotion	**30,803**	12,026	156
Listing fees	**3,337**	4,050	(18)
MTT license amortization	**88,746**	-	100

Net G&A expense	**429,757**	724,098	(41)

Per boe			
Gross	**28.01**	19.00	47
Net	**28.01**	19.00	47

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 decreased to $429,757 for the three months ended March 31, 2024, from $724,098 for the three months ended March 31, 2023.

FINANCE INCOME AND EXPENSE

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Interest income	**-**	31,729	(100)
Long term trade payable interest	**(96,658)**	-	100
Term loan interest	**(90,000)**	-	100
Term loan security fee	**(22,500)**	-	100
Term loan admin fee	**(37,500)**	-	100
Term loan origination fee	**(2,625)**	-	100
Late fees, penalties and interest	**(3,762)**	465	nmf
Interest on convertible debentures	**(49,799)**	(43,252)	15
Net interest (expense) income	**(302,844)**	(11,058)	nmf
Interest (expense) income ($/boe)	**(19.73)**	(0.29)	nmf
Interest on conversions	**-**	(1,566)	(100)
Interest expense on dividend liability	**-**	(103,101	(100)
Accretion on convertible preferred dividend	**-**	(10,846)	(100)
Accretion on lease liabilities	**(2,532)**	(3,265)	(22)
Accretion on convertible debentures	**(115,068)**	(114,166)	-
Accretion on decommissioning provision	**(43,935)**	(41,595)	6
Net finance (expense) income	**(464,379)**	(285,597)	63
Finance (expense) income) ($/boe)	**(30.27)**	(7.49)	304

Interest income includes interest earned on cash deposits.

Finance expense includes accretion on decommissioning obligations and convertible debentures.

DEPLETION AND DEPRECIATION EXPENSE

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Depletion and depreciation expense	**188,693**	349,722	(46)
Depreciation on right-of-use asset	**2,495**	2,494	-
Total	**191,188**	352,216	(46)
Per boe	**12.46**	9.24	35

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

Total depletion and depreciation expense was $191,188 ($12.46 per boe) for the three months ended March 31, 2024, from $352,216 ($9.24 per boe) of depletion and depreciation expense for the three months ended March 31, 2023. Total costs subject to depletion and depreciation expense include approximately $4,801,400 ($4,801,400 at December 31, 2023) 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 three months ended March 31, 2024, no impairment triggers were identified and therefore no impairment test was performed.

During the year ended December 31, 2023, the Company identified indicators of impairment and recorded an impairment of $12,239,831 for the West Central Alberta property acquisition and East Central property acquisition.

NET EARNINGS, FUNDS FLOW FROM OPERATIONS AND BOE NETBACKS

Net Earnings and Funds Flow from Operations

	Three months ended March 31,		
($)	**2024**	2023	% change
Net loss	**(1,368,384)**	(3,498,406)	(61)
Items not involving cash:			
Depletion and depreciation	**191,188**	352,216	(46)
Finance expense (including accretion)	**464,379**	317,326	46
Gain on convertible preferred dividend	**-**	(553,048)	(100)
Interest paid	**(96,317)**	-	100
Funds flow used in operations	**(809,134)**	(3,381,912)	(76)

Per share information

	Three months ended March 31,		
($, except where noted)	**2024**	2023	% change
Net loss	**(1,368,384)**	(3,498,406)	(61)
Basic *($/share)*	**(0.01)**	(0.03)	(67)
Diluted *($/share)*	**(0.01)**	(0.03)	(67)
Funds flow used in operations	**(809,134)**	(3,381,912)	(76)
Basic *($/share)*	**-**	(0.03)	(100)
Diluted *($/share)*	**-**	(0.03)	(100)

Funds flow used in operations decreased to $809,134 ($nil per basic and diluted share) for the three months ended March 31, 2023, from funds flow used in operations of $3,381,912 ($0.03 per basic and diluted share) for the three months ended March 31, 2023. The decrease in funds flow used in operations is primarily due to the $3,000,000 operating advance that was written off for the three months ended March 31, 2023.

Net loss of $1,368,384 ($0.01 loss per basic and diluted share) for the three months ended March 31, 2024, from net loss of $3,498,406 ($0.03 per basic and diluted share) for the three months ended March 31, 2023.

BOE Netbacks

	Three months ended March 31,		
($/boe)	**2024**	2023	% change
Production revenue	**17.04**	25.40	(33)
Royalty expenses	**(1.89)**	(3.40)	(44)
Production and operating	**(33.59)**	(14.66)	129
Operating netback	**(18.44)**	7.34	(351)
General and administrative	**(28.01)**	(19.00)	47
Other	**(6.27)**	1.64	00
Write off of advance	**-**	(78.69)	00
Cash flow netback	**(52.72)**	(88.71)	00
Depletion and depreciation	**(12.46)**	(9.24)	35
Finance expense	**(23.99)**	(8.33)	188
Gain on convertible preferred dividend liability		14.51	(100)
Net income (loss) for the period	**(89.17)**	(91.77)	(3)

CAPITALIZATION AND FINANCIAL RESOURCES

CAPITAL EXPENDITURES

	Three months ended March 31,	
	2024	2023
Land	**13,609**	4,148
Drilling costs	**-**	5,723
Completion/Workover costs	**-**	69,568
Production equipment and facilities	**71,617**	711,821
Total property, plant, and equipment	**85,226**	791,260
Intangible assets	**-**	7,000
Total other assets	**-**	7,000
Total capital expenditures	**85,226**	798,260

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

Net capital expenditures for the three months ended March 31, 2024, were $85,226.

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

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 $5,881,332 at March 31, 2024 (December 31, 2023 working capital deficit of $5,056,817), including cash proceeds from the Company's equity offerings. At March 31, 2024, the major components of Avila's current assets were cash, accounts receivable and prepaid expenses. Current liabilities largely consist of trade payables and accrued liabilities related to the Company's operations. The Company manages its working capital using a combination of its funds from operations and future equity offerings.

There are currently no capital commitments and no known unusual trends or liquidity issues as at May 29, 2024. 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 163,681,454 Common Shares.

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

	May 28, 2024	**March 31, 2024**
Common Shares	**163,681,454**	163,681,454
Dilutive Securities		
Warrants	**30,800,484**	30,800,484
Stock options	**1,753,770**	1,753,770
Total Dilutive Securities	**32,554,254**	32,554,254
Total Basic and Diluted Common Shares	**196,253,708**	196,253,708
Weighted average Common Shares		
Basic	**163,565,125**	163,487,146
Diluted	**163,565,125**	163,487,146

GOING CONCERN

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 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 three months ended March 31, 2024, executive services totalling $48,00 (December 31, 2023 - $214,280) were provided by companies that are affiliated with officers of Avila. At March 31, 2024, Avila still owes $189,515 for the services provided (December 31, 2023 - $167,780).

During the year ended December 31, 2023, a $27,480 fee was paid to a company that is affiliated with an officer of Avila for sourcing a potential convertible debenture offering.

During the three months ended March 31, 2024, the Company accrued $875 on convertible debentures (December 31, 2023 $ 2,820) that are held by an officer of Avila and a Company whose President is an officer of Avila.

The Company has a $500,000 convertible secured debenture at December 31, 2023 (December 31, 2022 - $500,000) bearing 5% interest compounded semi-annually that is held by Avila Exploration & Development Canada Ltd. whose President is also President and Chief Executive Officer of the Company. At March 31, 2024 there is $107,747 interest owing on the convertible secured debenture due July 31, 2027 (December 31, 2023 - $101,497).

During September 2022, the Company purchased WCA assets from 611890 Alberta Inc for $25,909,100. Consideration for the WCA assets consisted of 30,000,000 preferred shares issued to Leonard Van Betuw, 12,180,000 common shares issued directly to Leonard Van Betuw and 3,600,000 common shares issued to Leonard Van Betuw's family members. The Company has a $103,101 dividend payable to Leonard Van Betuw, who is also President and Chief Executive Officer of the Company relating to the forced conversion of the convertible preferred shares on March 29, 2023 (see note 14 (b)).

During December 2022, the Company advanced $2,340,000 of funds to 611890 Alberta Inc. for the 15% equity stake and preferred license from Micro Turbine Technology. Leonard Van Betuw, who is President of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. During the year ended December 31, 2023, the Company advanced an additional $1,455,720 of funds to 611890 Alberta Inc for the 15% equity stake and preferred license from Micro Turbine Technology. At March 31, 2024, Company owes $55,888 to 611890 Alberta Inc (December 31, 2023 - $59,461). At March 31, 2043, the Company has a $459,352 (December 31, 2022 - $446,440) joint venture receivable from 611890 Alberta Inc. as per the joint venture agreement.

During December 2022, the Company was intending to purchase NEBC assets from 611890 Alberta Inc. for $2,400,000. 611890 Alberta Inc. purchased the NEBC assets for $1,200,000 and incurred the costs associated with the preparation of the bid, post award negotiations, feasibility studies, engineering, budgeting and legal costs and then sold the assets to the Company for $2,400,000, resulting in a collateral benefit of $1,200,000 for 611890 Alberta Inc. Leonard Van Betuw, who is President of 611890 Alberta Inc is also President and Chief Executive Officer of the Company. During the year ended December 31, 2023, the Company advanced an additional $ 3,000,000 for the NEBC assets to 611890 Alberta Inc. This property acquisition was terminated resulting in the $2,400,000 being written off at December 31, 2022 and the $3,000,000 advance was written off at March 31, 2023.

During the year ended December 31, 2023, the Company advanced $1,200,000 of funds to 611890 Alberta Inc. for a partial payment of the promissory note (see note 10).

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. During the three months ended March 31, 2024, the Company incurred $96,658 of interest on this long-term trade payable.

CRITICAL ACCOUNTING ESTIMATES

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

RISKS AND UNCERTAINTIES

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and / or results of operations of the Company. The risks that could affect the Company have been described in the MD&A of the Company for the year ended December 31, 2023. 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

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 H2S 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.