

EXHIBIT C

ELIZABETH AMES JONES, CHAIRMAN
DAVID PORTER, COMMISSIONER
BARRY T. SMITHERMAN, COMMISSIONER



LINDIL C. FOWLER, JR., GENERAL COUNSEL
LOWELL E. WILLIAMS, DIRECTOR
ENFORCEMENT SECTION

RAILROAD COMMISSION OF TEXAS OFFICE OF GENERAL COUNSEL

September 14, 2011

SEP 19 2011

Quest EMG, Inc.
Attn: Jeff Downey and Paul Downey
64 South Jacobs Street
Albany, TX 76430
via: First Class & CMRR #

91 7108 2133 3939 1894 1002

Re: **OFFER OF SETTLEMENT** - Oil & Gas Docket No. 01-0272145: Quest EMG, Inc. (Operator No. 684615) for Violations of Statewide Rules on the Carter, NJ (01955) Lease, Well Nos. 1-12, 15-17, A1-A3, 1B-3B, Luling-Branyon Field, Guadalupe County, Texas and on the Carter, Elwood -A- (06764) Lease, Well Nos. 1, 2, 3A, 4, 5, D1, Luling-Branyon Field, Guadalupe County, Texas

Dear Mr. Downey and Mr. Downey:

This is to inform you that the above-referenced case has been referred to the Railroad Commission's Enforcement Section to pursue an administrative penalty against Quest EMG, Inc. ("Quest") for **violations of Statewide Rules 3(2) [no lease identification signs at Well No. 2 on Lease No. 06764], 8(d)(1) [heavy oil saturation around all wells and inside firewall of tank battery on Lease No. 01955, heavy oil saturation inside firewall in an area 10x10 and lease inside firewall from storage tank, oil spill inside firewall of SWD tank battery, tank batteries are located 100+ feet from seasonal creek on Lease No. 06764], 13(b)(1)(B) [illegally venting casing head gas (H₂S) from all wells on Lease No. 01955 and illegally venting casing head gas (H₂S) from all wells on Lease No. 06764, enhanced double due to reckless conduct], 73(i) [producing under a severance on both leases, leases were severed April 6, 2011, Operator produced May 2011], and 21(j) [insufficient firewall around tank battery facility].**

Should this case go to hearing, Enforcement would be required to seek a penalty of not less than \$106,250.00 (**one Rule 3(2) violation at 250.00, twenty-four Rule 8(d)(1) violations at \$500.00 each, totaling \$12,000.00, twenty-five Rule 13(b)(1)(B) violations at \$2,000.00 each, totaling \$50,000.00, enhanced double for reckless conduct, three 73(i) violations at \$1,000.00 each, totaling \$3,000.00 and one 21(j) violation at \$1,000.00**). However, if by or before October 31, 2011 Quest pays a \$75,625.00 penalty and signs and returns the enclosed order, Enforcement would be willing to recommend to the Commission to accept a fifty percent reduction of the penalty which would otherwise be requested at hearing.

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For your information, the penalty must be paid by check made payable to the Railroad Commission of Texas, reference the fact that it is in payment of a penalty in Oil & Gas Docket No. 01-0272145 and be sent to my attention at the Railroad Commission of Texas at the post office box address below. *Please sign the Order on the last page only, it should not be dated or notarized, as it will be dated on the day the settlement is presented to the Commissioners.*

Please be advised that if I do not receive the penalty and signed order by no later than 5:00 p.m. on October 31, 2011, this offer will be deemed to have been rejected and a Complaint will be filed. In such event there will be no opportunity for further negotiations.

If you have any questions, do not hesitate to contact me.

Sincerely,



Kristi M. Reeve, Staff Attorney
Office of General Counsel - Enforcement
Phone: (512) 463-8589

Enclosure