

Clerk' Stamp

COURT / ESTATE FILE NUMBERS 25-3131451

COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
RSC 1985, c B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF
INTENTION TO MAKE A PROPOSAL OF AVILA
ENERGY CORPORATION

DOCUMENT **PROPOSAL**

ADDRESS FOR SERVICE AND CONTACT
INFORMATION OF PARTY
FILING THIS DOCUMENT MILLER THOMSON LLP
Barristers and Solicitors
525-8th Avenue SW, 43rd Floor
Calgary, AB, Canada T2P 1G1

Attention: Dustin L. Gillanders/James W. Reid

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jwreid@millerthomson.com

File No.: 0287592.0001

WHEREAS Avila Energy Corp. (collectively the "**Debtor**") submits the following proposal under the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 (the "**BIA**");

AND WHEREAS on September 20, 2024, the Debtor filed a notice of intention to make a proposal to its creditors under section 50.4 of the BIA and thereby commenced proceedings to restructure its financial affairs under Division I of the BIA;

AND WHEREAS FTI Consulting Canada Inc., of Calgary, Alberta, is a licensed trustee under the BIA, which has consented to act as a Proposal Trustee in these proceedings of the Debtor under the BIA;

ARTICLE 1 DEFINITIONS

1.1 Definitions

In this Proposal:

- (a) **“Administrative Fees and Expenses”** means the proper fees, expenses, including legal fees and disbursements, of the Proposal Trustee and the Debtor, and including the fees and disbursements of Miller Thomson LLP, counsel to the Debtor, on and incidental to the negotiation, preparation, presentation, consideration and implementation of the Proposal, and all proceedings and matters relating to or arising out of the Proposal;
- (b) **“AER”** means the Alberta Energy Regulator;
- (c) **“Affected Claim”** means all Claims that are not an Unaffected Claim;
- (d) **“Affected Creditor”** means a Creditor having an Affected Claim;
- (e) **“Approval”** means:
 - (i) Acceptance of this Proposal by the statutory majority of Creditors in the each of the creditor classes entitled to vote thereon in accordance with the relevant provisions of the BIA; and
 - (ii) The approval of this Proposal by the Court by the granting of the Approval Order, which is a Final Order;
- (f) **“Approval Order”** means an Order of the Court which, among other things, approves this Proposal;
- (g) **“Business Day”** means a day, other than a Saturday or Sunday, on which banks are generally open for business in Calgary, Alberta;
- (h) **“Canada Pension Plan”** means the *Canada Pension Plan*, RSC 1985, c C-8, as amended;
- (i) **“CNRL”** means Canadian Natural Resources Limited a Creditor holding a Secured Claim and Unsecured Claim;
- (j) **“Cease Trade Order”** means the Order under the securities legislation of Alberta dated November 22, 2024;
- (k) **“Claim”** means a claim provable in bankruptcy against the Debtor and includes any indebtedness, liability, action, cause of action, suit, debt, account, bond covenant, counterclaim, demand, claim, right and obligation of any kind of the Debtor to any Person, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to make a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commence in the future based in whole or in part on facts which existed prior to or as of the Filing Date and a reference to a “Claim” or “Claims” shall include, as the case may be, Unsecured Claims, and Secured Claims;
- (l) **“Court”** means the Court of King’s Bench of Alberta (in Bankruptcy and Insolvency), Judicial District of Calgary;

- (m) **“Creditor”** means any Person, having a Claim and may, if the context requires, means a trustee, receiver, receiver-manager or other Person acting on behalf or in the name of such Person;
- (n) **“Creditors’ Meeting”** means the meeting of the Affected Creditors called for the purpose of considering and voting upon the Proposal;
- (o) **“Creditors’ Meeting Date”** means the date and time as may be called by the Proposal Trustee for the meeting of creditors to consider this Proposal, but in any event will be no later than twenty-one (21) days following the Proposal Date;
- (p) **“Creditors’ Meeting Notice”** means the notice and document package delivered to the Creditors in respect of the Creditors’ Meeting;
- (q) **“Crown Claims”** means an amount due to His Majesty in Right of Canada or a Province and that are of a kind that could be subject to a demand under:
 - (i) subsection 224(1.2) of the *Income Tax Act*;
 - (ii) any provision of the *Canada Pension Plan* or of the *Employment Insurance Act* that refers to subsection 224(1.2) of the *Income Tax Act* and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee’s premium, or employer’s premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts;
 - (iii) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the *Income Tax Act*, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:
 - (A) has been withheld or deducted by a Person from a payment to another Person and is in respect of a tax similar in nature to the income tax imposed on individuals under the *Income Tax Act*; or
 - (B) is of the same nature as a contribution under the *Canada Pension Plan* if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a “provincial pension plan” as defined in that subsection;
- (r) **“CSE”** means the Canadian Securities Exchange;
- (s) **“Disputed Claim”** means any Claim that has been received by the Proposal Trustee in accordance with the terms of this Proposal and the BIA but has not been accepted as proven or which is being disputed in whole or in part by the Proposal Trustee, or any other Person entitled to do so and has not been resolved by agreement or by Order of the Court;
- (t) **“Disputed Creditor”** means a Person holding a Disputed Claim to the extent of its Disputed Claim’
- (u) **“Employment Insurance Act”** means the *Employment Insurance Act*, SC 1996 c 23, as amended;

- (v) **"Filing Date"** means September 20, 2024 (the date the Debtor filed a Notice of Intention to Make a Proposal);
- (w) **"Implementation Date"** means the date upon which the conditions set forth in Article 7.1 have been satisfied or, if applicable, waived;
- (x) **"Income Tax Act"** means the *Income Tax Act*, RSC 1985, c 1 (5th Supp), as amended;
- (y) **"Inspectors"** will have the meaning ascribed thereto in the BIA;
- (z) **"Girouard Investments"** means Marc Girouard Investments Inc.;
- (aa) **"Girouard Investments Creditor Class"** means a class comprised of the Secured Creditor Girouard Investments;
- (bb) **"Miller Thomson LLP"** means Miller Thomson LLP, counsel for the Debtor;
- (cc) **"Municipal Tax Creditors"** means a Creditor with a charge or lien against the Debtor for property taxes;
- (dd) **"New Shares"** means the common shares in the capital of the Debtor to be issued to the Unsecured Creditors pursuant to the Proposal;
- (ee) **"Official Receiver"** will have the meaning ascribed thereto in the BIA;
- (ff) **"Person"** means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other entity howsoever designated or constituted;
- (gg) **"Post-Filing Claim"** means any Claims arising in respect of services rendered, goods supplied or other consideration given to the Debtor after the Filing Date;
- (hh) **"Preferred Claim"** means that portion of a Claim that is accepted by the Proposal Trustee as entitling the Creditor to receive payment in priority to other Creditors as provided in section 136 of the BIA;
- (ii) **"Preferred Creditors"** means holders of Preferred Claims;
- (jj) **"Proof of Claim"** means the proof of Claim required by the BIA to be mailed to each known Creditor prior to the Creditors' Meeting;
- (kk) **"Property"** means all of the Debtor's current and future assets, undertakings and property of every nature and kind whatsoever, and wherever situate, including all proceeds thereof;
- (ll) **"Proposal"** means this proposal together with any amendments or additions thereto;
- (mm) **"Proposal Date"** means the date of the filing of the Proposal with the Official Receiver;
- (nn) **"Proposal Trustee"** means FTI Consulting Canada Inc., in its capacity as the proposal trustee of the Debtor, or its duly appointed successor or successors;

- (oo) **“Proven Claim”** of a Creditor means the amount of the Claim of such Creditor determined finally in accordance with the provisions of the BIA;
- (pp) **“Secured Claim”** of a Creditor means the amount of the Claim of such Creditor determined finally in accordance with the provisions of the BIA;
- (qq) **“Secured Creditor”** means a Person holding a mortgage, hypothec, charge, pledge, or lien on or against the property or assets of the Debtor as security for a debt due or accruing due the Person from the Debtor, and shall include, for greater certainty, the applicable municipalities in respect of property taxes;
- (rr) **“OWA”** means the Orphan Well Association
- (ss) **“Unaffected Claims”** means any Claims of the Unaffected Creditors;
- (tt) **“Unaffected Creditors”** means Creditors with Claims in respect of the Administrative Fees and Expenses, any Post-Filing Claims, any Crown Claims, the OWA, the AER, Preferred Creditors, Municipal Tax Creditors, Alberta's Ministry of Energy and Minerals, PTW Canada Ltd., Heavy Crude Hauling LP, Aved Capital Corp. and CNRL (but only in respect of their Secured Claim) and Canada Revenue Agency;
- (uu) **“Unsecured Claim”** means the amount of an Unsecured Creditor's Claim, as determined under Article 3.3, and includes any Preferred Claim, as applicable;
- (vv) **“Unsecured Creditors”** means the Creditor with an Unsecured Claim;
- (ww) **“Unsecured Creditor Class”** means a class comprised of all Unsecured Creditors;
- (xx) **“Voting Letter”** means the voting letter required by section 51(1) of the BIA to be mailed to each known Creditor prior to the Creditors' Meeting.

1.2 Articles of Reference

The terms “hereof”, “hereunder”, “herein” and similar expressions refer to the Proposal and not to any particular article, section, subsection, clause or paragraph of the Proposal and include any agreements supplemental hereto. In the Proposal, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Proposal.

1.3 Interpretation Not Affected by Headings

The division of the Proposal into articles, sections, subsections, clauses or paragraphs and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Proposal.

1.4 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day that is a Business Day.

1.5 Time

All times expressed herein are local times in Calgary, Alberta, Canada unless otherwise stipulated. Where the time for anything pursuant to the Proposal on a particular date is unspecified herein, the time will be deemed to be 5:00 p.m. local time in Calgary, Alberta, Canada.

1.6 Numbers

In the Proposal, where the context requires, a word importing the singular number will include the plural and *vice versa* and a word or words importing gender will include all genders.

1.7 Currency

Unless otherwise stated herein, all references to currency in the Proposal are to lawful money of Canada.

1.8 Statutory References

Except as otherwise provided herein, any reference in the Proposal to a statute includes all regulations made thereunder, all amendments to such statute or regulation(s) in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation(s).

1.9 Successors and Assigns

The Proposal will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in the Proposal.

1.10 Including

The word “including”, or any variation thereof means “including without limitation”, and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

ARTICLE 2 PURPOSE AND EFFECT OF PROPOSAL

2.1 Purpose

The purpose of the Proposal is to allow the Debtor to effect the restructuring of its indebtedness in the manner contemplated herein and as permitted by the BIA in the expectation that all Affected Creditors will derive greater benefit from the restructuring than they would otherwise receive from a bankruptcy of the Debtor.

This Proposal applies to all Affected Creditors, whether or not any such Affected Creditor proves a Claim against the Debtor under this Proposal. The Proposal does not effect Unaffected Creditors.

2.2 Binding Effect of Proposal

This Proposal will be binding on the Debtor and the Affected Creditors, and effective on the Implementation Date, all Unsecured Claims shall be discharged and the Debtor shall thereon be released from all Unsecured Claims, other than the obligation to make payment in the manner and to the extent described in this Proposal.

2.3 Administrative Fees and Expenses

Within two(2) months of the Implementation Date, all Administrative Fees and Expenses and all amounts incurred up to the Implementation Date which remain unpaid shall be paid in full by the Debtor from the operational revenue of the Debtor.

2.4 Unaffected Creditor

No Unaffected Creditor in respect of an Unaffected Claim will be entitled to vote on this Proposal or attend the Creditors' Meeting.

2.5 Unsecured Creditors

The Proven Claims of the Unsecured Creditors of the Debtors will be satisfied or paid as provided by Article 5.2.

2.6 Girouard Investments

The Proven Claim of Girouard Investments will be satisfied or paid as provided by Article 5.3.

2.7 Crown Claims

Unless His Majesty in Right of Canada agrees otherwise, the Crown Claims shall be paid by the Debtor from the Proposal Proceeds to His Majesty in Right of Canada within six (6) months of the Approval Order.

2.8 Disputed Claims

An Affected Creditor with a Disputed Claim shall not be entitled to receive any distribution hereunder with respect to such Disputed Claim unless and until such Claim becomes a Proven Claim. Distributions made pursuant to this Proposal shall be made in respect of any Disputed Claim that is finally determined to be a Proven Claim.

2.9 Post-Filing Claims

Post-Filing Claims, if any, will be paid in full by the Debtor in the ordinary course of business and on regular trade terms, or as may otherwise be arranged with the holders of such Post-Filing Claims.

2.10 Superintendent of Bankruptcy Levy

Payments to each Creditor in respect of its Affected Claim will be net of any applicable levy payable to the Office of the Superintendent of Bankruptcy as required by the BIA and the Proposal Trustee will remit the amount of such levy to the Office of the Superintendent of Bankruptcy contemporaneous with the distributions to Affected Creditors.

2.11 Interest on Claims

Interest will not accrue or be paid on Unsecured Claims after or in respect of the period following the Filing Date.

ARTICLE 3 PROCEDURE FOR VALIDATION AND VALUATION OF CLAIMS

3.1 Filing of Proofs of Claim

In order to vote on, or to receive a distribution under this Proposal, each Affected Creditor must file a Proof of Claim with the Proposal Trustee as required by the BIA.

3.2 Allowance or Disallowance of Claims

Upon receipt of a completed Proof of Claim, the Proposal Trustee will examine the Proof of Claim and will, in consultation with the Debtor, allow, disallow or revise each Proof of Claim in accordance with the provisions of the BIA.

3.3 Procedure for the Valuation of Unsecured Claims

The procedure for (a) determining and valuing Claims of the Affected Creditors that are contingent or unliquidated; and (b) disallowing and resolving disputes with respect to Claims, will be as set forth in Section 135 of the BIA.

The Proposal Trustee reserves the right to seek the assistance of the Court in valuing the claim of any Affected Creditor, if required, to ascertain the result of any vote on this Proposal or the amount payable or to be distributed to such Creditor under this Proposal, as the case may be.

3.4 Claims Bar Process

Forthwith after the Creditors' Meeting, the Proposal Trustee shall give notice pursuant to Section 149 of the BIA, by registered mail, to every Person with an Affected Claim that the Proposal Trustee has notice or knowledge of, but whose Claim has not been filed or proved that if such Person does not prove its Claim within a period of thirty (30) days after the mailing of the notice, the Proposal Trustee will proceed to declare a final dividend without regard to such Person's Claim. Any Person so notified who does not provide its Claim within the said thirty (30) day period shall be barred from making a Claim in this Proposal or sharing in any distribution hereunder, subject to any exceptions set out in Subsections 149(2), (3) and (4) of the BIA.

ARTICLE 4 MEETING OF CREDITORS

4.1 Creditors' Meeting

On the Creditors' Meeting Date, the Proposal Trustee will hold a Creditors' Meeting in order for the Creditors to consider and vote upon the Proposal.

4.2 Time and Place of Meeting

The Creditors' Meeting will be held on the Creditors' Meeting Date. Due to location of the Proposal Trustee and Affected Creditors, the Creditors Meeting will be held virtually, on such terms and parameters as the Proposal Trustee considers appropriate, with video and

teleconference access for any Affected Creditors who wish to virtually attend. The Proposal Trustee may engage a third-party service provider to virtually host the Creditors' Meeting. The Proposal Trustee shall make available to all known Affected Creditors the necessary connection, dial-in and other information about the Creditors' Meeting. Unless otherwise ordered by the Court, the Creditors' Meeting will be held at a time to be established by the Official Receiver, or the nominee thereof, and confirmed in the notice of Creditors' Meeting to be mailed to Creditors pursuant to the BIA.

4.3 Conduct of Meeting

The Official Receiver or the nominee thereof, will preside as the chair of the Creditors' Meeting and will decide all matters relating to the conduct of the Creditors' Meeting. The only Persons entitled to attend the Creditors' Meeting are those Persons, including the holders of proxies, entitled to vote at the Creditors' Meeting, and its respective legal counsel, if any, and the officers, directors, auditors and legal counsel of the Debtor, together with such representatives of the Proposal Trustee as the Proposal Trustee may appoint in its discretion, and such scrutineers as may be duly appointed by the chair of such meeting. Any other Person may be admitted on invitation of the chair of the Creditors' Meeting or with the consent of the Creditors.

4.4 Adjournment of Meetings

The Creditors' Meeting may be adjourned in accordance with sections 52 of the BIA.

4.5 Classes of Creditors

For the purposes of considering, voting on and receiving distributions under this Proposal, the Affected Creditors shall consist of two creditor classes: one secured creditor class being the Girouard Investments Creditor Class and one unsecured creditor class being the Unsecured Creditor Class.

4.6 Voting by Creditors

Persons virtually in attendance at the Creditors Meeting by video or teleconference who are eligible to vote shall cast their vote in the manner prescribed by the Proposal Trustee. All votes will be recorded and tabulated by the Proposal Trustee, who may seek the assistance of the Court with respect to any dispute arising from or out of the tabulation of votes. Any Proof of Claim in respect of a Claim of an Affected Creditor that is not a Proven Claim as at the Creditors' Meeting Date will be marked as objected to in accordance with section 108(3) of the BIA.

4.7 Approval by Creditors

In order that the Proposal be binding on the Girouard Investments Creditor Class it must first be accepted by a majority in number of the Creditors of such class who actually vote upon this Proposal (in person or by proxy) at the Creditors' Meeting or by a Voting Letter, which represent two-thirds in value of the Proven Claims of the Creditors who actually vote upon the Proposal (whether in person or by proxy) at the Creditors' Meeting or by a Voting Letter.

In order that this Proposal be binding on the single class of Unsecured Creditors hereof, in accordance with the BIA, it must first be accepted by a majority in number of the Creditors of such class who actually vote upon this Proposal (in person or by proxy) at the Creditors' Meeting, by a Voting Letter, or otherwise, representing two-thirds in value of the

voting Claims of the Creditors of such class who actually vote upon this Proposal (whether in person or by proxy) at the Creditors' Meeting, by a Voting Letter or otherwise.

Voting Letters as provided for in the BIA submitted to the Proposal Trustee prior to the Creditors' Meeting must indicate whether the Creditor wishes to cast its vote in favour of or against the Proposal.

4.8 Appointment of Inspectors

At the Creditors' Meeting, the Creditors may appoint up to three (3) Inspectors whose powers will be limited to: (a) advising the Proposal Trustee concerning any dispute which may arise as to the validity or valuation of Claims; and (b) advising the Proposal Trustee from time to time with respect to any other matter that the Proposal Trustee may refer to them. Any decision, direction or act of the Inspectors may be referred to the Court by the Proposal Trustee and the Court may confirm, reverse or modify the decision, direction or act and make such order as it deems just. The authority and term of office of the Inspectors will terminate upon the discharge of the Proposal Trustee.

ARTICLE 5 DISTRIBUTION

5.1 Payment of Administrative Fees and Expenses

The unpaid Administrative Fees and Expenses up to and including the making of the Approval Order will be paid in full by the Debtor on or before the Business Date that is ten (10) Business Days after the Approval Order is made. The Debtors will continue to pay any professional fees and disbursements to be incurred subsequent to the making of the Approval Order. Any amount of the retainer paid to the Proposal Trustee that is unused will be returned to the Debtor. The Proposal Trustee is authorized to pay Administrative Fees and Expenses prior to final taxation of its accounts.

5.2 Distribution/Issuance of New Shares to Unsecured Creditors

In accordance with this Proposal and in full and final satisfaction of the Proven Claims of the Unsecured Creditors, each Unsecured Creditor shall receive New Shares as set forth in Article 6 only to the extent that such Unsecured Creditor's Claim is a Proven Claim and has not been paid, released, or otherwise satisfied prior to the Implementation Date.

5.3 Girouard Investments Creditors

The Debtor shall provide an assignment of all its property to be held in trust by Girouard Investments. In the event there is a default in the Proposal, Girouard Investments is entitled to exercise on the assignment.

The Proven Claim of Girouard Investments will be paid in full by the Debtor in the following manner:

- (a) on or before June 1, 2025 the Debtor shall pay \$30,000;
- (b) beginning July 1, 2025 and each month thereafter the Debtor shall pay to Girouard Investments 70% of the net income of the Debtor from the previous month to a maximum of \$30,000.00;

- (c) on or before December 31, 2025 the Debtor shall make a balloon payment of any outstanding amounts owing to Girouard Investments which has accrued between June 2, 2025 and December 2, 2025; and
- (d) on July 1, 2026, the Debtor shall make a payment in full and final satisfaction of being of any balance owing to Girouard Investments.

5.4 Crown Claims

Within six (6) months after Proposal Implementation, the Debtor will pay in full to Her Majesty in Right of Canada or any province any amount of a kind that could be subject to a demand under the statutory provision referred to in Section 54(2.1) of the BIA that was outstanding on the Filing Date which has not been paid by Proposal Implementation.

ARTICLE 6 IMPLEMENTATION

6.1 Issuance of New Shares to Unsecured Creditors

Upon the fulfillment, satisfaction or waiver of the conditions set out in Article 7.1, in full and final settlement of all Unsecured Claims, each Unsecured Creditor with a Proven Claim will receive such number of New Shares which is equal to the amount of their Proven Claim, divided by \$0.05 (being the deemed issue price per New Share), subject to CSE policies. For greater certainty, each Unsecured Creditor would receive 20,000 New Shares for every \$1,000 of its Proven Claim, subject to applicable statutory withholdings and all trading restrictions or such other requirements or conditions as set out by securities laws and the CSE.

6.2 Distribution of New Shares

The Debtor or the Proposal Trustee will instruct the Debtor's transfer agent to issue the New Shares to the Unsecured Creditors in accordance with and subject to CSE policies and other required regulatory approval. The New Shares may be uncertificated and issued to Unsecured Creditors by way of direct registration system (DRS) advices.

6.3 Resale Restriction on New Shares

Notwithstanding anything to the contrary herein, the New Shares shall be subject to a resale restriction for a period of 12 months from the date such New Shares are issued. The holders of the New Shares shall not trade, sell, pledge or otherwise transfer any New Shares until the expiry of the 12-month resale restriction. The direct registration system (DRS) advices or certificates representing the New Shares may contain a legend reflecting the foregoing.

6.4 No Fractional Shares

No fractional New Shares shall be issued under this Proposal, and any fractional share interests shall not entitle any Unsecured Creditor to any rights of a holder of New Shares. Any legal, equitable, contractual or any other rights or claims (whether actual or contingent, and whether or not previously asserted) of any Unsecured Creditor with respect to fractional New Shares pursuant to this Proposal shall be rounded down to the nearest whole number of New Shares without compensation therefor.

6.5 Minimum Increments

The New Shares issued pursuant to this Proposal shall each be issued in minimum increments of \$1.00, and the amount of New Shares that each Unsecured Creditor shall be entitled to under this Proposal shall in each case be rounded down to the nearest multiple of \$1.00 without compensation therefor.

6.6 Multilateral Instrument 61-101

As the Debtor is a public company with its shares listed for trading on the CSE, the Debtor is subject to Multilateral Instrument 61-101 ("**MI 61-101**") governing, among other things, transactions between listed issuers and related parties of such issuers. In accordance with MI 61-101, the issuance of the New Shares by the Debtor would constitute a "related party transaction" for the purposes of MI 61-101 if any of the Unsecured Creditors receiving New Shares are insiders of the Debtor. In accordance with MI 61-101, absent an exemption, MI 61-101 would require the Debtor to receive a formal valuation of the subject matter and "majority of the minority" shareholder approval to proceed with the issuance of such New Shares to such insiders. The Debtor wishes to rely on the exemptions set forth in Section 5.5(f) of MI 61-101 (as it relates to formal valuations) and the exemption set out in 5.7(1)(d) of MI 61-101 (as it relates to shareholder approval), which exemptions provide that any issuance of shares to any "related party" will be exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 provided that the court is advised of the valuation and minority shareholder approval requirements set forth in MI 61-101 and does not otherwise mandate the necessity for a valuation or minority shareholder approval in accordance with MI 61-101.

ARTICLE 7 COMPLETION OF THE PROPOSAL

7.1 Conditions to Proposal Implementation

The implementation of the Proposal by the Debtor will be conditional upon the fulfilment or satisfaction of the following conditions:

- (a) The acceptance of the Proposal by the Affected Creditors of the Debtor in accordance with Article 4.7 hereof;
- (b) The granting of an Approval Order by the Court in respect of the Debtor and the expiry of all appeal periods, provided that the Debtor may agree to waive the expiry of the appeal period in respect of the Approval Order; and
- (c) On or before June 30, 2025, the granting of a full or partial revocation of the Cease Trade Order by the Alberta Securities Commission, and by September 30, 2025 resumption of trading of the common shares of the Debtor on the CSE and the ability of the Debtor to issue the New Shares.

7.2 Certificate of Full Performance

Upon distribution of all cash amounts, or New Shares contemplated by Article 5 of this Proposal, this Proposal shall have been fully performed and the Proposal Trustee shall issue the certificate referred to in section 65.3 of the BIA.

7.3 Discharge of Proposal Trustee

Upon the issuance of the certificate of full performance contemplated by Article 7.2 hereof, the Proposal Trustee shall have discharged its duties as Proposal Trustee, this Proposal shall be fully performed and the Proposal Trustee shall be discharged.

The Proposal Trustee is acting in its capacity as Proposal Trustee and not in its personal capacity and no officer, director, employee or agent of the Proposal Trustee shall incur any liabilities or obligations in connection with this Proposal or in respect of the business or obligations of the Debtor and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by this Proposal unless such acts have been carried out in bad faith and constitute a willful misconduct or gross negligence.

7.4 Completion of the Proposal

The payment, compromise, extinguishment or other satisfaction of any Proven Claim under the Proposal will be binding upon each Affected Creditor, its heirs, executors, administrators, successors and assigns, for all purposes, and as and from the Implementation Date all Unsecured Claims against the Debtor shall be forever discharged and released, excepting only the obligations to make distributions in respect of such Proven Claims in the manner and to the extent provided for in this Proposal.

ARTICLE 8 PREFERENCES, TRANSFERS AT UNDER VALUE, ETC.

8.1 Section 95 - 101 of the BIA

In conformity with Section 101.1 of the BIA, Sections 95-101 of the BIA and any provincial statute related to preference, fraudulent conveyance, transfer at undervalue, or the like shall not apply to this Proposal.

ARTICLE 9 MISCELLANEOUS

9.1 Modification of Proposal

The Debtor may propose an alteration or modification to the Proposal prior to the vote taking place on the Proposal. After the Creditors' Meeting (and both prior to and subsequent to the issuance of the Approval Order) and subject to the consent of the Proposal Trustee, the Debtor may at any time and from time to time vary, amend, modify or supplement the Proposal if the Court determines that such variation, amendment, modification or supplement is of a minor, immaterial or technical nature or would not be materially prejudicial to the interest of any of the Creditors under the Proposal and is necessary in order to give effect to the substance of the Proposal or the Approval Order.

9.2 Consents, Waivers and Agreements

As at 12:01 a.m. on the Implementation Date, each Affected Creditor will be deemed:

- (a) to have executed and delivered to the Debtor all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Proposal in its entirety;

- (b) to have waived any default by the Debtor in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor that has occurred on or prior to the Implementation Date;
- (c) to have agreed, in the event that there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor as at the Implementation Date (other than those entered into by the Debtor on, or with effect from, the Implementation Date) and the provisions of this Proposal, that the provisions of this Proposal will take precedence and priority and the provisions of such agreement or other arrangement will be amended accordingly; and
- (d) to have released the Debtor, the Proposal Trustee and all of its respective affiliates, employees, agents, directors, officers, shareholders, advisors, consultants and solicitors from any and all demands, claims, actions, causes of action, counter-claims, suits, debts, sums of money, accounts, covenants, damages, judgements, expenses, executions, liens, set off rights and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Implementation Date, relating to or arising out of or in connection with the matters herein;

provided that nothing herein will release the Debtor of its obligation to make the payments contemplated in this Proposal or to comply with any of its obligations thereunder.

9.3 Effect of Proposal Generally

As at 12:01 a.m. on the Implementation Date, the treatment of all Claims under the Proposal shall be final and binding on the Debtor and all Affected Creditors (along with their respective heirs, executors, administrators, legal personal representatives, successors and assigns) and the Proposal shall constitute (i) a full, final and absolute settlement of all rights of the holders of the Claims affected hereby; and (ii) an absolute release and discharge of all indebtedness, liabilities and obligations of the Debtor of or in respect of such Claims.

9.4 Notices

Any notices or communication to be made or given hereunder will be in writing and will refer to this Proposal and may, subject as hereinafter provided, be made or given by personal delivery, by prepaid mail, telecopier or by email addressed to the respective parties as follows:

- (a) if to the Debtor

Avila Energy Corp.
c/o Miller Thomson LLP
Attention: Dustin Gillanders/ James Reid
Eighth Avenue Place
525-8th Avenue SW
Calgary, Alberta
T2P 1G1
dgillanders@millerthomson.com / jwreid@millerthomson.com

- (b) if to an Affected Creditor, to the address, telecopier number or email address for such Affected Creditor specified in the claims notice sent in accordance with the Claims Procedure Order or, to such other address, telecopier number or email address at which the notifying party may reasonably believe that the Affected Creditor may be contacted; and

- (c) if to the Proposal Trustee:

FTI Consulting Canada Inc.
Attention: Dustin Olver
520 5th Avenue SW
Suite 1610
Calgary, Alberta
T2P 3R7
Dustin.Olver@fticonsulting.com

or to such other address, telecopier number or email address as any party may from time to time notify the others in accordance with this section. In the event of any strike, lock-out and other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery, by telecopier or email and any notice or other communication given or made by prepaid mail within the five (5) Business Day period immediately preceding the commencement of such interruption will be deemed not to have been given or made. All such notices and communications will be deemed to have been received, in the case of notice by email or telecopier or by delivery prior to 5:00 p.m. (Calgary time) on a Business Day, when received or if received after 5:00 p.m. (Calgary time) on a Business Day or at any time on a non-Business Day, on the next following Business Day and in to case of notice mailed as aforesaid, on the fifth (5th) Business Day following the date on which such notice or other communication is mailed. The unintentional failure to give a notice contemplated hereunder to any particular Creditor will not invalidate this Proposal or any action taken by any Person pursuant to this Proposal.

9.5 Assignment of Claims

No assignment of a Claim by an Affected Creditor is effective to give the assignee any rights in respect of the Proposal unless written notice of the assignment is given to the Debtor and the Proposal Trustee in accordance with the requirements of Article 9.4. The assignment of the Claim will not be effective for a five (5) Business Day period from the date of effective receipt of the notice of assignment by the Debtor and by Proposal Trustee as determined in accordance with Article 9.4.

9.6 Notice of Presentation of Approval Application

Each of the Creditors and the Official Receiver (as defined by and appointed under the BIA) are hereby given notice that, after acceptance of this Proposal by the Creditors in accordance with the relevant provisions of the BIA, the Proposal Trustee will present an application to the Court seeking the Approval Order at such date and time that may be fixed following the Creditors' Meeting.

9.7 Foreign Currency Obligations

For purposes of this Proposal, Claims denominated in a currency other than Canadian funds will be converted to Canadian Dollars at the closing spot rate of exchange of the Bank of Canada on the Filing Date.

9.8 Applicable Law

This Proposal will be construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and will be treated in all respects as an Alberta contract.

9.9 Non Severability

It is intended that all provisions of this Proposal will be fully binding on and effective between all Persons named or referred to in this Proposal and in the event that any particular provision or provisions of this Proposal is or are found to be void, voidable or unenforceable for any reason whatever, then the remainder of this Proposal and all other provisions will be void and of no force or effect.

9.10 Deeming Provisions

In this Proposal the deeming provisions are not rebuttable and are conclusive and irrevocable.

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DATED at the City of Calgary, in the Province of Alberta, this 28th day of February, 2025.

AVILA ENERGY CORP.

Per:



Name: Donald Benson

Title: CEO

I have the authority to bind the
corporation