AVILA ENERGY

Financial Statements

For the Years Ended December 31, 2025, and 2024

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Avila Energy Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2025 and 2024 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to the Nature of Operations in the notes to the financial statements which indicates that the Company incurred a net loss of $8,530,262 for the year ended December 31, 2025 and, as of that date, the Company's current liabilities exceeded its current assets by $20,590,488. These conditions, along with other matters as set forth in the Nature of Operations, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

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

Evaluation of Value of Property and Equipment for Impairment

Description of the matter:

As reported in the statement of financial position, on December 31, 2025 the Company had property and equipment at a net book value of $9,567,360 and during the year then ended recorded an impairment of $5,584,205. As indicated in Notes 2 and 3, the Company assesses the recoverable amount of its property and equipment. When necessary, the Company will record a provision for impairment.

Why the matter is a key audit matter:

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

How the matter was addressed in the audit:

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

Information Other than the Financial Statements and Auditor's Report Thereon

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

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kevin B. Napady, CPA, CA.

Kenway Mack Slusarchuk Stewart LLP

Chartered Professional Accountants

April 30, 2026
Calgary, Alberta

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

As at December 31,		**2025**		2024
Assets				
Current assets:				
Cash	$	**21,577**	$	13,852
Accounts receivable		**62,539**		31,718
Prepaid expenses and deposits (Note 5)		**35,909**		43,784
		120,025		89,354
Property and equipment (Note 7)		**9,567,360**		15,620,594
Right-of-use asset (Note 8)		**89,799**		99,777
Intangible assets (Note 9)		**16,381**		16,381
	$	**9,793,565**	$	15,826,106
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	**7,363,455**	$	6,054,117
Customer deposits		**102,000**		102,000
Lease liabilities (Note 8)		**12,220**		21,888
Loan payable		**344,849**		313,499
Dividend payable		**103,101**		103,101
Term loan (Note 11)		**3,570,000**		3,212,628
Flow-through share liability provision (Note 15)		**4,412,951**		4,115,800
Current portion of convertible debentures (Note 12)		**4,150,230**		4,020,091
Interest payable on convertible debentures		**651,707**		460,198
		20,710,513		18,403,322
Interest payable on convertible debentures		**25,000**		25,000
Lease liabilities (Note 8)		**108,419**		85,173
Decommissioning liability (Note 10)		**2,856,424**		2,819,493
Convertible debentures (Note 12)		**416,386**		374,006
		24,116,742		21,706,994
Shareholder's equity:				
Share capital (Note 14)		**59,703,000**		59,703,000
Contributed surplus		**4,857,436**		4,769,463
Convertible debentures – equity portion		**1,173,728**		1,173,728
Deficit		**(80,057,341)**		(71,527,079)
		(14,323,177)		(5,880,888)
	$	**9,793,565**	$	15,826,106

Nature of Operations and Going Concern
Subsequent events (Note 22)

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

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

For the year ended December 31,		2025		2024
Revenue				
Oil and natural gas, net of royalties (Note 16)	**$**	**532,616**	$	292,072
Processing income		**83,738**		-
		616,354		292,072
Expenses				
Production and operating		**1,066,753**		1,168,226
General and administrative		**539,621**		984,204
Impairment on property and equipment		**5,584,205**		9,550,275
Depletion and depreciation		**336,687**		459,703
Share-based compensation (Note 14)		**87,973**		-
		7,615,239		12,162,408
Loss before other items		**(6,998,885)**		(11,870,336)
Other items				
Finance expense (Note 18)		**(1,531,377)**		(2,224,767)
Loss on sale of oil and gas properties		**-**		(387,535)
		(1,531,377)		(2,612,302)
Net loss and comprehensive loss for the year		**(8,530,262)**		(14,482,638)
Weighted average basic and diluted shares outstanding		56,622,739		46,617,900
Basic and diluted loss per share (Notes 14)	**$**	**(0.15)**	$	(0.31)

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

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

	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2024	40,762,489	$ 57,900,721	$1,242,158	$ 4,710,167	$ (57,044,441)	$ 6,808,605
Conversion of debentures (Note 12)	157,875	208,220	(68,430)	-	-	139,790
Share issue costs	-	(17,750)	-	-	-	(17,750)
Shares issued pursuant to private placement of Units	3,073,250	285,648	-	37,962	-	323,610
Shares issued for debt settlements	5,627,375	651,993	-	23,292	-	675,285
Shares issued to settle promissory note	5,000,000	600,000	-	-	-	600,000
Shares issued for compensation	2,100,000	84,000	-	-	-	84,000
Returned to treasury	(98,250)	(9,832)	-	(1,958)	-	(11,790)
Loss and comprehensive loss	-	-	-	-	(14,482,638)	(14,482,638)
Balance, December 31, 2024	**56,622,739**	**$ 59,703,000**	**$1,173,728**	**$ 4,769,463**	**$ (71,527,079)**	**$ (5,880,888)**

	Number of Common Shares	Share Capital	Convertible Debenture - Equity	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2025	56,622,739	$ 59,703,000	$1,173,728	$ 4,769,463	$ (71,527,079)	$ (5,880,888)
Share-based compensation	-	-	-	87,973	-	87,973
Loss and comprehensive loss	-	-	-	-	(8,530,262)	(8,530,262)
Balance, December 31, 2025	**56,622,739**	**$ 59,703,000**	**$1,173,728**	**$ 4,857,436**	**$ (80,057,341)**	**$ (14,323,177)**

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

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

For the year ended December 31,	**2025**	2024
Cash provided by (used in):		
Operations:		
Net loss for the year	**$ (8,530,262)**	$ (14,482,638)
Items not involving cash:		
Depletion and depreciation	**336,687**	459,703
Finance expense	**1,257,589**	1,514,477
Impairment of property and equipment	**5,584,205**	9,550,275
Share-based compensation	**87,973**	-
Loss on sale of oil and gas properties	**-**	387,535
	(1,263,808)	(2,570,648)
Change in non-cash working capital		
Accounts receivable	**(30,821)**	883,275
Prepaid expenses and deposits	**7,875**	41,009
Accounts payable and accrued liabilities	**1,309,338**	1,194,952
	22,584	(451,412)
Investing:		
Property acquisitions	**(14,859)**	(13,609)
Purchase of oil and gas properties	**-**	(46,949)
Proceeds on sale of oil and gas properties	**-**	300,000
	(14,859)	239,442
Financing:		
Shares issued for cash	**-**	357,000
Share issuance costs	**-**	(17,750)
Proceeds from (payments on) term loan	**-**	(180,000)
	-	159,250
Increase (decrease) in cash	**7,725**	(52,720)
Cash, beginning of year	**13,852**	66,572
Cash, end of year	**$ 21,577**	$ 13,852

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

NATURE OF OPERATIONS

Avila Energy Corporation ("Avila" or the "Company") was incorporated on January 13, 2010 by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta). Avila is a company that is engaged in the business of acquiring, exploring and developing crude oil, natural gas, and natural gas liquids ("NGLs") in Western Canada. The Company's assets consist of the West Central Alberta assets ("WCA") located 50 kilometres southwest of Edmonton, Alberta and the East Central Alberta assets ("ECA") located 90 kilometres east of Red Deer, Alberta.

The head office is located at Unit 201-2750-3rd Avenue N.E., in Calgary, Alberta.

On February 27, 2026, the Company completed a 1-for-4 reverse stock split (share consolidation), reducing its issued and outstanding common shares from 229,730,477 to 57,432,619. No fractional shares were issued in connection with the share consolidation and any fractional shares resulting from the transaction were rounded to the nearest whole number. Although the share consolidation occurred after the Company's year-end of December 31, 2025, all share amounts and per share data for the year ended December 31, 2025, and for the comparative period have been retrospectively adjusted as if the consolidation had occurred at the beginning of the earliest period presented.

Going Concern

These financial statements have been prepared on a going concern basis in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the twelve-month period ended December 31, 2025, the Company incurred a net loss of $8,530,262 (2024 - $14,482,638) and had net cash provided by operating activities of $22,584 (2024 – used of $451,412). In addition, the Company has a deficit of $80,057,341 (2024 - $71,527,079) and a working capital deficiency of $20,590,488 (2024 - $18,313,968).

The above factors indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for several reasons including the Company's own resources and external market conditions.

The Company's ability to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative obligations and continue its exploration activities in the 2026 fiscal year, is dependent upon management's ability to obtain additional financing, through various means including, but not limited to equity financing. No assurance can be given that any such additional financing will be available, or that it can be obtained on terms favourable to the Company.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the carrying amounts of assets and liabilities, the reported expenses and the classifications used in the statements of financial position.

1. BASIS OF PRESENTATION

a) Statement of compliance

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

These financial statements were authorized for distribution by the Company's Board of Directors on April 30, 2026.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 2.

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

c) Functional and presentation currency

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

2. MATERIAL ACCOUNTING POLICIES

Cash and cash equivalents

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

Property, plant and equipment and exploration and evaluation assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leases

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

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

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

Non-monetary transactions

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

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

Provisions

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

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

Financial instruments

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

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

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

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures and interest payable on convertible debentures	Amortized cost
Loan payable	Amortized cost
Lease liability	Amortized cost
Term loan	Amortized cost
Dividend payable	Amortized cost
Flow through share liability provision	Amortized cost

Financial instruments may be utilized by the Company to manage its exposure to commodity price fluctuations and foreign currency exposures. The Company's practice is not to utilize financial instruments for trading or speculative purposes. Transaction costs are recognized in profit or loss when incurred.

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

Convertible debentures

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

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

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

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

Business combinations

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

Share capital

Share capital represents the amount received on the issue of shares, less issuance costs. Proceeds from unit placements are allocated between shares and warrants issued by estimating the value of the warrants using the Black-Scholes options pricing model; the fair value is allocated to warrants from the net proceeds and the balance is allocated to the shares. Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised. Deficit includes all current and prior year profits or losses.

Flow-through shares

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

Revenue recognition

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

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

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

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

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

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

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

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

Share-based compensation

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

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

Income taxes

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

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

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

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

Impairment

Financial assets

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

All impairment losses are recognized in profit or loss.

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

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering event and circumstances as well as on reclassification to oil and natural gas properties.

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Finance income and expenses

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

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

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

Net income (loss) per share

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

New standards, interpretations and amendments adopted

The following IFRS accounting standard have been recently issued by the IASB and the Company is currently evaluating the potential impacts on the financial statements of such pronouncements. Pronouncements that are not applicable or are not expected to have a significant impact on the Company's financial statements have been excluded.

IFRS 18 Presentation and disclosure in the financial statements (replacement of IAS 1)

This new standard maintains many of the current requirements for the presentation of financial statements and adds new requirements concerning the statement of profit or loss, management-defined performance measures, and the principles of aggregation and disaggregation of information.

The new requirements concerning the statement of profit or loss include requiring entities to classify income and expenses included in the statement of profit or loss in one of five categories (operating, investing, financing, income taxes, discontinued operations), and prescribing that subtotals for operating profit or loss and profit or loss before financing and income taxes are presented. The new requirements concerning management-defined performance measures involve explanation of the purpose, calculation of and reconciliation to the most closely related performance measure prescribed in an IFRS accounting standard. Management-defined performance measures are defined as a subtotal of income and expenses used in public communications by entities outside of the financial statements that are not a measure specifically required to be presented or disclosed by an IFRS accounting standard. The amendment is effective for annual reporting periods beginning on or after January 1, 2027 and is to be applied retrospectively.

3. MATERIAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

- Nature of operations and going concern
- Note 7 – impairment of oil and natural gas properties
- Note 13 – deferred income taxes
- Note 15 – flow through share provision and liability premium

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

Material judgments in applying accounting policies

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

Taxes

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

Financial instruments

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

Convertible debentures

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

Going concern

Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended December 31, 2025. Management prepares the financial instruments on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to current and expected profitability, debt repayment schedules and potentials source of financing.

Establishing CGU

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

Warrants

Estimating fair value for warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, and dividend yield of the warrants. The fair value of warrants is evaluated using the Black-Scholes valuation model at the date of grant. The Company has made estimates as to the expected volatility, share price and expected life of warrants. The expected volatility is based on the historical volatility of the Company, over the period of the expected life of the warrants. The expected life of the warrants is based on historical data. These estimates may not necessarily be indicative of future actual patterns. Share price is based on the price of shares issued in recent raises.

Common shares

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

Business combination

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

Contingent liability

The Company recognizes a contingent liability when there is a possible obligation arising from a past event that can be reliably estimated for which the possibility of future economic outflow is more than remote but less than probable. If the Company believes the possibility of an outflow of funds is more then remote but less than probable, but the amount is not reliably estimable, the outflow is not included in the contingent liability estimate. In addition, if the Company believes the possibility of an outflow of funds is remote, the outflow is not included in the contingent liability estimate.

Key sources of estimation uncertainty

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

Fair value of financial instruments

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

Share-based payments

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

Taxes

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

Property and equipment

Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future oil, natural gas and natural gas liquids prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 41-101.

Intangible assets

The Company evaluates the future benefit for initial recognition and measurement of intangible assets as well as testing the recoverable amounts. The determination of the carrying value and recoverable amounts of the cash generating unit groupings for goodwill and cash generating units for intangible assets relies upon the determination of fair value or value-in-use using valuation methodologies.

Decommissioning liability

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

Flow through share provision

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring the required amount of qualifying expenditures related to past flow-through share issuances on a timely basis. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them. Flow-through share provisions have been created based on internal estimates of the maximum penalties and indemnification liabilities the Company could be subject to.

Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management.

4. DETERMINATION OF FAIR VALUES

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

Oil and natural gas assets and equipment and exploration assets

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

Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2025, the fair value of these balances approximated their carrying value due to their short term to maturity.

Investments and debt

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

Share-based payment transactions

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

5. PREPAID EXPENSES

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

As at December 31,		2025		2024
AER decommissioning and crown royalty deposit	$	33,409	$	36,034
Prepaid financing fees on term loan		-		5,250
Other		2,500		2,500
	$	35,909	$	43,784

6. BUSINESS COMBINATION

Avex Energy Inc.

On October 28, 2024, the Company amalgamated with Avex Energy Inc., whose president and CEO was a former president and CEO of the Company. Upon amalgamation, no consideration was given to the shareholders of Avex Energy Inc. and the Company assumed the liabilities and assets of Avex Energy Inc.

The following purchase price allocation was based on management's best estimate of the fair value assigned to the assets acquired and the liabilities assumed. Management determined the fair value of the oil and gas properties to be $324,489, which was based on the liabilities assumed.

Petroleum and natural gas properties	$	324,489
Accounts payable and accrued liabilities assumed		(324,489)
	$	-

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

Cost		
Balance, December 31, 2023		53,778,356
Additions – property acquisitions		107,726
Additions – amalgamation of Avex Energy Inc.		324,489
Disposals – Oil and gas property		(771,094)
Change in decommissioning provisions		(47,168)
Balance, December 31, 2024	$	53,392,309
Additions		14,859
Change in decommissioning provision		(157,179)
Balance, December 31, 2025	$	53,249,898
Accumulated amortization		
Balance, December 31, 2023		27,781,318
Depletion and depreciation expense		449,724
Depreciation reversed on sale of oil and gas property		(9,602)
Impairment		9,550,275
Balance, December 31, 2024	$	37,771,715
Depletion and depreciation expense		326,618
Impairment		5,584,205
Balance, December 31, 2025	$	43,682,538
Net carrying value		
Balance at December 31, 2024	$	15,620,594
Balance at December 31, 2025	$	9,567,360

At December 31, 2025, the Company evaluated its developed and producing assets for indicators of any potential impairment or related reversal. As a result of this assessment, indicators were identified and Avila recognized $5,584,205 (2024 - $9,550,275) of impairment expense. The Company used value in use, discounted at pre-tax rates of 10 percent.

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2025. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

	NGL Price (Cdn $ / bbl)	AECO Gas Price (CND $ / MCF)
2026	40.16	2.82
2027	42.87	3.13
2028	46.76	3.47
2029	47.63	3.55
2030	48.52	3.62
2031	49.42	3.70
2032	50.34	3.78
2033	51.28	3.85
Thereafter	2%	2%

The following table outlines forecast commodity prices used in the Company's impairment test at December 31, 2024. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, and operating costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by management.

	WCS Oil Price (Cdn $ / bbl)	AECO Gas Price (CND $ / MCF)
2025	97.68	2.19
2026	98.52	3.27
2027	98.99	3.45
2028	101.03	3.52
2029	103.10	3.59
2030	105.22	3.67
2031	107.39	3.74
2032	109.59	3.82
Thereafter	2%	2%

8. RIGHT-OF-USE ASSETS AND LEASES

The lease payments are discounted using the Company's incremental borrowing rate of 12.26 percent at the inception of the lease to calculate the lease liability. The discounted cash flows relating to the lease liabilities included in the statement of financial position are $(12,220) for 2026, $(2,415) for 2027-2028 and $135,274 for years beyond 2028.

Right-of-use assets		
Balance at December 31, 2023	$	109,755
Depreciation		(9,978)
Balance at December 31, 2024		99,777
Depreciation		(9,978)
Balance at December 31, 2025	$	89,799

Lease liability		
Balance at December 31, 2023	$	97,127
Interest expense		9,934
Balance at December 31, 2024		107,061
Interest expense		13,578
Balance at December 31, 2025	$	120,639

9. INTANGIBLE ASSETS

Cost		
Balance at December 31, 2023, 2024 and 2025	$	16,381

The Company advanced funds for Terra Land Development data analysis, CSA Certification, and the MTT license. Due to the uncertainty with respect to its vertically integrated business, an impairment provision was recorded to reduce these specific intangible assets to a carrying value of $nil. Other intangible assets not related to these items remain on the balance sheet and were not impacted by this impairment.

10. DECOMMISSIONING LIABILITY

The Company's decommissioning provision results from ownership interests in oil and natural gas assets including well site, gathering systems and processing facilities. The total provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimated the total undiscounted amount required to settle its decommissioning provision at December 31, 2025 to be approximately $7,019,054 (2025 - $7,347,230). These payments are expected to be incurred over a period of one to fifty years with the majority of costs to be incurred in 2038. A discount rate of 6.85 percent (2024 – 6.33 percent) and an inflation rate of 2.0 percent (2024 – 2.0 percent) was used to calculate the decommissioning provision.

A reconciliation of the decommissioning liability is provided below:

As at December 31,	2025	2024
Balance, beginning of year	$ 2,819,493	$ 2,790,224
Changes in decommissioning provision	(157,179)	(47,168)
Accretion	194,110	150,395
Disposal of oil and gas properties	-	(73,958)
Balance, end of year	$ 2,856,424	2,819,493

11. TERM LOAN

As at December 31,	2025	2024
Balance, beginning of year	$ 3,212,628	$ 3,000,000
Interest and administration fees	357,372	212,628
Balance, end of year	$ 3,570,000	$ 3,212,628

On July 5, 2023, The Company signed a term sheet with a private Canadian investment company for a secured two year term loan of $3,000,000. The terms of the financing are interest only paid monthly, at an annualized rate of 12% plus the accrual of an additional administration fee of 10% payable at the time of the repayment of the term loan. The former President and CEO (Leonard Van Betuw) of the Company has agreed to provide a personal guarantee for the $3,000,000 for which he will be compensated for providing this guarantee by the Company an amount of 0.25 percent per month calculated on the amount outstanding at the end of each month.

The term loan was renegotiated, the secured creditor will receive 70% of net revenue, up to $30,000 per month. Repayment of principal balance has been extended to July 5, 2026.

12. CONVERTIBLE DEBENTURES

A reconciliation of the convertible debentures is provided below:

	Liability Component	Equity Component	Total
Balance, December 31, 2023	$ 4,035,969	$ 1,242,158	$ 5,278,127
Conversions	(131,917)	(68,430)	(200,347)
Accretion expense	490,045	-	490,045
Balance, December 31, 2024	$ 4,394,097	$ 1,173,728	$ 5,567,825
Accretion expense	172,519	-	172,519
Balance, December 31, 2025	$ 4,566,616	$ 1,173,728	$ 5,740,344

As at December 31,		2025		2024
Convertible debenture (i)	$	416,386	$	374,006
Convertible debenture (ii)		4,150,230		4,020,091
Balance, end of year	$	4,566,616	$	4,394,097

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

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

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

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

(ii) From April 12, 2022 to June 28, 2022, the Company offered a partially brokered private placement of 4,975 debenture units for gross proceeds of $4,975,230. Each unit is comprised of an aggregate $1,000 principal amount of a 4% convertible unsecured subordinated debenture maturing April 1, 2025. Each debenture unit, convertible at the option of the holder, includes the right of full conversion of the entire principal and accrued interest into Class A Common Shares of the Company at $2.00 per share and the subsequent to conversion one common share purchase warrants received on the conversion exercisable at a price of $3.00 for a period of two years following the conversion date.

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

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

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

During the year ended December 31, 2024, convertible debentures with a stated value of $131,917 were converted into 150,000 common shares (157,875 with accrued interest) at the holder's option. There were 150,000 conversion warrants valued at nil issued in connection with conversion, exercisable at $3.00 for a period of 24 months.

13. DEFERRED INCOME TAXES

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

As at December 31,	2025	2024
Loss before taxes	$ (8,530,262)	$ (14,482,638)
Combined federal and provincial tax rate	23.0%	23.0%
	(1,961,960)	(3,331,007)
Increase (decrease) in income taxes resulting from:		
Permanent differences and other	(17,594)	108,223
Tax assets not recognized	1,979,554	3,222,784
Deferred income tax reduction	$ -	$ -

The statutory tax rate was 23.0 percent in 2025 and 2024.

A summary of unrecognized tax assets at December 31, 2025 and 2024 is provided below:

	2025		2024	
	Amount	Expiry Date	Amount	Expiry Date
Share issue costs	$ 163,101	NA	$ 163,101	NA
Decommissioning provision	656,978	NA	648,483	NA
Lease liabilities	27,747	NA	24,624	NA
Investment	819,884	NA	819,884	NA
Property and equipment	4,962,098	NA	3,514,027	NA
Intangible asset	(3,768)	NA	(3,768)	NA
Right-of-use asset	(20,654)	NA	(22,949)	NA
Flow-through liability provision	408,730	NA	340,385	NA
License	467,333	NA	467,333	NA
Assets under development	476,496	NA	476,496	NA
Non-capital losses	9,975,286	2030	9,526,062	2035
Total	17,933,231		15,953,677	
Valuation allowance	(17,933,231)		(15,953,677)	
Balance, December 31, 2025	$ -		$ -	

Management does not foresee sufficient taxable profit to utilize deferred income tax assets and has not recognized any deferred tax assets in 2025 and 2024.

A summary of tax pools at December 31, 2025 is provided below:

	Amount	Maximum Annual Deduction
Canadian exploration expense	$ -	100%
Canadian development expense	257,669	30%
Canadian oil and gas property expense	21,718,816	10%
Undepreciated capital cost	9,165,214	20% to 30%
Cumulative eligible capital	2,031,885	
Share issue costs	657,809	20%
Non-capital losses	43,370,809	100%
Balance, end of year	$ 77,202,202	

At December 31, 2025, the Company has non-capital losses of approximately $43,370,809 available to shelter future taxable income. These losses begin to expire in 2030.

14. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares.

(a) Issued and outstanding

	Number of Common Shares	Amount
Balance, December 31, 2023	40,762,489	57,900,721
Conversion of debentures	157,875	208,220
Private placement of units	3,073,250	285,648
Units issued for debt	1,877,375	201,993
Shares issued for debt	3,750,000	450,000
Shares issued for settlement of promissory note	5,000,000	600,000
Shares issued for compensation	2,100,000	84,000
Returned to treasury	(98,250)	(9,832)
Share issue costs	-	(17,750)
Balance, December 31, 2024	56,622,739	$ 59,703,000
Balance, December 31, 2025	**56,622,739**	**$ 59,703,000**

Share Transactions for the year ended December 31, 2025

There were no share transactions for the year ended December 31, 2025.

Share Transactions for the year ended December 31, 2024

During the year ended December 31, 2024, convertible debentures with a stated value of $122,944 ($131,917 stated value of debenture including accrued debenture interest converted to shares of $8,973) were converted into 157,875 common shares at the holder's option. In addition, an amount of $68,430 was allocated to share capital from the equity portion of convertible debentures.

On June 26, 2024, the Company issued an additional 1,877,375 Units in settlement of certain payables.

On September 17, 2024, the Company issued a total of 8,750,000 common shares in settlement of an outstanding promissory note and in settlement of trade accounts payable. Of the common shares issued, 5,000,000 shares were issued in settlement of a promissory note in the amount of $600,000 and 3,750,000 were issued to settle $450,000 worth of trade payables to MTT, a company owned by former president and CEO Leonard Van Betuw.

On September 30, 2024, the Company issued 2,100,000 common shares as retention, compensatory shares to certain directors and officers of the Company. The value of the shares was $0.04 per share.

On July 17, 2024 a total of 98,250 common shares and 196,500 debentures were returned to treasury as a result of non-payment of a subscription for Units pursuant to the private placement.

(b) Stock Option Plan

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

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

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

	Number of Options	Weighted Average Exercise Price
		$
Balance, December 31, 2023	438,443	1.44
Expired	(50,000)	1.40
Balance, December 31, 2024	388,443	1.44
Expired – January 15,2025	(388,443)	1.44
Issued – August 11, 2025	4,600,000	0.20
Issued – September 30, 2025	750,000	0.20
Balance, December 31, 2025	**5,350,000**	**0.20**

The following table summarizes information regarding stock options outstanding at December 31, 2025:

Expiry Date	**Number of Options**	**Exercise Price**	**Remaining contractual life (years)**
		$	
August 11, 2030	4,600,000	0.20	4.61
September 30, 2030	750,000	0.20	4.75
	5,350,000		**4.63**

The Company determines the fair value of the common share purchase options granted using the Black Scholes Model. The weighted average grant date fair value per common share purchase options granted during the year ended December 31, 2025 were $0.004 using the following assumptions:

Stock options issued on	**August 11, 2025**	**September 30, 2025**
Share price	$0.0044	$0.0044
Exercise price	$0.05	$0.05
Risk-free interest rate	2.93%	2.73%
Expected dividend yield	Nil	Nil
Estimated common share price volatility	204%	226%
Estimated life in years	5.00	5.00

The effects of early exercise were incorporated in the estimate of the expected life of the common share purchase options. Expected volatility was determined based on the historical volatility of the Company's share price over the historical period commensurate with the expected life. Other features of the common share purchase options did not affect the calculation of grant date fair value.

During the year ended December 31, 2025, total share-based compensation of $87,973 was recognized.

(c) Share purchase warrants

The continuity of share purchase warrants for the year ended December 31, 2025 is as follows:

	Number of Warrants	Weighted Average Exercise Price
		$
Balance, December 31, 2023	7,705,321	1.44
Issued – January 29, 2024	150,000	3.00
Issued – June 24, 2024	1,536,625	0.48
Returned to treasury	(49,125)	0.48
Expired – September 23, 2024	(1,414,470)	1.40
Expired – November 4, 2024	(94,250)	0.60
Expired – December 23, 2024	(2,774,589)	2.00
Balance, December 31, 2024	5,059,512	0.76
Expired – January 31, 2025	(24,512)	0.80
Expired – October to November 2025	(2,800,200)	0.48
Expired – February to December 2025	(447,300)	3.00
Balance, December 31, 2025	**1,787,500**	**0.67**

On January 29, 2024 convertible debentures with a stated value of $128,796 were converted into 150,000 common shares at the holder's option. 150,000 warrants were also issued with an exercise price of $3.00 for a period of 24 months. No value was assigned to these warrants.

On June 24, 2024, the Company issued 3,073,250 units at a price of $0.12 (the "Units") for gross proceeds of $368,790. Each Unit was comprised of one common share (each a "Common Share") in the share capital of the Company and one-half (1/2) common share purchase warrant (each a "Warrant"). Each full Warrant entitles its holder to purchase one additional common share at a price of $0.48 for a period of 24 months following the closing. A total of 1,536,625 Warrants were issued.

The following table summarizes information regarding share purchase warrants outstanding at December 31, 2025:

Expiry Date	**Number of Warrants**	**Exercise Price**	**Remaining contractual life (years)**
		$	
February 1, 2026	150,000	0.20	0.09
January 28, 2026	150,000	3.00	0.08
June 23, 2026	1,487,500	0.48	0.48
	1,787,500		**0.41**

15. FLOW-THROUGH SHARE PREMIUM AND LIABILITY PROVISION

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

For the year ended December 31,	2025	2024
Balance, beginning of year	$ 4,115,800	$ 3,750,900
Provision for liability resulting from unfulfilled flow-through obligations	297,151	364,900
Balance, end of year	$ 4,412,951	$ 4,115,800

During the year ended December 31, 2023, the Company completed a flow-through financing in the amount of $8,000,000. The Company has determined that the qualifying expenditures were not made and the company made a provision for liability in the amount of $3,750,900, including estimated interest, penalties and reimbursement of shareholders' taxes. A further $297,151 was accrued for interest penalties in 2025 (2024 - $364,900).

16. OIL AND NATURAL GAS REVENUE

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

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

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

For the year ended December 31,		2025		2024
Oil and natural gas revenue				
Heavy oil	$	40,475	$	32,800
Natural gas		413,430		308,142
Natural gas liquids		134,656		79,789
Total oil and natural gas revenue, gross		588,561		420,731
Less: Royalty expense		(55,945)		(128,659)
Oil and natural gas revenue, net	$	532,616	$	292,072

17. ECONOMIC DEPENDENCE

Sales from the Company's business are substantially derived from very few customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its account receivable. As at December 31, 2025, accounts receivable of $16,233 (December 31, 2024 - $nil) were due from these customers and were collected subsequently to year end.

For the year ended December 31, 2025, the two customers accounted for 22% and 21% of revenue respectively. For the year ended December 31, 2024, the two customers accounted for 63% and 25%, respectively.

18. FINANCE EXPENSE

For the year ended December 31,		2025		2024
Term loan interest and admin fees	$	480,000	$	600,000
Interest on convertible debentures		222,859		217,847
Interest on flow through share liability		297,151		364,900
Late fees and interest on trade payables		132,903		334,474
Accretion on convertible debentures		172,519		490,045
Accretion on decommissioning provision		194,110		150,395
Accretion on lease liabilities		15,428		9,934
Other interest		16,407		57,172
	$	1,531,377	$	2,224,767

19. PERSONNEL EXPENSES

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

For the year ended December 31,		2025		2024
Wages and salaries	$	7,713	$	130,873
Benefits and other personnel costs		-		3,296
	$	7,713	$	134,169

20. FINANCIAL INSTRUMENTS

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

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

(a) *Credit risk*

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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. Virtually all of Avila's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2025, the Company's accounts receivable consisted of $57,990 (December 31, 2024 - $26,480) from oil and natural gas marketers, and $4,549 (December 31, 2024 – $5,238) from joint venture partners.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company has an allowance for doubtful accounts as at December 31, 2025 of $31,718 (December 31, 2024 – Nil).

As at December 31, 2025, 100 percent all the Company's accounts receivable were considered past-due.

Aging		2025		2024
Current (less than 90 days)	$	-	$	-
Past due (over 90 days)		62,539		31,718
	$	62,539	$	31,718

(b) *Liquidity risk*

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

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2025:

	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	3 – 5 years	More than 5 years
Accounts payable and other liabilities	$ 6,885,091	$ 6,885,091	$ 6,885,091	$ -	$ -	$ -
Loan payable	321,336	321,336	321,336	-	-	-
Dividend payable	103,101	103,101	103,101	-	-	-
Flow-through share liability provision	4,115,800	4,115,800	4,115,800	-	-	-
Convertible debenture	4,566,616	4,566,616	4,150,230	416,386	-	-
Interest payable on convertible debenture	676,707	676,707	25,000	651,707	-	-
Term loan	3,360,000	3,360,000	-	3,360,000	-	-
Lease liabilities	120,639	270,246	2,900	28,590	38,140	200,616

(c) *Market risk*

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

(d) *Foreign currency exchange rate risk*

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

(e) *Commodity price risk*

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

The Company had no contracts that have not been recorded at fair value during the year ended at December 31, 2025 and for the year ended December 31, 2024.

(f) *Interest rate risk*

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

(g) *Capital management*

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

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

The Company monitors capital based on the ratio of net debt to the trailing funds flow from operations of the immediately preceding three-month period calculated on an annualized basis. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by annualized cash flow from operations in the previous three-month period before changes in non-cash working capital and decommissioning provision expenditures. Avila's current strategy is to maintain a ratio of no more than 1.0 to 1. This ratio may increase at certain times as a result of acquisitions. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, production, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2025, the Company had a working capital deficit of $19,598,042 (2024 - $18,313,968).

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

(h) *Vertically Integrated Energy Business*

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

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

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

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

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

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

At December 31, 2024 the Company has incurred the following expenditures related to the Vertically Integrated Business:

Vertically Integrated Business Expenditures (inception to date)	
Investment in MTT Non-voting shares (15% equity)	$ 3,564,711
Intangible assets – MTT license	2,138,826
Intangible assets – Terra Land Development report	1,474,494
Intangible assets – CSA certification	597,226
	$ 7,775,257

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

Due to the uncertainty with respect to the vertically integrated business an impairment provision was recorded in 2023 to reduce the assets to $nil.

21. RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2025, management fees totaling $145,800 (December 31, 2024 - $157,500) were provided by companies that are controlled by former and current officers and executives of Avila. At December 31, 2025, Avila still owes $135,022 for the services provided (December 31, 2024 - $354,740).

During the year ended December 31, 2024, the Company accrued $3,058 on convertible debentures that are held by a former officer of Avila and a Company whose President is a former officer of Avila.

The Company has a $500,000 convertible secured debenture at December 31, 2025 (December 31, 2024 - $500,000) bearing 5% interest compounded semi-annually that was held by Avila Exploration & Development Canada Ltd. whose President is also the former President and Chief Executive Officer of the Company. At December 31, 2025, there is $25,000 interest owing on the convertible secured debenture due July 31, 2027 (December 31, 2024 - $25,000).

On August 11, 2025 and on September 30, 2025 the Company issued 4,500,000 stock options valued at $73,649 and 750,000 stock options valued at $12,688 respectively as retention to certain directors and officers of the Company. The options vested immediately, have an exercise price of $0.20 and a term of 5 years.

On September 30, 2024, the Company issued 2,100,000 common shares as retention, compensatory shares to certain directors and officers of the Company. The value of the shares was $0.04 per share.

Mr. Leonard Van Betuw, former President and Chief Executive Officer resigned from the Company on September 23, 2024.

22. SUBSEQUENT EVENTS

On February 2, 2026, the Company closed a rights offering. 807,381 units were issued for a price of $0.015 for gross proceeds of $12,111. Each unit is comprised of one common share and one common share purchase warrant exercisable at $0.20 in first 6 months and $0.40 for the succeeding 18 months. Legal costs were $12,500.

On April 17, 2026, the Company announced a rights offering of up to 57,429,912 units in the capital of the Corporation at a subscription price of $0.0075 per unit. Each unit will consist of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to acquire one additional common share at an exercise price of (i) $0.05 for the period of one hundred twenty (120) days following the date of issuance; and (ii) $0.10 thereafter, until the expiration of the period of five years following the date of issuance.