



AVILA ENERGY CORPORATION

Interim Financial Statements

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

- Disclaimer
- Statements of Financial Position
- Statements of Changes in Shareholders' Equity (Deficiency)
- Statements of Earnings (Loss) and Comprehensive Earnings (Loss)
- Statements of Cash Flows
- Notes to the Financial Statements

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 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)

(Unaudited - Expressed in Canadian Dollars)

	Note	30-Sep-22	31-Dec-21
Assets			
Current Assets			
Cash		455,569	413,337
Advances	5	1,492,000	1,586,601
Accounts Receivable		25,000	
Joint Ventrue Receivable		259,656	158,565
Sales Tax Receivable		81,793	21,506
Prepaid Expenses		21,485	28,646
Total Current Assets		2,335,502	2,208,655
Non-current Assets			
Property and Equipment	6	33,083,752	837,875
Exploration and Evaluation Assets	7	14,709,550	1,537,296
Right of Use Assets	17	1,466,756	
Intangible Assets	18	8,228,111	
Total Non-current Assets		57,488,169	2,375,171
Total Assets		59,823,671	4,583,826
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	9	433,078	305,699
Promissory Notes	11	-	67,429
Total Current Liabilities		433,078	373,128
Non-current Liabilities			
Interest Payable - Debentures	9	88,468	
Longterm Loans Payable	18	6,528,111	
Lease Liability	17	1,466,756	
Convertible Debentures	12	3,931,747	521,039
Derivative Liability	12	641,983	729,318
Decommissioning Provision	8	14,160,967	282,594
Total Non-current Liabilities		26,818,031	1,532,951
Total Liabilities		27,251,109	1,906,079
Shareholder's Equity			
Share Capital	14	34,814,953	9,023,278
Contributed Surplus		3,358,412	3,358,412
Convertible Debentures – Equity Portion		1,612,657	235,500
Deficit		(7,213,460)	(9,939,443)
Total Shareholder's Equity		32,572,562	2,677,747
Total Liabilities and Shareholder's Equity		59,823,671	4,583,826

Approved on behalf of the Board:

“Leonard Van Betuw”

Leonard Van Betuw, Director and CEO

“Jennifer Ottosen, CPA”

Jennifer Ottosen, CFO

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

Avila Energy Corporation

Statements of Changes in Shareholders' Equity/(Deficiency) (Unaudited)

For the Nine Months Ended September 30, 2022 and December 31, 2021

(Expressed in Canadian Dollars)

	Note	Number of Convertible Preferred Shares	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(b)		20,299,167	4,352,883	-	-	-	(60,050)		4,292,833
Issued Shares for Services	14(b)		-	167,500	-	-	-	(80,400)		87,100
Warrants Issued	14(d)			(1,391,238)		1,391,238				0
Warrants Issued as Finder's Fee	14(d)		-	-	(178,056)	178,056	-	-		0
Warrants Exercised	14(d)		373,300	93,994		(23,000)				70,994
Conversion Of Debentures	14(b)		1,922,584	356,546	-	-	(2,292)	-		354,254
Share Based Compensation	14(c)					44,993				44,993
Share Issuance Costs					(353,874)					(353,874)
Flow-Through Share Premium				(102,625)	-	-	-	12,500		(90,125)
Equity Portion of Debentures							235,500			235,500
Net Loss for the Period									(1,415,186)	(1,415,186)
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(b)				(155,790)					(155,790)
Shares Issued for the Acquisition	14(a), 14(b)	30,000,000	48,662,222	25,165,800						25,165,800
Warrants Exercised	14(d)		1,686,065	379,519						379,519
Conversion of Debentures	14(b)		960,000	397,000			1,377,157			1,774,156
Conversion of Interest on Debentures	14(b)		23,958	5,147						5,147
Equity Portion of Debentures										0
Net Income /(Loss) for the Period									2,725,984	2,725,984
Balance, September 30, 2022		30,000,000	86,983,586	36,516,612	(1,701,659)	3,358,412	1,612,657	-	(7,213,459)	32,572,562

Approved on behalf of the Board:

“Leonard Van Betuw”

Leonard Van Betuw, Director and CEO

“Jennifer Ottosen, CPA”

Jennifer Ottosen, CFO

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

Avila Energy Corporation

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

(Expressed in Canadian Dollars)

		For the Three Months Ended		For the Nine Months Ended	
	Note	30-Sep-22	30-Sep-21	30-Sep-22	30-Sep-21
Revenue					
Oil and Natural Gas Revenue	15	923,268	109,182	2,190,991	210,883
Royalty expenses		(82,065)	(8,970)	(199,616)	(18,215)
Revenue, net of royalties		841,204	100,212	1,991,376	192,668
Operating Costs					
		225,495	41,058	779,266	81,370
Net Operating Income/(Loss)		615,708	59,154	1,212,109	111,298
Expenses					
Accretion		150,882		212,704	
Consulting Fees	13(a)	1	137,781	116,020	419,538
Depletion	6	57,126	11,705	80,614	21,158
Depreciation		1,339		1,339	
Interest		7,148	21,206	27,316	57,816
Listing Fees		0	13,777	3,000	27,417
Management Fees	13(a)	0	10,500	21,000	31,500
Office and Administration		346,250	1,199	358,118	6,723
Professional Fees	13(a)	0	56,545	58,476	190,480
Shareholder and Trust Services		0	16,437	3,331	23,492
Total Expenses		562,745	269,150	881,918	778,124
Income(Loss) Before Other Income		52,963	(209,996)	330,191	(666,826)
Other Income/(Loss)					
Change in Derivative Liability		(174,796)	0	(174,796)	326,856
Gain on acquisition of assets		2,538,586		2,570,589	
Total Other Income		2,363,790	0	2,395,793	326,856
Net Income		2,416,753	(209,996)	2,725,984	(339,970)
Net Income/ (Loss) Per Share attributable to Avila's Shareholders					
Basic	16	0.06	(0.01)	0.07	(0.02)
Diluted	16	0.04	(0.01)	0.04	(0.02)

Approved on behalf of the Board:

“Leonard Van Betuw”
Leonard Van Betuw, Director and CEO

“Jennifer Ottosen, CPA”
Jennifer Ottosen, CFO

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

Avila Energy Corporation

Statements of Cash Flows (Unaudited)

(Expressed in Canadian Dollars)

	30-Sep-22	30-Sep-21
Operating activities		
Net comprehensive income	2,725,984	(339,970)
Items not Affecting Cash		
Interest	27,316	
Change in Derivative Liability	174,796	(326,856)
Accretion	221,495	
Depreciation	1,339	
Depletion	71,823	21,158
Total Items not Affecting Cash	496,770	(305,698)
Change in Non Cash Working Capital		
Accounts payable and accrued liabilities	127,379	(262,233)
Accounts Receivable	(25,000)	
Joint Ventrue Receivable	(101,091)	(111,701)
Sales Tax Receivable	(60,287)	(9,628)
Prepaid Expenses	7,161	163,533
Total Change in Balance Sheet Amounts	(51,837)	(220,029)
Net Cash from Operating Activities	3,170,916	(865,697)
Investing activities		
Acquisition of PPE	(18,700,277)	0
Acquisition of E&E Assets	(13,172,254)	0
Acquisition of Intangible Assets	(8,228,111)	
Decrease/(Increase) in advances	94,601	(1,120,000)
Net cash from Investing activities	(40,006,041)	(1,120,000)
Financing activities		
Shares Issued for Cash	25,791,675	3,264,404
Proceeds from Debenture Issuance	4,625,000	66,940
Proceeds from Long term notes payable	6,528,111	0
Promissory Note	(67,429)	(152,780)
Net Cash from Financing Activities	36,877,357	3,178,564
Change in Cash and Cash Equivalents	42,232	1,192,867
Cash, beginning of period	413,337	136,072
Cash, end of period	455,569	1,328,939

Approved on behalf of the Board:

“Leonard Van Betuw”
Leonard Van Betuw, Director and CEO

“Jennifer Ottosen, CPA”
Jennifer Ottosen, CFO

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

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 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 1439 17th avenue SE, Suite 201, Calgary, Alberta.

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 September 30, 2022, the Company reported a net income of \$2,725,984 (2021 – net loss of \$666,826), a cumulative deficit of \$7,213,460 (2021 - \$9,939,443) and working capital of \$1,902,424 (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 Nine Months Ended September 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 November 18, 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 Nine Months Ended September 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 Nine Months Ended September 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

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 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

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 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 September 30, 2022, the advance of \$1,492,000 is an acquisition advance, in which the Company has advanced a total of \$1,492,000 to 611890 Alberta Inc. for the remaining 76% interests in the NEBC assts. In prior periods, the Company advanced \$908,000 for 24% of the interests in NEBC for a total of \$2,400,000.

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	32,327,831
Balance, September 30, 2022	33,209,958

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 6 - PROPERTY AND EQUIPMENT (continued)

ACCUMULATED DEPLETION & DEPRECIATION

Balance, December 31, 2020	-
Depletion	44,252
Balance, December 31, 2021	44,252
Depletion	81,954
Balance, September 30, 2022	126,206

NET BOOK VALUE

Balance, December 31, 2021	837,875
Balance, September 30, 2022	33,083,752

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
Acquisition	13,172,254
Balance, September 30, 2022	14,709,550

NOTE 8 – DECOMMISSIONING OBLIGATION

The Company’s estimated net present value of decommissioning liabilities, \$14,160,970 as at September 30, 2022 (2021 - \$164,325), based on an undiscounted total future liability of \$5,346,741 (2021 – \$221,962). These payments are expected to be incurred over a period of 1 to 25 years with the majority of costs to be incurred in 2038. At September 30, 2022, risk-free rate 2.36% (2021 – 1.34%) and an inflation rate of 6.9% (2020 – 1.69%) were used to calculate the net present value of the decommissioning liabilities.

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

	2022	2021
	\$	\$
Balance, December 31,	282,594	164,325
Accretion Expenses	125,997	9,153
Additions	13,602,494	
Change in Estimates	149,884	109,116
Balance, September 30, 2022	14,160,970	282,594

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable – trade	433,078	305,669
Interest Payable - Debenture	88,468	67,429
Balance	521,546	373,128

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

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

NOTE 12 – CONVERTIBLE DEBENTURES

	Convertible Debentures			Total
	Liability Component	Derivative Liability	Equity Component	
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	774,517	-	-	-
Fair value change	2,540,693	(87,335)	1,377,157	3,830,514
Accretion expense	95,498	-	-	95,498
Balance, September 30, 2022	3,931,747	641,983	1,612,657	6,186,386
			2022	2021
			\$	\$
Debenture (b)			301,222	282,628
Debenture (c)			254,760	238,411
Debenture (d)			3,375,765	0
			3,931,747	521,039
Long-term			3,931,747	521,039
Derivative liability (c)			641,983	729,318

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

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 \$5,000,000 as of September 30, 2022, 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.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

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	21,000	68,043
	21,000	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 September 30, 2022 and 2021, the Company has the following amounts due to related parties.

	2022	2021
	\$	\$
Legal costs ⁽¹⁾	15,333	85,409
Unsecured promissory notes due September 15, 2022 ⁽²⁾	Nil	67,429
Convertible secured debenture due July 31, 2027 ⁽³⁾	500,000	500,000
Interest Owing on Convertible secured debenture due July 31, 2027 ⁽³⁾	88,468	156,945
Joint venture receivables ⁽⁴⁾	259,656	158,565
Advances ⁽⁵⁾	1,492,000	1,586,601
	2,355,457	2,554,949

1. A partner in a legal firm is also a director of the Company. For the six months ended September 30, 2022, legal expense and share issuance cost related charges totaled \$82,002 (2021 - \$50,180). Amounts owed to the legal firm as at September 30, 2022 was \$15,333 (2021 - \$64,005).

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 13 - RELATED PARTY TRANSACTIONS (continued)

2. Promissory note, bearing 5% interest compounded semi-annually, issued on September 13, 2020 in the amount of \$102,415 to a company in which the director is also an officer of the Company.
3. The Convertible secured debenture, bearing 5% interest compounded semi-annually, 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.
4. The director of the Company is also a director of the joint venture partner 611890 Alberta Inc.
5. Funds have been advanced in respect to a joint venture agreement with 611890 Alberta Inc. having a common director with 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 September 30, 2022, there were 86,983,586 (2021 – 35,651,342) common shares issued and outstanding.

a) Convertible Preferred Shares

Authorized

A total of 30,000,000 number of preferred shares, valued at \$0.32 per share. The Convertible Shares will have a term of five years (5) and earn an accruing annual dividend at a rate of two percent (2%), payable upon conversion. The Conversion of the Convertible Shares at the election of the holder can only occur after one of three milestones has been achieved: a) the Company exceeds the production rate of 3,000 BOE/d, b) the Common Shares trade at a volume weighted average price (VWAP) of more than \$1.00 per share for twenty (20) consecutive business days or c) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Shares shall automatically be redeemed on a 1:1 basis along with any accrued dividends by the issuance of Common shares.

Issued and outstanding, convertible preferred shares

	Number of Convertible Preferred Shares	Share Capital
Balance, December 31, 2020	0	0
Balance, December 31, 2021	0	0
Total Number of Shares Issued	30,000,000	9,600,000
Balance, September 30, 2022	30,000,000	9,600,000

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

b) Common Shares Authorized

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

Issued and outstanding common shares

	Number of Common Shares	Share Capital
Balance, December 31, 2020	13,056,290	7,092,087
Total Number of Shares Issued	22,595,051	3,477,060
Share Issuance Cost		(1,545,869)
Balance, December 31, 2021	35,651,341	9,023,278
Total Number of Shares Issued	51,332,244	16,347,465
Share Issuance Cost		(155,790)
Balance, September 30, 2022	86,983,586	25,214,953
Total Share Capital, September 30, 2022		34,814,953

c) 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, September 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.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

d) 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
Issued	750,000	0.75
Exercised	(1,686,065)	0.23
Expired	-	
Outstanding and Exercisable, September 30, 2022	12,048,629	0.28

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

Expiry date	Number of Warrants	Exercise Price \$
November 5, 2022	2,108,333	0.20
May 6, 2023	876,666	0.35
June 1, 2023	412,500	0.40
July 7, 2023	1,000,000	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	377,000	0.15
January 31, 2024	98,050	0.20
June 28, 2024	40,000	0.75
July 28, 2024	20,000	0.75
September 14, 2024	40,000	0.75
September 15, 2024	100,000	0.75
September 30, 2024	550,000	0.75
February 1, 2026	600,000	0.05
	12,048,629	0.28

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 14 - SHARE CAPITAL AND RESERVES (continued)

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 Sales in oil and natural gas sales for the nine months ended September 30, 2022 and 2021:

	2022 \$	2021 \$
Oil	1,015,736	2,944
Gas	1,107,346	73,826
Liquids	67,909	15,685
	2,190,991	92,455

NOTE 16 – Net INCOME/(LOSS) PER SHARE ATTRIBUTABLE TO AVILA'S SHAREHOLDERS

The calculations of basic and diluted net income per share are derived from both net income attributable to Avila's shareholders and weighted average shares outstanding, calculated as follows:

	For the Three Months Ended		For the Six Months Ended	
	30-Sep-22	30-Sep-21	30-Sep-22	30-Sep-21
Net Income (loss) attributable to Avila's Shareholders				
Basic and diluted	2,416,753	(209,996)	2,725,984	(339,970)
Weighted average shares outstanding				
Basic	40,051,302	34,890,862	40,051,301	34,890,862
Diluted	66,299,931	34,890,862	66,299,931	34,890,862
Net income (loss) per share attributable to Avila's shareholders				
Basic (\$/share)	0.06	(0.01)	0.07	(0.01)
Diluted (\$/share)	0.04	(0.01)	0.04	(0.01)

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 17 – RIGHT OF USE ASSETS AND LEASE LIABILITIES

As per IFRS 16, management classified surface rights for pipelines, well sites and facilities as right of use assets and lease liabilities. There calculations are as the following:

Right of Use Assets

Cost

Acquisition

1,466,756

Balance, September 30, 2022

1,466,756

Lease Liabilities

Acquisition

(1,466,756)

Balance, September 30, 2022

(1,466,756)

NOTE 18 – INTANGIBLE ASSET

During the nine months ended, management purchase an intangible asset for the fair value of \$8,228,111 less a down payment of \$1,700,000 with the remaining balance of \$6,528,111 as a long-term loans payable.

NOTE 19 - 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.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 19 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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.

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 20 - 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 21 - 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.

Avila Energy Corporation

(Formerly Petro Viking Energy Inc.)

Notes to the Financial Statements

For the Three and Nine Months Ended September 30, 2022, and 2021

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

NOTE 22 – BUSINESS COMBINATIONS

On September 30, 2022, the Company participated in a Joint Venture by acquiring a 24% interest in oil and gas properties in the northeast British Columbia Area. The acquired oil and gas interest was valued at \$6,258,942; the purchase was \$908,000 and the assumption of \$4,434,931 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 September 30, 2022. Resulting in no net income.

Net assets acquired

Petroleum and natural gas properties and equipment	6,258,942
Decommissioning liabilities	(4,434,931)
Fair Value of Net Assets Acquired	1,824,011
Total consideration paid	908,000
Gain on acquisition	916,011

Deferred Tax Liability	(336,963)
Less: Non-Capital Loss*	336,963

Deferred Tax Liability	Nil
-------------------------------	-----

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

On September 1, 2022, the Company purchased 100% of oil and gas properties in the west central Alberta area. The acquired oil and gas interests was valued at \$38,397,488; the consideration paid was \$23,820,800 in preferred and common shares and the assumption of \$11,710,719 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 September 30, 2022. Resulting in no net income.

Net assets acquired

Petroleum and natural gas properties and equipment	26,364,860
Exploration and evaluation assets	12,032,628
Joint Venture Receivable/(Payable)	(1,211,390)
Decommissioning liabilities	(11,710,719)
Fair Value of Net Assets Acquired	25,475,379
Total consideration paid	23,820,800
Gain on acquisition	1,654,579

NOTE 23 - 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.