AVILA ENERGY

Financial Statements

For the Years Ended December 31, 2023, and 2022

Independent Auditors' Report

To: The Shareholders of **Avila Energy Corporation**

Opinion

We have audited the financial statements of Avila Energy Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2023 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to the Nature of Operations in the notes to the financial statements which indicates that the Company incurred a net loss of $20,093,893 for the year ended December 31, 2023 and, as of that date, the Company's current liabilities exceeded its current assets by $5,056,818. These conditions, along with other matters as set forth in the Nature of Operations, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of value of property, plant and equipment for impairment

Description of the matter:

As reported in the statement of financial position, on December 31, 2023 the Company had property, plant and equipment at a net book value of $26,600,261 and during the year then ended recorded an impairment of $12,239,831. As indicated in Notes 2 and 3 the Company assesses its property, plant and equipment for impairment using market information. When necessary, the Company will record a provision for impairment in order to reflect any decreases in value.

Why the matter is a key audit matter:

We determined that auditing the evaluation of property, plant and equipment for impairment is a key audit matter due to the relative significance and requirement to use judgements and estimates.

How the matter was addressed in the audit:

We reviewed management's impairment calculations and the related reserve report, prepared by an independent reserves engineer, to assess the reasonableness of the carrying value of property plant and equipment and the corresponding impairment.

Other Matter

The financial statements of the Company for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified option on those statements on August 8, 2023.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditors' Report (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Roland A. Bishop, CPA, CA.

Kenway Mack Slusarchuk Stewart LLP

Chartered Professional Accountants

April 29, 2024
Calgary, Alberta

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

As at	December 31, 2023	December 31, 2022 *(restated)*
Assets		
Current assets		
Cash	**$ 66,572**	$ 6,564,110
Advances *(note 5)*	**-**	2,340,000
Accounts receivable	**914,993**	897,902
Prepaid expenses *(note 6)*	**351,031**	762,647
Total current assets	**1,332,596**	10,564,659
Property, plant and equipment *(notes 7 & 8)*	**26,600,261**	34,068,787
Right-of-use asset *(note 9)*	**109,755**	119,732
Investment (note 10)	**3,564,711**	-
Intangible assets (*note 11*)	**2,155,208**	9,382
Assets under development (*note 12*)	**2,071,720**	-
Deferred tax asset *(note 18)*	**-**	1,962,353
Total non-current assets	**34,501,655**	36,160,254
Total assets	**$ 35,834,251**	$ 46,724,913
Liabilities and Shareholders' Equity		
Current liabilities		
Account payable and accrued liabilities	**$ 5,097,402**	$ 1,716,512
Lease liabilities *(note 9)*	**16,186**	32,897
Promissory note *(note 14)*	**600,000**	1,800,000
Derivative liability *(note 17)*	**-**	631,983
Loan payable *(note 17)*	**284,999**	-
Convertible debenture *(note 17)*	**-**	267,329
Dividend payable *(note 19)*	**103,101**	-
Flow-through share premium liability *(note 21)*	**-**	2,006,889
Interest payable on convertible debentures	**287,726**	126,499
Total current liabilities	**6,389,414**	6,582,109
Interest payable on debentures	**101,497**	76,497
Lease liabilities *(note 9)*	**80,941**	90,643
Decommissioning liability *(note 13)*	**2,790,224**	3,334,487
Term loan *(note 15)*	**3,000,000**	-
Trade payable *(note 16)*	**5,994,313**	-
Convertible debentures *(note 17)*	**4,035,969**	3,785,673
Convertible preferred share dividend liability *(note 19)*	**-**	542,202
Total liabilities	**22,392,358**	14,411,611
Shareholders' Equity		
Share capital *(note 19)*	**57,900,721**	56,883,006
Contributed surplus	**4,710,167**	4,454,073
Convertible debentures – equity portion *(note 17)*	**1,242,158**	1,293,483
Deficit	**(50,411,153)**	(30,317,260)
Total equity	**13,441,893**	32,313,302
Total liabilities and shareholders' equity	**$ 35,834,251**	$ 46,724,913

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

Nature of Operations and Going Concern (*note 1*)
Subsequent events (note 28)

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

Year ended December 31,		**2023**		2022 (restated)
Revenue				
Oil and natural gas *(Note 22)*	**$**	**2,235,788**	$	3,081,531
Gain on acquisition of assets *(note 7)*		**-**		13,942,757
Change in derivative liability *(note 17)*		**631,983**		49,144
Gain on convertible preferred share *(note 19)*		**553,048**		-
Flow-through premium liability *(note 21)*		**2,006,889**		-
Interest income *(note 24)*		**31,729**		-
Processing income		**27,111**		-
Gain on settlement of debt		**-**		1,432
Other income		**22,143**		7,696
		5,508,691		17,082,560
Expenses				
Production and operating		**2,807,977**		1,779,082
General and administrative		**2,289,891**		1,066,062
Write off advance *(note 5)*		**3,000,000**		2,400,000
Acquisition expense *(note 7)*		**-**		1,345,000
Impairment on goodwill *(note 7)*		**-**		11,516,303
Impairment on property and equipment *(note 8)*		**12,239,831**		18,444,338
Depletion and depreciation (*note 8)*		**1,726,661**		232,408
		22,064,360		36,783,193
Results from operating activities		**(16,555,669)**		(19,700,633)
Finance expense *(note 24)*		**(1,575,870)**		(677,184)
Net loss before taxes		**(18,131,539)**		(20,377,817)
Deferred tax expense *(note 18)*		**(1,962,354)**		-
Loss and comprehensive loss	**$**	**(20,093,893)**	$	(20,377,817)
Net loss per share (*note 19(e))*				
Basic	**$**	**(0.14)**	$	(0.39)
Diluted	**$**	**(0.14)**	$	(0.39)

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

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

(restated)

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total 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 *(note 17)*	-	452,632	232,092	(51,325)	-	-	180,704
Conversion of preferred shares (*note 19*)	(30,000,000)	30,000,000	-	-	-	-	-
Issued shares for cash (note 19)	-	21,160,000	801,906	-	256,094	-	1,058,000
Subscription receipts (note 19)	-	-	45,180	-	-	-	45,180
Share issue costs (note 19)	-	-	(61,400)	-	-	-	(61,400)
Loss and comprehensive loss	-	-	-	-	-	(20,093,893)	(20,093,893)
Balance at December 31, 2023	**-**	**163,049,954**	**$ 57,900,721**	**$1,242,158**	**$ 4,710,167**	**$ (50,411,153)**	**$ 13,441,893**

(restated)

	Number of Preferred Shares	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2022	-	35,651,341	$ 9,023,278	$ 235,500	$ 3,358,412	$ (9,939,443)	$ 2,677,747
Issued shares for cash (note 19)	-	22,196,708	8,000,000	-	-	-	8,000,000
Warrants issued (note 19)	-	-	(1,212,126)	-	1,212,126	-	-
Warrants issued as finder's fee	-	-	-	-	58,912	-	58,912
Shares issued for acquisition *(note 7)*	30,000,000	44,440,000	41,174,122	-	-	-	41,174,122
Shares issued for services (*note 7*)	-	4,222,222	1,345,000	-	-	-	1,345,000
Share issuance costs (note 19)	-	-	(821,247)	-	-	-	(821,247)
Compensation options issued	-	-	(197,348)	-	197,348	-	-
Warrants exercised (*note 19*)	-	3,790,623	1,173,155	-	(372,725)	-	800,430
Conversion of debentures *(note 17)*	-	1,136,428	405,061	-	-	-	405,061
Equity portion of debenture (note 17)	-	-	-	1,057,983	-	-	1,057,983
Flow-through share premium (note 21)	-	-	(2,006,889)	-	-	-	(2,006,889)
Loss and comprehensive loss	-	-	-	-	-	(20,377,817)	(20,377,817)
Balance at December 31, 2022	**30,000,000**	**111,437,322**	**$ 56,883,006**	**$1,293,483**	**$ 4,454,073**	**$ (30,317,260)**	**$ 32,313,302**

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

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

Year ended December 31,	2023	2022
Operating activities		
Income (loss) for the period	**$ (20,093,893)**	$ (20,377,817)
Adjustments for:		
Impairment on goodwill *(note 7)*	**-**	11,516,303
Gain on acquisition of assets *(note 7)*	**-**	(13,942,757)
Acquisition expense (note 7)	**-**	1,345,000
Impairment on property & equipment (note 8)	**12,239,831**	18,444,338
Depletion and depreciation *(note 8)*	**1,726,661**	232,408
Change in derivative liability *(note 17)*	**(631,983)**	(49,144)
Deferred tax expense *(note 18)*	**1,962,354**	-
Convertible preferred share *(note 19)*	**(553,048)**	-
Flow-through premium liability (note 21)	**(2,006,889)**	-
Finance expense *(note 24)*	**1,575,870**	677,184
Gain on settlement of debt	**-**	(1,432)
Interest paid	**(472,490)**	**-**
Changes in non-cash working capital (*note 20)*	**5,518,256**	**(602,611)**
Net cash used in operating activities	**(735,331)**	(2,758,528)
Financing activities		
Shares issued for cash *(note 19)*	**801,906**	8,000,000
Warrants issued for cash *(note 19)*	**256,094**	-
Subscription receipts *(note 19)*	**45,180**	-
Warrants exercised *(note 19)*	**-**	800,430
Share issuance costs *(note 19)*	**(61,400)**	(821,245)
Surface lease payments *(note 9)*	**(37,919)**	(4,000)
Promissory note repayment *(note 14)*	**(1,200,000)**	(67,429)
Proceeds from term loan *(note 15)*	**3,000,000**	-
Proceeds from debenture issuance (note 17)	**-**	4,697,017
Net cash provided by financing activities	**2,803,861**	12,604,773
Investing activities		
Oil and natural gas properties *(notes 7 & 8)*	**(6,556,962)**	(3,688,472)
Property acquisitions (note 7)	**(522,969)**	
Investments *(note 10)*	**(3,564,711)**	-
Expenditures on intangible assets *(note 11)*	**(2,145,826)**	(7,000)
Assets under development *(note 12)*	**(1,474,494)**	-
Changes in non-cash working capital *(note 16)*	**5,698,894**	-
Net cash used in investing activities	**$ (8,566,068)**	$ (3,695,472)
Change in cash	**$ (6,497,538)**	$ 6,150,773
Cash, beginning of period	**6,564,110**	413,337
Cash, end of period	**$ 66,572**	$ 6,564,110

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

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

Going Concern

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the twelve-month period ended December 31, 2023, the Company incurred a net loss of $ 20,093,893 and had net cash used in operating activities of $ 735,331. In addition, the Company has a deficit of $ 50,411,153.

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 considers 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 several 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.

1. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

These financial statements as at and for the year ended December 31, 2023 and 2022 comprise the Company.

The financial statements were authorized for distribution by the Company's Board of Directors on April 29, 2024.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in note two.

Expenses in the statement of operations and comprehensive loss are presented as a combination of function and nature in conformity with industry practice. Share-based compensation and depreciation are presented on separate lines by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Amendments to IAS 1 – Disclosure of Accounting Policies

The Company adopted Amendments to IAS *1 Disclosure of Accounting Policies* effective January 1, 2023. The amendments replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies and establish guidance on how to apply the concept of materiality in determining material accounting policy disclosures. The amendments have been reflected by emphasizing the most relevant aspect of Avila's accounting policies below.

Voluntary change in accounting policy
Avila re-assessed its policy for the measurement of it's 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 landowner, 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.

Impact on the Statement of Financial Position

	June 30, 2023	March 31, 2023	December 31, 2022
Right-of-use asset - previously reported	$ 1,291,343	$ 1,338,815	$ 1,386,287
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Right-of use asset restated	114,743	117,238	119,732
Total assets - previously reported	$ 45,400,687	$ 45,473,756	$ 47,991,468
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Total assets restated	44,224,087	44,252,179	46,724,913
Lease liabilities - previously reported	$ 1,325,123	$ 1,420,030	$ 1,415,354
Restatement adjustment	(1,219,195)	(1,299,875)	(1,291,814)
Lease liabilities restated	105,928	120,155	123,540
Deficit - previously reported	$ (33,782,151)	$ (33,893,964)	$ (30,342,519)
Restatement adjustment	42,595	78,297	25,259
Deficit restated	(33,739,556)	(33,815,667)	(30,317,260)
Total liabilities and shareholde equity	$ 45,400,687	$ 45,473,756	$ 47,991,468
Restatement adjustment	(1,176,600)	(1,221,577)	(1,266,555)
Total liabilities and shareholders' equity	44,224,087	44,252,179	46,724,913

Reconciliation of the Statement of Loss and Comprehensive Loss

	Q2 2023	Q1 2023	2022 YTD
Production and operating – previously	$ 667,453	$ 527,046	$ 1,699,945
Restatement adjustment	118,778	31,460	79,137
Production and operating restated	786,231	558,506	1,779,082
Finance expense - previously reported	$ 110,933	$ 356,847	$ 722,698
Restatement adjustment	(38,099)	(39,521)	(45,514)
Finance expense restated	72,834	317,326	677,184
Depreciation - previously reported	$ 333,973	$ 397,194	$ 291,290
Restatement adjustment	(44,978)	(44,978)	(58,882)
Depreciation restated	288,995	352,216	$ 232,408
Income (loss) - previously reported	$ 111,813	$ (3,551,445)	$ (20,403,076)
Restatement adjustment	(35,702)	53,039	25,259
Income (loss) restated	76,111	(3,498,406)	(20,377,817)

Reconciliation of the Statement of Cash Flow

	Q2 2023	Q1 2023	2022
Income (loss) – previously reported	$ 111,813	$ (3,551,445)	$ (20,403,076)
Restatement adjustment	(35,702)	53,039	25,259
Income (loss) restated	76,111	(3,498,406)	(20,377,817)

Finance expense - previously reported	$ 110,933	$ 356,847	$ 722,698
Restatement adjustment	(38,099)	(39,521)	(45,514)
Finance expense restated	72,834	317,326	677,184

Depreciation - previously reported	$ 333,973	$ 397,194	$ 291,290
Restatement adjustment	(44,978)	(44,978)	(58,882)
Depreciation restated	288,995	352,216	232,408

Cash flow (used) in operations	$ (451,529)	$ (3,350,452)	$(2,679,391)
Restatement adjustment	(118,778)	(31,460)	(79,137)
Cash flow from (used) restated	(570,307)	(3,381,912)	(2,758,528)

Lease payments - previously reported	$ 136,023	$ 38,110	$17,828
Restatement adjustment	(118,778)	(31,460)	(13,828)
Lease payments restated	17,245	6,650	4,000

2. MATERIAL ACCOUNTING POLICIES

Cash and cash equivalents

Cash and Cash equivalents are comprised of cash in banks or held in trust.

Property, plant and equipment and exploration and evaluation assets

Exploration and evaluation (“E&E”) assets: E&E expenditures, including the costs of acquiring licenses and directly attributable general and administrative costs, are initially capitalized pending determination of technical feasibility and commercial viability. Pre-license costs are recorded in profit and loss when incurred.

E&E assets are not depreciated and are carried forward until technical feasibility and commercial viability of the oil and natural gas property is determined, which is generally when proven or probable reserves are determined to exist. A review of each exploration project is carried out, at least annually, to ascertain whether proven or probable reserves have been discovered. Upon determination of technical and commercial viability, E&E assets are first tested for impairment and then reclassified from exploration assets to oil and natural gas properties and equipment.

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units (“CGUs”) or groups of CGUs.

Oil and natural gas properties and equipment: Items of oil and natural gas properties and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, net of reversals. Each significant part of an item of oil and natural gas properties and equipment which have different useful lives have been accounted for and depleted or depreciated as separate items (major components). Oil and natural gas assets are grouped into cash-generating units for impairment testing.

Gains and losses on the disposal of an item of oil and natural gas properties and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of oil and natural gas properties and equipment and are recognized net within other income.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of oil and natural gas properties and equipment are recognized as oil and natural gas properties and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas properties and equipment generally represent costs incurred in developing proved and / or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of oil and natural gas properties and equipment are recognized in profit or loss as incurred.

The net carrying value of developed oil and natural gas properties and equipment is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, including estimated future development costs. Future development costs are estimated taking into account the level of development required to bring reserves into production. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated at least annually by the Company's independent reservoir engineering consultants, and estimates are updated internally each quarter. Proven and probable reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all of the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or conclusive formation tests. The area of reservoir considered proven includes a) that portion delineated by drilling and defined by gas-oil and / or oil-water contacts, if any, or both, and b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

For corporate assets, depreciation is recognized in profit or loss on a 20 to 33 percent declining balance basis. Where facilities and equipment, including major components, having differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful lives:

Corporate assets	20 percent
Facilities and equipment	25 years
Pipelines	25 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A lease liability is initially measured at the present value of the unpaid lease payments, discounted using the lessee's incremental borrowing rate applied to the lease liabilities. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation or any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

Non-monetary transactions

Gains and losses on the disposal of an item of oil and natural gas properties and equipment in development assets, including oil and gas interests and non-monetary transactions such as farm-outs and asset swaps, are determined by comparing the proceeds from disposal with the carrying amount of petroleum and natural gas properties and equipment and are recognized net in profit or loss.

Gains and losses on the disposal of an item of E&E assets, including oil and gas interests and non-monetary transactions such as farm-outs and asset swaps, are not recognized in profit or loss.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. The estimated decommissioning provision is recorded as a liability in the period in which it is incurred, with a corresponding increase in the carrying amount of the related asset. Decommissioning provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position using the risk free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost and increases / decreases in the provision due to changes in estimated future cash flow are recorded as adjustments to the carrying amount of the related asset. The capitalized amount is depreciated along with the related asset using the unit-of-production method based on proved and probable reserves. Actual costs incurred upon the settlement of the decommissioning provision are charged against the decommissioning provision to the extent the provision was established.

Financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("(FVTPL"). Financial assets are categorized based on the Company's objective for the asset and the contractual cash flows. A financial asset is classified as amortized cost if the asset is held with the objective to collect contractual cash flows that are solely payments of principal and interest on principal amounts outstanding. A financial asset is classified as FVOCI if the asset is held with the objective to both collect contractual cash flows and sell the financial asset. All other financial assets are measured at FVTPL. Financial assets are assessed for impairment using an expected credit loss model. Trade and other receivables are classified and measured at amortized cost. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability classified as FVTPL are expensed at inception of the contract. For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to, or deducted from, the fair value on initial recognition and amortized through net income or loss over the term of the financial instrument.

The measurement categories for each class of financial asset and financial liability are summarized in the following table:

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Convertible preferred shares dividend liability	Amortized cost
Loan payable	Amortized cost
Lease liability	Amortized cost
Trade payable	Amortized cost
Term loan	Amortized cost
Derivative liability	FVTPL
Promissory notes payable	Amortized cost

Financial instruments may be utilized by the Company to manage its exposure to commodity price fluctuations and foreign currency exposures. The Company's practice is not to utilize financial instruments for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all financial derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified at fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

Impairment of financial assets is determined by calculating the expected credit loss ("ECL"). The Company measures an ECL allowance for trade and other receivables. The Company determines the ECL which is the probability of default events related to the financial asset by using historical realized bad debts and forward-looking information. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized with general and administrative expense in the statement of income or loss.

Convertible debentures

The Company has issued convertible debentures which, on conversion, must be satisfied entirely in common shares of the Company for an amount equal to the greater of the conversion value and the redemption value of the instrument.

The Company reviews the terms of its convertible debentures to determine whether there are embedded derivatives, including the embedded conversion option that is required to be separated and accounted for as individual derivative financial instruments or equity components.

The debenture host contracts are subsequently recorded at amortized cost at each reporting date using the effective interest method. The embedded derivatives are subsequently recorded at fair value at each reporting date, with changes in fair value recognized in profit (loss).

The Company presents its embedded derivative liability and related debenture host contracts as separate instruments on the statement of financial position.

Intangible assets

Intangible Assets IAS 38 Intangible Assets was amended in March 2021 to revise how to recognize costs in relation to the configuration or customization of application software. The Company adopted the amendment in 2022 and the adoption did have an impact on the Company's financial statements by way of the Company recording to costs associated to the internally generated website as an intangible asset.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the statement of income/loss.

Goodwill is subsequently measured at cost less accumulated impairment losses. Impairment losses recorded on goodwill do not reverse.

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income/loss.

Share capital

Share capital represents the amount received on the issue of shares, less issuance costs. Proceeds from unit placements are allocated between shares and warrants issued by estimating the value of the warrants using the Black-Scholes options pricing model; the fair value is allocated to warrants from the net proceeds and the balance is allocated to the shares. Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised. Deficit includes all current and prior year profits or losses. 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 fair value of the Convertible Preferred Shares is recorded by an independent valuation due to the variability in the conversion features. The dividend payments are recorded as a Convertible Preferred Share Dividend Liability and the fair value is the discounted present value of the future dividend payments. Changes to these estimates could result in the fair value of the Convertible Preferred Share Dividend Liability being less than or greater than the amount recorded.

Flow-through shares

The Company, from time to time, issues flow-through common shares to finance significant portions of its property development programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flowthrough share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The premium is recognized as other income and the related deferred tax is recognized as a tax provision which is reduced when qualifying flow-through expenditures are incurred. Proceeds received from the issuance of flow-through shares are restricted to be used only for qualifying Canadian Development and Canadian Renewable Conservation Expenses within a two-year period in accordance with Government of Canada flow-through share regulations. The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through share regulations. When applicable, this tax is accrued as a financial expense until paid.

Revenue recognition

The Company principally generates revenue from the sale of commodities, which primarily consist of natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer.
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue. Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the statement of income/loss.

Revenue from processing and other miscellaneous sources is recognized in accordance with service agreements upon completion of the relevant service.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Share-based compensation

Compensation expense associated with share-based compensation plans is recognized in profit or loss, over the vesting period of the plan, with a corresponding increase in contributed surplus.

Compensation expense is based on the fair value of the equity based compensation at the date of the grant determined in part based on the Black-Scholes option pricing model. The amount recognized as an expense is adjusted to reflect the actual number of stock options for which the related service conditions are met. The amount of non-cash compensation expense for equity based plans is recognized in contributed surplus and is recorded as an increase in shareholders' equity when equity based compensation plans are exercised.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is also recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities when the Company intends to settle current tax liabilities and assets on a net basis, or when the tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Impairment of financial assets is determined by calculating the expected credit loss ("ECL"). The Company measures an ECL allowance for trade and other receivables. The Company determines the ECL which is the probability of default events related to the financial asset by using historical realized bad debts and forward-looking information. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized with general and administrative expense in the statement of income or loss.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time. E&E assets are assessed for impairment when they are reclassified to oil and natural gas properties and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When testing producing assets or oil and natural gas interests, the CGU is generally the field except where several field interests are grouped because cash inflows are interdependent. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering event and circumstances as well as on reclassification to oil and natural gas properties.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured. Thereafter, generally, the assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on assets held for sale is allocated first to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as assets held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss. An impairment loss in respect of goodwill is not reversed.

Finance income and expenses

Finance income consists of interest income on funds invested. Interest income is recognized as it accrues in profit and loss, using the effective interest method.

Finance expense consists of interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets, except E&E assets, are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the year.
Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

Net income (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period. Diluted earnings or loss per share is calculated by dividing the earnings or loss for the period by the weighted average number of shares outstanding during the same period adjusted for the effects of all dilutive potential common shares, which comprise options granted to employees and warrants. Under this method, the weighted average number of common shares outstanding for the calculation of diluted earnings or loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. The basic and diluted loss per share are the same because the exercise of options and warrants would have an anti-dilutive effect.

3. MATERIAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the period then ended. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 1 – nature of operations and going concern
- Note 8 – valuation of oil and natural gas properties
- Note 18 – deferred income taxes
- Note 19 – measurement of share-based payments

Note 2 refers to reserves estimates which impact a number of the areas referred to above, in particular the valuation of oil and natural gas properties, exploration assets and the calculation of depletion and depreciation.

Material judgments in applying accounting policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Taxes
The Company recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available to utilize the Company's deductible temporary differences which are based on management's judgement on the degree of future taxable profits. To the extent that future taxable profits differ significantly from the estimates impacts the amount of deferred tax assets management judges is probable.

Financial instruments
The Company is required to classify its various financial instruments into certain categories for the financial instruments' initial and subsequent measurement. This classification is based on management's judgement as to the purpose of the financial instrument and to which category is most applicable.

Convertible debentures
Convertible debentures are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, using estimated interest rates based upon non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method.

Derivative liability
The Company measures the fair value of the derivative by reference to the fair value on the convertible debenture issuance date with an estimated life ending on the convertible debenture maturity date and revalues them at each reporting date. In determining the fair value for the derivative liability, the Company used the Black-Scholes option pricing model with the following assumptions: average volatility rate; market price at the reporting date; risk-free interest rate; the remaining expected life of the embedded derivatives and an exchange rate at the reporting date. The inputs used in the Black-Scholes model are taken from observable markets. Changes to these estimates could result in the fair value of the derivative liability being less than or greater than the amount recorded.

Going concern
Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended December 31, 2023. Management prepares the financial instruments on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to current and expected profitability, debt repayment schedules and potentials source of financing.

Establishing CGU
For the purpose of assessing impairment of its long-term assets, the Company determines the CGU, as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The determination of the CGU and the classification of the Company's assets to the determined CGU require significant judgment having a potentially significant influence on the result of the subsequent impairment analysis. The Company periodically reviews the determination of the CGU and the corresponding grouping of the Company's assets, including its assets classified as common assets. Management has determined that the Company has one CGU.

Warrants
Estimating fair value for warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, and dividend yield of the warrants. The fair value of warrants is evaluated using the Black-Scholes valuation model at the date of grant. The Company has made estimates as to the

expected volatility, share price and expected life of warrants. The expected volatility is based on the historical volatility of the Company, over the period of the expected life of the warrants. The expected life of the warrants is based on historical data. These estimates may not necessarily be indicative of future actual patterns. Share price is based on the price of shares issued in recent raises.

Common shares
As the Company's shares are trading on a listed exchange, the Company is required to estimate the fair value of the common shares issued on debt, promissory notes, and accounts payable and accrued liabilities settlements, issued in exchange for services, and used in the valuation of the conversion feature of the derivative liability. The Company estimated the fair value of common shares based on expected capital raises, history of debt conversions with third parties, and internal company information.

Business Combination
The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgments on whether the assets acquired, and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

Key sources of estimation uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements.

Fair value of financial instruments
The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires estimates as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the options, the Company's share price and its expected volatility, the risk-free interest rate and the expected dividends.

Taxes
Provisions for taxes are made using the best estimate of the amount expected to be paid based on qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Property and equipment
Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future oil, natural gas and natural gas liquids prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who

work with information provided by the Company to establish reserve determinations in accordance with National Instrument 41-101.

Decommissioning liability
The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Oil and natural gas assets and equipment and exploration assets
The fair value of oil and natural gas assets and equipment recognized as a result of a business combination, or for use in an impairment test, is based on market values. The market value is the estimated amount for which oil and natural gas assets and equipment could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas properties is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserves reports. Intangible exploration assets are compared to current land sales proceeds. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. These estimates are subject to change and could result in a material change to the carrying amounts of the assets.

Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities
The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2023, the fair value of these balances approximated their carrying value due to their short term to maturity. The bank debt, when outstanding, bears a floating rate of interest and therefore carrying value approximates fair value.

Investments and debt
When the fair values of investments, long-term investments, and debt recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions relating to these judgements could affect the reported fair value of financial instruments.

Derivatives
The fair value of forward financial contracts when outstanding, is based on their listed market price, if available. If a listed market price is not available, then fair value is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

Share-based payment transactions
The fair value of employee stock options and performance warrants is measured in part on the Black-Scholes option pricing models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate.

5. ADVANCES

A reconciliation of the advances is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
Opening balance	**$ 2,340,000**	$ -
Advance – MTT	**1,743,720**	2,340,000
Transfer to License Fee (MTT)	**(1,665,381)**	-
Transfer to Non-Voting Shares (MTT)	**(2,418,339)**	-
Advance to 611890 Alberta Inc – NE BC	**3,000,000**	2,400,000
Write off NE BC Advance	**(3,000,000)**	(2,400,000)
Balance, end of period	**$ -**	$ 2,340,000

At December 31, 2022, the $2,340,000 advanced to 611890 Alberta Inc. ("611890" *see note 28 'related party transactions'*) was for the assumption of the contract with Micro Turbine Technology ("MTT").

During 2022, the Company advanced $2,400,000 to 611890 for the purchase of the Northeast British Columbia ("NEBC") assets (*see note 28 'related party transactions'*) . This advance was written off by the Company during the year ended December 31, 2022. During 2023, The Company advanced an additional $3,000,000 to 611890 for an additional non-refundable security deposit to the vendor of the property *(see note 28 'related party transactions')*. On March 15, 2023, the Company withdrew from the NEBC acquisition and wrote off the $3,000,000 advance. The $2,400,000 advance was written off as of Dec 31, 2022.

6. PREPAID EXPENSES

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

	Year ended December 31, 2023	Year ended December 31, 2022
Data analysis	**$ -**	$ 737,247
MTT annual license fee	**266,238**	-
Investor relation fees	**30,000**	-
Land service retainer fees	**3,009**	25,400
Prepaid financing fees on term loan	**15,750**	-
AER decommissioning and crown royalty deposit	**36,034**	-
Balance, end of period	**$ 351,301**	$ 762,647

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

7. BUSINESS COMBINATION

West Central Alberta

On September 1, 2022, the Company purchased 100 percent of oil and gas properties in the West Central Alberta ("WCA") area. The transaction was accounted for as a business combination under IFRS – 3 "Business Combinations" as the assets met the definition of a business.

The aggregate consideration paid of $41,703,300 is comprised of 30,000,000 convertible preferred shares valued at $0.55 per share for the total value of $16,372,500 and 44,440,000 common shares at the September 14, 2022 closing share price of $0.57 on which the shares were transferred for a total value of $25,330,800.

The following purchase price allocation was based on management's best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be $16,516,645; which was based on the NPV of 10% discounted cash flows created by an Independent Qualified Reserves Evaluator ("QRE"). Management determined the fair value of the facilities to be $5,416,566 and pipeline to be $5,883,660. The Company assumed decommissioning liabilities and asset retirement obligation of $2,182,077 in discounted decommissioning liabilities was based on future value of $5,685,194, an inflation rate of 2.0 percent, credit adjusted risk free rate of 5.39 percent and life of the asset of one to 50 years.

Net assets acquired		**Total**
Petroleum and natural gas properties and equipment		$16,516,645
Facilities		5,416,566
Pipelines		5,883,660
Goodwill		11,516,303
Deferred tax asset		5,640,021
Joint venture receivable from 611890		(1,087,818)
Decommissioning liabilities		(2,182,077)
Fair value of net assets acquired	**$**	**41,703,300**

Consideration		
Common shares	**$**	**25,330,800**
Preferred shares		**15,843,321**
Convertible preferred share dividend liability		**529,179**

The business combination resulted in a goodwill value of $11,516,303 which Management impaired to nil for the year ended December 31, 2022. Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the closing date.

The purchase of the WCA assets meets the definition of a related party transaction as the purchase was between 611890 and the Company *(see note 28 'related party transactions')*. The CEO of 611890 Alberta Ltd. is the CEO of the Company.

During 2023, the Company recorded an additional $154,021 purchase price adjustment for additional costs incurred between the effective and closing date of the business combination.

Acquisition Cost

The Company incurred acquisition costs fair valued at $1,345,000 for services related to arranging the acquisition between the buyer and seller settled with 4,222,222 common shares issued (note 19 (a)).

Revenue and operating income

The acquisition contributed $1,501,797 in revenues, royalty expenses of $126,394 and $1,032,051 in direct operating expenses for the year ended December 31, 2022 resulting in $324,902 of net operating income.

Donalda

On November 1, 2022, the Company purchased 100 percent of oil and gas properties in the Donalda area. The transaction was accounted for as a business combination under IFRS – 3 “Business Combinations” as the assets met the definition of a business.

The total purchase is comprised of $1,800,000 in the form of a promissory note (*see note 14*).

The following purchase price allocation was based on management’s best estimate of the fair value assigned to the Assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be $11,007,129; which was based on the NPV of 10% discounted cash flows created by an Independent Qualified Reserves Evaluator (“QRE”). The Company assumed decommissioning liabilities and asset retirement obligation of $981,744 in discounted decommissioning liabilities was based on future value of $3,772,618, an inflation rate of 2.0 percent, credit adjusted risk free rate of 5.39 percent and life of the asset of nine to 50 years.

Net assets acquired		**Total**
Petroleum and natural gas properties and equipment		$11,007,129
Facilities		1,920,600
Pipelines		7,474,440
Deferred tax liabilities		(3,677,668)
Decommissioning liabilities		(981,744)
Fair value of net assets acquired	**$**	**15,742,757**
Less: promissory note issued		**(1,800,000)**
Gain on acquisition		**13,942,757**

Best estimates were determined based on available information at the time of preparation of these Financial Statements. The Company continued its review to determine the identification of intangible assets, assumption of liabilities, identification of contingent liabilities and working capital adjustments during the allowable measurement period, which shall not exceed one year from the closing date.

During 2023, the Company recorded an additional $368,948 purchase price adjustment for costs incurred between the effective and closing date of the business combination.

Acquisition Cost

The Company did not incur any acquisition cost.

Revenue and operating income

The acquisition contributed $874,852 in revenues, royalty expenses of $84,916 and $560,070 in direct operating expenses for the year ended December 31, 2022 resulting in $229,866 of net operating income.

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

		Total
Cost		
Balance at December 31, 2021	$	2,419,423
Additions – property acquisitions		48,219,040
Additions - regular		747,997
Additions – cash call		1,399,999
Balance at 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**
Balance at December 31, 2021	$	(44,252)
Depletion and depreciation for the period		(229,082)
Impairment		(18,444,338)
Balance at December 31, 2022	$	(18,717,672)
Depletion and depreciation for the period		(1,716,684)
Impairment		(12,239,831)
Balance at December 31, 2023	**$**	**(32,674,187)**

Net carrying value:		
Balance December 31, 2022	$	34,068,787
Balance December 31, 2023	$	26,600,261

At December 31, 2023, the Company evaluated its developed and producing assets for indicators of any potential impairment or related reversal. As a result of this assessment, indicators were identified and Avila recognized $12,239,831 of impairment expense. The Company used value in use, discounted at pre-tax rates of 10 percent.

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2023. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

December 31	WCS Oil Price (Cdn$/bbl) **2023**	AECO Gas Price (Cdn$/Mcf) **2023**
2024	**73.92**	**2.01**
2025	**78.15**	**3.42**
2026	**81.03**	**4.30**
2027	**83.05**	**4.39**
2028	**86.21**	**4.47**
2029	**87.93**	**4.56**
2030	**89.70**	**4.65**
2031	**91.48**	**4.75**
Thereafter	**+2.0%**	**+2.0%**

At December 31, 2022, the Company evaluated its developed and producing assets for indicators of any potential impairment or related reversal. As a result of this assessment, indicators were identified and Avila recognized $18,444,338 of impairment expense. The Company used value in use, discounted at pre-tax rates between 10 percent.

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2022. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

December 31	WCS Oil Price (Cdn$/bbl) **2022**	AECO Gas Price (Cdn$/Mcf) **2022**
2023	**74.30**	**5.05**
2024	**75.55**	**4.80**
2025	**73.55**	**4.60**
2026	**75.00**	**4.60**
2027	**76.50**	**4.60**
2028	**78.05**	**4.60**
2029	**79.60**	**4.60**
2030	**81.20**	**4.60**
Thereafter	**+2.0%**	**+1.5%**

9. RIGHT-OF-USE ASSETS AND LEASES

Voluntary change in accounting policy

Avila re-assessed its policy for the measurement of it's 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 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.

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

(restated)		**Total**
Cost		
Balance at December 31, 2021	$	-
Initial recognition		123,058
Depreciation		(3,326)
Balance at December 31, 2022	$	119,732
Depreciation		(9,977)
Balance at December 31, 2023	**$**	**109,755**

Lease Liability		**Total**
Balance at December 31, 2021	$	-
Initial recognition		123,058
Surface lease payments		(4,000)
Interest expense		4,482
Balance at December 31, 2022	$	123,540
Surface lease payments		(37,919)
Interest expense		11,506
Balance at December 31, 2023	**$**	**97,127**

10. INVESTMENTS

	Year ended December 31, 2023	Year ended December 31, 2022
Cost		
Balance, beginning of period	**$ -**	$ -
Additions – MTT non-voting shares	**3,564,711**	-
Balance, end of period	**$ 3,564,711**	$ -

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

11. GOODWILL AND INTANGIBLE ASSET

		Total
Cost		
Balance at December 31, 2021	$	-
Additions – goodwill property acquisitions		11,516,303
Additions – intangible assets		9,382
Balance at December 31, 2022	$	11,525,685
Additions – intangible assets		7,000
Additions – MTT license		2,138,826
Balance at December 31, 2023	**$**	**13,671,511**

Balance at December 31, 2021	$	-
Goodwill Impairment for the period		(11,516,303)
Balance at December 31, 2022	$	(11,516,303)
Depletion and depreciation for the period		-
Balance at December 31, 2023	**$**	**(11,516,303)**
Net carrying value:		
Balance December 31, 2022	$	9,382
Balance December 31, 2023	$	2,155,208

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

12. ASSETS UNDER DEVELOPMENT

		Total
Cost		
Balance at December 31, 2021 & 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**
Net carrying value:		
Balance December 31, 2022	$	-
Balance December 31, 2023	$	2,071,720

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

13. 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 December 31, 2023 to be approximately $7,347,230 (December 31, 2022 - $7,620,706). These payments are expected to be incurred over a period of one to 50 years with the majority of costs to be incurred in 2038. A discount rate of 6.30 percent (December 31, 2022 – 5.39 percent) and an inflation rate of 2.0 percent (December 31, 2022 – 2.0 percent) was used to calculate the decommissioning provision.

A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 3,334,487**	$ 282,594
Provisions made during the period - acquisitions	**-**	3,163,821
Changes in decommissioning provision	**(591,940)**	(282,553)
Accretion adjustment from prior period	**(127,988)**	-
Accretion	**175,665**	170,625
Balance, end of period	**$ 2,790,224**	$ 3,334,487

14. PROMISSORY NOTES

A reconciliation of the promissory note is provided below:

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

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

(ii) On November 1, 2022, the Company entered into a promissory note in the amount of $1,800,000 for the Donalda property acquisition. The unsecured promissory note is non-interest bearing, with $1,000,000 due on or before January 31, 2023, and $800,000 due on or before September 1, 2023 *(see note 28 'related party transaction" for $1,200,000 repayment').*

15. TERM LOAN

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ -**	$ -
Amount drawn	**3,000,000**	-
Balance, end of period	**$ 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, 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.

16. LONG TERM TRADE PAYABLE

	Year ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ -**	$ -
Power generating costs	**5,698,894**	-
GST payable on power assets	**295,419**	
Balance, end of period	**$ 5,994,313**	$ -

On December 28, 2023, The Company incurred $5,994,313 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 28 'related party transactions').

17. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

	Convertible debenture - liability component	Derivative liability	Equity Component	Total
Balance at January 1, 2022	$ 521,039	$ 729,318	$ 235,500	$1,485,857
Proceeds, net of transaction costs	3,580,045	-	1,057,983	4,638,028
Conversions	(356,870)	(48,191)	-	(405,061)
Fair value change	-	(49,144)	-	(49,144)
Accretion expense	308,788	-	-	308,788
Balance at December 31, 2022	**4,053,002**	**631,983**	**1,293,483**	**5,978,468**
Conversions	(179,137)	**-**	(51,325)	(230,462)
Maturity	(284,999)	(631,983)	**-**	(916,982)
Accretion expense	447,103	**-**	**-**	447,103
Balance at December 31, 2023	**$4,035,969**	**-**	**$1,242,158**	**$5,278,127**

	Year ended December 31, 2023	Year ended December 31, 2022
Convertible debenture (i)	**$ 338,174**	$ 308,041
Convertible debenture (ii)	**-**	267,329
Convertible debenture (iii)	**3,697,795**	3,477,632
Balance, end of period	**$ 4,035,969**	$ 4,053,002
Short term	**-**	267,329
Long term	**4,035,969**	3,785,673
Derivative liability (ii)	**-**	631,983
Short term	**-**	631,983

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2022, convertible debentures with a stated value of $340,895 were converted into 911,847 common shares at the holder's option. There were 911,847 conversion warrants valued at nil issued in connection with conversion, exercisable at $0.75 for a period of 24 months.

During the year ended December 31, 2023, convertible debentures with a stated value of $179,137 were converted into 450,000 common shares (452,632 with accrued interest) at the holder's option. There were 450,000 conversion warrants valued at nil issued in connection with conversion, exercisable at $0.75 for a period of 24 months.

18. DEFERRED INCOME TAXES

The provision for income taxes in the financial statements differs from the result which would have been obtained in applying the combined federal and provincial tax rate to the Company's earnings before income taxes. The difference results from the following items:

	Year ended December 31, 2023	Year ended December 31, 2022
Loss before taxes	**$ (18,131,539)**	$ (20,377,817)
Combined federal and provincial tax rate	**23.0%**	23.0%
Computed "expected" income tax reduction	**(4,170,254)**	(4,686,898)
Increase (decrease) in income taxes resulting from:		
Permanent differences	**(634,876)**	(444,949)
Tax assets not recognized	**6,767,483**	5,131,847
Deferred income tax reduction	**$ 1,962,353**	$ -

The statutory tax rate was 23.0 percent in 2023 and 2022.

A summary of unrecognized tax assets at December 31, 2023 and 2022 is provided below:

	2023		2022	
	Amount	**Expiry Date**	Amount	Expiry Date
Share issue costs	**$ 147,214**	**n/a**	187,538	n/a
Decommissioning provision	**641,750**	**n/a**	-	n/a
Lease liabilities	**22,339**	**n/a**	325,531	n/a
Property, plant and equipment	**1,097,898**	**n/a**	3,459,111	n/a
Intangible asset	**(3,768)**	**-**	(108)	n/a
Right-of-use-asset	**(25,244)**	**n/a**	(318,846)	n/a
Flow-through liability	**-**	**-**	461,584	n/a
License	**(24,597)**	**-**	-	n/a
Assets under development	**(476,495)**	**-**	-	n/a
Non-capital losses	**8,564,949**	**2035**	5,372,601	2035
Total	**$ 9,994,046**		$ 9,487,411	
Valuation Allowance	**(9,994,046)**		(7,525,058)	
Deferred tax asset	**-**		1,962,353	

For the year ended December 31, 2022, a deferred income tax asset of $5,640,021 was recognized on the WCA acquisition (see note 7). The deferred income tax asset arises from the difference between the fair value of the net assets acquired and their tax basis. For the year ended December 31, 2022, A deferred income tax liability of $3,677,668 was recognized on the Donalda acquisition (see note 7). The deferred income tax liability arises from the difference between the fair value of the net assets acquired and their tax basis. The deferred tax asset has been offset against the deferred tax liability.

In assessing the ability to realize deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those deferred tax assets are deductible. Management foresees sufficient taxable profit to utilize deferred income tax asset up to $1,962,353. Management did not recognize further deferred tax assets as of December 31, 2023.

A summary of tax pools at December 31, 2023 is provided below:

	Amount	Maximum Annual Deduction
Canadian exploration expense	$ -	100%
Canadian development expense	257,670	30%
Canadian oil and gas property expense	21,718,815	10%
Undepreciated capital cost	9,397,245	20% to 30%
Cumulative eligible capital	2,031,885	
Share issue costs	640,060	20%
Non-capital losses	37,238,910	100%
Total	$ 71,284,585	

At December 31, 2023, the Company has non-capital losses of approximately $37,238,910 available to shelter future taxable income. These losses begin to expire 2035.

19. 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

			Year ended December 31, 2023			Year ended December 31, 2022
	Number of Common Shares	**Number of Preferred Shares**	**Amount**	Number of Common Shares	Number of Preferred Shares	Amount
Balance, beginning of period	**111,437,322**	**30,000,000**	**$ 56,883,006**	35,651,341	-	$ 9,023,278
Issue of Common Shares (i)	**-**	**-**	**-**	22,196,708	-	8,000,000
Flow through premium (i)	**-**	**-**	**-**	-	-	(2,006,889)
Issue of Common Shares (ii)	**-**	**-**	**-**	44,440,000	30,000,000	41,174,122
Issue of Common Shares (iii)	**-**	**-**	**-**	4,222,222	-	1,345,000
Issue of Common Shares (iv)	**-**	**--**	**-**	3,790,623	-	1,173,155
Issue of Common Shares (v)	**452,632**	**-**	**232,029**	1,136,428	-	405,061
Warrants issued (i)	**-**	**-**	**-**	-	-	(1,212,126)
Conversion of preferred shares	**30,000,00**	**(30,000,00)**	**-**	-	-	-
Issue of Common Shares (vi)	**21,160,000**	**-**	**801,906**	-	-	-
Subscription receipts (vi)	**-**	**-**	**45,180**	-	-	-
Share issue costs	-	**-**	**(61,400)**	-	-	(1,018,595)
Balance, end of period	**163,049,954**	**-**	**$ 57,900,721**	111,437,322	30,000,000	$ 56,883,006

Issued shares for cash

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

(v) 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 21,160,000 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.

Issued shares for the property acquisition

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

Issued shares for services

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

Issued shares for warrants exercised

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

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

Issued shares for convertible debentures

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

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Common Shares	***$***	Number of Common Shares	*$*
July 29, 2022 (iii)	**-**	**-**	20,000	$ 7,400
September 20, 2022 (iii)	**-**	**-**	182,100	67,377
September 30, 2022 (iii)	**-**	**-**	557,277	206,192
September 30, 2022 (ii)	**-**	**-**	224,580	64,166
October 20, 2022 (iii)	**-**	**-**	50,625	18,731
November 22, 2022 (iii)	**-**	**-**	71,128	26,317
December 9, 2022 (iii)	**-**	**-**	30,717	14,878
February 8, 2023 (iii)	**401,684**	**209,493**	-	-
February 21, 2023 (iii)	**50,948**	**22,536**	-	-
	452,632	**$ 232,029**	1,136,428	$ 405,601

Convertible debenture (note 17 (ii))

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

Convertible debenture (note 17(iii))

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

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

During the 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 $1,566) were converted into 452,632 common shares at the holder's option.

(b) Convertible preferred shares

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

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

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

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

On March 29, 2023, there was a forced conversion of the 30,000,000 convertible preferred shares to 30,000,000 common shares, as a result of a significant event taking place which was the signing of the Business Combination Agreement announced on April 3, 2023 with Insight

Acquisition Corp. As a result the Company has written off the Convertible Preferred Shares dividend liability, recording a $553,048 gain on conversion and $103,101 in dividend payable.

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

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

(c) Share-based compensation plans

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

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

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

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

The following table summarizes information regarding stock options outstanding at December 31, 2023:

Options Outstanding at December 31, 2023				Options Exercisable at December 31, 2023	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price *($/share)*	Number Exercisable	Weighted Average Exercise Price *($/share)*
$ 0.35	**200,000**	**0.8**	**$ 0.35**	**200,000**	**$ 0.35**
$ 0.39	**717,949**	**1.0**	**$ 0.39**	**717,949**	**$ 0.39**
$ 0.34	**835,821**	**1.0**	**$ 0.34**	**835,821**	**$ 0.34**

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

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

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

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

(d) Share purchase warrants

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

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Warrants	**Weighted Average Exercise Price *($/share)***	Number of Warrants	Weighted Average Exercise Price *($/share)*
Balance, beginning of period	**21,627,850**	**$ 0.44**	12,984,694	$ 0.28
Issued – May 10, 2022	**-**	**-**	200,800	0.75
Issued – May 12, 2022	**-**	**-**	226,400	0.75
Issued – May 16, 2022	**-**	**-**	8,000	0.75
Issued – June 9, 2022	**-**	**-**	4,000	0.75
Issued – June 28, 2022	**-**	**-**	110,000	0.75
Issued – July 28, 2022	**-**	**-**	20,000	0.75
Issued – Sept. 14, 2022	**-**	**-**	40,000	0.75
Issued -Sept. 15, 2022	**-**	**-**	100,000	0.75
Issued – Sept. 30, 2022	**-**	**-**	550,000	0.75
Issued – October 20, 2022	**-**	**-**	50,000	0.75
Issued – December 9, 2022	**-**	**-**	30,000	0.75
Issued – Dec. 23, 2022	**-**	**-**	11,098,354	0.50
Issued – February 8, 2023	**400,000**	**0.75**	-	-
Issued – February 21, 2023	**50,000**	**0.75**	-	-
Issued – October 17, 2023	**4,500,800**	**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**	-	-
Exercised *(note 13 (a)(iv))*	**-**	**-**	(3,790,623)	(0.21)
Expired - May 6, 2023	**(876,666)**	**(0.35)**	-	-
Expired - June 1, 2023	**(412,500)**	**(0.40)**	-	-
Expired - July 7, 2023	**(1,000,000)**	**(0.25)**	-	-
Expired - August 26, 2023	**(168,200)**	**(0.35)**	-	-
Expired	**-**	**-**	(3,775)	(0.20)
Balance, end of period	**30,821,284**	**$ 0.34**	21,627,850	$ 0.44

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 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.

The following table summarizes information regarding share purchase warrants outstanding at December 31, 2023:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life *(years)*	Expiry
$0.05	600,000	2.1	February 1, 2026
$0.12	11,200,800	1.8	October 2025 to November 2025
$0.15	377,000	0.9	November 5, 2024
$0.20	98,050	1.1	January 31, 2025
$0.35	5,657,880	0.7	September 9,13,20,23 2024
$0.50	11,098,354	1.0	December 23, 2024
$0.75	1,789,200	1.5	February 2025 to December 2025
$0.34	**30,821,284**	**1.3**	

(e) Per share amounts

The Company calculates per share amounts based on the weighted average Common Shares outstanding for the year ended December 31, 2023, and for the year ended December 31, 2022. For both periods ended December 31, all the stock options and warrants were anti-dilutive and were omitted from the weighted average number of diluted Common Shares outstanding calculation.

Years ended December 31,	**2023**	2022
Weighted average shares outstanding	**138,608,578**	52,766,406
Weighted average diluted shares outstanding	**138,608,578**	52,766,406
Net loss per share		
Net income (loss)	**$ (20,093,893)**	$ (20,377,817)
Basic *($/share)*	**(0.14)**	(0.39)
Diluted *($/share)*	**(0.14)**	(0.39)

20. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital comprise:

Years ended December 31,	**2023**	2022
Change in receivables and advances	**$ 2,618,328**	$ (1,471,230)
Change in prepaid expenses	**411,616**	(734,001)
Change in accounts payable and accrued liabilities	**2,488,312**	1,602,620
Total	**$ 5,518,256**	$ (602,611)
Change in operating non-cash working capital	**$ 5,518,256**	$ (602,611)
Change in investing non-cash working capital	**-**	-

21. FLOW-THROUGH SHARE PREMIUM LIABILITY

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

	Years ended December 31, 2023	Year ended December 31, 2022
Balance, beginning of period	**$ 2,006,889**	$ -
Issuance of flow-through shares (*note 19(a)(i)*)	**-**	2,006,889
Settlement pursuant to qualified expenditures	**(2,006,889)**	-
Balance, end of period	**$ -**	$ 2,006,889

22. OIL AND NATURAL GAS REVENUE

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

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

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

Years ended December 31,	**2023**	, 2022
Oil and natural gas revenue		
Heavy oil	**$ 419,100**	$ 1,270,998
Natural gas	**1,980,050**	2,059,400
Natural gas liquids	**146,100**	75,707
Total oil and natural gas revenue, gross	**$ 2,545,250**	$ 3,406,105
Less: Royalty expenses	**(309,462)**	(324,574)
Oil and natural gas revenue, net	**$ 2,235,788**	$ 3,081,531

23. ECONOMIC DEPENDENCE

Sales from the Company’s business are substantially derived from very few customers and as a result, the Company is economically dependent on these customers. The Company’s exposure to credit risk is limited to the carrying value of its account receivable. As at December 31, 2023, accounts receivable of $103,491 (December 31, 2022 - $376,988) were due from these customers and were collected subsequently to quarter and year end.

The Company’s two significant customers accounted for more than 100% of its sales. For the year ended December 31, 2023, the two customers accounted for 73% and 15% respectively. For the year ended December 31, 2022, the two customers accounted for 69% and 27%, respectively.

24. FINANCE INCOME (EXPENSE)

Years ended December 31,	2023	2022
Finance income:		
Interest income on bank deposits	**$ 31,729**	$ -
Finance expenses:		
Interest on promissory note	**-**	(7,814)
Term loan interest and admin fee *(note 15)*	**(295,891)**	-
Interest on convertible debentures	**(210,924)**	(172,452)
Part XII.6 interest on flow-through shares *(note 19)*	**(162,117)**	-
Letter of credit interest (NEBC property acquisition)	**(136,364)**	-
Lates fees and interest on trade payables	**(84,769)**	-
Late fees and interest on MTT payables	**(38,116)**	-
Non-deductible interest and penalties on flow-through	**(20,331)**	-
Term loan origination fee *(note 15)*	**(5,559)**	-
Interest on conversion of debentures	**(1,566)**	-
Interest expense on dividend liability	**(103,101)**	-
Accretion on convertible debentures	**(447,103)**	(308,788)
Accretion on decommissioning provision	**(47,677)**	(170,625)
Accretion on lease liabilities	**(11,506)**	(4,482)
Accretion on convertible preferred share dividend	**(10,846)**	(13,023)
	$ (1,575,870)	$ (677,184)
Net finance income (expense)	**$ (1,544,141)**	$ (677,184)

25. PERSONNEL EXPENSES

The aggregate payroll expense of employees and executive management is included in general and administrative expenses and comprises:

	Year ended December 31, 2023	Year ended December 31, 2022
Wages and salaries	**$ 264,570**	$ -
Benefits and other personnel costs	**17,676**	-
Total employee remuneration	**$ 282,246**	$ -

26. FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. Virtually all of Avila's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2023, the Company's accounts receivable consisted of $346,606 (December 31, 2022 - $ 376,988) from oil and natural gas marketers, $241,898 (December 31, 2022 – $372,544) from joint venture partners, and $326,489 (December 31, 2022 - $148,370) in taxes receivable from Canada Revenue Agency.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company did not have any allowance for doubtful accounts as at December 31, 2023 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended December 31, 2023.

As at December 31, 2023, 53 percent all the Company's accounts receivable were under 90 days in age and 47 percent were considered past-due.

Aging		
Current (less than 90 days)	$	488,634
Past due (over 90 days)		426,359
Total	**$**	**914,993**

(b) Liquidity risk

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

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2023:

	Carrying amount	Contractual cash flows total	< 1 year	1 – 2 years	2 – 5 years	More than 5 years
Accounts payable and other liabilities	$5,097,401	$5,097,401	$5,097,401	$ -	$ -	$ -
Promissory note	600,000	600,000	600,000	-	-	-
Loan payable	284,999	284,999	284,999	-	-	-
Term loan	3,000,000	3,000,000	-	3,000,000	-	-
Trade payable	5,994,313	5,994,313	-	5,994,313	-	-
Lease liabilities	97,127	97,127	16,186	11,954	23,657	45,330

(c) Market risk

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

Foreign currency exchange rate risk

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

Commodity price risk

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

The Company had no contracts that have not been recorded at fair value during the year ended at December 31, 2023 or for the year ended December 31, 2022.

Interest rate risk

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

(d) Capital management

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

Avila will seek to balance the proportion of debt and equity in its capital structure to take into account the risk being incurred in its investment program. Avila may, from time to time, issue shares and / or adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of net debt to the trailing funds flow from operations of the immediately preceding three-month period calculated on an annualized basis. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized cash flow from operations in the previous three-month period before changes in non-cash working capital and decommissioning provision expenditures. Avila's current strategy is to maintain a ratio of no more than 1.0 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2023, Avila had a working capital deficit of $5,056,817 ($3,982,550 working capital surplus at December 31, 2022).

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

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

(e) Vertically Integrated Energy Business

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

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

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

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

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

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

At December 31, 2023 the Company has incurred the following expenditures related to the Vertically Integrated Business:

Vertically Integrated Business Expenditures (inception to date)		
Investment in MTT Non-Voting Shares (15% equity)	$	3,564,711
Intangible assets (MTT license)		2,138,826
Assets under development		2,071,720
MTT interest		38,116
Total	**$**	**7,813,373**

The license for the EnerTwin product to manufacture and the full commercialize including sales, installation and servicing of the EnerTwin in North America (Canada, the United States of America and Mexico) and the marketing, and the sales and servicing in United Kingdom in accordance with the terms and conditions of the agreement.

The Company expects to receive its first units for installation in the third and fourth quarters of 2024 and continues to advance the negotiation for a manufacturing location in Western Canada. The Company has identified a number of existing synergies in Canada and expect to make a decision on the manufacturing facility location, sign an agreement and commence production in the third quarter of 2025.

Initial sales of the EnerTwin in North America are to be supplied by the manufacturing facility of MTT Solutions BV in Eindhoven the Netherlands.

27. RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2023, executive services totalling $214,280 (December 31, 2022 - $246,650) were provided by companies that are affiliated with officers of Avila. At December 31, 2023, Avila still owes $167,780 for the services provided (December 31, 2022 - $228,657).

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 year ended December 31, 2023, the Company accrued $2,820 on convertible debentures (December 31, 2022 $494) 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 December 31, 2023 there is $101,497 interest owing on the convertible secured debenture due July 31, 2027 (December 31, 2022 - $76,497).

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 19 (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 December 31, 2023, Company owes $59,461 to 611890 Alberta Inc. At December 31, 2023, the Company has a $446,440 (December 31, 2022 - $228,657) 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 14).

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.

28. SUBSEQUENT EVENTS

On January 29, 2024, convertible debentures with a stated value of $128,796 (face value of $150,000) were converted into 600,000 common shares (631,500 with accrued interest of $7,875) 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.

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.