

FORM 51-102F3
MATERIAL CHANGE REPORT

Item 1. **Reporting Issuer**

Avila Energy Corporation (the “**Company**” or “**Avila**”)
Suite 500, 5940 Macleod Trail,
Calgary AB T2H 2G4

Item 2. **Date of Material Change**

A material change is set to take place in the days following August 31, 2022. This material change report replaces the previous material change report filed on SEDAR on August 10, 2022.

Item 3. **News Release**

On June 27, 2022, a news release in respect of the material change was disseminated by TheNewswire and was subsequently filed on SEDAR. Another news release has been disseminated by TheNewswire and was subsequently filed on SEDAR on August 11, 2022.

Item 4. **Summary of Material Change**

A summary of the nature and substance of the material change is as follows:

The Company has acquired a 100% interest of 53,835 acres of mineral rights of 611890 Alberta Inc. (dba Avila Energy) (“**611**”) (the whole “**Proposed Acquisition**”) and is subject to the approval of the voting shareholders of the Company set to take place on August 31, 2022.

Item 5. **Full Description of Material Change**

The Company announced that it has purchased the assets (the “**Assets**”), being 100% of 611’s interests in 53,835 acres, 43,935 acres (net) of mineral rights, associated wells, pipelines and facilities for the purchase price of \$50,664,000 (the “**Purchase Price**”). Under the letter of intent signed on June 14, 2021 (the “**LOI**”), the Purchase Price is being satisfied by way of issuance of 44,440,000 common shares (the “**Common Shares**”) at \$0.60 per Share and 30,000,000 convertible shares (the “**Convertible Shares**”) at a price of \$0.80 per share. The Convertible Shares will have a term of five (5) years and earn accruing annual dividend at a rate of two percent (2%), payable upon conversion. The conversion of Convertible Shares at the election of the holder can only occur after one of three milestones has been achieved: (a) the Company exceeds the production rate of 3,000 boe/d; (b) the common shares of Avila trade at a volume weighted average price (VWAP) of more than \$1.00 per share for twenty (20) consecutive business days; or (c) the second-year anniversary since the issuance of the Common Shares has occurred. At maturity upon the fifth anniversary of their issuance, the Convertible Shares

shall automatically be redeemed on a 1:1 basis along with any accrued dividends by the issuance of common shares of Avila.

Details of the Proposed Acquisition – Closing Procedure Established

On August 10, 2022, the Company established, by an updated Agreement of Purchase and Sale with 611 (the “**PSA**”), the closing procedure (the “**Closing Procedure**”) for the Proposed Acquisition, the Closing Procedure being as follows:

- (a) Prior to the closing of the Proposed Acquisition (the “**Closing**”), Avila shall acquire 74,440,000 Class “E” preferred shares (the “**Exchange Shares**”) from certain shareholders (the “**Vending Shareholders**”) of 611 by acquisition agreements (the “**Shareholder Acquisition Agreements**”).
- (b) Pursuant to the Shareholder Acquisition Agreements, Avila will issue to the Vending Shareholders the Common Shares and the Convertible Shares.
- (c) In accordance with the PSA, on Closing, 611 has irrevocably agreed to accept the delivery of the Exchange Shares from Avila for surrender and cancellation as payment in full of the Purchase Price for the Assets.

The Shareholder Acquisition Agreements will provide, *inter alia*, that the parties shall comply with all the requirements of the regulatory authorities respecting the issuance of the Exchange Shares by Avila and the receipt thereof by the Vending Shareholders. Further, the Shareholder Acquisition Agreements shall contain the standard representations by the Vending Shareholders to Avila for agreements such as the Shareholder Acquisition Agreements, including without limitation, that the Exchange Shares are free and clear of encumbrances and that the Vending Shareholders are able to sell the same to Avila without any restriction.

The PSA can be found on SEDAR under “other material contracts” filed on August 11, 2022.

The completion of the Proposed Acquisition would constitute a Fundamental Change, as such term is defined in Policy 8 of the CSE Policies. The Company will seek to obtain shareholder approval of the Fundamental Change by way of special meeting of shareholders.

The Proposed Acquisition will require the approval of (i) at least two-thirds of the votes cast by the holders of common shares of Avila, and (ii) a simple majority of the common shares of Avila held by minority shareholders in accordance with Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”) ((together, (i) and (ii) are the “**Shareholder Approval**”).

On July 6, 2022, the Company obtained an interim order from the Court of Queen’s Bench of Alberta (the “**Court**”) for the calling and holding of the special meeting of shareholders and other procedural matters. In addition to Shareholder Approval, the Proposed Acquisition is also subject to the receipt of a final approval from the

Court, and other customary closing conditions for transactions of this nature. The Proposed Acquisition is expected to be completed before the end of the third fiscal quarter or in the days following the special meeting of shareholders scheduled to be held on August 31, 2022 and the final approval from the Court.

Purpose and business reasons for the Proposed Acquisition

The Company intends to continue to achieve both sustainable and future growth through the implementation of proven techniques within its operations. Upon completion of the Proposed Acquisition, the Company will be fully embracing the plan to continue as a current low-cost natural gas and liquids producer in the region. The Company will continue to focus on the rapid development of the lands in combination with the completion of the engineering and implementation of its business plan and long-term vision of being a leading operator as a fully integrated carbon neutral energy producer.

Related Party Transaction Disclosure

The Proposed Acquisition constitutes a related party transaction as Leonard Van Betuw concurrently acts as president and CEO of the Company and 611. As the Proposed Transaction meets Part 5 of MI 61-101, the Company has retained the services of a CBV Valuator, Scott Lawritsen of Hemens Lawritsen Valuation Group Ltd. to proceed with a formal valuation of the Proposed Transaction.

To the knowledge of the directors and senior officers of the Company, there have been no “prior valuations” (as defined in MI 61-101) prepared in respect of the Company within the 24 months preceding the date of this material change report.

Material Contracts

Except for contracts made in the ordinary course of business and those mentioned above, the following are the only material contracts entered into by the Company within the two years before the date of this Material Change Report and which are currently in effect and considered to be material:

1. The Asset Purchase Agreement dated September 30, 2019 entered into between the Company and Avila for the acquisition of a non-operating interest of fifty percent (50%) into a producing oil & gas property in the province of Alberta;
2. Consulting Agreement entered between Company and Intuitive Pty Ltd. Dated June 1, 2020;
3. Subscription Receipt Agreement dated November 2, 2020 entered into between the Company, Leede Jones Gable Inc. and Dunton Rainville LLP;
4. Agency Agreement dated November 5, 2020 entered into between the Company and Leede Jones Gable Inc.;
5. Escrow Agreement dated February 24, 2021 entered into between the Company and Computershare Trust Company of Canada;

6. Letter of Intent dated June 14, 2021 entered into between the Company and Avila; and
7. The Agreement of Purchase and sale dated June 23, 2022 entered into between the Company and 611890 Alberta Inc. for the acquisition of one hundred percent (100%) interests in 53,835 acres (43,935 acres net) of mineral rights, associated wells, pipelines and facilities in the province of Alberta, Canada.

Additional information regarding the terms of the Proposed Acquisition, including the unanimous recommendations of the Board of Directors, and how the Company's shareholders can participate in and vote at the Special meeting, will be included in the management information circular for the Special Meeting (the "Circular"). The Circular can be found on SEDAR (www.sedar.com) under the Company's issuer profile.

Please refer to the news releases dated June 27, 2022 and August 11, 2022 and other material contracts found on SEDAR for further details.

Item 6. Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7. Omitted Information

Not applicable.

Item 8. Executive Officer

Leonard Van Betuw, CEO, 403 277-8550, info@avilaenergy.com

Item 9. Date of Report

DATED at Calgary, in the Province of Alberta on August 11, 2022.

This material change report may include forward-looking statements that are subject to risks and uncertainties. All statements within, other than statements of historical fact, are to be considered forward looking. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. There can be no assurances that such statements will prove accurate and, therefore, readers are advised to rely on their own evaluation of such uncertainties. We do not assume any obligation to update any forward-looking statements except as required under the applicable law.