John H. Carney
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March 20, 2017

Tampa Division

Keshia Jones
Division Manager
Sam M. Gibbons U.S. Courthouse
801 North Florida Avenue
Tampa, Florida 33602

Re: Case No. 8:09-cv-0087-T-26TBM

Dear Ms. Jones:

Enclosed please find my RESPONSE TO MOTION TO SHOW CAUSE, AND MOTION FOR LEAVE TO FILE SUIT FOR DAMAGES AND DECLARATORY RELIEF AGAINST THE RECEIVER INDIVIDUALLY AND IN HIS CAPACITY AS RECEIVER FOR QUEST ENERGY MANAGEMENT GROUP, INC.

We attempted to file this electronically, but out of an abundance of caution, we are sending hard copies. These copies are better color copies, so please provide these copies to the Honorable Judge Richard A. Lazzara.

Should you need any additional information, please don't hesitate to contact me.

Res[ectfully yours,

John H. Carney

JHC/mw

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

Case No. 8:09-cv-0087-T-26TBM

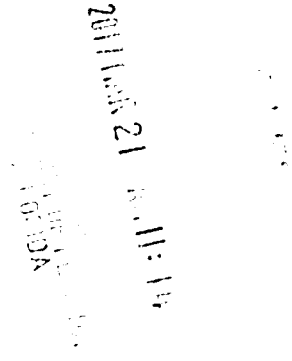
ARTHUR NADEL, SCOOP CAPITAL, LLC,
SCOOP MANAGEMENT, INC.

Defendants,

v.

SCOOP REAL ESTATE, L.P.,
VALHALLA INVESTMENT PARTNERS, L.P.,
VALWALLA MANAGEMENT, INC.,
VICTORY IRA FUND, LTD,
VICTORY FUND, LTD,
VIKING IRA FUND, LLC,
VIKING FUND, LLC, AND
VIKING MANAGEMENT, LLC

Relief Defendants.
_____/



RESPONSE TO MOTION TO SHOW CAUSE,
AND
MOTION FOR LEAVE TO FILE SUIT FOR DAMAGES AND DECLARATORY RELIEF AGAINST THE RECEIVER INDIVIDUALLY AND IN HIS CAPACITY AS RECEIVER FOR QUEST ENERGY MANAGEMENT GROUP, INC.

TO THE HONORABLE RICHARD A. LAZZARA, UNITED STATES DISTRICT JUDGE:

Comes Now, John Hatchett Carney, Respondent Pro Se responding to the Receiver's Receiver's Verified (1) Emergency Motion To Enjoin/Stay Texas Railroad Commission Administrative Proceeding Filed Against Receivership Entity Quest Energy Management Group, Inc.; and (2) Motion For Order To Show Cause Why Sanctions Should Not Be Imposed Against Hatchett Leaseholders And Their Representatives For Failure To Comply With The Court's Order Appointing Receiver and would

respectfully show to the court the following:

SUMMARY

The Receiver, through actions and inactions, allowed the Hatchett Lease to terminate on April 15, 2016, the expiration of the 5th year of the primary term, and no effort was made to extend the lease into the secondary term. On the 120th day after the expiration of the lease, the right to recover any equipment was waived by statue and the Receiver was advised that neither he, nor his representatives had any right to enter the property. After the expiration of the lease, the Receiver wrongfully represented to the Texas Railroad Commission his continued right to operate when seeking an extension to plug the 12 shut-in wells.[1] It was the Receiver and not Byron Hatchett that put the issue of "good faith claim" before the Texas Railroad Commission. Without the knowledge or consent of the other mineral interest holders, Mr. Hatchett sought a determination of the "good faith claim". Whether that act by Byron Hatchett violated the letter or intent of the Court's injunction, it can hardly be the basis of vicarious liability of the other Family members who had no knowledge of his request to the Texas Railroad Commission.

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[1] Plugging Extension Requirements
General Recuirements

Prior to the passage of HB 2259, the Commission required the following for approval of plugging extensions:

that the operator has a current Organization Report;
that the operator has, and on request provides evidence of, **a good faith claim to a continuing right to operate the well;**
that the well and associated facilities are otherwise in compliance with all Commission rules and orders; and for wells more than 25 years old, that the operator perform a successful fluid level or hydraulic pressure test.

HB 2259 and the new rules additionally require compliance with the surface equipment cleanup/removal requirements outlined above. (However, because failure to comply with the surface equipment requirements will also result in your P-5 renewal not being approved, the effect of failure on plugging extensions is somewhat secondary.

Notwithstanding the clear loss of all lease rights, by operation of law, the Receiver continues to asset a right to sell the expired lease. The Receiver now objects to the filing of a "good faith determination hearing" filed by one of the mineral owners, pro se and not representing any other family member in a legal capacity or with their knowledge or consent.

The Receiver faces serious regulatory issues as a result of its failure to conduct basic well maintenance and management for the several years of his mismanagement. The Receiver failed to correct basic well maintenance issues and created additional violations of its own, prior to the expiration of the lease. The acts and omissions are both contractual and tortious. The lease expiration prevents the Receiver from any further operation of the Hatchett Lease wells and further prevents any potential sale to a third party as there is nothing to sell, the lease has expired. There was no transfer of any mineral interest to the Receiver or Quest that would form the basis of a continued interest. Upon the expiration of 120 days after the lease expiration, the Receiver forfeited any interest in the salvage value of the equipment.

The Receiver's profound lack of understanding of Texas Oil and Gas law is manifest and indicates that neither the Receiver or its counsel were qualified to administer the oil and gas assets in this estate. There is no evidence that the Receiver spent any considerable time and expense to resolve the Hatchett Lease regulatory issues nor did the Receiver implement a maintenance and repair plan for the Hatchett Lease. What the Receiver and its counsel did, was very little, and what they did do was grossly negligent and violated the terms of the lease agreement, by omission and commission. Their damage to the surface estate, both road, environmental

contamination and in effect, toxic dumping violated every regulation. By way of example, oil waste pits have to be constructed in such a manner as to prevent them from being flushed out by rain. The Receiver failed to comply with the waste pit rules, and the worst that could happen, did happen, as addressed further below.

In Texas, oil revenues are distributed by the purchaser of the oil to the various interest holders, including the royalty owners. Gas revenues are paid to the operator who then accounts and distributes to the royalty owners. The Receiver took over the accounts of Quest, and the Hatchett gas revenues, and to this day, refuses to account or pay over the gas royalties to the Hatchett mineral owners. The Receiver has ignored every request to account for the gas revenues received by it, or Quest.

On information and belief, the Receiver made an application in late 2016, months after the lease termination, and fraudulently represented that it had "a good faith claim to a continuing right to operate the wells" which extension for closing was sought. It did not. The Receiver sought relief from the Texas Rail Road Commission, and Byron Hatchett, on his own, without any involvement or knowledge of the family asked for a "good faith hearing". It was the Receiver who first sought relief from and invoked the jurisdiction of the Texas Railroad Commission, Byron Hatchett simply asked for a hearing to test that misrepresentation. If that act is contemptuous, it was not done with the knowledge or complicity of Respondent nor the family.

The Receiver cites the All Writs authority of the court, which, if All Writs had been invoked, was certainly not honored in the later SEC prosecution of the Quest principals.

PARTIES

The Hatchett Lease consists of 27 separate tract leases and has numerous individual and separate parties to it, all of which have to agree to the terms, and sign separately. No member of the family purports to speak for the others.

No one but Bill Hatchett, John H. Carney and Byron Hatchett are alleged to have communicated with the Receiver and only Byron Hatchett has sought any relief from the Texas Railroad Commission, and did not do so in a representative capacity such that any other family member could be vicariously liable for his acts. Bill Hatchett is deceased, and his son Byron Hatchett inherited a portion of his mineral interests. Byron filed the action with the Railroad Commission on his own.

John Carney inherited a portion of the mineral interest of his deceased father and was gifted the minerals owned by Jeanne Carney, his sister and communicated with the Receiver's counsel in his individual capacity and as the sole manager of Hatchett Land & Development Co. LLC, sought an agreed distribution of oil sales revenues and did coordinate the Receiver, but not in a legal representative capacity for any other parties such that his later writings to the Receiver could cause vicarious liability to other family member.

GENERAL DENIAL

I have not ignored or disregarded any of this Court's orders, nor engaged in any contemptuous behavior. I have communicated with the Receiver's counsel only a few occasions, and not as legal counsel or representative for any of the other Hatchett, Carny or Gryska family members or lease interest holders. When I negotiated a method for a possible recovery of suspended funds, only then did I seek the concurrence of the

other family members and did not do so as counsel, but as we say in Texas, "kin" and had no authority to agree on their behalf, but collected the signature pages of the settlement agreement.

Respondent affirmatively assets that the good faith communications solely with counsel for the Receiver and not commencing any action before any tribunal if inconsistent with the Court's order was an unintentional violation of the court order. If communicating with the Receiver's counsel was prohibited, then Respondent had no ability to comply with the court order and if such conduct was prohibited, then the good faith communications were done without actual knowledge of the court order prohibiting such communications and that the Receiver's allegation of contempt is a false accusation of disobeying the court.

Respondent denies generally each and every allegation of the Movant and demand strict proof thereof by a preponderance of the credible evidence, except where the burden of proof is heightened where the Movant's evidentiary burden is to prove its claims by clear and convincing evidence or beyond a reasonable doubt.

BACKGROUND

The lease on the Hatchett Ranch acquired by Quest (and by the Receiver as Quest) was a 5 year primary term lease, and was made on or about April 15, 2011 and expired on April 15, 2016. All production ceased when the last of the wells were shut in by the Receiver in February 2013. The shut in of the last cut off the gas supply to Bill Hatchett's home, leaving him without gas for his stove to cook, his hot water tank, his heat. At the time the 5 year primary term expired there was no production to hold the

lease into a secondary term. See Exhibit 1, the Inactive Well Query Results. By his own pleading, rambling about what self serving statements in an attempt to obscure the total failure to operate in good faith, comply with the lease terms, and preserve the leases. See Exhibit 2 except from Document 1261 Filed 03/03/17 Page 6 of 21 Page ID 26722

The Hatchett Lease contains a habendum clause. In the early 1900s, the modern day oil and gas lease habendum clause was developed where the primary term of the lease was followed by an indefinite secondary term that required the lessee to perform certain activities during both the primary and secondary terms to keep the lease alive.

The habendum clause means what it says, i.e., without production in paying quantities (or the commencement of operations to obtain production) at the end of the primary term, the lease terminates. All jurisdictions, except Oklahoma and Louisiana, treat the habendum clause as creating a fee simple determinable that terminates automatically upon the failure of one or more of the conditions on which it is based. Equitable remedies, such as waiver and estoppel, are generally not available to avoid termination.

On or about April 18 2016 the Receiver filed a request for an extension to plug the wells. At that time, the Receiver had no lease interest and falsely represented that it had a "good faith" belief that it held the lease. In addition to a good faith belief in the right to operate the lease, there are other compliance matters which are required, see sample ruling from the commission Exhibit 3. If the Receiver's counsel believes that requesting an extension to plug wells extends a lease, he needs to go back to school, or hire competent local counsel. If the Receiver believes that backwash from a saltwater

injection well, not permitted for production constitutes production, again, sadly mistaken. The status reports prepared by the Receiver concede that the production, even including the other leases it operated was not profitable, and that the Hatchett Lease was entirely "shut-in" since If even it was considered production, it would not be close to economic production, or as we say in Texas, "production in paying qualities", again sadly mistaken. And even if it were production, and in paying qualities, the Receiver had to sell the production and timely distribute the revenues, while accounting for the gas sales revenues and not withholding payment. Further, the Hatchett lease constitutes 27 separate tracts, and 27 separate leases, and even if there had been production from one well in paying qualities, it would have only held 160 acres around that one well. Again....back to school...The leases were all shut-in by February 2013 and the leases were forfeited on April 15, 2016 when the primary term ended.

There is virtually no indication of any competent management of the Hatchett Lease during the term of the lease, and the "management" that was done was so grossly negligent, that, as set forth herein, Respondent ask this court for Leave to file suit, in Texas where venue would properly lie, where the Receiver sought relief from the Texas Railroad Commission, where the SEC prosecuted its claims against the principals of Quest, and if not in Federal District Court in Texas, then before this Honorable Court. All of the Parties, experts and witnesses reside in Texas, in Callahan County and believe the local Federal District Court could find time to hear a jury trial on the merits and to allow the Texas Railroad Commission to conduct the "good faith" determination hearing.

THE LEASE EXPIRED and THE WELLS REMAIN UNPLUGGED

The five year lease expired, with no production, and shortly there after, the Receiver requested an extension to plug the wells. In my individual capacity, I negotiated with the Receiver's counsel to obtain and distribute monies held in suspense from production left in storage tanks produced before the appointment of the Receiver, and distributed those monies as agreed.

On or about October 14, 2016 I brought to the Receiver attention that he failed to maintain all weather roads, as required by the lease, that the dirt roads had been damaged and not repaired and that the Receiver had improperly and negligently constructed one or more waste oil pits, that were flushed out by heavy rains and contaminated both the soils and waters of my lands, but also public water ways and one of Texas's most magnificent lakes, Possum Kingdom Lake. See Exhibit

MOTION FOR LEAVE TO FILE SUIT FOR DAMAGES AND DECLARATORY RELIEF AGAINST THE RECEIVER INDIVIDUALLY AND IN HIS CAPACITY AS RECEIVER FOR QUEST ENERGY MANAGEMENT GROUP, INC.

The Receiver violated the lease agreement, and numerous Texas Oil and Gas Operating Rules, including Rule 8 and caused a significant damages, including an oil spill caused by negligently designed and maintained oil waste pits[2], that contaminated

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[2] 8(d)(4)(G) * Additional requirements for NCFR pits
Pit Design: Pits must be:
- Sufficiently large and have adequate freeboard (minimum of two feet at all times) for precipitation;
- Designed to prevent stormwater from entering the pit; constructed with dikes that are structually sound and do not seep;
- Lined with a liner that has a hydraulic conductivity 1.0 x 10 -7 cm/s or less.
Monitoring Procedures: Pits must be:
- Emptied and inspected at least annually, or
- Have a double liner and leak detection system that is monitored at least monthly.
- Records of monitoring must be kept to demonstrate compliance.

the lands, and waters of the Hatchett Ranch, See Exhibit 5, (before rains) Exhibit 6, (before rains) and Exhibit 7, after (rains) the before and after pictures showing the rainwater flushing of the illegal and improperly designed waste pits that were flooded in the heavy rains, and which washed down over the lands and down the hill into the Deep Creek, which is a feeder to Possum Kingdom Lake[3]. The Receiver was grossly negligent in one or more of the following ways:

The Receiver violated 8(b) and caused AND allowed pollution of surface water. Rule 8(b) provides that *"No pollution: No person may cause or allow pollution of surface or subsurface water."*

The Receiver violated 8(d)(2): *Prohibited pits: Any pits that are not specifically authorized by the rule and for which no permits have been obtained. The only pit absolutely prohibited by the rule is a pit used for the storage of oil.*

The Receiver violated 8(d)(4): *Authorized pits: The rule authorizes the use of several types of pits without a permit. Use of these pits is authorized without a permit only so long as they are operator and backfilled according to the requirements in the rule and only so long as use of the pit does not cause pollution.*

The Receiver violated 8(d)(4)(G) * *Additional requirements for NCFR pits*

Pit Design: Pits must be:

- Sufficiently large and have adequate freeboard (minimum of two feet at all times) for precipitation;

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[3] Nestled in the foothills of the Palo Pinto mountains less than 90 miles west of Fort Worth, Possum Kingdom is **The Great Lake of Texas**. More than 18,000 acres of crystal clear water, a Texas oasis surrounded by beautiful cliffs and rolling hillsides.

- Designed to prevent stormwater from entering the pit; constructed with dikes that are structually sound and do not seep;

- Lined with a liner that has a hydraulic conductivity 1.0 x 10 -7 cm/s or less.

The Receiver failed to comply with Monitoring Procedures: Pits must be:

- Emptied and inspected at least annually, or

- Have a double liner and leak detection system that is monitored at least monthly

- Records of monitoring must be kept to demonstrate compliance.

The Receiver failed to comply with District Registration: *Operator must provide written notification prior to construction or prior to use of an existing pit for non-commercial fluid recycling, including:*

- Location of the pit with lease name and number or drilling permit number, and latitude and longitude;

- Dimensions of the pit and maximum capacity of the pit; or

- A signed statement that the operator has permission from the surface owner for construction and use of the pit.

The Receiver breached the lease contract, failed to account for gas sales revenues he's collected despite numerous requests, failed to maintain all weather roads, damaged roads and did not repair them, failed to repair the damage done from the improper waste pit(s), failed to close the well, failed to close the waste pits, failed to timely pay over royalties, and now claims to be able to sell an expired lease and abandoned equipment, refuses to provide a release of his claim of a valid lease and and prevents the mineral owners form entering into a transaction with others.

There are substantial liabilities caused by the Receiver's breach if the lease agreement and negligence and negligent operation of the Quest Lease for which Respondents seek leave of this court to pursue such claims in Texas, or alternatively in this Court. The Receiver operating under the Quest Lease is responsible for all well

plugging expenses. The Receiver was required to maintain all weather roads, which is a defined term, then and failing to do so, damaged the existing roads.

CONCLUSION

Respondent respectfully requests this Court deny Receiver's requested relief, award Respondent his costs incurred in attending this hearing, and grant Respondent Leave To File Suit For Damages And Declaratory Relief Against The Receiver Individually And In His Capacity As Receiver For Quest Energy Management Group, Inc.

Respectfully submitted

John Hatchett Carney, Pro Se
10541 Berry Knoll Drive
Dallas Texas 75230
jhcblue@gmail.com
214-549-0555

with copy to

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Attorneys for the Receiver, Burton W. Wiand
Byron Hatchett
Shannon Campbell
Jim Roy Hatchett

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

Case No. 8:09-cv-0087-T-26TBM

ARTHUR NADEL, SCOOP CAPITAL, LLC,
SCOOP MANAGEMENT, INC.

Defendants,

v.

SCOOP REAL ESTATE, L.P.,
VALHALLA INVESTMENT PARTNERS, L.P.,
VALWALLA MANAGEMENT, INC.,
VICTORY IRA FUND, LTD,
VICTORY FUND, LTD,
VIKING IRA FUND, LLC,
VIKING FUND, LLC, AND
VIKING MANAGEMENT, LLC

Relief Defendants.
_____/

APPENDIX
TO
RESPONSE TO MOTION TO SHOW CAUSE,
AND
MOTION FOR LEAVE TO FILE SUIT FOR DAMAGES AND DECLARATORY RELIEF AGAINST THE RECEIVER INDIVIDUALLY AND IN HIS CAPACITY AS RECEIVER FOR QUEST ENERGY MANAGEMENT GROUP, INC.

Inactive Well Query Results

Search Criteria:

County: CALLAHAN
Operator(s): QUEST EMG, INC.

Operator Information		
Operator Name: **QUEST EMG, INC.**	Approved Extensions: **12**	Renewal Date: **1/2018**
Operator No.: **684615**	5-year-inactive wells (current): **9**	5-year-inactive wells (as of next P5 renewal): **10**
Operator Status: **ACTIVE**	10-year-inactive wells (current): **1**	10-year-inactive wells (as of next P5 renewal): **1**

Return

1 - 10 of 12 results [<<First][<Previous] [Next>] [Last>>] | Page: **1** 2 of 2 Page Size: 10

API No.	District	Lease No.	Lease Name	Well No.	Field Name	County	Oil/Gas	Extension Status	Shut-in Date	Surface Location
05930806 Links	7B	245550 Links	HATCHETT RANCH	5	M. G. C. (BEND)	CALLAHAN	G	Approved	07/2010	LAND WELL
05930839 Links	7B	11653 Links	MAIN HATCHETT RANCH	6	M. G. C. (BEND)	CALLAHAN	O	Approved	02/2013	LAND WELL
05930918 Links	7B	11653 Links	MAIN HATCHETT RANCH	2	M. G. C. (BEND)	CALLAHAN	O	Approved	07/2011	LAND WELL
05931333 Links	7B	106873 Links	HATCHETT RANCH	R1	M. G. C. (BEND)	CALLAHAN	G	Approved	01/2013	LAND WELL
05931381 Links	7B	109043 Links	HATCHETT RANCH	2	M. G. C. (BEND)	CALLAHAN	G	Approved	07/2010	LAND WELL
05933038 Links	7B	099045 Links	HATCHETT RANCH	S4	CALLAHAN COUNTY REGULAR (GAS)	CALLAHAN	G	Approved	07/2010	LAND WELL
05933039 Links	7B	097886 Links	HATCHETT RANCH	S2	CALLAHAN COUNTY REGULAR (GAS)	CALLAHAN	G	Approved	07/2010	LAND WELL
05933040 Links	7B	130071 Links	HATCHETT RANCH	S3	M. G. C. (BEND)	CALLAHAN	G	Approved	07/2010	LAND WELL
05933041 Links	7B	097887 Links	HATCHETT RANCH	S1	CALLAHAN COUNTY REGULAR (GAS)	CALLAHAN	G	Approved	07/2010	LAND WELL
05933135 Links	7B	096944 Links	HATCHETT RANCH	R2	CALLAHAN COUNTY REGULAR (GAS)	CALLAHAN	G	Approved	07/2010	LAND WELL

Multi-Completion Well

Exhibit 1

Inactive Well Query Results

Search Criteria:

County: CALLAHAN
Operator(s): QUEST EMG, INC.

Operator Information		
Operator Name: **QUEST EMG, INC.**	Approved Extensions: **12**	Renewal Date: **1/2018**
Operator No.: **684615**	5-year-inactive wells (current): **9**	5-year-inactive wells (as of next P5 renewal): **10**
Operator Status: **ACTIVE**	10-year-inactive wells (current): **1**	10-year-inactive wells (as of next P5 renewal): **1**

Return

11 - 12 of 12 results [<<First] [<Previous] [Next>][Last>>] | Page: 1 **2** of **2** Page Size: 10

API No.	District	Lease No.	Lease Name	Well No.	Field Name	County	Oil/Gas	Extension Status	Shut-in Date	Surface Location
05936672 Links	7B	29782 Links	SNYDER RANCH	1	CALLAHAN COUNTY REGULAR	CALLAHAN	O	Approved	08/2006	LAND WELL
05981973 Links	7B	245555 Links	HATCHETT RANCH	1	M. G. C. (BEND)	CALLAHAN	G	Approved	07/2010	LAND WELL

Multi-Completion Well

Download

Return

The Hatchett Lease

At the time it was placed in Receivership, Quest maintained leases on three fields which contained a total of 90 gas and oil wells. A significant number of these wells [sic-only 12] were located on a plot of land in Callahan County, Texas, consisting of twenty-seven tracts covering approximately 4,346.63 mineral acres (the "Hatchett Lease"). The Lessors of the Hatchett Lease were Jim Hatchett, Sarah Hatchett, and Jerrye Hatchett (collectively along with any heirs or assignees, the "Hatchetts"). The Hatchett Lease became effective April 15, 2011, over two years before Quest was placed into receivership, and carried a five-year term with certain provisions extending the lease based upon various production activities. Specifically, the Hatchett Lease provided that 5. I f at the expiration of the primary term, oil or gas is not being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. After the expiration of the primary term w of this lease and after oil or gas is produced from said land, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. In the event a well or wells producing oil or gas in paying quantities should he brought in on adjacent land and within 330 feet of and draining the leased premises, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

Following his appointment and pursuant to the Order Appointing Receiver, the Receiver's main goal has been the preservation of Quest, and by extension its assets such as the Hatchett Lease, **and this has included consistent maintenance and upkeep of these assets.** This includes the maintenance of injection wells, water extraction activities, renting rigs to pull tubing for a hydraulic fracturing job, and work-overs of several wells in 2015 and 2016. The Receiver also entered into an agreement to sell Quest's gas production from the Hatchett Lease in August 2015, which included the company's replacement of meters and gas lines on the property. These efforts have not only preserved Quest's value to a potential purchaser but have also resulted in the production of salable oil and gas. To date, the Hatchett **Lease has produced over**

200 barrels of oil and over 11,000 MCF of natural gas, and there are currently 90 barrels of oil on hand and ready for sale.

The Receiver's agents regularly visited and inspected the wells on the Hatchett Lease both before and after April 2016 on a weekly or bi-weekly basis, and also engaged in numerous discussions relating to the reworking or drilling of new wells. These discussions resulted in the decision to drill at least one new well on the Hatchett Lease in or around June 2016, and the Receiver's agents subsequently took various actions for several months that were required to drill a new well. This included communications with the Texas Groundwater Advisory Unit, discussions with vendors and suppliers, and obtaining a survey on the land. This also resulted in a filed permit application with the Texas Railroad Commission to drill the new well. The expenses required for these various efforts were paid by the Receiver, and the Hatchetts were aware of these efforts. The Receiver's ability to carry out these efforts, however, has been unnecessarily obstructed by the Hatchett's' actions as described below.

The Receiver believes these efforts operated to extend the Hatchett Lease beyond the primary term. These efforts had been ongoing when, in October 2016, the Receiver received the 2016 Letter (as defined below) which constructively evicted the Receiver and Quest from the Hatchett Lease and prohibited any of Quest's agents from entering the Hatchett Lease. In other words, the Receiver was constructively and wrongfully evicted from the Hatchett Lease and, but for this wrongful eviction, would have continued carrying on reworking and drilling operations to extend the lease term and preserve Quest's value.

RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION

OIL & GAS DOCKET NO. 20-0279564

TO CONSIDER THE APPLICATION OF M-C PRODUCTION AND DRILLING CO., INC. FOR THE UNRESTRICTED RENEWAL OF ITS P-5 AND TO CONTEST THE STAFF DETERMINATION THAT THE P-5 CANNOT BE RENEWED DUE TO NON-COMPLIANCE WITH THE INACTIVE WELL REQUIREMENTS OF STATEWIDE RULE 15

HEARD BY: Laura E. Miles-Valdez - Legal Examiner
Richard Atkins, P.E. - Technical Examiner

PROCEDURAL HISTORY OF CASE:

30-day letter sent:	October 31, 2012
Request for hearing received:	December 3, 2012
Notice of Hearing sent:	December 12, 2012
Hearing Held:	January 14, 2013
Final Transcript Received:	March 22, 2013
PFD Issued:	July 17, 2013

APPEARANCES: **REPRESENTING:**

APPLICANT:

Benjamin Bratelli, M-C Production and Drilling Co., Inc.
Attorney of Record at Hearing
Whitney Tharpe,
Current Attorney of Record
David M. Chandler
C.J. Green

STAFF:
Kristi Reeve, Attorney

Exhibit 3

EXAMINERS' REPORT AND PROPOSAL FOR DECISION

STATEMENT OF THE CASE

Pursuant to 16 TAC §3.15, the Railroad Commission (Commission) on October 31, 2012, sent notification to the Applicant, M-C Production and Drilling Co., Inc. (M-C Production) that the Commission's P-5 Financial Assurance Unit determined M-C Production's Organization Report (Form P-5) should be denied due to its failure to meet the inactive well requirements contained within Statewide Rule 15. Specifically, the notification listed M-C Production's failure to provide a good faith claim to operate the R. Christian-Fair (#06574) Lease (R. Christian-Fair Lease) and the B.C. Christian (#07231) Lease (B.C. Christian Lease); as well as H-15 failure violations for wells on the B.C. Christian Lease and the C.E. Hineman (#07544) Lease (C.E. Hineman Lease). On December 3, 2012, the Commission received M-C Production's Request for a Hearing regarding M-C Production's non-compliance with the inactive well requirements pursuant to 16 TAC §3.15(g)(4). Notice of the hearing was sent out on December 12, 2012, notifying M-C Production that a hearing on M-C Production's P-5 renewal would be held on January 14, 2013.

During the January 14, 2013 hearing, M-C Production and Railroad Commission Staff (Staff) appeared and presented evidence. No other parties appeared.

On June 5, 2013, M-C Production submitted a letter indicating they had resolved the H-15 inactive well violations at issue for the wells on B.C. Christian (#07231) Lease and the C.E. Hineman (#07544) Lease. Staff confirmed M-C Production resolved the H-15 inactive well violations associated with the C. E. Hineman (#07544) Lease, Wells No. 7, 11, and 12, and the B. C. Christian (#07231) Lease, Wells No. 14, 19, 20, 23, and 24. (Copy of the confirmation email is attached).

APPLICABLE LAW

Statewide Rule 14(b)(2) requires "Plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed unless the Commission or its delegate approves a plugging extension under 3.15 of this title".

Statewide Rule 15(a)(5) defines a "good faith claim" as "A factually supported claim based on a recognized legal theory to a continuing possessory right in a mineral estate, such as evidence of a currently valid oil and gas lease or a recorded deed conveying a fee interest in the mineral estate".

Statewide Rule 15(d)(1) requires "[a]n operator that assumes responsibility for the physical operation and control of an existing inactive land well must maintain the well and all associated facilities in compliance with all applicable Commission rules and orders and within six months after the date the Commission or its delegate approves an operator designation form must either: (A)

restore the well to active status as defined by Commission rule; (B) plug the well in compliance with a Commission rule or order; or (C) obtain approval of the Commission or its delegate of an extension of the deadline for plugging an inactive well.

Statewide Rule 15(e)(1-5) provides for the extension of deadline for plugging an inactive land well if the Commission or its delegate approves the operator's W-3X, the operator has a current organization report (P-5), the operator has a good faith claim to a continuing right to operate the well, the well is in compliance with Commission rules and orders, and, if the well is more than 25 years old, the operator successfully conducts and the Commission approves a fluid level or hydraulic pressure test for the well.

Statewide Rule 15(g) provides that the Commission or its delegate may administratively deny an application for a plugging extension for an inactive well if it does not meet the requirements of this section. Specifically, subsection 15(g)(4) states that "[i]f, after the expiration of the 90-day period specified in paragraph (3)(C) of this subsection, the Commission or its delegate determines that the operator remains out of compliance with the requirements of this section, the Commission delegate shall mail the operator a second written notice of this determination. The operator may request a hearing. The operator must file a written request for hearing and the hearing fee of $4,500 with the Office of General Counsel, Hearings Section, Docket Services, no later than 30 days from the date the second written notice was mailed to the operator. In the request for hearing, the operator must identify by its assigned American Petroleum Institute (API) number each inactive well for which the operator is seeking a hearing to contest the determination that the well remains out of compliance. If the operator fails to timely file a request for hearing and the required hearing fee, the Commission shall enter an order denying the plugging extension request and denying renewal of the operator's organization report without further notice or opportunity for hearing."

Statewide Rule 15(h) provides that the Commission or its delegate may revoke an extension of a deadline for plugging an inactive well if the Commission or its delegate determines, after notice and opportunity for hearing, that the applicant is ineligible for an extension.

Statewide Rule 15(l) requires fluid level or hydraulic pressure test (H-15) for inactive wells more than 25 years old.

Statewide Rule 15(m) requires fluid level or hydraulic pressure test (H-15) for inactive wells less than 25 years old.

MATTERS OFFICIALLY NOTICED

On September 12, 2011, Complaint 2011-093 was filed challenging the validity of six oil and gas companies' good faith claim to operate under various leases in Gregg County.[1] On June 6, 2012, a hearing was held to determine whether three companies owned and operated by Mr. Chandler (M-C Production, TOGS Energy and Acirema Corporation) had good faith claims to operate under various leases executed in the 1930's. Two of the leases at issue in the June 6, 2012, hearing included the R. Christian-Fair (#06574) Lease and the B.C. Christian (#07231) Lease, which are at issue in this docket.

Because of the inter-connected nature of Complaint file 2011-093 and the current docket, the examiners took official notice of the Complaint file Oil & Gas Docket No. 06-0276911.

DISCUSSION OF THE EVIDENCE

On January 14, 2013, the hearing to consider the application of M-C Production and Drilling Co., Inc., for the unrestricted renewal of its P-5 and to contest the Staff determination that the P-5 cannot be renewed due to non-compliance with the inactive well requirements of Statewide Rule 15 was convened. At issue before the examiners were the issues of whether M-C Production and Drilling Co. Inc. has a good faith claim to operate the R. Christian-Fair (#06574) Lease and the B.C. Christian (#07231) Lease as required by 16 TAC §3.15(e)(3) and whether M-C Production is in compliance with all Commission rules pursuant to 16 TAC §3.15(d).

After opening arguments M-C Production, represented by counsel and its company president, Mr. Michael Chandler, presented its case. M-C Production president, Mr. Chandler testified as to the status and history of the three (3) leases (R. Christian-Fair (#06574) Lease, B.C. Christian (#07231) Lease, and C.E. Hineman (#07544) Lease) enumerated in the Staff's 30-day and 90-day letters.

Testifying on behalf of Staff were: Ms. Maria Castro, Manager of the P-5 Department; Mr. Timothy Poe, Assistant Director for Administrative Compliance for the Oil and Gas Division; and Mr. Mark England, Engineering Specialist for the Field Operations Section. Ms. Castro testified as to the issuance of the 30-day and 90-day letters, as well as the general procedures associated with the P-5 program. Mr. Timothy Poe testified generally as to the status of M-C Production's H-15 compliance for the wells at issue. Mr. Mark England testified as to M-C Production's reported H-15 results for the past fifteen (15) years, as well as the process by which H-15 tests were conducted.

Because M-C Production has resolved the H-15 violations associated with the C. E. Hineman (#07544) Lease, Wells No. 7, 11, and 12; as well as the H-15 violations on the B. C. Christian

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[1] Oil & Gas Docket No. 06-0276911. (The June 6, 2012 hearing of Complaint 2011-093 was re-opened and convened on June 6, 2013.)

(#07231) Lease, Wells No. 14, 19, 20, 23, and 24 discussion of the evidence presented during the hearing on these issue is now moot.

APPLICANT'S EVIDENCE

LEASE #1: CHRISTIAN, R. (FAIR) (#06574)
Good Faith Claim

Based on the September 12, 2011, good faith claim complaint filed Staff alleged in the 30-day and 90-day letters that Mr. Chandler did not have a valid good faith claim to operate under the R. Christian - Fair Lease.

Mr. Chandler testified and presented exhibits in support of M-C Production's good faith claim for the R. Christian-Fair (#06574) Lease. A copy of the January 7, 1931 base lease between Randall Christian and wife, and W. Jones and a copy of 1993 lease assignment of the base lease was admitted. Mr. Chandler testified the R. Christian-Fair (#06574) Lease contained the standard "held by production" language common within the oil and gas industry and contained the boilerplate language used for leases executed in the 1930's. However, Mr. Chandler explained that because the base-lease did not contain a clause allowing for pooling of the unit, a pooling unit declarization agreement of all the royalty owners was required and later filed with the county clerk. Mr. Chandler testified the lease had been held by production through the pooling agreement since its inception until October 2011, when additional wells were drilled on the lease. Therefore, Mr. Chandler asserted the lease was held by production through a pooling agreement until October 2011, then held by continuous operations during the period of October 2011 to March 2012, when production resumed on the lease.

LEASE #2: B.C. CHRISTIAN (#07231)
Good Faith Claim

Similar to the R. Christian-Fair (#06574) Lease, the B.C. Christian (#07231) Lease good faith claim inquiry started with Complaint file 201–093. Based on the good faith claim complaint filed Staff alleged in its 30-day and 90-day letters that Mr. Chandler does not have a valid good faith claim to operate under the B.C. Christian (#07231) Lease.

The B.C. Christian (#07231) Lease began with two separate base leases - one executed in 1930 and one executed in 1931. Mr. Chandler testified and presented three exhibits in support of his good faith claim to operate the B.C. Christian (#07231) Lease. He presented a copy of the December 1, 1930, base lease between B.C. Christian and W. E. Jones; a copy of the January 13, 1931, base lease between B.C. Christian and wife, Julia Christian and W. E. Jones; and a copy of 1993 lease assignment of the base leases. Mr. Chandler testified the B.C. Christian (#07231) Lease contained the standard language common within the oil and gas industry that the lease would be held so long as there was production on the lease. Mr. Chandler testified the lease had been held by continuous production on the lease since the beginning of the lease and in support he submitted

copies of the Commission production history database. The Commission's production history indicates continuous production on the B.C. Christian (#07231) Lease from 1993 forward. (The Commission on-line historical database only has available production history for wells from 1993 forward.)

No other evidence regarding this issue was presented. The examiners took administrative notice of Commission Complaint File 2011-093.

STAFF'S EVIDENCE

LEASE #1: CHRISTIAN, R. (FAIR) (#06574)
Good Faith Claim

Staff, in its cross-examination of Mr. Chandler, questioned whether Mr. Chandler had proof of the validity of the lease as well as all subsequent transfers and assignments of the R. Christian-Fair (#06574) Lease. Mr. Chandler testified his evidence documented his good faith claim to operate from 1993 to the present and that the Commission had the records regarding production from the lease prior to 1993 and going back to the first well produced under the lease.

No other evidence regarding this issue was presented.

LEASE #2: B.C. CHRISTIAN (#07231)
Good Faith Claim

Staff, in its cross-examination of Mr. Chandler, questioned whether Mr. Chandler had proof of the validity of the base-leases as well as documentation of all subsequent transfers and assignments of the B.C. Christian (#07231) Lease. Mr. Chandler testified his evidence documented his good faith claim to operate from 1993 to the present and that the Commission had the records regarding production from the lease prior to 1993 and going back to the first well produced under the lease.

No other evidence regarding this issue was presented.

EXAMINERS' OPINION AND DISCUSSION

Based on the testimony and physical evidence submitted by the applicant and the Staff, the examiners recommend that the renewal for the subject P-5 (Operator No. 518063) be renewed. The examiners conclude the applicant has a good faith claim to operate the R. Christian-Fair (#06574) Lease and the B.C. Christian (#07231) Lease. Further, because M-C Production has resolved the H-15 violations alleged in the Staff's 30-day and 90-day letters, which were associated with the C. E. Hineman (#07544) Lease, Wells No. 7, 11, and 12; as well as the H-15 violations on the B. C. Christian (#07231) Lease, Wells No. 14, 19, 20, 23, and 24 discussion of those violations is now moot.

Good Faith Claim

In general, Statewide Rule 15(a) defines "good faith claim" as a factually supported claim based on a recognized legal theory to a continuing possessory right in a mineral estate, such as evidence of a currently valid oil and gas lease or a recorded deed conveying a fee interest in the mineral estate. Further, the Texas Supreme Court has recognized that in good faith claim challenges brought before the Commission applicant need only make a "reasonably satisfactory showing of a good-faith claim of ownership in the property, the mere fact that another in good faith disputes his title is not alone sufficient to defeat his right to the permit. . ." *Magnolia Petroleum Co. v. R.R. Comm'n of Tex.*, 170 S.W.2d 189, 191 (Tex. 1943). Additionally, the Third Court of Appeals in relying on *Magnolia* noted ". . .while a permit applicant is not required to prove title or right of possession in the property affected by the permit, and the [C]ommission has no power to decide that question, the applicant nonetheless must make "a reasonably satisfactory showing of a good-faith claim of ownership" in the property." *Rosenthal v. R.R. Comm'n of Tex.*, No. 03-09-00015-CV, 2009 WL 2567941 (Tex. App.—Austin, Aug. 20, 2009, pet. denied) (mem. op.).

Testimony provided by M-C Production demonstrated a reasonably satisfactory showing of a good faith claim under the R. Christian-Fair and B.C .Christian Leases.

Specifically, as to the R. Christian-Fair (#06574) Lease: M-C Production's submittal of the orginal base lease and the 1993 assignment of that lease[2] as well as historical production records (Exh. R5) for the R. Christian-Fair (#06574) Lease demonstrate a good faith claim to operate under the R. Christian-Fair (#06574) Lease. No controverting evidence was presented to dispute the base lease nor the assignment presented by the Applicant. Further, because a final, binding determination of the validity of a lease is not within the jurisdiction of the Commission an operator is not mandated to prove the absolute validity of the base lease or all subsequent transfers and assignments from the base lease forward---only that it has a reasonable good faith claim. M-C Production provided a copy of its base lease for the R. Christian-Fair Lease (#06574), the assignment of that lease into M-C Production, and proof of continuous production for the time of the assignment forward. No evidence was presented indicating a lapse in production prior to 1993 or controverting the evidence of M-C Production for the period after the assignment. No evidence was presented disputing the base lease nor the assignment presented by the Applicant. Therefore, we find a good faith claim to operate under the R. Christian-Fair (#06574) Lease.

As to the B.C. Christian (#07231) Lease: M-C Production's testimony and evidence of the two base leases, the 1993 assignment of the two base leases,[3] as well as proof of continuous production[4] for the time of the assignment forward, demonstrate a good faith claim to operate under the B.C. Christian (#07231) Lease. As was with the R. Christian-Fair Lease issue, no controverting evidence was presented to dispute the base leases nor the assignments presented by the Applicant.

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[2] Exhs. R2 and R3.

[3] Exhs. R8, R9, R10, R 14, and R15.

[4] Exh. R13.

Further, no evidence was presented indicating a lapse in production prior to 1993 or controverting the evidence of M-C Production for the period after the assignment. And as stated above, because a final, binding determination of the validity of a lease is not within the jurisdiction of the Commission an operator is not mandated to prove the absolute validity of the base lease or all subsequent transfers and assignments from the base lease forward---only that it has a reasonable good faith claim. Therefore, we find a good faith claim to operate under the B.C. Christian (#07231) Lease.

FINDINGS OF FACT

1. Notice of this hearing was given to all affected persons at least ten days prior to the date of hearing.

2. M-C Production made a reasonably satisfactory showing of a good faith claim to operate under the R. Christian-Fair (#06574) Lease.

3. M-C Production demonstrated the R. Christian-Fair (#06574) Lease has been held by production through a pooling agreement since M-C Production was assigned the lease in 1993.

4. M-C Production made a reasonably satisfactory showing of a good faith claim to operate under the B.C. Christian (#07231) Lease.

5. M-C Production demonstrated the B.C. Christian (#07231) Lease has been held by production through a pooling agreement since M-C Production was assigned the lease in 1993.

6. M-C Production performed passing well integrity tests for Well Nos. 19, 20, and 23 of the B.C. Christian (#07231) Lease.

7. M-C Production plugged Well Nos. 14 and 24 of the B.C. Christian (#07231) Lease.

8. M-C Production performed passing well integrity tests for Well Nos. 7, 11 and 12 of the C.E. Hineman (#07544) Lease.

CONCLUSIONS OF LAW

1. Proper notice was issued as required by all applicable codes and regulatory statutes.

2. All things have occurred and been accomplished to give the Commission jurisdiction to decide this matter.

Hatchett Land & Development Co. LLC
5005 Greenville Avenue Suite 200
Dallas Texas 75206

John H. Carney
Manager

214.549.0555
Jhcblue@aol.com

October 14, 2016

Email: gguerra@wiandlaw.com
Email: gmorello@wiandlaw.com

Mr. George Guerra,
Mr. Gianluca Morello
Wiand Guerra King, PL
5505 W Gray St
Tampa, FL 33609-1007
813-347-5100
Fax: 813-347-5155

Mr. Burton W. Wiand

Re: Securities and Exchange Commission v. Nadel et al
CIVIL DOCKET FOR CASE #: 8:09-cv-00087-RAL-TBM.
Middle District of Florida (Tampa) Federal District Court

Quest Energy Management Group, Inc. - Hatchett Ranch Lease

Dear Mr. Guerra, Mr. Morello and Mr. Wiand:

We have previously communicated regarding the disposition of oil sale proceeds from the Hatchett Ranch and were successful in reaching an agreement as to the disposition of the oil revenues, which were held by a third party. We hope that cooperation can be had to resolve the remaining issues that must be addressed. These issues are much more serious than the issues we've dealt with to date. Your obligations arise as receiver for Quest Energy Management Group, both under the contract as operator for the Hatchett properties and under Texas law. Unfortunately, there are significant deficiencies in the performance of Quest and/or the receivership that require your immediate attention. First, please provide us with your insurance carrier's and bonding company's contact information immediately.

You have significant liabilities arising under the lease with the Hatchett family interests as under Texas law as an operator, you have failed to account for gas sales revenues, and you have failed to comply with your lease obligations. As of 8/15/2-16, your 120 day window to remove any equipment from the Hatchett Ranch has expired, the paid up primary term of the Hatchett lease has run, you have no production to hold the lease, so that you have no right to enter or be on the property for any reason. YOU ARE ADVISED THAT ANY ENTRY BY YOU OR ANY ONE PURPORTING TO BE ACTING ON YOUR BEHALF ONTO THE HATCHETT RANCH IS TRESPASSING. YOU HAVE FORFEITED ANY AND ALL RIGHTS TO SALVAGE ANY EQUIPMENT OR PIPELINE.

Exhibit 4

You are liable for damages for both what you did, and didn't do. Your negligent construction of a holding tank has resulted in an oil spill and soil contamination of ranch property. We tried to alert you of the deficient waste pit and negligent storage of waste water and damages to our land. The extensive rains of this Spring caused your negligently prepared disposal pit to over flow and all of the waste oil flushed down to the creek, and we can only assume flowed to the ultimate destination, Possum Kingdom Lake. What was once a contaminated pit is now hosting life and fresh water fauna. All of the oil has been washed away because of the failure to comply with the requirements of the Texas Railroad Commission's standards for waste pit construction.

The primary term of the lease has expired, and there has been no production which would extend the term of the lease, so the lease(s) have expired by their own terms. The expiration of the primary term does not exhaust your obligations, it triggers a whole new set of obligations you owe to us. I remind you of the proprietary position you have taken over the last 3 years over Quest's assets, as evidenced by your letter to Bill Hatchett dated May 12, 2013. What you claimed to be under your control is now your liability responsibility, and those obligations include plugging and closure of the 11 or so wells.

You are obligated to account to us for gas sales proceeds received and not disbursed. Unlike oil sales, gas sale payments in Texas are made to the operator, in this case Quest, which became a receivership asset operated by the Receiver, pursuant to the order entered on Receiver's Motion To Expand The Scope Of Receivership To Include Quest Energy Management Group, Inc. docket no. 993 Granting Motion to Expand Scope of Receivership regarding Quest. Signed by Judge Richard A. Lazzara on 5/24/2013.

Our trouble issues include improper containment, damages and restoration of the following

Site 1 at corner of fm 2228 and property line of Byron and our house pasture.

Site 2 by pavilion in our bull trap where cattle pens are.

Site 3 nw corner of big field at tank site

Site 4 heifer trap tank site.

Site 5 remediation in big field well site

Site 6 remediation in big field well site 2

Road maintenance of all roads connected and used to reach wellsites and tank battery sites, Three Miles of road not maintained as all westher.

H brace at de corner of big field hit by work over rig and damage. Gate also bent.

We have previously requested that you account for the natural gas sales proceeds received by Quest and/or the Receiver and to pay over that portion due and owning to the Hatchett Ranch royalty owners. Demand is hereby made for the accounting of the monies received.

You are also legally obligated to plug and close the wells. Effective September 13, 2010, the Texas Railroad Commission ("Railroad Commission") adopted a new rule on the plugging of inactive oil and gas wells. The new rule, codified with existing Statewide Rule 15, applies to onshore wells and was instituted in part to address plugging inactive wells. In order to comply, operators are required to plug inactive wells. The rule mandates a variety of actions depending on how long particular wells have been idle. One immediate liability for operators created by Rule 15 is the cost to plug many inactive wells, which is estimated by the Railroad Commission to cost anywhere from $10,000 to $15,000 per well.

The Receiver is responsible for plugging, closure, remediation of the environmental liabilities and satisfaction of the landowners rights, both contractually and that arise under state law. As evidenced by the attached photographs, you have left contaminated, open pits, without proper fencing that must be remediated.

Perhaps as important as the direct requirements of the rule, however, are other potential liabilities that may be revealed as you attempt to comply with Rule 15 including the discovery of needed environmental remediation and/or issues involving the landowner's rights. Operators of wells that have been inactive and, thus, unsupervised may find existing contamination issues at well sites that will require remediation, in addition to the plugging and abandonment obligations. Indeed, the purging and removal of equipment would seem to make it more likely that contamination or other remediation issues will become apparent, or even occur in the first instance, as a result of the equipment removal process. Remediation can be costly and potentially exposes operators to additional Railroad Commission requirements.

In addition, such contamination issues can expose operators to liability from landowners where, for example, discoveries of contamination are required (by law or contract) to be reported or where a sudden increase in physical activity associated with plugging or equipment removal attracts the landowner's attention. In such circumstances, landowners may demand confirmation that their land and water are not impacted; they may seek to have the surface restored and have any contamination remediated; and they may demand damages for any claimed injuries to their property, persons, or resources.

Overall, Statewide Rule 15 has the potential to be costly for the Receiver, both in its own right and as a result of environmental conditions the required site work may uncover. You should be prepared with a thoughtful compliance strategy that will appropriately utilize Rule 15's authorized approaches to plugging inactive wells and also ensure they are prepared to address the consequences of environmental conditions you have created in a manner that is responsible, efficient, or suffer the liability risks.

Also please note that pursuant to the terms of the lease, the surface equipment has become the property of the Lessors, but that does not relieve you of the obligation to comply with Statewide Rule 15 as it related to contamination associated with the surface equipment.

We would like to resolve this amiably, without further litigation, but we do insist upon your immediate attention to these matters and we look forward to your 1) accounting of proceeds received, 2) proposal for well plugging, closure and surface remediation, and 3) compliance with State law and Texas Rail Road commission regulations.

Should you have any questions or need additional information, please do not hesitate to contact me.

Very Truly yours,

John H Carney

JHC/mw
Enclosures

With copy to:

Jim R. Hatchett
Byron Hatchett
Peter Gryska
Shannon Campbell
Sara Hatfield
Janece Tucker


Exhibit 5

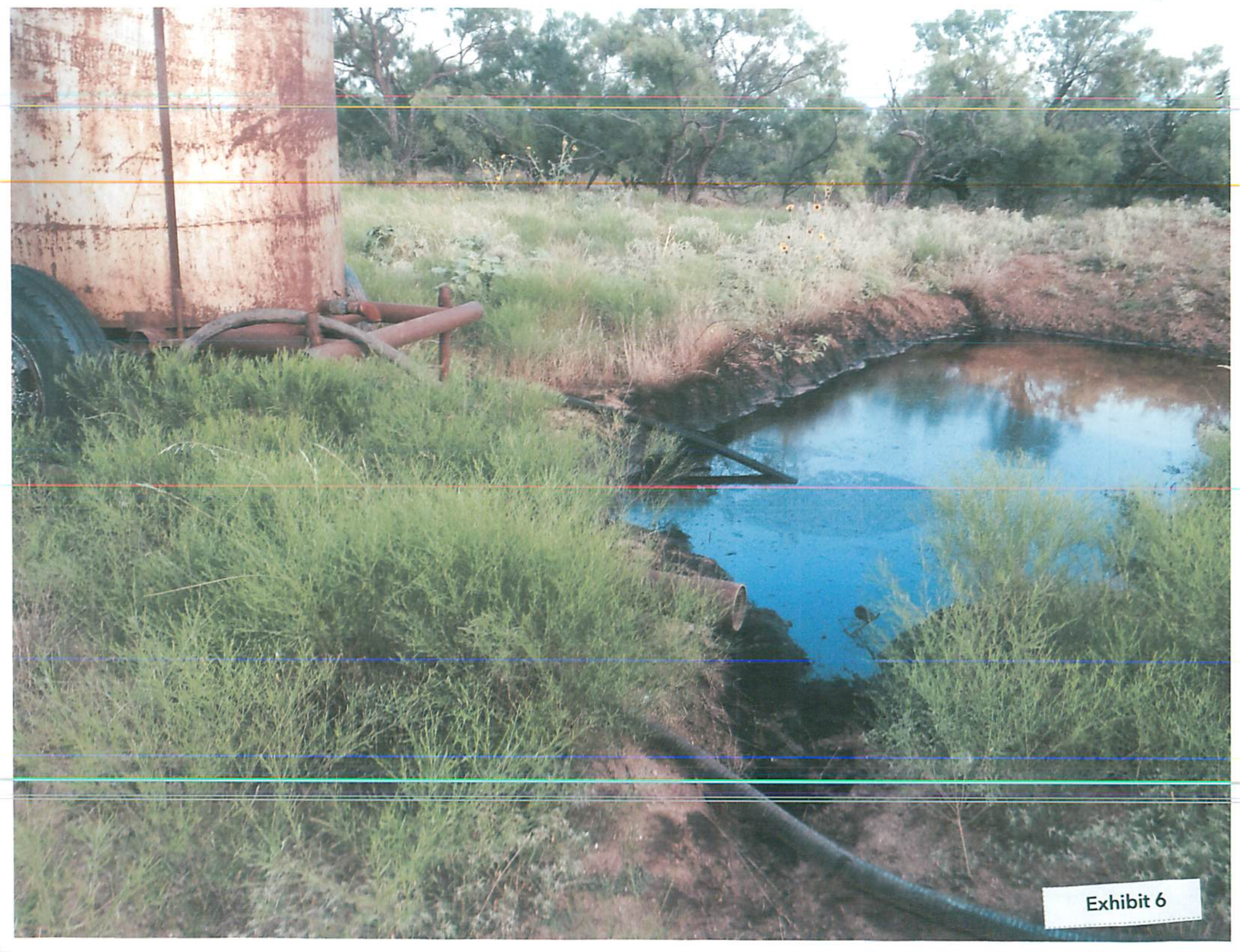
Exhibit 6

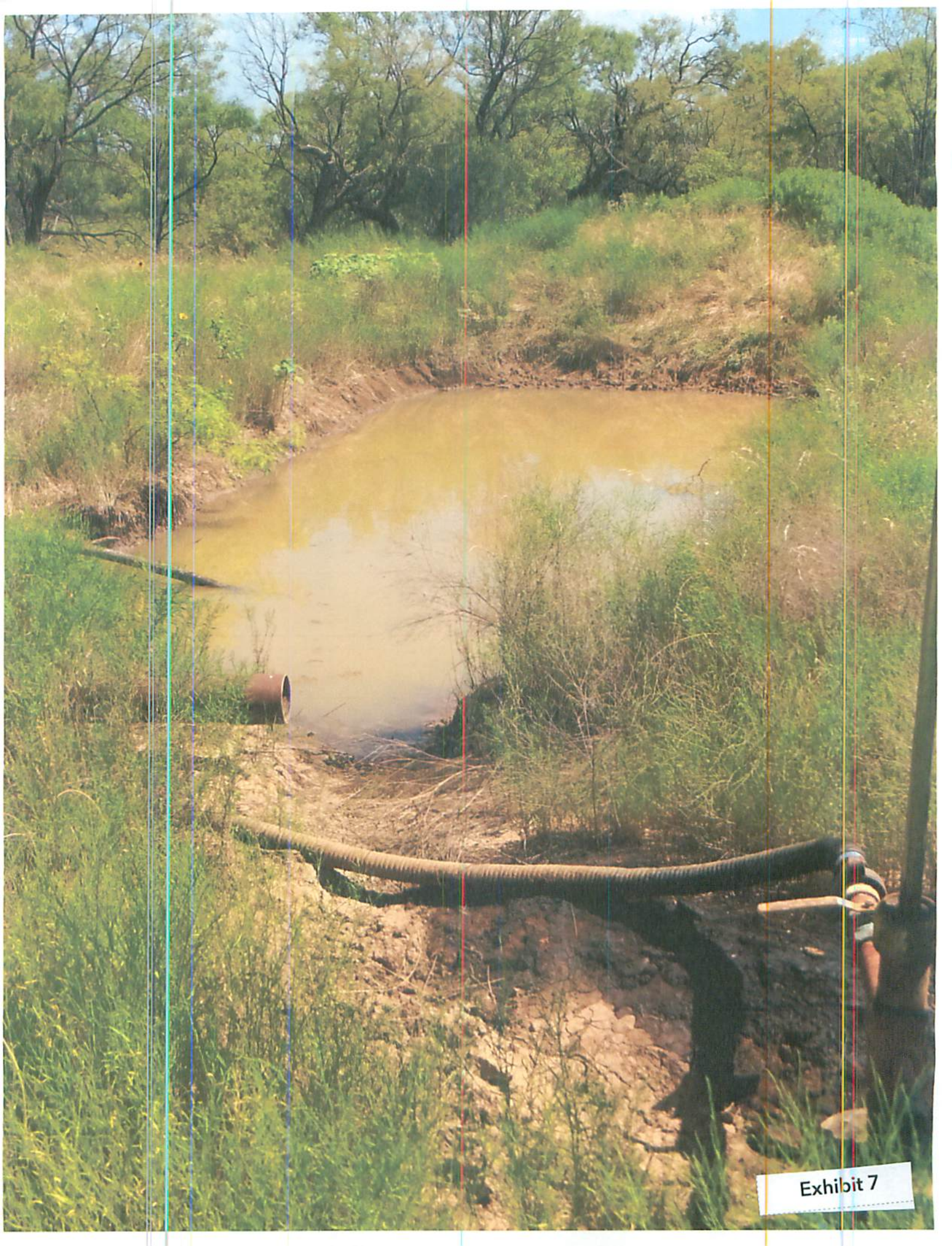
Exhibit 7


Exhibit 8

earthsmart

FedEx carbon-neutral envelope shipping

Express

Align top of FedEx Express® shipping label here.

ORIGIN ID:TRLA (214) 549-0555
JOHN CARNEY

10541 BERRY KNOLL DR

DALLAS, TX 75230
UNITED STATES US

SHIP DATE: 20MAR17
ACTWGT: 0.50 LB
CAD: 6992724/SSF01722

BILL CREDIT CARD

TO **KESHIA JONES – DIVISION MGR**
SAM M GIBBONS U.S. COURTHOUSE
801 NORTH FLORIDA AVENUE

TAMPA FL 33602

(000) 000-0000 REF:
INV:
PO: DEPT:

FedEx Express

REL# 3785346

TUE – 21 MAR 10:30A
PRIORITY OVERNIGHT

TRK# 0201 **7859 7129 5906**

XJ KYOA

33602
FL-US TPA

RT 727 1 D
10:30 5906
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