

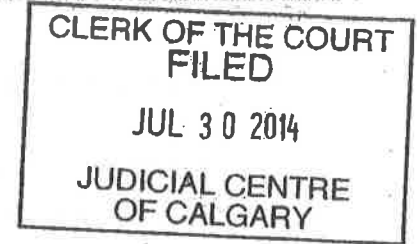
FIAT: Let the Clerk of the Court of Queen's Bench of Alberta file this Affidavit of Tom Bilodeau notwithstanding it is not the original.

Dated this 30 day of July, 2014

M.C.Q.B.A.

Form 49
[Rule 13.19]

Clerk's stamp:



1401 - 08324

COURT FILE NO.
COURT OF QUEEN'S BENCH
OF ALBERTA
JUDICIAL CENTRE
APPLICANT
RESPONDENTS
DOCUMENT
ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

CALGARY
KRACK ENERGY INC.
KARL ENERGY TRUST INC. AND BRADLEY OIL
& GAS INC.
AFFIDAVIT (APPOINTMENT OF RECEIVER)
BLAKE, CASSELS & GRAYDON LLP
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File Ref.: Krack Energy/Karl Energy

AFFIDAVIT OF TOM BILODEAU

Sworn on July 29, 2013

I, TOM BILODEAU, of the City of Edmonton, in the Province of Alberta, SWEAR AND SAY THAT:

1. I am President of and sole director of Krack Energy Inc. ("KEI") and as such, I have personal knowledge of the matters deposed to in this Affidavit, except where stated to be based upon information, in which case I believe the same to be true. This affidavit is sworn in support of an application by KEI for the appointment of a receiver and manager over Karl Energy Trust

Inc. (“Karl” or the “Corporation”) and Bradley Oil & Gas Inc. (“Bradley” or the “Guarantor”).

2. I am authorized to make this Affidavit on behalf of KEI.
3. Capitalized terms used but not defined herein have the meaning ascribed to them in the Fixed and Floating Charge Debenture between Karl, as grantor, and KEI, as holder, dated October 31, 2013 (the “Debenture”). A copy of the Debenture is attached hereto and marked as Exhibit “A”.

Background

4. Karl is a company incorporated pursuant to the laws of the Province of Alberta with its registered office in Calgary, Alberta. A copy of the corporate search of Karl is attached hereto and marked as Exhibit “B”.
5. Bradley is a company incorporated pursuant to the laws of the Province of Alberta with its registered office in Calgary, Alberta. A copy of the corporate search of Bradley is attached hereto and marked as Exhibit “C”.
6. For the reasons stated herein, KEI is seeking to appoint a receiver and manager (the “Receiver”) pursuant to section 243 of the *Bankruptcy and Insolvency Act*, RSC 1985 c B-3 (the “BIA”) over the undertakings, property and assets of Karl and Bradley.

The Debenture and Security

7. As of July 25, 2014, the total indebtedness of Karl to KEI was \$3,600,000, together with the interest and costs of enforcement incurred to date (the “Outstanding Indebtedness”).
8. As security for all amounts owing to KEI, Karl granted to KEI security over certain oil and gas assets under the terms of the Debenture.
9. Bradley guaranteed the amounts secured under the Debenture by way of an unlimited continuing guarantee (the “Bradley Guarantee”) dated October 31, 2013. KEI has also obtained security from Bradley in support of the Bradley Guarantee by way of a general security

agreement dated October 31, 2013 granted by Bradley to KEI (the "**Bradley GSA**"). A copy of the Bradley Guarantee and the Bradley GSA are attached hereto and collectively marked as Exhibit "**D**".

10. KEI has registered its security interests at the Alberta Personal Property Registry ("**PPR**") against Karl and Bradley. Copies of the Alberta PPR searches for Karl and Bradley are attached hereto and collectively marked as Exhibit "**E**".

11. KEI has registered fixed charges against certain of the interests of Karl and Bradley in their oil and gas assets. A search of those oil and gas assets is attached hereto and marked as Exhibit "**F**".

Demand and Default

12. On July 23, 2014 KEI provided written notice of a default under the terms of the Debenture to Karl and Bradley. A copy of the default notice is attached hereto and marked as Exhibit "**G**".

13. Karl has failed to pay the Holder the principal amounts as set out in section 2.1 of the Debenture and has committed an Event of Default in accordance with section 7.1 of the Debenture.

14. On July 25, 2014, KEI sent demand letters and notices of intention to enforce its security in accordance with section 244 of the BIA (collectively, the "**Demands**") to Karl and Bradley demanding full payment of the Outstanding Indebtedness. Copies of the Demands are attached hereto and collectively marked as Exhibit "**H**".

15. Despite the Demands, the Corporation and Guarantor have neglected, failed, refused or are unable to pay the Outstanding Indebtedness which is due and owing to KEI.

16. The Borrower has also committed various other defaults under the terms of the Debenture including, but not limited to, the failure to comply with the payment schedule covenants and allowing distress, execution or other steps or proceeding against the Charged Property.

17. Hardie & Kelly Inc. is a licensed trustee in bankruptcy and has advised that it is prepared to act as receiver and manager of Karl and Bradley. A copy of the consent of Hardie & Kelly Inc. to act as receiver and manager of Karl and Bradley is attached hereto and marked as Exhibit "N".

Current Circumstances of Karl and Bradley

18. Karl and Bradley own certain oil and gas interests (the "Assets") located in the Zama area of Northern Alberta. The Assets are more particularly described in Schedule "A" of the Debenture.

19. There is a myriad of claims against the Assets, including secured creditors, lien claimants and unsecured creditors. Attached hereto and marked as Exhibit "J" is a copy of the courthouse searches conducted for Karl and Bradley.

20. Karl, in breach of the terms of the Debenture, may have transferred certain of its interests in its oil and gas assets to Bradley. Bryce Karl was the principal of both Karl and Bradley and has been declared bankrupt. Attached hereto and marked as Exhibit "K" is a copy of a bankruptcy search for Bryce Karl from the Office of the Superintendent of Bankruptcy.

21. KEI understands that Darren Stuber is the individual that is now managing the affairs of Bradley and is the sole director of Bradley.

22. KEI understands from information provided by Darren Stuber that the wells (the "Wells") associated with the Assets of Bradley are not currently operating and have been shut-in. KEI further understands that Bradley does not have the funds necessary to resume production from the Assets.

23. KEI has lost confidence in Karl and Bradley's ability to manage their businesses and believes the appointment of a receiver and manager over Karl and Bradley to oversee the wind-down of Karl and Bradley's operations and to conduct an orderly realization of Karl and Bradley's assets is required.

24. As of July 2014 the Assets currently have an outstanding Licensee Liability Rating (“LLR”) of 1.0 with the Alberta Energy Regulator (the “AER”). KEI does not believe that Bradley has posted any security with the AER. Attached hereto and marked as Exhibit “L” is a copy of the LLR report issued by the AER for July of 2014.

25. KEI is concerned that the LLR obligations of Bradley will increase substantially over the next month if it cannot be resume operations necessary to generate production from the Assets.

26. If the LLR falls below 1.0 and Bradley does not post-security it will be offside the AER Directive 006 (the “Directive”). Attached hereto and marked as Exhibit “M” is a copy of the Directive.

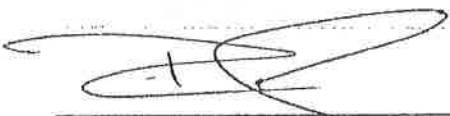
27. KEI is initially prepared to fund the Receiver by way of Receiver’s Certificates up to the amount of \$50,000 in order to get the Wells operational and resume production from certain of those Wells.

28. In addition, KEI understands that Apache Corporation is holding approximately \$343,000 of funds payable to Bradley for the sale of prior production from the Wells but has refused to pay those amounts due to the competing demands from creditors of Karl and Bradley.

29. KEI has provided a \$25,000 retainer (the “Retainer”) to the Receiver in order for Hardie & Kelly Inc. to accept this retainer. Attached hereto and marked as Exhibit “T” is a copy of a wire transfer confirmation showing transfer of funds to Hardie & Kelly Inc.. In the event that Hardie & Kelly Inc. is appointed as Receiver and recovers funds in the estate of Karl and Bradley sufficient to satisfy it that there is adequate security for its costs going forward, KEI would like repayment of the Retainer.

30. As a result of the foregoing, I believe that the appointment of a Receiver over the undertakings, property and assets of Karl and the Guarantor is just and convenient and necessary to protect the interests of KEI and to preserve and realize on its security in an orderly fashion.

SWORN BEFORE ME at the City of)
Edmonton, in the Province of Alberta,)
this 29 day of July, 2014.)
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)



A Commissioner of Oaths in and for the
Province of Alberta

ROHIN JUDGE

Notary Public In and for the Province of Alberta
9213 - 34 Avenue NW
Edmonton, AB T6L 5T5
Phone: 780-463-9523
My Commission expires Dec 31, 2014

TOM BILODEAU

