Management Discussion and Analysis

For the Years Ended December 31, 2023, and 2022

The following management's discussion and analysis ("MD&A") was prepared as of April 29, 2024 and is management's assessment of the historical financial and operating results of Avila Energy Corporation ("Avila" or the "Company") and should be read in conjunction with the audited financial statements of the Company as at and for the years ended December 31, 2023 and 2022 together with the notes related thereto.

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

Avila's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A for distribution on April 29, 2024.

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

Forward-Looking Statements and Information: *Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include but are not limited to capital expenditures, business strategy and objectives, net revenue, future production levels, commodity price hedging plans, exploration plans, development plans, acquisition plans and the timing thereof, estimated results of acquisitions, operating and other costs, royalty rates, timing of tax payment obligations, working capital requirements, sources of funding to meet future obligations, future dividend payments and capital structure, including the balance of debt and equity in Avila's capital structure.*

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

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

Although Avila believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information because Avila can give no assurance that such expectations will prove to be correct. Forward-looking statements and information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Avila and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- *the ability of management to execute its business plan;*
- *the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;*
- *risks and uncertainties involving the geology of oil and gas deposits;*
- *risks inherent in Avila's marketing operations;*
- *the uncertainty of reserves estimates and reserves life;*
- *the uncertainty of estimates and projections relating to production, costs and expenses;*
- *potential delays or changes in plans with respect to exploration or development projects or capital expenditures;*
- *Avila's ability to enter into or renew leases;*
- *fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;*
- *health, safety and environmental risks;*
- *uncertainties as to the availability and cost of financing;*
- *the ability of Avila to add production and reserves through development and exploration activities;*
- *general economic and business conditions;*
- *the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;*
- *uncertainty in amounts and timing of royalty payments;*
- *uncertainty of the execution of the Vertically Integrated Business program;*
- *risks associated with potential future lawsuits and regulatory actions against Avila; and*
- *other risks and uncertainties described elsewhere in this MD&A (including those under the heading "Risks and Uncertainties" herein) or in any of Avila's other filings and documents that have been distributed to its shareholders, including but not limited to the consolidated financial statements of the Company for the year ended December 31, 2023.*

The forward-looking statements and information contained in this MD&A are made as of the date hereof and except where required by law, Avila undertakes no obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement.

BOE Conversions: *Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1; utilizing a conversion on a 6:1 basis may be misleading as an indicator of value.*

nmf – not a meaningful number

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

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

	Three months ended December 31			Year ended December 31,	Year ended December 31,	
($)	**2023**	2022	% change	**2023**	2022	% change
Cash from (used in) operating activities	**1,139,747**	(976,795)	216	**(735,331)**	(2,758,528)	(73)
Change in non-cash working capital	**(2,545,207)**	(1,831,287)	39	**(5,518,256)**	602,611	nmf
Funds flow (used in) operations	**(1,405,460)**	(2,808,082)	(50)	**(6,253,587)**	(2,155,917)	190

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

DESCRIPTION OF BUSINESS

Avila Energy Corporation ("Avila" or the "Company") is a resource-based company engaged in the acquisition of, exploration for, and the development and production of crude oil, natural gas and natural gas liquids in Western Canada. On November 14, 2022, the Company announced the launch of its Vertically Integrated Energy Business with the Micro Turbine Technology. The Company was incorporated on January 13, 2010 and exists under the laws of the Province of Alberta, with its principal place of business located at Suite 201, 1439 – 17th Avenue S.E., in Calgary, Alberta.

The financial statements reflect the results of Avila's operations for the years ended December 31, 2023 and 2022.

FOURTH QUARTER HIGHLIGHTS

Avila, as part of its long-term plans, in the fourth quarter of 2023 remained on first of three goals, the establishment of a resilient mid-stream business from which it would continue to grow. The foundation for this resilient business is become an integral part the Company as a producer, upstream production of low emissions Oil, Natural Gas and Liquids in combination with mid-stream processing, power generation, carbon capture and CO^2 sequestration. These are the initial two revenue streams of the three revenue streams that Avila has identified as being the core components of its Vertically Integrated Energy Business.

Fourth Quarter BOE Netbacks

($/boe)	**2023**	2022	% change
Petroleum and natural gas sales	**18.01**	35.59	(49)
Royalty expenses	**(2.78)**	(3.66)	(24)
Production and operating expenses	**(60.23)**	(29.28)	106
Operating netback	**(45.00)**	2.65	Nmf
General and administrative expenses	**(9.60)**	(14.82)	(35)
Processing income/other income	**1.24**	0.22	nmf
Write off advance	**-**	(70.30)	(100)
Cash finance income (expense)	**(22.10)**	-	100
Cash flow netback	**(75.46)**	(82.25)	(9)
Depletion and depreciation	**(46.34)**	(4.41)	nmf
Impairment on property, plant & equipment	**(657.17)**	(244.89)	168
Finance expense	**(11.20)**	(12.80)	(13)
Flow-through premium	**87.55**	-	100
Deferred tax	**(105.36)**	-	100
Gain on acquisition of property	**-**	408.38	(100)
Other	**-**	6.61	(100)
Net earnings per boe for the period	**(807.98)**	70.64	nmf

SUMMARY OF QUARTERLY RESULTS

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Operations				
Average daily production				
Heavy oil *(bbls/d)*	**-**	6	17	21
Natural gas *(Mcf/d)*	**1,194**	1,730	2,238	2,376
NGLs *(bbls/d)*	**4**	1	6	5
Total *(boe/d)*	**202**	295	396	422
Average realized sales price				
Heavy oil *($/bbl)*	**-**	105.88	91.44	107.89
Natural gas *($/Mcf)*	**2.37**	2.75	2.69	3.43
NGLs *($/bbl)*	**80.41**	67.34	83.94	79.44
Total *($/boe)*	**18.01**	18.61	20.31	25.40
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	**18.01**	18.61	20.31	25.40
Royalty expenses	**(2.78)**	(3.28)	(1.07)	(3.40)
Production and operating expenses	**(60.23)**	(12.55)	(21.71)	(14.66)
Operating netback	**(45.00)**	2.78	(2.47)	7.34
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	**335,471**	506,177	735,579	968,023
Funds flow (used) from operations	**(1,405,460)**	(895,907)	(570,308)	(3,381,912)
Per share – basic	**(0.01)**	(0.01)	-	(0.03)
Per share – diluted	**(0.01)**	(0.01)	-	(0.03)
Cash (used in) from operations	**1,139,747**	1,209,654	260,658	(3,345,390)
Per share – basic	**0.01**	0.01	-	(0.03)
Per share – diluted	**0.01**	0.01	-	(0.03)
Net income (loss)	**(15,048,567)**	(1,623,031)	76,111	(3,498,406)
Per share – basic	**(0.10)**	(0.01)	-	(0.03)
Per share – diluted	**(0.10)**	(0.01)	-	(0.03)
Capital expenditures, net	**8,103,762**	2,213,239	182,216	798,260
Total assets	**35,834,251**	45,340,841	44,224,086	44,252,178
Total net cash and working capital	**(5,056,817)**	(3,649,499)	(1,286,074)	(1,476,724)
Common Shares outstanding, end of period	**163,049,954**	141,889,954	141,889,954	141,889,954
Preferred Shares outstanding, end of period	**-**	-	-	-
Weighted average shares (basic and diluted)	**157,543,867**	141,889,954	141,889,954	112,691,462

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Operations				
Average daily production				
Heavy oil *(bbls/d)*	36	53	37	20
Natural gas *(Mcf/d)*	2,003	1,070	580	732
NGLs *(bbls/d)*	1	2	12	8
Total *(boe/d)*	371	234	145	150
Average realized sales price				
Heavy oil *($/bbl)*	76.41	97.72	111.89	94.66
Natural gas *($/Mcf)*	5.17	4.36	6.90	4.76
NGLs *($/bbl)*	87.42	70.96	18.15	45.11
Total *($/boe)*	35.59	42.87	57.19	38.10
Operating Netback *($ per boe)*				
Petroleum and natural gas sales	35.59	42.87	57.19	38.10
Royalty expenses	(3.66)	(3.81)	(3.77)	(5.03)
Production and operating expenses	(29.28)	(10.47)	(22.53)	(19.04)
Operating netback	2.65	28.59	30.89	14.03
Financial *($, except per share amounts)*				
Petroleum and natural gas sales	1,215,114	923,268	754,613	513,110
Funds flow (used) from operations	(2,808,082)	269,458	280,488	102,219
Per share – basic	(0.05)	0.01	-	-
Per share – diluted	(0.05)	0.01	-	-
Cash (used in) from operations	(976,795)	75,182	(2,088,171)	231,256
Per share – basic	(0.01)	-	(0.06)	-
Per share – diluted	(0.01)	-	(0.06)	-
Net income (loss)	2,411,699	(23,098,747)	250,752	58,479
Per share – basic	0.05	(0.58)	0.01	-
Per share – diluted	0.05	(0.58)	0.01	-
Capital expenditures, net	17,430,068	28,107,252	1,217,322	448,575
Total assets	46,724,913	34,233,356	10,603,851	4,613,850
Total net cash and working capital	3,982,550	2,933,997	5,269,084	1,467,571
Common Shares outstanding, end of period	111,437,322	86,983,586	35,651,341	35,651,341
Preferred Shares outstanding, end of period	30,000,000	30,000,000	-	-
Weighted average shares (basic and diluted)	52,766,406	40,051,302	35,651,341	25,514,590

Over the past eight quarters, the Company's strategic focus was on organic growth complemented by acquisitions that increase our production base and expand our land/infrastructure presence and commence the vertically integrated business.

The Company continued to invest its capital expenditures in the West Central Alberta and East Central Alberta area of Alberta and commence the vertically integrated business.

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Operations			
Average daily production			
Heavy oil *(bbls/d)*	**10**	36	-
Natural gas *(Mcf/d)*	**1,887**	1,100	156
NGLs *(bbls/d)*	**5**	6	3
Total *(boe/d)*	**329**	226	30
Average realized sales price			
Heavy oil *($/bbl)*	**117.67**	95.49	68.99
Natural gas *($/Mcf)*	**2.88**	5.13	4.04
NGLs *($/bbl)*	**80.61**	35.70	53.86
Total *($/boe)*	**21.18**	41.37	27.90
Operating Netback *($ per boe)*			
Petroleum and natural gas sales	**21.18**	41.37	27.90
Royalty expenses	**(2.58)**	(3.94)	(3.22)
Production and operating expenses	**(23.37)**	(21.61)	(10.77)
Operating netback	**(4.77)**	15.82	13.91
Financial *($, except per share amounts)*			
Petroleum and natural gas sales	**2,545,250**	3,406,105	301,340
Funds flow (used in) from operations	**(6,253,587)**	(2,155,917)	(1,043,909)
Per share – basic	**(0.05)**	(0.04)	(0.04)
Per share – diluted	**(0.05)**	(0.04)	(0.04)
Cash used in operations	**(735,331)**	(2,758,528)	(3,003,609)
Per share – basic	**(0.01)**	(0.04)	(0.12)
Per share – diluted	**(0.01)**	(0.04)	(0.12)
Net loss	**(20,093,893)**	(20,377,817)	(1,415,186)
Per share – basic	**(0.14)**	(0.39)	(0.06)
Per share – diluted	**(0.14)**	(0.39)	(0.06)
Capital expenditures	**11,297,477**	47,203,215	1,255,696
Total assets	**35,834,251**	46,724,913	4,583,826
Total net cash and working capital	**(5,056,817)**	3,982,550	1,835,527
Common Shares outstanding, end of period	**163,049,954**	111,437,322	25,541,590
Preferred Shares outstanding, end of period	**-**	30,000,000	-
Weighted average shares (basic and diluted)	**138,608,578**	52,766,406	25,541,590

Over the last three years, the Company's strategic focus was on organic growth complemented by acquisitions that increase our production base and expand our land/infrastructure presence.

The Company continued to invest its capital expenditures in the West Central Alberta and East Central Alberta areas of Alberta over the last three years.

DETAILED FINANCIAL ANALYSIS

SALES VOLUMES

	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Heavy oil *(bbls/d)*	21	17	6	-	**10**	36
Natural gas *(Mcf/day)*	2,376	2,238	1,730	1,194	**1,887**	1,100
NGLs *(bbls/d)*	5	6	1	4	**5**	6
Total *(boe/d)*	422	396	295	202	**329**	226
Oil and natural gas liquids %	6	6	2	2	**5**	19

Average production of 329 boe/day was reported during the year ended December 31, 2023. Production for 2023 was comprised of 15 bbls/day of crude oil and NGLs, and 1,887 Mcf/day of natural gas. Approximately 64 percent of the Company's production in 2023 was from the West Central Alberta area, and the remaining 36 percent of the Company's production in 2023 was from the East Central Alberta area.

Average production of 226 boe/day was reported during the year ended December 31, 2022. Production for 2022 was comprised of 42 bbls/day of crude oil and NGLs, and 1,100 Mcf/day of natural gas. Approximately 81 percent of the Company's production in 2022 was from the West Central Alberta area, and the remaining 19 percent of the Company's production in 2022 was from the East Central Alberta area.

PETROLEUM AND NATURAL GAS SALES

($)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Heavy oil	199,373	139,626	62,999	17,102	**419,100**	1,270,998
Natural gas	733,218	548,695	437,454	260,683	**1,980,050**	2,059,400
Natural gas liquids	35,432	47,258	5,724	57,686	**146,100**	75,707
Petroleum and natural gas	968,023	735,579	506,177	335,471	**2,545,250**	3,406,105
Per boe						
Petroleum and natural gas	25.40	20.31	18.61	18.01	**21.18**	41.37

Total production revenue was $2,545,250 for the year ended December 31, 2023, a decrease of 25 percent from the $3,406,105 of production revenue reported for the year ended December 31, 2022. The variance table that follows the price analysis summarizes the factors contributing to this decrease in total production revenue for the year ended December 31, 2023.

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

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

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

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

	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Average Benchmark Prices						
WTI crude oil *(US$/bbl)*	76.11	73.77	82.18	78.83	**77.62**	94.23
WCS differential *(US$/bbl)*	(21.01)	(15.01)	(12.40)	(21.94)	**(17.68)**	(18.20)
US$/Cdn$ exchange rate	0.740	0.745	0.746	0.735	**0.741**	0.769
WCS *(Cdn$/bbl)*	74.52	78.93	93.12	76.86	**80.90**	98.53
AECO daily spot *($/GJ)*	3.24	2.43	2.61	2.30	**2.64**	5.43
Average Realized Prices						
Heavy oil *($/bbl)*	107.89	91.44	105.88	-	**117.67**	95.49
Natural gas *($/Mcf)*	3.43	2.69	2.75	2.37	**2.88**	5.13
Natural gas liquids *($/bbl)*	79.44	83.94	67.34	80.41	**80.61**	35.70
Average realized price *($/boe)*	25.40	20.31	18.61	18.01	**21.18**	41.37
Oil Price Differentials						
Heavy oil differential to WCS *($/bbl)*	33.37	12.51	12.76	-	**36.77**	(3.04)

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

Avila's average realized heavy oil price increased 23 percent to $117.67 per bbl for the year ended December 31, 2023 from $95.49 for the year ended December 31, 2022.

Avila's average natural gas price decreased 44 percent to $2.88 per Mcf for the year ended December 31, 2023 from $5.13 per Mcf for the year ended December 31, 2022. The changes in average natural gas price is a function of the AECO daily spot price.

The following table summarizes the impact of the Company's production activities, and prices on oil and natural gas revenue:

Variance analysis	Amount	% change
Year ended December 31, 2022 production revenue	3,406,105	
Increase (decrease) due to:		
Crude oil and NGLs volumes	(1,017,332)	(118)
Realized natural gas price	(906,644)	(105)
Natural gas volumes	827,294	96
Realized crude oil and NGLs price	235,827	27
Total decrease	(860,855)	(100)
Year ended December 31, 2023 production revenue	**2,545,250**	

ROYALTY EXPENSES

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Crown royalties	59,803	17,866	42,464	1,725	**121,858**	64,645
Freehold and overriding royalties	70,100	20,634	46,756	50,114	**187,604**	259,929
Total royalty expenses	129,903	38,500	89,220	51,839	**309,462**	324,574
Per boe	3.40	1.07	3.28	2.78	**2.58**	3.94

Average royalty rates *(% of revenue)*						
Crown royalties	6.2	2.4	8.4	0.6	**4.8**	1.9
Freehold and overriding royalties	7.2	2.8	9.2	14.9	**7.4**	7.6
Total royalty expenses	13.4	5.2	17.6	15.5	**12.2**	9.5

The Company's royalties are owed to the provincial government of Alberta and mineral rights owners. Royalties are either paid or taken in kind. The terms of the provincial government royalty regimes and mineral rights owner agreements impact the Company's overall corporate royalty rate.

Alberta crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives for new wells drilled on Crown lands. In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that was effective on January 1, 2017. These highlights include the replacement of royalty credits and holidays on conventional wells through a Drilling and Completion Cost Allowance to emulate revenue minus cost framework, a post-payout royalty rate based on commodity prices, and the reduction of royalty rates for mature wells, with the intent of delivering a neutral internal rate of return for any given play compared to the previous Alberta Royalty Framework. No changes will be made the royalty structure of wells drilled prior to January 2017 for a 10 year period from the royalty program's implementation date

Total royalty expenses decreased five percent to $309,462 for the year ended December 31, 2023 ($324,574 for the year ended December 31, 2022), representing a combined royalty rate of 12.2 percent (9.5 percent at December 31, 2022).

PRODUCTION AND OPERATING EXPENSES

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Production and operating	401,841	648,756	249,629	1,058,347	**2,358,573**	1,452,713
Transportation costs	156,665	137,475	91,850	63,414	**449,404**	326,369
Total	558,506	786,231	341,479	1,121,761	**2,807,977**	1,779,082
Per boe	14.66	21.71	12.55	60.23	**23.37**	21.61

Production and operating expenses include all expenses associated with the production of crude oil and natural gas. The material components of operating expenses are labour, equipment maintenance, minor workovers, third party processing fees, fuel and power. Avila recorded operating expenses of $2,807,977 for the year ended December 31, 2023 ($1,779,082 for the year ended December 31, 2022). On a boe basis, operating expenses were $23.37 per boe for the year ended December 31, 2023 ($20.65 per boe for the year ended December 31, 2022). Production and operating expenses for the three months ended December 31, 2023 includes a $557,296 property tax adjustment.

Production and operating expenses also include transportation costs. Transportation costs generally include third-party pipeline tariffs and trucking costs incurred to deliver the products to the purchasers at main delivery points.

OPERATING NETBACK

($/boe)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Production revenue	25.40	20.31	18.61	18.01	**21.18**	41.37
Royalty expenses	(3.40)	(1.07)	(3.28)	(2.78)	**(2.58)**	(3.94)
Production and operating	(14.66)	(21.71)	(12.55)	(60.23)	**(23.37)**	(21.61)
Operating netback	7.34	(2.47)	2.78	(45.00)	**(4.77)**	15.82

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

The operating netback decreased 130 percent to $(4.77) loss per boe for the year ended December 31, 2023 from $15.82 per boe for the year ended December 31, 2022. The decrease of operating netback is due to lower petroleum and natural gas sales prices in the year ended December 31, 2023 as compared to the corresponding period in 2022 and higher production and operating expenses.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Consulting fees	205,640	129,180	221,677	207,583	**764,080**	433,073
Wages and salaries	124,473	72,018	49,054	36,700	**282,245**	-
Bank charges/late fees	152,733	23,780	63,589	(228,595)	**11,507**	-
Office/administration	59,434	102,951	31,050	12,412	**205,847**	148,390
Professional fees	74,047	70,418	489,200	105,433	**739,098**	381,152
Insurance	60,310	33,800	24,800	(92,660)	**26,250**	-
Shareholder/trust	31,385	31,637	14,410	3,528	**80,960**	10,240
Advertising/promotion	12,026	25,196	4,247	44,639	**86,108**	-
Listing fees	4,050	-	-	1,000	**5,050**	32,896
MTT License	-	-	-	88,746	**88,746**	-
Management fees	-	-	-	-	**-**	60,311
Capital overhead	-	-	-	-	**-**	-
Net G&A expense	724,098	488,980	898,027	178,786	**2,289,891**	1,066,062
Per boe						
Per boe (gross)	19.00	13.50	33.01	9.60	**19.06**	12.95
Per boe (net)	19.00	13.50	33.01	9.60	**19.06**	12.95

General and administrative ("G&A") expenses include costs incurred by the Company that are not directly associated with the production of oil and natural gas. The most significant components of G&A expenses are employee and consultant compensation, office rent, accounting and legal costs. Gross G&A expenses increased 115 percent to $2,289,891 for the year ended December 31, 2023 ($19.06 per boe) from $1,066,062 for the year ended December 31, 2022 ($12.95 per boe). The increase in G&A expenses is mainly due to wages and salaries being paid in 2023, legal fees associated with the terminated Insight business combination agreement.

FINANCE INCOME AND EXPENSE

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Interest income	(31,729)	-	-	-	**(31,729)**	-
Term loan interest and fee	-	-	128,240	167,651	**295,891**	
Convertible debenture interest	43,252	43,251	71,322	53,099	**210,924**	172,452
Part XII.6 interest	-	-	168,276	(6,159)	**162,117**	-
Letter of credit interest	-	-	-	136,364	**136,364**	-
Late fees penalties & interest	(465)	-	-	85,234	**84,679**	-
MTT interest	-	-	39,175	(1,059)	**38,116**	-
Non-deductible interest	-	-	-	20,331	**20,331**	-
Promissory note interest	-	-	-	-	**-**	7,814
Term loan origination fee	-	-	2,934	2,625	**5,559**	-
Net interest expense (income)	11,058	43,251	409,947	458,086	**922,342**	180,266
Interest expense (income) *($/boe)*	0.29	1.20	15.07	24.60	**7.68**	2.19
Interest on convertible conv.	1,566	-	-	-	**1,566**	-
Interest expense on dividend	103,101	-	-	-	**103,101**	-
Accretion on convertible debent.	114,166	109,072	108,947	114,918	**447,103**	308,788
Accretion on decommissioning	41,595	(82,506)	43,993	44,595	**47,677**	170,625
Accretion on lease liabilities	3,265	3,017	2,684	2,540	**11,506**	4,482
Accretion on conv. preferred	10,846	-	-	-	**10,846**	13,023
Net finance expense (income)	285,597	72,834	565,571	620,139	**1,544,141**	677,184
Finance expense (income) *($/boe)*	7.49	2.01	20.79	33.30	**12.85**	8.22

Interest income includes interest earned on cash deposits.

Finance expense includes accretion on decommissioning obligations.

DEPLETION AND DEPRECIATION EXPENSE

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Depletion and depreciation	349,722	286,501	219,954	860,507	**1,716,684**	229,082
Depreciation on right-of-use	2,494	2,494	2,494	2,495	**9,977**	3,326
Total	352,216	288,995	222,448	863,002	**1,726,661**	232,408
Per boe	9.24	7.98	8.18	46.34	**14.37**	2.82

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

Total depletion and depreciation expense increased to $1,726,661 ($14.37 per boe) for the year ended December 31, 2023 from $232,408 of depletion and depreciation expense ($2.82 per boe) for the year ended December 31, 2022. Total costs subject to depletion and depreciation expense include approximately $4,801,400 ($nil at December 31, 2022) relating to future development costs estimated to complete wells where proved and probable reserves have been assigned.

Oil & Natural Gas Properties and Equipment

Avila performs an impairment test calculation for each of its CGUs in accordance with IAS 36 when indicators of impairment exist. The recovery of costs is tested by comparing the carrying amount of the oil and natural gas assets for each CGU to the discounted cash flows from those assets using proved and probable reserves and expected future prices and costs. If the carrying amount exceeds the recoverable amount, then an impairment would be recognized on the amount by which the carrying amount of the assets exceeds the present value of expected cash flows using proved and probable reserves and expected future prices and costs.

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

During the year ended December 31, 2022, the Company identified indicators of impairment and recorded an impairment of $18,444,338 for the West Central Alberta property acquisition and East Central Alberta property acquisition.

TAXES

Avila did record a future tax expense of $1,962,353 for the year ended December 31, 2023 and $1,962,353 deferred tax asset at December 31, 2022. At the end of December 31, 2023, Avila had approximately $71,284,585 (December 31, 2022 - $61,206,640) of accumulated tax pools that are available for deduction against future taxes payable. Although the deferred tax deduction could represent a significant tax asset, the Company has not recognized the tax asset due to the uncertainty regarding the amounts which can ultimately be utilized. Based on the tax deductions available, the Company does not anticipate paying cash taxes within this fiscal year.

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.

Summary of tax pools at December 31, 2023:

		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	

NET LOSS, FUNDS FLOW FROM OPERATIONS AND BOE NETBACKS

Net Loss and Funds Flow (Used) from Operations

($)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Net income (loss)	(3,498,406)	76,111	(1,623,031)	(15,048,567)	**(20,093,893)**	(20,377,817)
Items not involving cash:						
Goodwill imp.	-	-	-	-	**-**	11,516,303
Deferred tax	-	-	-	1,962,354	**1,962,354**	
Gain on acquis.	-	-	-	-	**-**	(13,942,757)
Acquisition exp.	-	-	-	-	**-**	1,345,000
PP&E impairment	-	-	-	12,239,831	**12,239,831**	18,444,338
Depletion	352,216	288,995	222,448	863,002	**1,726,661**	232,408
Derivative liability	-	(631,983)	-	-	**(631,983)**	(49,144)
Convertible gain	(553,048)	-	-	-	**(553,048)**	-
Flow-through	-	(376,265)	-	(1,630,624)	**(2,006,889)**	-
Finance expense	317,326	72,834	565,571	620,139	**1,575,870**	677,184
Debt settlement	-	-	-	-	**-**	(1,432)
Interest paid	-	-	(60,895)	(411,595)	**(472,490)**	-
Funds flow (used) from operations	(3,381,912)	(570,308)	(895,907)	(1,405,460)	**(6,253,587)**	(2,155,917)

Funds flow used from operations increased 190 percent to $6,253,587 ($0.05 per basic and diluted share) for the year ended December 31, 2023 from $2,155,917 ($0.04 per basic and diluted share) for the year ended December 31, 2022.

Net loss decreased one percent to $20,093,893 ($0.14 loss per basic and diluted share) for the year ended December 31, 2023 from $20,377,817 ($0.39 loss per basic and diluted share) for the year ended December 31, 2022.

Per share information

($, except where noted)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Net income (loss)	(3,498,406)	76,111	(1,623,031)	(15,048,567)	**(20,093,893)**	(20,377,817)
Basic *($/share)*	(0.03)	-	(0.01)	(0.10)	**(0.14)**	(0.39)
Diluted *($/share)*	(0.03)	-	(0.01)	(0.10)	**(0.14)**	(0.39)
Funds flow (used) from operations	(3,381,912)	(570,308)	(895,907)	(1,405,460)	**(6,253,587)**	(2,155,917)
Basic *($/share)*	(0.03)	-	(0.01)	(0.01)	**(0.05)**	(0.04)
Diluted *($/share)*	(0.03)	-	(0.01)	(0.01)	**(0.05)**	(0.04)

BOE Netbacks

($/boe)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Production revenue	25.40	20.31	18.61	18.01	**21.18**	41.37
Royalty expenses	(3.40)	(1.07)	(3.28)	(2.78)	**(2.58)**	(3.94)
Production and operating	(14.66)	(21.71)	(12.55)	(60.23)	**(23.37)**	(21.61)
Operating netback	7.34	(2.47)	2.78	(45.00)	**(4.77)**	15.82
General and administrative	(19.00)	(13.50)	(33.01)	(9.60)	**(19.06)**	(12.95)
Cash finance income (expense)	-	-	(2.24)	(22.10)	**(3.93)**	0.10
Other	1.64	0.24	(0.48)	1.24	**0.68**	
Write off advance	(78.69)	-	-	-	**(24.97)**	(29.15)
Cash flow netback	(88.71)	(15.75)	(32.95)	(75.46)	**(52.05)**	(26.18)
Depletion and depreciation	(9.24)	(7.98)	(8.18)	(46.34)	**(14.37)**	(2.82)
Impairment	-	-	-	(657.17)	**(101.87)**	(224.01)
Gain on acquisition	-	-	-	-	**-**	169.33
Impairment	-	-	-	-	**-**	(139.87)
Acquisition expense					**-**	(16.34)
Finance expense	(8.33)	(2.01)	(18.55)	(11.20)	**(9.17)**	(8.22)
Gain on convertible preferred share dividend	14.51	-	-	-	**4.60**	-
Change in derivative	-	17.45	-	-	**5.26**	0.62
Flow-through premium	-	10.39	-	87.55	**16.70**	-
Deferred tax	-	-	-	(105.36)	**(16.33)**	-
Net earnings (loss) per boe for the period	(91.77)	2.10	(59.67)	(807.98)	**(167.23)**	(247.49)

CAPITALIZATION AND FINANCIAL RESOURCES

CAPITAL EXPENDITURES

($)	Q1	Q2	Q3	Q4	**Year ended December 31, 2023**	Year ended December 31, 2022
Land	4,148	-	-	-	**4,148**	533,714
Drilling Costs	5,723	-	-	632	**6,355**	-
Completion/Workover costs	69,568	149,648	56,453	-	**275,669**	-
Production equipment and facilities	711,821	32,568	32,650	(215,119)	**561,920**	1,614,284
Property acquisition	-	-	-	522,969	**522,969**	45,055,217
Power generating assets	-	-	-	5,708,870	**5,708,870**	-
Total property, plant and equipment	791,260	182,216	89,103	6,017,352	**7,079,931**	47,203,215
Other assets						
Development assets	-	-	-	2,071,720	**2,071,720**	-
MTT license	-	-	2,124,136	14,690	**2,138,826**	-
Intangible assets	7,000	-	-	-	**7,000**	-
Total other assets	7,000	-	2,124,136	2,086,410	**4,217,546**	-
Total capital expenditures	798,260	182,216	2,213,239	8,103,762	**11,297,477**	47,203,215

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

Net capital expenditures for the year ended December 31, 2023 were $11,199,413.

Net capital expenditures for the year ended December 31, 2022 were $47,203,215. 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. 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*) .

Funding for capital expenditures was provided from proceeds of the issuance of equity and to a lesser extent, working capital.

DRILLING ACTIVITY

During the year ended December 31, 2023, the Company drilled zero (0.0 net) oil wells in Alberta.

During the year ended December 31, 2022, the Company drilled zero (0.0 net) oil wells in Alberta.

WORKING CAPITAL AND LONG-TERM DEBT

Avila had a working capital deficit of $5,056,817 at December 31, 2023 (December 31, 2022 - $3,982,550 working capital surplus), including cash proceeds from the Company's equity offerings. At December 31, 2023, the major components of Avila's current assets were cash, accounts receivable and prepaid expenses. Current liabilities largely consist of trade payables and accrued liabilities related to the Company's operations. The Company manages its working capital using a combination of its funds from operations and future equity offerings.

There are currently no capital commitments and no known unusual trends or liquidity issues as at April 29, 2024. The Company expects to be able to meet future obligations associated with on-going operations from cash flow from operations.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares ("Common Shares"). Since incorporation, Avila has successfully closed a number of private and public offerings, resulting in the issuance of 163,681,454 Common Shares.

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

	April 29, 2024	December 31, 2023
Common Shares	**163,681,454**	163,049,954
Dilutive Securities		
Warrants	**30,800,484**	30,200,484
Stock options	**1,753,770**	1,753,770
Total Dilutive Securities	**32,554,254**	31,954,254
Total Basic and Diluted Common Shares	**196,235,708**	195,004,208
Weighted average Common Shares		
Basic	**163,534,104**	138,608,578
Diluted	**163,534,104**	138,508,578

GOING CONCERN

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

In order to finance the Company's future exploration programs, MTT manufacturing and marketing and to cover administrative and overhead expenses, the Company may raise money through the sale of equity instruments or divestiture of working interests. Many factors influence the Company's ability to raise funds, including the health of the resource market, the Company's track record and the experience and caliber of its management. Management believes it will be able to raise equity capital as required in the long term but recognizes there will be risks involved that may be beyond their control.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

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

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 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 $2,820.00 on convertible debentures (December 31, 2022 $ 494.00) 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 $446,640 (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.

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.

SIGNIFICANT ACCOUNTING ESTIMATES

Management is often required to make judgements, assumptions and estimates in the application of International Financial Reporting Standards that have a significant impact on the financial results of the Company. A comprehensive discussion of the Company's significant accounting policies is contained in note 5 to the financial statements.

RISKS AND UNCERTAINTIES

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and / or results of operations of the Company. There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector and Avila. The following discussion reviews the general and specific risks as well as Avila's approach to managing these risks. The risks identified herein do not constitute an exhaustive list of all possible risks as there may be additional risks of which management is currently unaware of.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Avila will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over/under pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Avila depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Avila will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Avila may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient and preventing storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays, declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires, and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Avila mitigates these risks as follows:

- Exploration efforts are concentrated in core regions where marketing expertise levels are highest and marketing synergies can be achieved with the existing production base;
- All operational aspects are rigorously engineered and underpinned by a safety management system;
- Sale arrangements vary in term and pricing structure creating a diverse portfolio that minimizes risk of exposure to any one market; and
- Financial instruments may be used where appropriate to manage commodity price volatility.

Stage of Development

An investment in Avila is subject to certain risks related to its stage of development. There are numerous factors which may affect the success of the Company's business which are beyond its control including local, national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil prices are determined primarily on world demand, supply and other factors, although pipeline capacity constraints are adversely affecting oil prices in western Canada, and gas prices are determined primarily on North American demand, supply and other factors, all of which are beyond the control of Avila. World prices for oil and North American prices for natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in oil prices and natural gas prices, leading to a reduction in the volume of Avila's oil and gas reserves. Avila might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Avila's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Avila are in part determined by the borrowing base of Avila. A sustained material decline in prices from historical average prices could limit Avila's borrowing base, therefore reducing the bank credit available to Avila, and could require that a portion of any existing bank debt of Avila be repaid.

In addition to establishing markets for its oil and natural gas, Avila must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Avila will be affected by numerous factors beyond its control. Avila will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Avila. The ability of Avila to market its oil and natural gas may depend upon its ability to acquire space on pipelines which deliver oil and natural gas to commercial markets. Avila will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

To manage this risk, the Company may enter into a number of short-term financial derivatives for hedging purposes. These derivatives include contracts related to oil and natural gas prices, as well as foreign exchange rates. Avila may also minimize its exposure to increased rates by entering into short-term contracts for interest rate swaps. The Company continues to monitor the cost and associated benefit of these instruments as well as debt levels and utilization rates on bank lines and will utilize these derivatives when warranted.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company may make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

Operational Dependence

To the extent that Avila will not be the operator of its oil and natural gas properties, Avila will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Avila will be largely dependent upon the performance of its management and key employees. The Company's return on any assets operated by others will depend upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

The Company minimizes its business risks by operating the majority of its properties. This enables Avila to control the timing, direction and costs related to exploration and development opportunities. 's geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. Maintaining a highly motivated and talented staff of petroleum and natural gas professionals further minimizes the business risk.

Reliance on Operators and Key Personnel

The Company's success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. Avila does not have key personnel insurance in effect for management. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgement, discretion, integrity and good faith of the management of the Company.

Reliance on Industry Partners

The Company relies on industry partners with respect to the evaluation, acquisition and development of, and future production from, its properties and a failure or inability to perform by such partners could materially affect the prospects of the Company.

Capital Requirements: Liquidity

Avila anticipates that it will make capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Avila's revenues or reserves decline, Avila may have limited ability to expand the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Avila.

Avila's lenders have been provided with security over some of the assets of Avila. If Avila becomes unable to pay its debt service charge or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell Avila's properties. The proceeds of any such sale would be applied to satisfy amounts owed to Avila's lenders and other creditors and only the remainder, if any, would be available to Avila.

Avila relies on various sources of funding to support its growing capital expenditure program:

- Internally-generated cash flow provides a minimum level of funding on which the Company's annual capital expenditure program is based;
- Disposition of non-core assets;
- Debt may be utilized to expand capital programs when appropriate; and
- New equity, if available on favourable terms, may be utilized to expand exploration programs.

Project Risks

The Company expects to manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Company's ability to execute projects and market oil and natural gas depends on numerous factors beyond the Company's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Due to these factors, the Company may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Competition

Avila actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have greater financial resources than Avila. Avila's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors and maintaining an appropriate inventory of production equipment.

Safety Risk

Crude oil and natural gas development, production and refining are, by their nature, high risk activities that may cause personal injury. The inability to operate safely has the potential to have a material adverse impact on Forge's reputation, financial condition, results of operations and cash flow.
We are committed to safety in our operations. Our safety policies and standards comply with government regulations and industry standards. To partially mitigate safety risk, we have a system of standards, practices and procedures to identify, assess and control safety, security and environmental risk across our operations. Prevention of occupational diseases and illnesses is also an integral part of our health and safety focus. We take a risk-based approach to systematically identify, evaluate and manage health hazards of all workers at our sites.

The Health, Safety and Environmental Committee of our Board reviews and recommends policies for implementation and oversees compliance with government laws and regulations.

Transportation Restrictions

Avila's ability to efficiently access end markets may be affected by insufficient transportation capacity for our production. Transportation restrictions can negatively impact financial performance by way of higher transportation costs, wider price differentials, lower realized prices at specific locations or for specific grades and, in extreme situations, production curtailment. While this risk may impact our natural gas production, it has the greatest potential to impact our crude oil production, which could negatively affect our financial position, results of operations and cash flows.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced by or in association with oil and natural gas operations. The legislation also requires that wells, pipelines, facility sites and roads be operated, maintained and abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a violation may result in the loss of regulatory approvals and the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Avila's financial condition, results of operations or prospects. New programs for environmental laws and regulation may be implemented and there is no assurance that any such programs, laws or regulations, if proposed and enacted, will not contain requirements which Avila cannot meet, and financial penalties or charges could be incurred as a result of the failure to meet such targets.

The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to field operations by management.

Environmental Regulation Risk

The complexities of changes in environmental regulation make it difficult to predict the potential future impact to Avila. We anticipate that future capital expenditures and operating expenses could continue to increase as a result of implementation of new environmental regulations. However, we expect that the cost of meeting new environmental and climate change regulations will not be so high as to cause a material disadvantage to our competitive position.

Water Use Impacts

To operate our facilities we rely on water, which is obtained under licenses from Alberta Environment and Sustainable Resource Development. There can be no assurance that the licenses to withdraw water will not be rescinded or that additional conditions will not be added to these licenses. There can be no assurance that we will not have to pay a higher fee for the use of water in the future or that any such fees will be reasonable.

Climate Change

Exploration and production facilities and other oil and gas operations and activities emit greenhouse gases and will require the Company to comply with greenhouse gas emissions legislation in those provinces it conducts operations in, or with legislation that may be enacted. The Company may also be required to comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which regulations are expected to be consistent with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits regulated by the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar negatively impact the Company's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract.

An increase in interest rates could result in a significant increase in the amount the Company pays to service debt.

Additional Funding Requirements

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out is oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Company. An inability to access domestic and international credit markets may have a material adverse effect on the Company's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operation costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.
In accordance with applicable securities laws, the Company's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Company's oil and gas reserves will vary from the estimates contained in the reserves evaluation, and such variations could be material. The reserves evaluation is based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserves evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserves evaluation. The reserves evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Company's reserves since that date.

Insurance

Avila's involvement in the exploration for and development of oil and gas properties may result in Avila becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Avila has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Avila may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Avila. The occurrence of a significant event that Avila is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Avila's financial position, results of operations or prospects.

Changes to Royalty Regime

Each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, NGLs, sulphur, and natural gas production. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. Some provincial governments have eliminated, amended or allowed some such incentive programs to expire without renewal. The Government of Alberta has recently implemented changes to its royalty regime. There can be no assurance that the Government of Alberta or other Canadian provincial and federal governments will not in the future adopt a new royalty regime or modify the methodology of royalty calculations which could increase the royalties to be paid by the Company. An increase in royalty could reduce the Company's earnings and/or it could make capital expenditures by the Company uneconomic.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Company's net production revenue.

In addition, the Company's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of the Company's properties, wells or facilities are the subject of a terrorist attack it may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The Company will not have insurance to protect against the risk from terrorism.

Alternatives to and Changing Demand for Petroleum Products

Full conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Permits and Licenses

The operations of Avila may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Aboriginal Claims

Aboriginal people have claimed aboriginal title and rights to portions of western Canada. The Company is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Title to Properties

Although title reviews will be completed according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that unforeseen defects in the chain of title will not arise to defeat the claim of the Company, which could result in a reduction of the revenue received by the Company.

Changes in Legislation

The return on an investment in securities of Avila is subject to changes in Canadian federal and provincial tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects Avila or the holding and disposing of the securities of Avila.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas may be located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity. Avila's properties are currently located in areas which have year round access.

Income Taxes

The Company has filed or will file all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Third Party Credit Risk

Avila is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Avila, such failures could have a material adverse effect on Avila and its cash flow from operations.

Conflicts of Interest

Certain directors and officers of the Company are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the *Business Corporations Act* (Alberta) and the Company's internal policies regarding conflicts of interest.