



AVILA ENERGY CORPORATION

Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

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Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTICE OF NO AUDIT REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by the auditor. The accompanying unaudited interim condensed financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants for a review of the interim financial statements by the entity's auditors.

Avila Energy Corporation
Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

	Note	30-Jun-22	31-Dec-21
Assets			
Current Assets			
Cash		1,471,543	413,337
Advances	5	3,190,177	1,586,601
Joint Ventrue Receivable		596,401	158,565
Sales Tax Receivable		13,143	21,506
Prepaid Expenses		21,485	28,646
Total Current Assets		5,292,749	2,208,655
Non-current Assets			
Property and Equipment	6	3,694,901	837,875
Exploration and Evaluation Assets	7	1,616,201	1,537,296
Total Non-current Assets		5,311,102	2,375,171
Total Assets		10,603,851	4,583,826
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	9	23,665	305,699
Promissory Notes	11	-	67,429
Total Current Liabilities		23,665	373,128
Non-current Liabilities			
Interest Payable - Debentures	9	88,468	
Convertible Debentures	12	4,131,393	521,039
Derivative Liability	12	721,865	729,318
Decommissioning Provision	8	1,586,130	282,594
Total Non-current Liabilities		6,527,856	1,532,951
Total Liabilities		6,551,521	1,906,079
Shareholder's Equity			
Share Capital	14	8,867,488	9,023,278
Contributed Surplus		3,358,412	3,358,412
Convertible Debentures – Equity Portion		1,456,642	235,500
Deficit		(9,630,213)	(9,939,443)
Total Shareholder's Equity		4,052,330	2,677,747
Total Liabilities and Shareholder's Equity		10,603,851	4,583,826

Approved on behalf of the Board:

“**Leonard Van Betuw**”

Leonard Van Betuw, Director and CEO

“**Lars Glimhagen**”

Lars Glimhagen, CFO

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

Statements of Changes in Shareholders' Equity/(Deficiency)

For the Six Months Ended June 30, 2022 and December 31, 2021

(Expressed in Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Share Issuance Costs	Contributed Surplus	Convertible Debentures - Equity Portion	Shares to be Issued	Deficit	Total
Balance, December 31, 2020		13,056,290	7,092,087	(1,013,939)	1,767,125	2,292	127,950	(8,524,257)	(548,742)
Issued Shares for Cash	14(a)	2,660,000	479,050	-	-	-	(60,050)		419,000
Issued Shares for Services	14(a)	-	80,400	-	-	-	(80,400)		-
Conversion of Subscription Receipts	14(a)	-	-	(178,056)	178,056	-	-		-
Conversion Of Debentures	14(a)	700,000	40,000	-	-	(2,292)	-		37,708
Conversion of Interest on Debentures	14(a)	288,406	12,037	-	-	-	-		12,037
Flow-Through Share Premium			8,750	-	-	-	12,500		21,250
Net Loss for the Period								(120,520)	120,520
Balance, June 30, 2021		24,345,712	8,905,219	(1,088,779)	1,988,052	0	27,000	(8,644,778)	1,186,714
Balance, December 31, 2021		35,651,341	10,569,147	(1,545,869)	3,358,412	235,500	0	(9,939,443)	2,677,747
Issued Shares for Services	14(a)			(155,790)		1,221,142			1,065,352
Net Income /(Loss) for the Period								309,231	309,231
Balance, June 30, 2022		35,651,341	10,569,147	(1,701,659)	3,358,412	1,456,642	0	(9,630,212)	4,052,330

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

		For the Three Months Ended		For the Six Months Ended	
	Note	30-Jun-22	30-Jun-21	30-Jun-22	30-Jun-21
Revenue					
Oil and Natural Gas Revenue	15	754,613	82,688	1,267,723	101,701
Royalty expenses		(49,757)	(6,547)	(117,551)	(9,245)
Revenue, net of royalties		704,856	76,141	1,150,172	92,456
Operating Costs					
		297,319	29,381	553,771	40,312
Net Operating Income/(Loss)		407,537	46,760	596,401	52,144
Expenses					
Accretion		49,163		61,822	
Consulting Fees	13(a)	81,131	159,640	116,019	281,757
Depletion	6	12,425		23,488	
Interest		151	16,614	20,169	36,610
Listing Fees		1,500	2,890	3,000	13,640
Management Fees	13(a)	10,500	10,500	21,000	21,000
Office and Administration		9,757	4,329	11,868	5,524
Professional Fees	13(a)	21,529	73,885	58,476	133,934
Shareholder and Trust Services		2,632	5,434	3,331	7,055
Total Expenses		188,788	273,292	319,173	499,520
Other income					
Gain on acquisition of assets		32,003		32,003	
Change in Derivative Liability		-	326,856	-	326,856
Total Other Income		32,003	326,856	32,003	326,856
Net Income and Comprehensive Income		250,752	100,324	309,231	(120,520)
Net (Loss)/Gain Per Share, Basic		0.01	0.00	0.01	-
Weighted Average Number of Common Shares					
Outstanding, Basic		35,651,342	24,395,712	35,651,342	24,395,712

The accompanying notes are an integral part of these financial statements.

Avila Energy Corporation

Statements of Cash Flows (unaudited)

(Expressed in Canadian Dollars)

	30-Jun-22	30-Jun-21
Operating activities		
Net comprehensive income	309,231	(120,520)
Items not Affecting Cash		
Interest	20,169	
Accretion	61,822	
Depletion	23,488	
Total Items not Affecting Cash	105,479	-
Change in Balance Sheet Amounts		
Accounts payable and accrued liabilities	(282,034)	(453,482)
Advances	(1,603,576)	(320,000)
Joint Ventrue Receivable	(437,836)	
Sales Tax Receivable	(8,363)	(3,707)
Prepaid Expenses	(7,161)	(77,066)
Interest Payable - Debentures	88,468	
Total Change in Balance Sheet Amounts	(2,250,501)	(854,255)
Net Cash from Operating Activities	(1,835,791)	(974,775)
Investing activities		
Acquisition of PPE	(1,609,922)	-
Acquisition of E&E Assets	(78,905)	-
Net cash from Investing activities	(1,688,827)	-
Financing activities		
Shares Issued for Cash	(155,790)	917,383
Shares to be Issued	-	27,000
Convertible Debenture	3,584,901	(39,898)
Convertible Debentures – Equity Portion	1,221,142	-
Promissory Note	(67,429)	(60,250)
Increase in Demand Loan	-	23,000
Net Cash from Financing Activities	4,582,824	867,235
Change in Cash and Cash Equivalents	1,058,206	(107,540)
Cash, beginning of period	413,337	136,072
Cash, end of period	1,471,543	28,532

The accompanying notes are integral part of these financial statements.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 1 - CORPORATION INFORMATION

Avila Energy Corporation (formerly Petro Viking Energy Inc.) (“the Company”) was incorporated under the laws of the province of Alberta on January 13, 2010. The Company’s common shares are listed for trading on the Canadian Securities Exchange with the ticker symbol “VIK”. On December 3, 2021, the Company changed its name to Avila Energy Corporation from Petro Viking Energy Inc. as approved by the Company’s shareholders.

The records office and principal address is located at 5940 Macleod Trail, Suite 500, Calgary, Alberta, T2H 2G4.

a) **Going concern**

The financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to going concern, which assumes continuity of operation and realization of assets and settlement of liabilities in the normal course of business. As of June 30, 2022, the Company reported a net income of \$497,225 (2021 – net loss of \$120,520), a cumulative deficit of \$9,442,218 (2021 - \$9,939,443) and working capital of \$5,169,084 (2021 – working capital of \$1,835,527). The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing that will provide the Company with a sustainable revenue stream. Even if the Company has been successful in the past, there is no assurance that it will manage to obtain additional financing in the future.

These conditions indicate a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

b) **COVID-19**

The outbreak of the COVID-19 virus and the worldwide pandemic has impacted the Company’s plans and activities. The Company may face disruption to operations, supply chain delays, travel and trade restrictions, and impacts on economic activity in affected countries or regions can be expected and are difficult to quantify. Regional disease outbreaks and pandemics represent a serious threat to hiring and maintaining a skilled workforce and could be a major health-care challenge for the Company. There can be no assurance that the Company’s personnel will not be impacted by these regional disease outbreaks and pandemics and ultimately that the Company would see its workforce productivity reduced or incur increased medical costs and insurance premiums as a result of these health risks.

In addition, the pandemic has created a dramatic slowdown in the global economy. The duration of the outbreak and the resulting travel restrictions, social distancing recommendations, government response actions, business disruptions and business closures may have an impact on the Company’s exploration operations and access to capital. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic’s impact on global industrial and financial markets which may reduce metal prices, share prices and financial liquidity thereby severely limiting access to essential capital.

In addition, the Company has experienced significant volatility with crude oil prices due to macro-economic uncertainty, due to (a) OPEC and Russia abandoning production quotas and increasing production levels; (b) demand reduction for crude oil products as a result of the COVID-19 outbreak and potential lack of storage forcing production shut-ins, and (c) the effects of the current war between Russia and Ukraine, which include significant sanctions having been imposed (and likely more to come) on Russia by NATO members, which are anticipated to reduce the supply of oil and natural gas from Russia to other countries, thereby reducing supply to the existing demand and presumptively increasing the global prices of oil and natural gas. The duration and impact of these global events remain uncertain and could impact cash flow and the Company’s financial condition in the future.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 2 - BASIS OF PREPARATION

a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

These interim condensed financial statements were approved and authorized for issue by the Chief Financial Officer and Board of Directors on August 24, 2022.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All financial information in these financial statements is presented in Canadian dollars, except as otherwise stated.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of assets or liabilities affected in future periods.

In particular, the Company has identified the following areas where significant judgments and estimates are required. Changes in these judgments and estimates may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and in the relevant notes to the financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

a) 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.

b) 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.

c) Property and Equipment

Valuation of Plant and Equipment

The amounts recorded for depletion and depreciation of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Corporation’s reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

For impairment testing, property and equipment assets are aggregated into cash generating units ("CGUs"), based on management's judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Fair Value of Plant and Equipment

The market value of property and equipment assets is the estimated amount for which the assets could be exchanged on the acquisition date 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 interests (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

Impairment of Plant and Equipment

The determination of the recoverable amount for value in use requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential, recent transactions involving similar projects, and future operating performance. An oil and gas property's fair value less costs to sell requires the use of estimates as to the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

c) **Decommissioning Provision**

The value of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Management uses judgment to assess the Corporation's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Corporation's production activity is required to follow various environmental laws and regulations in Canada. The assessment of decommissioning provisions is based on management's understanding of the current legal and environmental requirements and third-party engineering valuations.

d) **Deferred Tax Assets**

Judgment is required to determine which types of arrangements are a tax on income in contrast to an operating cost. Judgment is also required in determining whether deferred income tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate enough taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and reclamation costs, capital expenditures, dividends and other capital management transactions) and judgment about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differs significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in income tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain income tax deductions in future periods.

e) **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.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

f) Common Shares

As the Company's shares has been temporarily halted for 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.

g) 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 judgements 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 business and the Company obtains control of the business inputs and processes.

h) Cash Generating Units

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. As of June 30, 2022, the Company had one CGU (2021 – one). The Company reviews the composition of its CGU at each reporting date to assess whether any changes are required considering new facts and circumstances.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

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

Restricted cash relates to funds held in escrow until the escrow conditions are met for the subscription receipts issued during the year. The funds will be released once the escrow conditions are met.

b) 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 are 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.

c) 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.

Avila Energy Corporation

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Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

d) Plant and Equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning provisions and transfers from exploration and evaluation assets.

i) Depletion

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, considering estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

d) 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.

e) Financial Instruments

i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the original classification under IFRS 9:

Financial assets/liabilities	Classification
Cash	Amortized cost
Restricted Cash	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Subscription Liability	Amortized cost
Convertible Debenture	Amortized cost
Derivative Liability	FVTPL
Promissory Notes Payable	Amortized cost

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Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

NOTE 5 – ADVANCES

As at June 30, 2022, the Company has advanced a total of \$3,190,177 to its joint partner, 611890 Alberta Inc. for the continuing development of assets and expenditures to be incurred under a joint venture agreement dated December 9, 2019.

NOTE 6 - PROPERTY AND EQUIPMENT

	Natural Gas and Liquids Interests
	\$
COST	
Balance, December 31, 2020	773,011
Change in Estimates in Asset Retirement Obligation	109,116
Balance, December 31, 2021	882,127
Additions	2,880,514
Balance, June 30, 2022	3,681,058

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Notes to the Financial Statements

For the Three and Six Months Ended June 30, 2022, and 2021
(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

NOTE 6 - PROPERTY AND EQUIPMENT (continued)

ACCUMULATED DEPLETION

Balance, December 31, 2020	-
Depletion	44,252
Balance, December 31, 2021	44,252
Depletion	23,488
Balance, June 30, 2022	67,740

NET BOOK VALUE

Balance, December 31, 2021	837,875
Balance, June 30, 2022	3,694,901

NOTE 7 – EXPLORATION AND EVALUATION (“E&E”) ASSETS

Balance, December 31, 2020	281,600
Acquisition	1,255,696
Balance, December 31, 2021	1,537,296
Additions	78,905
Balance, June 30, 2022	1,616,201

NOTE 8 – DECOMMISSIONING OBLIGATION

The Company’s estimated net present value of decommissioning liabilities, \$1,586,130 as at June 30, 2022 (2021- \$164,325), based on an undiscounted total future liability of \$1,394,435 (2021 – \$221,962). These payments are expected to be incurred over a period of 17 years with the majority of costs to be incurred in 2038. At June 30, 2022, risk-free rate 1.66% (2021 – 1.34%) and an inflation rate of 3.4% (2020 – 1.69%) were used to calculate the net present value of the decommissioning liabilities.

As at June 30, 2022 and 2021, the Company has the following reclamation provision:

	2022	2021
	\$	\$
Balance, December 31,	282,594	164,325
Accretion Expenses	10,015	9,153
Additions	1,293,522	
Change in Estimates	-	109,116
Balance, June 30, 2022	1,586,130	282,594

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable – trade	23,665	305,669
Interest Payable	-	67,429
Balance	23,665	373,128

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NOTE 10 – FLOW-THROUGH SHARE PREMIUM LIABILITY

Opening Balance	-	21,250
Flow-Through Share Premium Liability obligation due to issuance of Flow-Through	-	102,625
Settlement of flow-through share premium liability pursuant to incurring qualified expenditures	-	(123,875)
Balance		-

NOTE 11 – PROMISSORY NOTES

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.

For accounting purposes, the promissory notes were recorded at a fair market value of \$168,220 that was calculated as being equivalent to the discounted cash flows for the promissory notes assuming an effective interest rate of 20%.

As of June 30, 2022, there is an amount owing to a related party in the amount of \$Nil.

NOTE 12 – CONVERTIBLE DEBENTURES

	Convertible Debentures			
	Liability Component	Derivative Liability	Equity Component	Total
Balance, December 31, 2020	703,526	801,499	2,292	1,507,317
Conversions	(100,209)	(230,934)	(2,292)	(333,435)
Fair value change	(138,937)	158,753	235,500	255,316
Accretion expense	56,659	-	-	56,659
Balance, December 31, 2021	521,039	729,318	235,500	1,485,857
Conversions	-	-	-	-
Fair value change	3,551,093	(7,453)	1,221,142	4,764,782
Accretion expense	59,262	-	-	59,262
Balance, June 30, 2022	4,131,394	721,865	1,456,642	6,309,901
			2022	2021
			\$	\$
Debenture (a)			294,690	282,628
Debenture (b)			260,158	238,411
Debenture (c)			3,576,545	0
			4,131,393	521,039
Long-term			4,131,393	521,039
Derivative liability (b)			721,865	729,318

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NOTE 12 – CONVERTIBLE DEBENTURES (continued)

- (a) On December 9, 2019, the Company issued a debenture for \$500,000 as payment for the business combination in which the Company acquired 50% interest in non-operating assets. The debenture is unsecured and bears a compounded 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 issuance, the conversion feature is considered a derivative liability and is revalued each month. The value of the derivative liability as at December 31, 2020 was determined using a fair value estimation method with the following inputs: discount rate - 20%; volatility - 120%; risk-free rate - 0.18 %.

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 to \$0.25 effective March 1, 2021. As a result of the conversion price of the debentures being fixed at the time of change, the convertible debentures have been separated into 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. The value of the liability component was determined to be \$265,000. The loss on fair market value change was determined to be \$88,236.

- (b) 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.

During the year ended December 31, 2021, it was determined that the probability of the Holder waiting until maturity to convert was 0% which results in the value of the derivative liability to be \$729,318 using Black-Scholes option pricing model fair value estimation method with the following inputs: expected stock price - \$0.32; risk free interest rate - 0.81%; expected stock price volatility - 107.59%; expected dividend yield - Nil; expected option life in months - 16.

- (c) The company received proceeds of \$4,772,235 as of June 30, 2022 with the outstanding \$227,995 to be collect in subsequent periods, for the Private Placement consisting of up to 5,000 Debenture Units of the Corporation (“Unit” or “Units”), being a total of \$5,000,230 in principle. First closing was on May 11, 2022 for a total of \$2,512,000.

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NOTE 12 – CONVERTIBLE DEBENTURES (continued)

Each Unit is comprised of an aggregate \$1,000 principal amount of a 4% convertible unsecured subordinated debenture (“Debenture”) due on April 1, 2025 (the “Maturity Date”). Further, conditional to full conversion (1 Unit converts into 2,000 Class A Common Shares) of the entire principal of the Units held by the holder (the “Holder”), the subsequent issuance of Class A Common Share purchase warrants by the Issuer (the “Conditional Warrants”) to the Holder entitling the Holder to purchase one (1) Class A Common Share per each Class A Common Share received on the Conversion at a price of \$0.75 for a period of two(2) years following the conversion date of the Debenture (the “Private Placement”).

As a result of the conversion price of the debentures being fixed, the convertible debentures have been separated into 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 14.5%. 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 \$1,221,142. The value of the liability component was determined to be \$3,525,640.

NOTE 13 - RELATED PARTY TRANSACTIONS

Key management includes directors (executive and non-executive) and senior management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). The amounts paid by the Company for the services provided by related parties have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions are in the normal course of operations. Details of transactions between the Company and related parties, in addition to those transactions disclosed elsewhere in these financial statements, are described below.

a) Compensation of Key Management Personnel

All related party transactions were in the ordinary course of business and were measured at their exchange amount.

	2022	2021
	\$	\$
Management fees	57,000	68,043
	57,000	68,043

b) Amounts Due to Related Parties

Amounts due to related parties are in the normal course of business, unsecured, non-interest bearing, and have no specific terms of repayment.

As at June 30, 2022 and 2021, the Company has the following amounts due to related parties.

	2022	2021
	\$	\$
Accounts payable and accrued liabilities including management fees and interest ⁽¹⁾	48,649	85,409
Unsecured promissory notes due September 15, 2022, bearing interest at 5% per annum compounded semi-annually ⁽²⁾		67,429
Unsecured interest-free demand loan		156,945
Convertible secured debenture due July 31, 2027, bearing interest at 5% per annum, compounded semi-annually ⁽³⁾		23,000
	500,000	500,000
	570,565	832,783

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NOTE 13 - RELATED PARTY TRANSACTIONS (continued)

1. A partner in a legal firm is also a director of the Company. For the six months ended June 30, 2022, legal expense and share issuance cost related charges totaled \$82,002 (2021 - \$50,180). Amounts owed to the legal firm as at June 30, 2022 was \$15,333 (2021 - \$64,005).
2. Promissory note issued on September 13, 2020 in the amount of \$102,415 was issued to a company in which the director is also an officer of the Company.
3. The Convertible secured debenture is held by 611890 Alberta Inc. in which the President and Chief Executive Officer is also the President and Chief Executive Officer of the Company.

c) Participation in Private Placements

	Price \$	Number of Units	Proceeds
January 2021 Private Placement	0.15	1,600,000	240,000
September 2021 Private Placement	0.25	124,000	31,000
		1,724,000	271,000

NOTE 14 - SHARE CAPITAL AND RESERVES

As at June 30, 2022, there were 35,651,342 (2021 – 35,651,342) common shares issued and outstanding.

a) Common Shares

Authorized

Unlimited number of common shares, without nominal or par value.

Issued and outstanding common shares

i.) During the Six Months Ended June 30, 2021

- On January 18, 2021, the Company issued 1,867,000 common shares at a price of \$0.15 per share for gross proceeds of \$280,050 (includes 267,000 of common shares subscribed but not issued in prior year) and 500,000 flow-through shares at a price of \$0.20 per share for gross proceeds of \$100,000 (includes 50,000 of flow-through shares subscribed but not issued in prior year) pursuant to the non-brokered private placement offering initiated on November 11, 2020. An additional premium was recognized as a liability for \$12,500.
- On February 2, 2021, the Company issued 670,000 common shares at a price of \$0.30 per share in connection with the consulting agreement dated June 1, 2020. The Company recorded a corresponding gain on the settlement of debt of \$27,771.
- On February 10, 2021, the Company issued 660,001 common shares at a price of \$0.15 per common share for gross proceeds of \$99,000 pursuant to the non-brokered private placement offering initiated on November 11, 2020.
- On March 9, 2021, the Company exchanged the subscription receipts in the amount of \$935,500 from the November 5, 2020 Offering Memorandum as the conditions for the shares being released were met by the completed listing of the Company on the CSE on March 5, 2021. As a result of this exchange, the Company issued 3,833,333 common shares at a price of \$0.15 and 1,916,667 warrants at an exercise price of \$0.20 in the Company and 1,802,500 flow-through shares at a price of \$0.20 per share. The premium was recognized as a liability of \$90,125.
- On March 15, 2021 the Company made a non-brokered private placement offering up to a maximum of \$1,250,000 by the issuance of 5,000,000 units. Each unit is comprised of one common share in the share capital of the Company as a price of \$0.25 per common share and one half warrant, each whole warrant entitling its holder to purchase one additional share at a price of \$0.35 for a period of 24 months following the closing.
- On March 31, 2021 the Company issued 988,406 common shares for debt. Of these Shares, 100,000 Shares were issued at \$0.10, 793,062 shares were issued at \$0.05 per share and 95,344 shares were issued at \$0.025 per share.

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NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

Each of the shares was priced in accordance with the conversion price as determined in each debt instrument.

ii.) During the Six Months Ended June 30, 2022

There were no shares issued during the six months ended June 30, 2022

b) Stock Options

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.

	Number of Options	Weighted average exercise price \$
Outstanding and Exercisable, December 31, 2021	-	-
Issued	200,000	0.35
Outstanding and Exercisable, June 30, 2022	200,000	0.35

During the year ended December 31, 2021, the Company recognized share-based compensation of \$44,993 (2020 - \$nil) using the Black-Scholes option pricing model for stock options granted and vested during the period. The stock options are exercisable at \$0.35 per common share and expire on October 31, 2024.

c) Share Purchase Warrants

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of Warrants	Weighted average exercise price \$
Outstanding and Exercisable, December 31, 2019	-	-
Issued	4,016,700	0.24
Outstanding and Exercisable, December 31, 2020	4,016,700	0.24
Issued	9,382,961	0.29
Exercised	(373,300)	0.18
Expired	(41,667)	0.40
Outstanding and Exercisable, December 31, 2021	12,984,694	0.28
Outstanding and Exercisable, June 30, 2022	12,984,694	0.28

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NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

As at June 30, 2022, the Company had the following share purchase warrants outstanding and exercisable:

Expiry date	Number of Warrants	Exercise Price
		\$
November 5, 2022	2,874,998	0.20
May 6, 2023	876,666	0.35
June 1, 2023	412,500	0.40
July 7, 2023	1,850,000	0.25
August 26, 2023	168,200	0.35
September 9, 2023	1,160,000	0.35
September 13, 2023	4,088,680	0.35
September 20, 2023	100,000	0.35
September 23, 2023	309,200	0.35
November 5, 2023	444,450	0.15
January 31, 2024	100,000	0.20
February 1, 2026	600,000	0.05
	12,984,694	0.28

The value of the warrants determined using the Black-Scholes option pricing model with the range of the following assumptions:

	2022 ⁽¹⁾	2021
Risk free interest rate	-	0.29% - 0.91%
Expected stock price volatility	-	112%-128%
Expected dividend yield	-	Nil
Expected option life in months	-	24-58

There were no warrants issued during the six months ending June 30, 2022

NOTE 15 – OIL AND NATURAL GAS SALES

The following table represents the Company's 50% interest in oil and natural gas sales for the six months ended June 30, 2022 and 2021:

	2022	2021
	\$	\$
Oil	537,401	2,944
Gas	678,039	73,826
Liquids	52,283	15,685
	1,267,723	92,455

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NOTE 16 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company's risk management policies are established by the Board of Directors 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 policy.

The Company's financial instruments include cash, accounts payable and accrued liabilities, subscriptions to convertible debentures, debenture and promissory notes payable, derivative liability and convertible debentures. The carrying values of cash, accounts payable and accrued liabilities and subscriptions to convertible debentures approximate their fair values due to their relatively short periods to maturity.

The carrying value of convertible debentures approximates its fair market value as the interest rates are based on market rates.

Fair values

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Derivative liability is considered to be a Level 3 classification as inputs are not based on observable market data. Please see note 12 for details on inputs.
- There were no transfers between levels during the year.
- The Company has exposure to liquidity risk and market risk because of its financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financing to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities.

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 Company has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities.

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 price 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, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's cash flows, net loss and comprehensive loss, liquidity, or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures to appropriate level and to maximize returns.

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NOTE 16 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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 its debt as they bear a fixed interest rate.

NOTE 17 - CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financing is dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the period ended June 30, 2022.

NOTE 18 - COMMITMENTS

On June 1, 2020, the Company entered into a 24-month term consulting agreement where it is to compensate the consultant \$6,000 per month. The consulting fee was settled with 120,000 shares for the initial 6 months.

On September 16, 2021, the Company entered into a 12-month term consulting agreement for marketing services for a monthly remuneration of \$22,500.

NOTE 19 - PROPOSED TRANSACTION

On June 14, 2021, the Company entered into a binding agreement for the purchase of interest in 53,835 acres (net 43,935 acres) of mineral rights (the "Acquisition").

Under the terms of the agreement, the Purchase Price for the Acquisition will be satisfied by way of the issuance of 44,440,000 Class "A" common shares (the "Common Shares") at \$0.60 per share and 30,000,000 convertible preferred shares (the "Convertible Shares") convertible at a price of \$0.80 per share.

The Convertible Shares will have a term of five years and earn an accruing annual dividend at a rate of two percent 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: (i) the Company exceeds the production rate of 3,000 BOE/d, (ii) the Common Shares trade at a volume weighted average price (VWAP) of more than \$1.00 per share for twenty consecutive business days, and (iii) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Shares shall automatically be redeemed on a 1:1 basis along with any accrued dividends by the issuance of Common shares.

An independent valuation based on capital commitment of \$14,300,000 for drilling determined the fair value of the Acquisition to be approximately \$26,900,000 as of December 31, 2021,

As of the Auditor's report date, the Company has received conditional regulatory approval on the Acquisition; final regulatory approval has not yet been received.

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NOTE 20 – BUSINESS COMBINATIONS

On June 25, 2022, the Company participated in a Joint Venture by acquiring a 7% interest in oil and gas properties in the northeast British Columbia Area. The acquired oil and gas interest was valued at \$1,825,525; the purchase was \$500,000 and the assumption of \$1,293,522 in discounted decommissioning liabilities. The transaction was accounted for as business combination under IFRS 3 - “Business Combinations” as the assets met the definition of a business. This acquisition contributed no revenues, royalties or direct operating expense from June 25 to June 30, 2022. Resulting in no net income.

Net assets acquired

Petroleum and natural gas properties and equipment	1,825,525
Decommissioning liabilities	(1,293,522)
Fair Value of Net Assets Acquired	532,003
Total consideration paid	500,000
Gain on acquisition	32,003
Deferred Tax Liability	(357,892)
Less: Non-Capital Loss*	357,892
Deferred Tax Liability	Nil

*The company has a total of \$9,343,329 in unrecognized Canadian non-capital losses.

NOTE 21 - SUBSEQUENT EVENTS

On July 26, 2022, the Company announced its election to assume 100% of the interests and activities of its Joint Venture in northeast British Columbia (the “NEBC Property”) in, and for, the fiscal year ended December 31 2022.