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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 SECOND REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
AVILA ENERGY CORPORATION

November 20, 2024

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

PROPOSAL TRUSTEE

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SECOND REPORT OF THE PROPOSAL TRUSTEE

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Appendix “A” – Second Cash flow statement for the period ending December 8, 2024

Appendix “B” – Third Cash flow statement for the period ending January 19, 2025

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. This second report of the Proposal Trustee (the "**Second Report**") is being delivered in connection with the Company's application currently scheduled to be heard on November 27, 2024 (the "**November 27 Application**"), whereby the Company is seeking an extension of the stay of proceedings for Avila to January 16, 2025 (the "**Stay Period**").
5. Electronic copies of all materials filed by the Company in connection with the November 27 Application and other statutory materials are available on the Proposal Trustee's website at: <http://cfcanada.fticonsulting.com/avilaenergy/>.

PURPOSE

6. FTI, in its capacity as Proposal Trustee, has reviewed the Court materials filed by the Company in support of the November 27 Application. The purpose of this Second Report is to provide information and analysis to this Court pertaining to:
 - a. the Company's operations, assets and creditors;
 - b. the status of these Proposal Proceedings;

- c. budget to actual cash flow results for the period ended November 10, 2024;
- d. the Company's updated cash flow statement (the “ **Third Cash Flow Statement**”) for the period ending January 19, 2025;
- e. the Company's request to extend the Stay Period though January 16, 2025; and
- f. the Proposal Trustee's conclusions and recommendations.

TERMS OF REFERENCE

- 7. In preparing this Second 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**”).
- 8. Except as described in this Second 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.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

STATUS OF THESE PROPOSAL PROCEEDINGS

10. The Company's main objective in these Proposal Proceedings is stabilize the Company's operations including satisfying the transfer requirements of the Alberta Energy Regulator ("AER") with respect to its ability to hold and operate oil and gas licenses in normal course and to formulate and present a proposal to its creditors (collectively, the "Objectives").
11. These extension to the Stay Period will provide the Company additional time to work towards completing the Objectives and take steps to realize on certain of the Company's assets and/or raise capital to fund a proposal. The Company is currently reviewing its asset base and consulting with its investor group to consider what options are available to fund a proposal, however no concrete plan has been determined.
12. Since the Filing Date, the Company has taken the following steps, among others, with respect to its operations:
 - a. completed an amalgamation with Avila Exploration and Development Ltd. ("**Avila Exploration**") which brought operational licenses for oil and gas production (the "**Licenses**") under the Company's control. The Licenses were intended to be transferred prior to these Proposal Proceedings, however, the Company experienced issues in transferring the Licenses related to the AER's eligibility requirements;
 - b. Avila has completed the transfer of lands (the "**Lands**") from Quattro Exploration and Production Ltd. ("**Quattro**"). The Lands were known to be Avila property prior to the NOI filing; however, the transfer was delayed by Quattro. The Lands include 22 wells located at Donalda in Stettler Country. These wells are currently shut-in;

- c. restored 48 wells to production;
 - d. taken steps to rectify accidental damage to a pipeline located adjacent to an Avila facility which has caused the production for 32 of the Company’s 48 wells to be shut in for approximately a week;
 - e. held discussions with the AER with respect to the assets, wells and status of Avila and attended a meeting on November 19, 2024 with the AER’s insolvency regulatory compliance group, to further discuss the Company’s ongoing operations, future productions and actions of Avila and its restructuring efforts; and
 - f. taking steps to review historical transactions and records of the Company. In reviewing these transactions the Company has become aware of certain suspicious financial transactions (the “**Transactions**”). The Company intends to further review the Transactions as it believes there may be recoverable value, which would benefit Avila’s creditors and key stakeholders.
13. The Company is planning to complete a forensic audit of the Transactions as well as reviewing its financial position and working to determine if an asset sale will be required to fund these Proposal Proceedings and a proposal.

CASH FLOW STATEMENT

VARIANCE ANALYSIS

14. On October 10, 2024, management of the Company, in consultation with the Proposal Trustee, prepared the cash flow statement for the period ending December 8, 2024 (the “**Second Cash Flow Statement**”), which was filed with Official Receiver and is attached as Appendix “A” to this Report.

15. The Company's actual cash flow compared to the forecast contained in the Second Cash Flow Statement for the period of September 30 to November 10, 2024 is summarized below:

6 Week Period ending Nov 10, 2024			
(CAD\$)	Actual	Forecast	Variance
Receipts			
Net production revenue	\$ -	\$ -	\$ -
Other receipts	549	-	549
Insurance Refund	-	60,000	(60,000)
Total - Receipts	\$ 549	\$ 60,000	\$ (59,451)
Disbursements			
Royalties	\$ -	\$ -	\$ -
Transportation costs	3,000	-	3,000
Operating expenses	11,853	-	11,853
Contract operators	3,402	6,000	(2,598)
Capex	13,128	30,000	(16,872)
Salaries & Benefits	12,865	5,000	7,865
Consulting Fees (CEO/CF0)	10,250	8,250	2,000
Insurance	-	20,000	(20,000)
Professional fees	38,861	15,390	23,471
Miscellaneous	10,379	6,040	4,338
Total - Disbursements	103,737	90,680	13,057
Net Cash Flow	\$ (103,188)	\$ (30,680)	\$ (72,508)
Beginning Cash Balance	107,210	100,091	7,119
Net Cash Inflows / (Outflows)	(103,188)	(30,680)	(72,508)
Ending Cash Balance	\$ 4,022	\$ 69,411	\$ (65,388)

16. The variances in actual receipts and disbursements as compared to the Second Cash Flow Statement as primarily due to the following:

- a. Receipts: negative variance of \$59,451 primarily due to delayed receipt of insurance refund, now expected in the week of December 1, 2024;
- b. Disbursements: positive variance of \$13,057 primarily comprised of the following:

- i. higher transportation costs and operating expenses due to request for prepayments from suppliers to continue services;
 - ii. postponed capital expenditure projects;
 - iii. postponed insurance prepayment to week of November 24, 2024; and
 - iv. higher professional fees as the work required by Miller Thomson LLP to assist the Company as it works through these Proposal Proceedings was more in-depth than was forecast in Second Cash Flow Statement.
17. The Company in consultation with the Proposal Trustee, has prepared the Third Cash Flow Statement to estimate the Company's liquidity for the period from November 11, 2024, to January 19, 2025 (the "**Forecast Period**"), a summary of which is included below. A copy of the Third Cash Flow Statement is attached hereto as Appendix "**B**".

Cash Flow Statement	Total
(CAD\$)	10 Weeks
Receipts	
Net production revenue	\$ 181,618
Other receipts	-
Insurance Refund	60,000
Total - Receipts	241,618
Disbursements	
Royalties	19,978
Transportation costs	4,166
Operating expenses	43,570
Contract operator	16,000
Capex	15,000
Salaries & Benefits	8,500
Consulting Fees (CEO/CFO)	16,000
Insurance	35,596
Professional fees	77,545
Miscellaneous	9,000
Total - Disbursements	245,355
Net cash flow	(3,737)
Opening cash	4,022
Ending cash	\$ 285

18. The Third Cash Flow Statement projects the Company will have negative net operating cash flow of \$3,737 over the Forecast Period, including:
 - a. total receipts of \$241,618, primarily relating to the collection of production revenue, mid-stream revenue and a refund from its insurance provider; and
 - b. operating disbursements of \$245,355, primarily relating to oil and gas operating expenses, employee expenses including consultants, insurance premiums and professional fees.

19. The Third Cash Flow Statement shows an ending cash balance at January 19, 2025 of approximately \$285.

20. The Third Cash Flow Statement contemplates the following:
 - a. receipts relating to the delayed insurance refund and production revenue following the restating of wells in mid-October, mid-stream revenue following the Company's facility coming back online in mid-December, production revenue based on actual production during the month of October;
 - b. production expenses including, royalties, transportation costs, operating costs and contract operator expenses which stem from the Company restarting production and its mid-stream facility;
 - c. capital expenditures relate to work being completed to restart production and the Company's mid-stream facility;
 - d. employees' salaries and benefits, consultant fees and miscellaneous expenses relate to individuals required to operate the business and support its field production including accounting and administrative duties. The Company expects to terminate a clerical position which will reduce the employee expenses;

- e. insurance expenses for policies required for operations and assets; and
 - f. professional fees for the Proposal Trustee and the Company's counsel. The Proposal Trustee currently does not have independent counsel as the Company does not have adequate funds available to engage independent counsel.
21. The Third Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Third Cash Flow Statement, including assumptions that goods and services incurred after the Filing Date are paid when incurred.
22. The Proposal Trustee's review of the Third Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Information supplied to it by the Company. Since probable and hypothetical assumptions need not be supported, the Proposal Trustee's procedures were limited to evaluating whether they were consistent with the purpose of the Third Cash Flow Statement, and there are no material assumptions contained therein which seem unreasonable in the circumstances.
23. Based on the Proposal Trustee's review, as at the date of this Second Report, nothing has come to its attention that causes it to believe that, in all material respects:
- a. the probable and hypothetical assumptions are not consistent with the purpose of the Third Cash Flow Statement; and
 - b. the probable and hypothetical assumptions developed by the Company are not supported and consistent with the plan of the Company or do not provide a reasonable basis for the Third Cash Flow Statement.

STAY EXTENSION

24. The stay of proceedings expires on December 2, 2024. At the November 27 Application, the Company is requesting an extension of the stay of proceedings to January 16, 2025.
25. The Proposal Trustee is of the view that the requested extension of the stay of proceedings is appropriate pursuant to section 50.4(9) of the *BIA* for the following reasons:
- a. the Company and its management are acting in good faith and with due diligence in taking steps to continue the operations of the business;
 - b. the extension of the Stay Period will provide the Company additional time to continue to:
 - i. correspond with the AER with respect to the Company's ongoing operations;
 - ii. complete a review of the Transactions for the benefit of the Company and its creditors; and
 - iii. continue to evaluate the Company's financial position and take steps to prepare and present a viable proposal to its creditors.
 - c. the Third Cash Flow Statement indicates that the Company will have sufficient liquidity to continue to fund operations and the cost of the Proposal Proceedings to January 16, 2025; and

- d. the continued operations of the Company are for the benefit of and the Proposal Trustee is not aware of any reason that the extension of the Stay Period will materially prejudice any creditors.

PROPOSAL TRUSTEE'S RECOMMENDATIONS

26. The Proposal Trustee respectfully recommends that this Court grant the Company's request for an extension of the Stay Period to January 16, 2025.

All of which is respectfully submitted this 20th day of November 2024.

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



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

Appendix A

Avila Energy Corporation

Projected Cash Flow Statement for the periods ending September 30 to December 8, 2024

Second Cash Flow Statement	Forecast Week 1	Forecast Week 2	Forecast Week 3	Forecast Week 4	Forecast Week 5	Forecast Week 6	Forecast Week 7	Forecast Week 8	Forecast Week 9	Forecast Week 10	Forecast Total	Notes
Week Ending	6-Oct	13-Oct	20-Oct	27-Oct	3-Nov	10-Nov	17-Nov	24-Nov	1-Dec	8-Dec		
Receipts												
Net production revenue									\$ 94,800		\$ 94,800	1
Other receipts (mid-stream revenues)									34,000		34,000	2
Insurance Refund				60,000							60,000	3
Total - Receipts	-	-	-	60,000	-	-	-	-	128,800	-	188,800	
Disbursements												
Royalties									5,015		5,015	4
Transportation costs									1,666		1,666	5
Operating expenses									33,800		33,800	6
Contract operator					6,000				8,000		14,000	7
Capex				30,000					10,000		40,000	8
Salaries & Benefits				5,000					5,000		10,000	9
Consulting Fees (CEO/CFO)		1,500		6,750			1,500		6,750		16,500	10
Insurance				20,000							20,000	11
Professional fees		15,390							20,000		35,390	12
Miscellaneous	3,040			3,000					3,000		9,040	13
Total - Disbursements	3,040	16,890	-	64,750	6,000	-	1,500	-	93,231		185,411	
Net cash flow	(3,040)	(16,890)	-	(4,750)	(6,000)	-	(1,500)	-	35,569		3,389	
Opening cash	100,091	97,051	80,161	80,161	75,411	69,411	69,411	67,911	67,911		100,091	
Ending cash	\$ 97,051	\$ 80,161	\$ 80,161	\$ 75,411	\$ 69,411	\$ 69,411	\$ 67,911	\$ 67,911	\$ 103,480		\$ 103,480	

Donald Benson

Donald Benson (Oct. 10, 2024, 13:11 CDT)

Avila Energy Corporation

Per: Donald Benson, CEO

Lars Glimhagen

Avila Energy Corporation

Per: Lars Glimhagen, CFO

Dustin Olver

FTI CONSULTING CANADA INC., TRUSTEE UNDER THE NOTICE

OF INTENTION TO MAKE A PROPOSAL

Per: Dustin Olver, SMD

Notes:

Management of Avila Energy Corporation has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Avila Energy Corporation during the period of September

30, 2024 to December 8, 2024. This Projected Cash Flow Statement is based on probable and hypothetical assumptions detailed in Notes 1-13. Consequently, actual results will likely vary from actual performance and such variances may be material.

- 1 Based on production of 39,200 bbl during Weeks 5 & 6 to be received during Week 10. The production of Oil & NGL commences on or about October 15th. Revenue from this production will be received on November 25th. The wells have been shut-in since March 22, 2024 due to delays in the transfer of well licenses from AVEX to Avila.
- 2 Based on mid-stream processing for weeks 5 & 6 received during Week 10. The facility was shut-in due to contamination by the customer's gas entering the facility. This is being resolved by the customer, Nordcon.
- 3 Insurance refund is based on two reporting policies for previous 4 years that have not been previously filed.
- 4 Royalties from production during Weeks 5 & 6 and will be paid from proceeds on November 25th.
- 5 Transportation costs during Weeks 5 & 6 for transporting product to be paid to the trucking company on November 24th.
- 6 Operation costs for production during Weeks 5 & 6 includes other operating costs other than the contract operator and transporting.
- 7 Contract operator costs relate to the company's sole operator for managing all wells, pipelines and facilities operated by the company.
- 8 Capex refers to the repairing and maintenance of the wells and facilities to resume production and revenue.
- 9 Salaries & Benefits relate to two employees for accounting and administrative duties.
- 10 Consulting fees relate to the CEO at \$1,500 bi-weekly) and CFO at \$5,000 plus GST paid monthly.
- 11 Insurance relates to the initial payment on new insurance policy.
- 12 Professional fees include estimates for the proposal trustee, proposal trustee's legal counsel and Avila Energy Corporation's legal counsel.
- 13 Miscellaneous expenses relate to other costs not categorized above such as the company's share transfer agent, monthly charges for technical support plans and any other general administrative costs not readily identified.

Appendix B

Avila Energy Corporation


Projected Cash Flow Statement for the periods ending November 11, 2024 to January 19, 2025

Cash Flow Statement (CAD\$)	Week Ending	Week 1 17-Nov	Week 2 24-Nov	Week 3 1-Dec	Week 4 8-Dec	Week 5 15-Dec	Week 6 22-Dec	Week 7 29-Dec	Week 8 5-Jan	Week 9 12-Jan	Week 10 19-Jan	Total	Notes
Receipts													
Net production revenue			\$ 71,437				\$ 110,181					\$ 181,618	1
Other receipts												-	2
Insurance Refund				60,000								60,000	3
Total - Receipts		-	71,437	60,000	-	-	110,181	-	-	-	-	241,618	
Disbursements													
Royalties				7,858				12,120				19,978	4
Transportation costs				1,666				2,500				4,166	5
Operating expenses				18,320				25,250				43,570	6
Contract operator				8,000				8,000				16,000	7
Capex				5,000				10,000				15,000	8
Salaries & Benefits				5,000				3,500				8,500	9
Consulting Fees (CEO/CFO)				8,000				8,000				16,000	10
Insurance			25,333	-	3,421		3,421				3,421	35,596	11
Professional fees			27,545	-	15,000		15,000			20,000		77,545	12
Miscellaneous				4,500				4,500				9,000	13
Total - Disbursements		-	52,878	58,344	18,421	-	18,421	73,870	-	20,000	3,421	245,355	
Net cash flow		-	18,559	1,656	(18,421)	-	91,760	(73,870)	-	(20,000)	(3,421)	(3,737)	
Opening cash		4,022	4,022	22,581	24,237	5,816	5,816	97,576	23,706	23,706	3,706	4,022	
Ending cash		\$ 4,022	\$ 22,581	\$ 24,237	\$ 5,816	\$ 5,816	\$ 97,576	\$ 23,706	\$ 23,706	\$ 3,706	\$ 285	\$ 285	

Avila Energy Corporation
Per: Donald Benson, CEO



Avila Energy Corporation
Per: Lars Glimhagen, CFO


FTI CONSULTING CANADA INC., TRUSTEE UNDER THE NOTICE
OF INTENTION TO MAKE A PROPOSAL
Per: Dustin Olver, SMD

Notes:

Management of Avila Energy Corporation has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Avila Energy Corporation during the period of November 11, 2024 to January 19, 2025. This Projected Cash Flow Statement is based on probable and hypothetical assumptions detailed in Notes 1-13. Consequently, actual results will likely vary from actual performance and such variances may be material.

- Week 2 revenue is based on production of 1.5 mmcf/d of Natural Gas and 12.5 bbl/d of NGLs during 15 days. It also includes the sale of 28 m3 of Heavy Crude Oil stored at the Bonnie Glen Battery.
Week 6 revenue is based on production of 1.8 mmcf/d of Natural Gas, 15 bbl/d of NGLs and 20 bbl/d of Heavy Crude Oil . It also includes the sale of 400 bbls of Heavy Crude Oil stored at the Honeysuckle Battery. Natural Gas production at 5-29 Facility will be suspended during a week due to temporal closure of ATCO line.
- Based on mid-stream processing . The facility was shut-in due to contamination by the customers gas entering the facility. This is being resolved by the customer, Nordcon. Mid-stream processing expected to be back online by December 15th, 2024.
- Insurance refund is based on two reporting policies for previous 4 years that have not been previously filed. Receipt date is expected by December 29, 2024.
- Royalties from production paid on the following week after the revenues are received.
- Transportation costs paid on the following week after the revenues are received.
- Operation costs for production include operating costs other than the contract operator and transportation.
- Contract operator costs relates to the company's sole operator for managing all wells, pipelines and facilities operated by the company
- Capex refers to the repairing and maintenance of the wells and facilities to resume production and revenue
- Salaries & Benefits relate to two employees for accounting and administrative duties.
- Consulting fees relate to the CEO at \$1,500 bi-weekly)and CFO at \$5,000 plus GST paid monthly.
- Insurance relates to the initial payment on new insurance policy.
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Avila Energy Corporation

Projected Cash Flow Statement for the periods ending November 11, 2024 to January 19, 2025

Cash Flow Statement (CAD\$)	Week Ending	Week 1 17-Nov	Week 2 24-Nov	Week 3 1-Dec	Week 4 8-Dec	Week 5 15-Dec	Week 6 22-Dec	Week 7 29-Dec	Week 8 5-Jan	Week 9 12-Jan	Week 10 19-Jan	Total	Notes
Receipts													
Net production revenue			\$ 71,437				\$ 110,181					\$ 181,618	1
Other receipts												-	2
Insurance Refund				60,000								60,000	3
Total - Receipts			71,437	60,000			110,181					241,618	
Disbursements													
Royalties				7,858				12,120				19,978	4
Transportation costs				1,666				2,500				4,166	5
Operating expenses				18,320				25,250				43,570	6
Contract operator				8,000				8,000				16,000	7
Capex				5,000				10,000				15,000	8
Salaries & Benefits				5,000				3,500				8,500	9
Consulting Fees (CEO/CFO)				8,000				8,000				16,000	10
Insurance			25,333	-	3,421		3,421				3,421	35,596	11
Professional fees			27,545	-	15,000		15,000			20,000		77,545	12
Miscellaneous				4,500			4,500					9,000	13
Total - Disbursements			52,878	58,344	18,421		18,421	73,870		20,000	3,421	245,355	
Net cash flow			18,559	1,656	(18,421)		91,760	(73,870)		(20,000)	(3,421)	(3,737)	
Opening cash		4,022	4,022	22,581	24,237	5,816	5,816	97,576	23,706	23,706	3,706	4,022	
Ending cash		\$ 4,022	\$ 22,581	\$ 24,237	\$ 5,816	\$ 5,816	\$ 97,576	\$ 23,706	\$ 23,706	\$ 3,706	\$ 285	\$ 285	

Avila Energy Corporation
Per: Donald Benson, CEO

FTI CONSULTING CANADA INC., TRUSTEE UNDER THE NOTICE
OF INTENTION TO MAKE A PROPOSAL
Per: Dustin Olver, SMD

Avila Energy Corporation
Per: Lars Glimhagen, CFO

Notes:

Management of Avila Energy Corporation has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Avila Energy Corporation during the period of November 11, 2024 to January 19, 2025. This Projected Cash Flow Statement is based on probable and hypothetical assumptions detailed in Notes 1-13. Consequently, actual results will likely vary from actual performance and such variances may be material.

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Week 6 revenue is based on production of 1.8 mmcf/d of Natural Gas, 15 bbl/d of NGLs and 20 bbl/d of Heavy Crude Oil. It also includes the sale of 400 bbls of Heavy Crude Oil stored at the Honeysuckle Battery. Natural Gas production at 5-29 Facility will be suspended during a week due to temporal closure of ATCO line.
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- Insurance relates to the initial payment on new insurance policy.
- Professional fees includes estimates for the proposal trustee, proposal trustee's legal counsel and Avila Energy Corporation's legal counsel.
- Miscellaneous expenses relate to other costs not categorized above such as the company's share transfer agent, monthly charges for technical support plans and any other general administrative costs not readily identified.