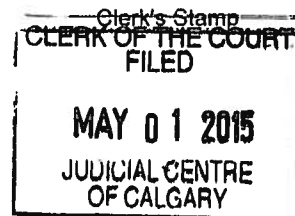


COURT FILE NUMBER 1401-08324
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY



PLAINTIFF KRACK ENERGY INC.
DEFENDANTS KARL ENERGY TRUST INC. and BRADLEY OIL & GAS INC.

IN THE MATTER OF THE RECEIVERSHIP OF
KARL ENERGY TRUST INC. and BRADLEY OIL & GAS INC.

APPLICANT HARDIE & KELLY INC., in its capacity as Court-appointed
Receiver and Manager of the assets, undertakings and property of
KARL ENERGY TRUST INC. and BRADLEY OIL & GAS INC.

DOCUMENT **SECOND REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
MAY 1, 2015**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

Norton Rose Fulbright Canada LLP
400 3rd Avenue SW, Suite 3700
Calgary, Alberta T2P 4H2
Phone: +1 403.267.8399
Fax: +1 403.264.5973

Attention: Kyle D. Kashuba
kyle.kashuba@nortonrosefulbright.com

File No. 01135476-0011

**SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC.
MAY 1, 2015**

I N D E X

| | |
|--|----|
| INTRODUCTION..... | 3 |
| TERMS OF REFERENCE..... | 4 |
| ADJOURNMENT OF JANUARY APPLICATION..... | 4 |
| PROOF OF OWNERSHIP INTEREST PROCESS..... | 5 |
| APACHE FUNDS..... | 7 |
| SALES PROCESS..... | 11 |
| STATEMENT OF RECEIPTS AND DISBURSEMENTS..... | 11 |
| RECOMMENDATIONS..... | 12 |

INTRODUCTION

1. On August 21, 2014, Krack Energy Inc. made an application to the Court of Queen's Bench of Alberta (the "**Court**") for the appointment of a receiver and manager (the "**Receiver**") of the current and future assets, undertakings and property of Karl Energy Trust Inc. ("**Karl**") and Bradley Oil & Gas Inc. ("**Bradley**") (or together, the "**Companies**").
2. The Court granted an Order (the "**Receivership Order**") on August 21, 2014 (the "**Receivership Date**"), appointing Hardie & Kelly Inc. as the Receiver.
3. On January 8, 2015, the Receiver filed a report (the "**First Report**") with this Honourable Court in contemplation of an application that was originally scheduled for January 15, 2015 (the "**January Application**") to seek the establishment of:
 - 3.1. A specified sales procedure process; and
 - 3.2. A process for interested parties claiming to hold a working interest ownership in any of the oil and gas assets or interests of Karl and/or Bradley (the "**Assets**") to provide proof of such ownership interest to the Receiver and to the Court.
4. The January Application was adjourned at the request of the Receiver.
5. The purpose of this report (the "**Second Report**") is to provide this Honourable Court with:
 - 5.1. Background information leading up to the Receiver's decision to request an adjournment of the January Application;
 - 5.2. Information with respect to the establishment of a formal process for interested parties claiming to hold a working interest ownership in the Assets to provide proof of such ownership interest to the Receiver and to the Court;

- 5.3. Provide the Court with additional background in respect of the Receiver's recommendation in respect of the funds previously paid into Court by Apache Canada Ltd. ("**Apache**");
- 5.4. Updated information with respect to the Receiver's intended course of action with respect to the eventual initiation of a sales process; and
- 5.5. A Statement of Receipts and Disbursements as at April 30, 2015.

TERMS OF REFERENCE

6. In preparing this Second Report, the Receiver has relied upon certain unaudited financial information, the available records of Karl and Bradley and information obtained from the oil and gas consultant retained by the Receiver in these proceedings, Cord Resource Management Limited ("**Cord**").

ADJOURNMENT OF JANUARY APPLICATION

7. Subsequent to serving its materials in respect of the January Application, several working interest holders contacted the Receiver expressing various degrees of confusion as to the effect of the proceedings on them. In addition, several individuals of whom the Receiver had no initial record of also contacted the Receiver claiming to be working interest owners indicating they had heard of the upcoming January Application but had not received any materials in respect of same.
8. This development was not inconsistent with what was reported in the First Report, wherein the Receiver advised that Cord had reported that:
 - 8.1. The Companies' records were substantially incomplete and in some instances it appeared that certain documentation might have been removed from the Companies' files; and

- 8.2. It appeared that Karl and/or Bradley may have sold or purported to sell, assign or transfer a significant percentage of the Companies' respective working interests in the Assets; however, the associated supporting documentation was generally incomplete.
9. Given the potential existence of additional working interest owners, the Receiver had concerns with commencing a sales process at that time in light of the additional uncertainty in respect of the extent of the Companies remaining interest in the Assets.
10. Several of the known working interest owners and alleged working interest owners requested an adjournment of the January Application. Most of these investors are unrepresented individuals.
11. Consequently, in light of the above, the Receiver determined that it would be appropriate to adjourn its application for a period of time.

PROOF OF OWNERSHIP INTEREST PROCESS

12. The Receiver has since obtained contact information for several additional potential working interest owners such that the Receiver is of the view that it would now be appropriate to seek the Court's approval of a form of proof of ownership interest process wherein parties claiming an interest in or thought to potentially have an interest in the Assets must provide the Receiver with:
 - 12.1. Supporting documentation evidencing the acquisition of a claim of interest to the Assets; and
 - 12.2. Proof of payment of the purchase price, or other form of consideration, advanced to Karl and/or Bradley in respect of the acquisition of any such interest as the Receiver has received unsubstantiated reports that some working interests may have been conveyed at undervalue.

13. Given the general level of uncertainty surrounding the Assets and the lack of records of the Companies, the Receiver recommends the establishment of a formal procedure (the **"Proof of Ownership Interest Process"**) summarized as follows:
 - 13.1. The Receiver shall, on or before May 15, 2015, send instructions along with a claim form (**"Proof of Ownership Interest Claim"**) in a form similar to that attached as Exhibit "A" and any other relevant information (collectively referred to as the **"Ownership Interest Claims Package"**) by regular prepaid mail, facsimile, courier or e-mail to each of the parties identified as potentially holding a working interest ownership in the Assets based on the available books and records of the Companies and information obtained from individual investors;
 - 13.2. The Receiver shall arrange to publish one advertisement of the Proof of Ownership Interest Process in the Calgary Herald newspaper on or before May 22, 2015;
 - 13.3. The Receiver shall arrange to post the Ownership Interest Claims Package on the Receiver's website by May 15, 2015;
 - 13.4. Any party who wishes to advance a claim of an ownership interest in any of the Assets must complete and forward to the Receiver, a completed Proof of Ownership Interest Claim form supported by appropriate documentation including proof of payment for the interest claimed on or before 5:00 p.m. (Mountain Time) on June 19, 2015 (the **"Ownership Interest Claims Bar Date"**), or such other date as may be ordered by the Court;
 - 13.5. Where a Proof of Ownership Interest Claim is sent to the Receiver by a creditor on or before the Ownership Interest Claims Bar Date, the Receiver shall review the Proof of Ownership Interest Claim and shall accept, revise or dispute the respective claim;

- 13.6. Where the Receiver determines to revise or disallow a claim to an ownership interest, the Receiver shall send a Notice of Revision or Disallowance to the respective claimant on or before 5:00 p.m. (Mountain Time) on July 3, 2015;
- 13.7. Where a claimant delivers a Notice of Dispute to the Receiver, the claimant shall thereafter file and serve on the Receiver a Notice of Application within 15 days of delivery of the Notice of Dispute for the determination of the disputed claim. Any claimant failing to file a Notice of Application within the time period set out above shall, unless otherwise ordered by this Court, be conclusively deemed to have accepted the disqualification of their ownership claim as set out in the Notice of Revision or Disallowance; and
- 13.8. Prior to issuing a Notice of Revision or Disallowance, or upon receipt of a Notice of Dispute or Notice of Application, the Receiver may consensually resolve the propriety of a respective claim to ownership.
14. The Receiver is of the opinion that the Proof of Ownership Process is important in order to provide prospective purchasers with greater certainty as to Karl/Bradley's actual remaining interest in the Assets.

APACHE FUNDS

15. In the First Report, we advised that on August 21, 2014, concurrent with the Receivership Order application, Apache filed an application for an Order seeking authority to pay into Court \$333,544.86 of funds in its possession which represented the net proceeds derived from Apache processing and marketing petroleum substances produced from three of the Companies' wells between November 2013 and January 2014.
16. Apache had received conflicting information regarding the entitlement to these funds as between Karl, Bradley and various other parties.

17. On August 21, 2014, the Court approved the payment of \$329,841.64 into Court by Apache after allowing for legal costs incurred by Apache (the "**Apache Funds**").
18. The Receiver and its legal counsel have now had the opportunity to further investigate the claims of the various parties advancing claims to the Apache Funds and the Receiver's position in respect of each party is as follows:
 - 18.1. Krack Energy Inc. ("**Krack**") – Krack does not have a direct claim to the Apache Funds. Any interest of Krack is based on its claim as a secured creditor and is therefore subject to the receivership proceedings;
 - 18.2. Horizon Resource Management Ltd. ("**Horizon**") – Horizon had attempted to lay claim to the Apache Funds by way of a garnishee summons. Counsel to Horizon advises that Horizon's position is that any transfer made by Karl to any other party, including Bradley, after Horizon filed its Writ of Enforcement against Karl was a fraudulent conveyance and is therefore void; however, the Receiver is of the opinion that Horizon's claim is an unsecured claim at best and does not take priority over the Receiver's claim to the Apache Funds for the following reasons:
 - 18.2.1. The Receiver was appointed over the current and future assets, undertakings and property of both Karl and Bradley because of the relationship between the two Companies and concerns of transfers of assets so any alleged priority claim arising from any transfers is moot; and
 - 18.2.2. Horizon had not completed its execution and received funds prior to the commencement of the receivership proceedings.

- 18.3. Sanjel Canada Ltd. ("**Sanjel**") – Sanjel had also attempted to lay claim to the Apache Funds by way of a garnishee summons; however, given that Sanjel had not completed its execution and received funds prior to the commencement of the receivership proceedings, Sanjel's claim is an unsecured claim at best and does not take priority over the Receiver's claim to the Apache Funds;
- 18.4. TTU Enterprise ("**TTU**") – TTU had also attempted to lay claim to the Apache Funds by way of a garnishee summons; however, given that TTU had not completed its execution and received funds prior to the commencement of the receivership proceedings, TTU's claim is an unsecured claim at best and does not take priority over the Receiver's claim to the Apache Funds. Legal counsel for TTU has acknowledged that TTU's claim is unsecured;
- 18.5. 1506928 Alberta Ltd. ("**1506928**") – 1506928 has claimed an interest in the Apache Funds based on its entitlement as a registered working interest partner in the three wells which gave rise to the Apache Funds. 1506928's registered interests in the respective wells as noted in the Alberta Government's Alberta Mineral Information Agreement Report are as follows:
- 1-26-114-06W6 - 22%;
 - 16-31-114-05W6 - 19%; and
 - 09-05-115-06W6 - 18%;
- 18.6. As the records of the Company available to the Receiver are incomplete, the Receiver has requested documentation from 1506928 to support the acquisition of its registered interests. At this time, the Receiver is of the opinion that 1506928 should prove its interest pursuant to the proposed Proof of Ownership Interest Process.

- 18.7. Frontier Fiscal Services ("**Frontier**") – legal counsel to Frontier has advised that Frontier's position is that it is entitled to the portion of the Apache Funds that 1506928 would otherwise be entitled to. Counsel to Frontier states that 1506928 assigned to Frontier, in exchange for good and valuable consideration, the right to receive the proceeds of the production of the three wells that gave rise to the Apache Funds. 1506928 has confirmed to the Receiver's legal counsel that Frontier is entitled to its share of the Apache Funds.
19. In addition to the above, Carrara Resources Ltd. ("**Carrara**") has advised the Receiver that it is entitled to a 10% gross overriding royalty in respect of the production giving rise to the Apache Funds. Cord and the Receiver's legal counsel have reviewed the documentation provided by Carrara and the Receiver is satisfied that Carrara is entitled to a claim over the Apache Funds.
20. In further addition to the above, the Receiver has determined that the builders lien claimants with registered interest against the leases of the wells giving rise to the Apache Funds do not have a valid claim against the Apache Funds because, pursuant to the Alberta Builders' Lien legislation, their registered interest do not attach to the proceeds of sale of the minerals.
21. The Receiver's proposed allocation of the Apache Funds is summarized as follows:
- 21.1. \$32,159.56 to be paid to Carrara Resources Ltd., in respect to their 10% gross overriding royalty; and
- 21.2. \$297,682.08 to be held in trust by the Receiver for the benefit of any proven working interest holders, which will be paid out to the working interest holders only upon proof of their respective interests being provided and approved by the Receiver.
22. The Receiver will be seeking the Court's directions with respect to the distribution of the remaining Apache Funds following the conclusion of the Proof of Ownership Interest Process.

SALES PROCESS

23. Subsequent to the adjournment of the January Application, the Receiver and its counsel had discussions and communications with external counsel for the Alberta Energy Regulator (the "AER") surrounding the sales process that had previously been proposed by the Receiver and possible outcomes there from.
24. As a result of those discussions and other communications between the AER and the Receiver, the Receiver is apprehensive about initiating a sales process due to the uncertainty surrounding the position the AER may take with respect to the transfer of well licences associated with the Assets (the "Licences") to any successful bidders arising from a sales process. Given the lack of funds currently available in the estate, the Receiver is concerned with its ability to fund the costs of initiating a fulsome sales process in the event any proposed sales of the Assets may be objected to by the AER.
25. At this time, the Receiver's intention is to revisit a proposed sales process pending the completion of the Proof of Ownership Interest Process for purposes of:
 - 25.1. Ensuring the estate has the resources to undertake a sales process notwithstanding what the end result may be in respect of the AER's position or the level of interest in the marketplace given the current state of the oil and gas industry; and
 - 25.2. Allowing for a greater level of certainty in a sales process by establishing the Companies' true interests in the Assets that are available for sale.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

26. A copy of the Receiver's Statement of Receipts and Disbursements as at April 30, 2015 is attached as Exhibit "B" indicating the Receiver holds approximately \$6,600 in its trust account.

RECOMMENDATIONS

27. The Receiver is seeking and recommends to this Honourable Court the following:

27.1. The granting of an Order establishing the Proof of Ownership Interest Process as set out in this Second Report; and

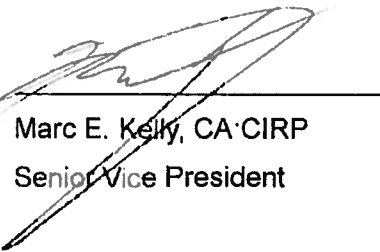
27.2. The granting of an Order directing the release of the Apache Funds as proposed by the Receiver in this Second Report.

All of which is respectfully submitted this 1st day of May, 2015.

Hardie & Kelly Inc.,

in its capacity as Receiver and Manager of Karl Energy Trust Inc. and
Bradley Oil & Gas Inc. and not in its personal capacity

Per:



Marc E. Kelly, CA-CIRP
Senior Vice President

Exhibit "A"
to the Second Report of the Receiver

**PROOF OF OWNERSHIP INTEREST CLAIM
AGAINST THE OIL AND GAS ASSETS OF
KARL ENERGY INC. and/or BRADLEY OIL & GAS INC.**

A. Contact Information for Claimant:

Full Legal Name of party claiming an ownership interest (the "Claimant"):

Full Mailing Address of the Claimant:

Telephone Number: _____

Email Address: _____

Fax Number: _____

Attention (Contact): _____

B. Proof of Ownership Interest

- 1) Attached is a fully executed agreement evidencing the acquisition of an ownership interest (the "**Ownership Interest**") in certain of the Oil and Gas Assets of Karl Energy Trust Inc. and/or Bradley Oil & Gas Inc. (**examples of appropriate documentation may include the following:**)

*Working Interest Loan Agreement
Purchase and Sale Agreement
Interest Assignment Agreement
Working Interest Agreement*

- 2) Attached is proof of payment of the purchase price, or other evidence of a form of consideration, paid to Karl Energy Trust Inc. and/or Bradley Oil & Gas Inc. in respect of the purchase, assignment or transfer of the Ownership Interest.

DATED this _____ day of _____, 2015.

SIGNATURE _____

**INSTRUCTION LETTER FOR COMPLETION OF
PROOF OF OWNERSHIP INTEREST CLAIM
AGAINST THE OIL AND GAS ASSETS OF
KARL ENERGY INC. and/or BRADLEY OIL & GAS INC.**

By order granted by the Alberta Court of Queen's Bench dated May 8, 2015 a "**Proof of Ownership Interest Process**" was established requiring parties claiming an interest in or thought to potentially have an interest in the Oil and Gas Assets (as defined in the First Report of the Receiver dated January 8, 2015) of Karl Energy Trust Inc. and/or Bradley Oil & Gas Inc. must provide the Receiver with

- 1) Supporting documentation evidencing the acquisition of a claim of interest to the Oil and Gas Assets; and
- 2) Proof of payment of the purchase price, or other form of consideration, advanced to Karl and/or Bradley in respect of the acquisition of any such interest.

The attached **Proof of Ownership Interest** form must be completed and submitted to the Receiver along with the necessary supporting documentation by June 19, 2015 at 5:00 p.m. Mountain Time.

Proofs of Ownership Interest must be submitted to the Receiver by mail, courier, facsimile or email at the following contact information:

Hardie & Kelly Inc., Receiver and Manager of
Karl Energy Trust Inc. and Bradley Oil & Gas Inc.
Attn: Marc Kelly
110, 5800 2nd Street SW
Calgary, Alberta T2H 0H2
E-mail: mkelly@insolvency.net
Fax: 403-640-0591

To avoid the barring and extinguishment of any claim you may have to the Oil & Gas Assets you are required to file a Proof of Ownership Interest Claim with the Receiver at the address indicated above, in the form attached hereto so as to be received by 5:00 p.m. (Mountain Time) on June 19, 2015 (the "**Ownership Interest Claims Bar Date**").

PROOFS OF OWNERSHIP INTEREST WHICH ARE NOT RECEIVED BY THE OWNERSHIP INTEREST CLAIMS BAR DATE WILL BE BARRED AND EXTINGUISHED FOREVER, UNLESS OTHERWISE ORDERED BY THE COURT.

Exhibit "B"
to the Second Report of the Receiver
Karl Energy Trust Inc. and Bradley Oil and Gas Inc., in receivership
Statement of Receipts and Disbursements
as at April 30, 2015

Receipts

| | |
|-------------------------|---------------|
| Receiver's Certificates | \$ 100,000.00 |
| Sale of inventory | 21,318.03 |
| Vehicles | 18,761.64 |
| Road use agreements | 3,600.00 |
| GST collected | 2,183.98 |
| Bank account | 851.65 |
| Interest | 36.37 |

146,751.67

Disbursements

| | |
|--------------------------------|-----------|
| Oil and gas consultants | 59,860.43 |
| Fluid removal and trucking | 47,626.50 |
| Lease rentals and licence fees | 6,969.94 |
| Utilities | 6,753.33 |
| Legal fees and expenses | 6,500.23 |
| GST paid | 5,746.70 |
| Insurance | 3,840.00 |
| Accounting | 2,212.50 |
| Appraisal fees | 275.00 |
| Redirection of mail | 248.95 |
| Filing fees | 140.00 |

140,173.58

Cash on hand

\$ 6,578.09