

COURT FILE NUMBER                    25-3131451

COURT                                    COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE                    CALGARY

APPLICANT                            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                            MATERIAL ADVERSE CHANGE REPORT OF THE  
PROPOSAL TRUSTEE PURSUANT TO SECTION  
50(10)(a)(i) OF THE BANKRUPTCY AND  
INSOLVENCY ACT

**January 14, 2026**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

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**PROPOSAL TRUSTEE’S MATERIAL ADVERSE CHANGE REPORT**

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## INTRODUCTION

1. On September 20, 2024 (the "**Filing Date**"), Avila Energy Corporation ("**Avila**" or the "**Company**"), a public corporation listed on the Canadian Stock Exchange (CSE:VIK.CN) filed a Notice of Intention to Make a Proposal (the "**NOI**") pursuant to subsection 50.4(1) of the Bankruptcy and Insolvency Act (Canada) ("**BIA**").
2. FTI Consulting Canada Inc. ("**FTI**") consented to act as proposal trustee (the "**Proposal Trustee**") in the NOI proceedings of Avila (the "**Proposal Proceedings**").
3. On October 18, 2024, the Court of King's Bench of Alberta (the "**Court**"), granted an Order which, among other things, extended the stay of proceedings to December 2, 2024.
4. On November 27, 2024, the Court, granted an Order which extended the stay of proceedings to January 16, 2025.
5. On January 13, 2025, the Court, granted an Order which extended the stay of proceedings to March 2, 2025. This was the final extension of time allowable under Section 50.4(9) of the BIA for Avila to file a proposal.
6. On February 28, 2025, Avila lodged a proposal with the Proposal Trustee, a copy of which was filed with the Office of the Superintendent of Bankruptcy (the "**OSB**") and the same was sent to known creditors by ordinary mail. Subsequent to the filing of the proposal the Company made certain amendments to the proposal (the "**First Amended Proposal**") which was presented and voted on at a meeting of creditors ("**Creditors' Meeting**") held on March 21, 2025.
7. At the Creditors' Meeting, the Secured Creditor Class resolution to approve the First Amended Proposal passed by the requisite majority in number of votes and greater than 66 2/3% in value with votes of 100% and 100%, respectively. The Unsecured Creditor Class resolution to Approve the First Amended Proposal passed by the requisite majority

in number of votes and greater than 66 2/3% in value with votes of 76.6% and 80.8%, respectively.

8. Subsequent to the Creditors' Meeting, the Company made the following additional amendments to the First Amended Proposal prior to seeking sanctioning by the Court (the **"Second Amended Proposal"**):
  - a. add the Canada Revenue Agency ("CRA") unsecured claim to the list of Unaffected Creditors;
  - b. Section 7.1(c) of the First Amended Proposal included a condition whereby the Cease Trade Order had to be lifted by April 11, 2025. Subsequent to the Creditors Meeting the Company advised the Proposal Trustee that it experienced issues accessing certain historical electronic accounting data and received additional questions from regulators which would result in delays in having the Cease Trade Order lifted. Accordingly, the Company did not meet this condition and requested that the First Amended Proposal be amended to extend the deadline to have the Cease Trade Order lifted from April 11, 2025 to June 30, 2025; and
  - c. Section 7.1(c) has also been amended to note that by September 30, 2024, the Company's shares shall have resumed trading and that by that date the Company will have the ability to issue the New Shares.
9. The Company brought an application to the Court on April 28, 2025 (the **"April 28 Application"**) seeking an order (the **"Approval Order"**) sanctioning and approving the Second Amended Proposal.
10. On April 28, 2025, the Court did not grant the Approval Order, stating that the amendments made to the First Amended Proposal were material and the creditors need to be given an opportunity to vote on the Second Amended Proposal. Further the Court directed the Company to hold a second creditors meeting (the **"Second Creditors'**

**Meeting**”) to provide the creditors this opportunity. The Court did not provide a specific date as to when the Second Creditors’ Meeting needed to be held by.

11. Electronic copies of all materials filed by the Company in connection these proceedings and other statutory materials are available on the Proposal Trustee’s website at: <http://cfcanada.fticonsulting.com/avilaenergy/>.

## **PURPOSE**

12. The purpose of this report is to provide Avila’s creditors and this Honourable Court with:
  - a. further information with respect Avila’s operations, finances and restructuring efforts since the April 28 Application;
  - b. the Proposal Trustee’s notice, pursuant to Section 50(10)(a)(i) of the BIA, regarding a material adverse change in the financial circumstances of Avila and its ability to implement the Third Amended Proposal, as defined below; and
  - c. the Proposal Trustee’s intended course of action.

## **TERMS OF REFERENCE**

13. In preparing this report (the “**Report**”), the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Company’s books and records and discussions with various parties (collectively, the “**Information**”).
14. Except as described in this report:
  - a. the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with

Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants of Canada Handbook*;

- b. the Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the *Chartered Professional Accountants of Canada Handbook*; and
  - c. future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
15. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## **BACKGROUND AND ACTIVITIES OF THE COMPANY**

16. Subsequent to the April 28, 2025 application Avila experienced certain operational issues and cash flow constraints which delayed their ability to hold a Second Creditors' Meeting. Due to the substantial passage of time certain amendments were required to be made to the Amended February Proposal. The Amended February Proposal was amended and on October 29, 2025 the Proposal Trustee provided the creditors with notice of a second creditors' meeting scheduled for November 14, 2025 along with a copy of a revised proposal ("**Third Amended Proposal**").
17. The Second Creditors' Meeting was held on November 14, 2025 where the creditors voted on the Third Amended Proposal. At the Second Creditors' Meeting, the Secured Creditor Class resolution to approve the Third Amended Proposal passed by the requisite majority in number of votes and greater than 66 2/3% in value with votes of 100% and 100%, respectively. The Unsecured Creditor Class resolution to Approve the Third Amended

Proposal passed by the requisite majority in number of votes and greater than 66 2/3% in value with votes of 81.4% and 90.9%, respectively.

18. On November 17, 2025 in accordance with section 58(a) of the BIA, Avila scheduled hearing for an application seeking the Court’s approval of the Third Amended Proposal (“**Approval Application**”). The Approval Application was scheduled for January 22, 2026. Subsequent to the Approval Application being scheduled, the Proposal Trustee was advised by the Company that certain adverse changes had occurred with respect to the Company’s finances and expected cash flow, in particular:
- a. the Donalda field, which was a shut-in natural gas field expected to be brought back on production by the end of the 2025 had not been brought back on production accordingly forecast revenue was substantially below forecast;
  - b. the Company was not able to make the payments that were contemplated to be made in paragraph 5.3(c) of the Third Amended Proposal to Marc Girouard Investment Inc. (“**MGI**”), its senior secured creditor on or before December 31, 2025;
  - c. the Company initiated a rights offering on December 10, 2025 (“**Initial Rights Offering**”) seeking to raise \$849,341 from its existing shareholders. The proceeds from the rights offering were necessary to be able to make the payments contemplated in the Third Amended Proposal, including the payments to the MGI and other Unaffected Creditors. The participation deadline for the Initial Rights Offering was initially January 14, 2026. The Proposal Trustee understands that the Initial Rights Offering had not raised any proceeds through the first week of January 2026. In response, on January 12, 2025 the Company issued a news release extending the deadline to participate to in the Initial Rights Offering to February 2, 2026.

## **MATERIAL ADVERSE CHANGE**

19. In the Proposal Trustee's view the operational issues combined with the delay in the Initial Rights Offering has resulted in a material adverse change in the Company's financial situation and its ability to proceed with the Approval Application on January 22, 2026 in respect of the Third Amended Proposal.

## **PROPOSAL TRUSTEE'S INTENDED ACTION**

20. The Proposal Trustee's intended course of action includes:
- a. File this Report with the Court and the Official Receiver without delay;
  - b. Distribute this Report to all known creditors of the Company who have filed valid proof of claim forms and make it available on the Proposal Trustee's website; and
  - c. Monitoring Avila's progress with respect to Initial Rights Offering and consider whether Avila is capable of bringing the Third Amended Proposal to the Court for approval at a future date.

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All of which is respectfully submitted this 14<sup>th</sup> day of January 2026.

**FTI Consulting Canada Inc.**, in its capacity as  
the Proposal Trustee of  
Avila Energy Corporation.  
and not in its personal or corporate capacity





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Dustin Olver, CA, CPA, CIRP, LIT  
Senior Managing Director  
FTI Consulting Canada Inc.